

THE FREEMAN

IDEAS ON LIBERTY

4 The Price of Chiminelli Seeds and Regulation Q

James Doti

What do aunts and uncles—and bank customers—want?

8 Alaska's *Other* Oil Spill

Stephen L. Jackstadt and Dwight R. Lee

Wasteful expenditure of revenues from petroleum wealth.

12 The Investor as Hero

William B. Irvine

Risk-takers who absorb their own losses emerge with their dignity intact.

14 The Folly of Rent Control

James A. Maccaro

In New York, rent control has yielded a perpetual housing emergency.

16 Lessons in Liberty: Hong Kong, "Crown Jewel" of Capitalism

Robert A. Peterson

Understanding the forces that made Hong Kong what it is today.

23 What We Should Teach the Eastern Europeans

Tibor R. Machan

How to build opportunities for self-help in Eastern Europe.

26 Communal Politics in India

Rayasam V. Prasad

The powerful influence of caste and religion on India's public life.

28 A Room with a New View

Steve Lopez

Upward mobility in Philadelphia.

30 The Coming Push for National Health Care

Terree P. Wasley

How best to counter renewed calls for socialized medicine in the United States.

33 Readers' Forum

38 Book Reviews

John Chamberlain reviews *The Midnight Economist: Meditations on Truth and Public Policy* by William R. Allen. Also reviewed: *Protectionism* by Jagdish Bhagwati.

CONTENTS

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FAX: (914) 591-8910

Statements from Poland

We recently received the following statement of principles from three members of the Union for Realpolitik in Breslau, Poland. We have made a few editorial changes for the sake of clarity:

"The Union for Realpolitik is a political group whose main goal is to introduce the free market economy to Poland. We believe that state property should be transferred to the private sector by stock sale. Governmental and parliamentary interference in the economy should be forbidden and secured by the Constitution. All governmental subsidies, allocations, etc. should be repealed. The socialist welfare state, which already has failed, should be liquidated. Our ideal is an independent man, not a social welfare recipient.

"Leftist demagogues, social reformers, planners, and 'enlightened' progressives should be fought ideologically and politically. Trade union activity should be allowed only under the condition that such laws as the inviolability of private ownership, freedom of work, and the prohibition against violence are respected. Taxes should be as low as possible and not progressive.

"The future educational system should be based on private schools. Compulsory school attendance and legally forced coeducation should be repealed. People should be free to found schools of all kinds with different curricula and freely chosen languages of instruction.

"A strong, modernized, and technically well-equipped army with additional military training for men (in the Swiss fashion) is a necessity in Poland's geopolitical condition. It will be the best safeguard for our independence—not peace demonstrations or friendly statements made by other countries.

"Liberty is the basis for economic development as well as for diversity of social, cultural, and intellectual life."

The three Poles also included a statement on the idea of a United Europe. Again, we have made a few editorial changes:

"We categorically reject the idea of a United Europe. We are for a Free Europe. That means a Europe where each country maintains its

sovereignty, but all the impediments that hamper the free exchange of people, goods, and capital (entry visas, tariff walls, restricted freedom of settling) are repealed.

"We believe that the ideas being born in Brussels [headquarters of the European Community] and Strasbourg [seat of the Council of Europe] are dangerous for freedom and the peaceful development of Europe. In our opinion these ideas will lead to the leveling and bureaucratization of Europe. In this way efforts are being made to restrain the freedom movement in Europe and to spread centralism on an international scale. The idea of a United Europe will help Eurocrats, bureaucrats, lobbies, and politicians to keep and strengthen their power.

"Aiming to establish a common European government as well as armed forces is utopian and dangerous. What Europe needs is a free market economy based on private property and free competition, total freedom of trade, and the end to state intervention and planning. It is also essential that the welfare state be gradually liquidated. Each man should have the right of settling, living, and working wherever he can and wishes."

Those Who Seek Freedom

Some people fear that this country will be overpopulated and impoverished unless we close our borders, but nothing could be more untrue. Where the rights of mankind are denied, where people are chattel, where the politically powerful eat out the substance of the powerless, those places have population explosions, famines, and disease. Where people are relatively free, left to their own devices, those places have stable populations, good health, and increasing wealth. The quality of life rises and falls in proportion to liberty. People seeking freedom are achievers, not burdens.

—BERNARD I. SOMMER
Glenview, Illinois

Rent Control

After 46 years, rent control [in New York City] seems the normal state of affairs. Yet it's a stifling state of affairs. In the early 1920s, after World War I, rent controls were allowed to expire; apartment house construction boomed, then flickered in the early 1930s in New York and revived as the economy improved before Pearl Harbor. If there were a continuing development of new apartment houses now, more people could move up, opening apartments for families in income groups below them.

Never having seen a free housing market, today's tenants fear that without controls they will be subject to gouging and capricious eviction. They do not understand that rent control has benefited the lucky, not the needy. As the prospect for profitable ownership of apartment houses improves, the supply increases. Competition for tenants among owners controls rents more effectively than governmental regulation.

—from an editorial in the
May 30, 1989, *New York Times*.

The Freedom Philosophy

Some claim they are powerless to halt the encroachment of government, but anyone can apply the freedom philosophy by independent, personal removal from the government doles. Each should examine his life; locate his area of involvement with public funds, if any; then act according to what he has learned. Certainly we can't expect others, especially elected officials, to practice the freedom philosophy if we ourselves don't.

—JOE OGRINC
Bratenahl, Ohio

The Price of Chiminelli Seeds and Regulation Q

by James Doti

In a way, searching for the chiminelli seed was a search for my roots. That thought struck me as my great aunt, Si Annunciata, and I climbed the barren and parched hills of Brienza, Italy, to locate the rare and elusive chiminelli bush, a bush capable of producing a seed of inestimable value to those who know of it.

As we reached the crest of the hill, the incredibly thin and old but still wiry Si Annunciata pointed her gnarled finger to a bush that looked like a diseased tumbleweed. I suddenly realized I was looking for the first time at a chiminelli bush and the seeds that had given me so much sensory delight over the years. After I picked a seed and put it in my mouth, the sudden explosion of flavor unleashed memories of a bygone day.

* * * * *

It was an important family powwow. One could tell by the thoughtful and methodical way the three brothers were shelling nuts. Their children looked on with obvious pride as the three middle-aged overweight men extracted with surgical precision whole nut-meats from the rock-hard and generally impenetrable Brazil nuts.

"It's too bad the Sox lost that game to the Yankees. If they'd won, they would-a pulled within six games," said Angelo, the youngest of the three brothers.

Angelo's life revolved around the fortunes of the Chicago White Sox, or lack thereof which was generally the case. The fact that the White

Dr. Doti is Professor of Economics at Chapman College in Orange, California.

Sox were perpetual also-rans to the Yankees transformed Angelo's thinking pattern into a series of what-ifs.

Angelo added, "If only Yogi Berra hadn't hit that homer in the ninth . . ."

"Yea, yea, yea," Tony interrupted, "dey could-a done this, dey could-a done that, but dey never win da big ones. Forget dose bums. We have ta figure out what ta send to da old country."

Tony, the oldest of the three brothers and never one to mince words, had abruptly changed the subject to one of timely importance. It was the time of year for the family to send an annual "care" package to distant relatives in Italy. How much these relatives appreciated the castoff remnants of Italo-American consumers was unclear, but the family regularly received in return a stock of chiminelli seeds that if used with discretion was good for making a year's supply of an Italian-type pretzel called "biscotti."

It is the chiminelli seed that gives an indescribably rich and sweet flavor to the biscotti. The flavor is so intoxicating that some people have been known to recite poems and sing songs about it. An indication of the seed's value is reflected by the fact that biscotti are not conducive to family sharing; in most homes each family member is given a personal stash to hoard and ration until another batch appears.

The Brienza Connection

The source of the small black seeds that make the biscotti a food fit for the gods is our ancestral home, the southern Italian village of Brienza, the only area in the world with the proper blend of

harsh climate and barren soil that allows the ugly chiminelli bush not only to survive but to thrive and prosper as well.

The arrival of an annual shipment of chiminelli seeds from Brienza once created quite a stir in Chicago's Little Italy when two FBI agents came to investigate several families regarding their possible involvement in drug trafficking. After each of the agents was given a bag of the chiminelli seed-laden biscotti, the case was closed.

"I have a lot of double-breasted suits I wanna get rid of," said Angelo. "What if we send 'em some of those?"

"Yea, Ange, but I can't figure what dey use dem for. They're farmers for cry'n'-out-loud," said Tony.

One of the children squirming in his chair suddenly interjected, "Hey, did they like my Slinky that you sent them last year?"

"Anthony, don't butt in when we're talkin'," said Tony, who then felt guilty for stifling his son's curiosity and offered Anthony some perfectly shelled Brazil nuts.

Tony continued, "Maybe with da earthquake an' all we should send 'em some money."

At the mention of money, the middle brother Rocco, who up to this time had devoted his full attention to a particularly resistant nut, looked up and said, "Just because they have an earthquake means all of a sudden they want our money?"

The possibility of sending money instead of goods was suggested in a recently arrived letter from Brienza that threatened it would be difficult to collect and gather the seeds that year. The contents of the letter also strongly suggested that dollars would go a long way to improving the general lot of life in Brienza, especially after an earthquake virtually leveled half the town. And though the utilitarian value of the goods included in the annual "care" package was not directly questioned, perhaps some dissatisfaction was expressed at the end of the letter when it was asked what one does with a used *Uncle Milton Ant Farm*.

"None of Your Junk"

"What if the earthquake really was as bad as they're saying?" Angelo asked and added, "If we don't send 'em money, maybe we don't get the chiminelli this year."

There was a momentary hush as the brothers contemplated this shocking possibility.

"Sure we'll get 'em," said Rocco, "wait till dey see all the baby clothes I'm gonna send."

At that point, Mama, the mother of the three brothers and matriarch of the family, walked into the dining room carrying fruit and biscotti to the table. It was obvious she had been eavesdropping. She said in Italian, "Baby clothes? Those poor people don't even have any babies. Listen, you see these biscotti? If you want any more of them, then we are going to send them money this year and none of your junk."

That pretty much decided things. While up in years and certainly not as active as she used to be, Mama still ruled in most family matters, particularly in those relating to familial relations.

Angelo broke the silence that followed Mama's pronouncement with a loud crack of a Brazil nut and an observation: "You know, if the White Sox sweep the Boston series and the Yankees lose in Detroit. . . ."

* * * * *

During the 20th century, the typical response of the Federal Reserve Board (Fed) to inflationary pressures and concomitant distortions in production caused by its own expansionary monetary policies, has been to reverse course sharply and clamp down on money growth. But because of the long and variable lag before the changes in money growth affected economic activity, the Fed would generally overcompensate for past excesses and, as a result, push the economy into a recession.

Economic cycles were therefore generated by waves of expansionary and contractionary monetary policies on the part of the Fed. These cycles were then exacerbated by government-imposed rigidities of one kind or another that constrained free market forces and had a tendency to multiply miscues on the part of the Fed and lead to more extreme cyclical activity than otherwise would have occurred. Hence, it was the Fed's disastrous manipulation of the money supply between 1929 and 1932 that precipitated the Great Depression. But other government-imposed market rigidities like the ill-conceived Hawley-Smoot Tariff of 1930 served significantly to aggravate an already desperate situation.



Searching for chiminelli, as drawn by Adam Doti, the author's son.

In fact, the explanation for the unprecedented longevity of our most recent business expansion is not based on the premise that the Fed or any other governmental body has become more adept at fine-tuning the economy. Quite the contrary, the absence of a recession in almost eight years is more likely related to the removal of certain government-imposed rigidities.

The Repeal of Regulation Q

Perhaps the most important but least recognized change during the deregulatory revolution of the Carter-Reagan years was the repeal of Regulation Q, a regulation that imposed interest rate ceilings on most deposit accounts at financial institutions. The repeal of Regulation Q was mandated in the Depository Institutions Deregulation and Monetary Control Act of 1980 and was carried out during the 1981-84 period by the Depository Institutions Deregulation Committee according to a timetable established by Congress. While the repeal of Regulation Q is sometimes incorrectly lamented today in discussions of the savings and loan crisis, far more significant is how its repeal has greatly benefited the macro-economy.

To compete for deposits under Regulation Q interest rate ceilings, banks and thrifts had to give away toasters, crock pots, bun warmers, and other non-monetary goods. But whenever Fed tightening pushed short-term interest rates too far above regulated levels, the various gifts being given out to retain deposits were not valuable enough to prevent an outflow of funds to other investments that were not subject to Regulation Q ceilings. At some point when the spread between market rates and Regulation Q ceilings was wide enough, people would opt for more money in the form of higher interest rates rather than gifts which ultimately turned out to be the stuff upon which future garage sales were built.

The outflow of funds from banks and thrifts, known as disintermediation, had costly economic consequences. Since banks and thrifts were the principal sources of retail credit to the housing industry, the resulting shortage of lendable funds in these institutions led to credit crunch conditions that invariably threw the construction industry into a tailspin. This process would effectively shut down a critical industry that had strong multiplier effects throughout the economy, thus making a bad situation only worse. Notice too that the

brunt of the resulting downturn would be felt, at least initially, by those industries that were particularly sensitive to the availability of retail credit.

But now that interest-rate caps have been removed, banks and thrifts can compete effectively for deposits. Even if this competitive process pushes interest rates up during times of relative credit scarcity, such a situation is vastly preferable to a credit crunch where deposits in regulated institutions are drained away through financial disintermediation—a process that leads to conditions where lendable funds at those affected banks and thrifts are not readily obtainable even at a high price.

A recent inversion of the yield curve—where short-term interest rates exceed long-term rates—has led to ominous warnings about the economy. These warnings are based on the fact that the U.S. economy invariably moved into recessionary straits soon after such an interest-rate inversion took place. Indeed, the Chapman Econometric Model and many other models suggest that the term structure of interest rates is a better predictor of construction activity and overall economic activity than is the level of those rates.

Freeing capital markets from arbitrary interest-rate caps on bank and thrift deposits, however, has changed all this. The strong negative effect of an inverted yield curve undoubtedly was related to the fact that it served as a proxy for the outflow of funds from banks and thrifts that always occurred to some degree whenever short-term interest rates exceeded long-term rates. This process of financial disintermediation that occurred in the past because people wanted money rather than bun warmers in return for their deposits is not likely to take place in an economic environment where interest rates are allowed to move freely. Hence, the elimination of Regulation Q means that the negative consequences of an inverted yield curve are lessened and, as a result, such an inversion should be significantly discounted as a harbinger of recessionary activity.

The beauty and power of a freely moving price system should be evident here. Freer credit markets tend to lessen the ill effects of erratic Fed monetary policies. A simple change that breathes life into the economy by removing impediments to the free market system mitigates the harmful consequences brought about by knee-jerk reac-

tions of a benevolent but woefully ill-informed Federal Reserve Board.

* * * * *

Mama's decision to send money instead of a "care" package turned out to be the right one. The veiled threats made in the letter from Brienza were not just threats. While Mama received her annual supply of chiminelli seeds soon after the family's monetary gift of \$200 arrived in Brienza, other Italo-American families with relatives in Brienza received little or nothing in return for their annual shipment of castoffs. In fact, one of the families thought there might be a message in having received a Christmas wreath made of the chiminelli bush as a gift instead of the expected seeds. Evidently, the earthquake meant that it would take greenbacks rather than trinkets to entice the villagers to scavenge the barren hills of Brienza for the elusive chiminelli seeds.

* * * * *

After laboriously gathering a spoonful of seeds from that lone chiminelli bush, Si Annunciata and I climbed down the hill. By the time we reached Si Annunciata's home, perspiration stung my eyes and my clothes clung to me like papier-mâché. As we entered the centuries-old dwelling built with two-foot walls of plaster, stone, and rock, its natural coolness invaded my senses and renewed my spirit.

I pushed several hundred dollars' worth of lira into the palm of Si Annunciata's hand. She quickly deposited the lira in her barely existent bosom. Then she kissed my cheek and brought from the cupboard a large jar full of chiminelli seeds which she tenderly placed in my hands. It was undoubtedly the largest stash I had ever seen. I caressed the jar she had given me as one might caress the Hope Diamond and felt proud that I had learned at an early age the market price of chiminelli seeds.

So let Donald Trump buy up casinos, airlines, and skyscrapers; let Queen Helmsley rule over her hotels; and let Rupert Murdoch transform the world's print and electronic media. At that moment I felt I had done something far more significant: I had cornered the market in chiminelli seeds. □

Alaska's *Other* Oil Spill

by Stephen L. Jackstadt and Dwight R. Lee

The Exxon oil spill in the Prince William Sound of Alaska was a terrible waste. An area of enormous natural beauty was polluted, large numbers of animals were killed, and hundreds of millions of dollars have been spent on the cleanup, not to mention the loss of 11 million gallons of petroleum. Media coverage of the spill as a major event is understandable.

Yet, by far the greatest destruction of wealth associated with Alaskan oil has gone entirely unnoticed. As a direct result of the actions of the Alaskan state government, a significant portion of the net value of Alaska's petroleum reserves has been wasted just as surely as if it were being deliberately spilled into Prince William Sound. This waste continues without attracting the slightest attention from the press.

Interestingly, the explanation for governmental spillage of Alaska's oil wealth is closely tied to the explanation for the Exxon oil spill. That explanation comes from the perverse incentives resulting from the use of property that is commonly, rather than privately, owned. In the absence of well-defined private property rights to a valuable resource, no one has much incentive to exercise proper care and restraint in the use of that resource. Those who make careless and excessive use of a common property resource capture all the benefits from that use, with the costs deferred in time and diffused over the general public.

Prince William Sound is a clear example of a common property resource. It is commonly

owned by the entire American public, with no one individual having either the motivation to incur a cost to protect it from abuse or the legal right to charge others for its use. Therefore, the savings the oil companies realize from exercising insufficient care in shipping oil through the Sound, or being inadequately prepared to respond to an accident, are captured completely by the oil companies. On the other hand, the environmental damage to the Sound from an oil spill will be imposed on the general public, with the oil companies being less than fully responsible for this cost.

The common property problem can also motivate wasteful oil company decisions at the northern end of the Alaskan pipeline. With several companies pumping from common petroleum pools on the North Slope, the temptation facing each is to pump as quickly as possible with little regard for the adverse effects of excessive pumping on the total petroleum that can be recovered. Each company captures all the gain from its excessive pumping, with the costs of reduced future recovery being spread over all the companies. The company that takes the long-run view by moderating its current pumping risks losing out to the excessive pumping of others.

Fortunately these common property problems are well recognized, and steps have been taken to reduce their wasteful consequences. Exxon is being required by the threat of legal action, government sanctions, and by the pressure of public opinion, to pay for much, even though not all, of the costs of its carelessness. The bearing of this cost will certainly serve as a strong incentive for Exxon, and other oil companies, to exercise more

Stephen L. Jackstadt is an Associate Professor of Economics at the University of Alaska, Anchorage. Dwight R. Lee is the Ramsey Professor of Economics at the University of Georgia, Athens.

caution in the future. Also, the oil companies operating on the North Slope have largely solved the common property problem of excessive recovery rates by forming a consortium in which the ownership shares of the petroleum recovered from a pool are determined independently of the recovery rate, with one company making the decision on that rate.

Government Revenue as a Common Property Resource

It is widely, and correctly, recognized that government action is required if common property problems are to be adequately overcome. Government plays an important role by enforcing private property right arrangements when they emerge (as in the case of the North Slope oil fields) and by imposing sensible restrictions on the use, and penalties on the abuse, of resources when private ownership is impractical (as in the case with Prince William Sound). But what has not been widely recognized is that government is often the major source of common property problems and, as a consequence, the greatest threat to the value of our natural resources.

A significant portion of the value of natural resources goes to government in the form of royalty and severance taxes. The burden of these taxes affects how much of a resource can be recovered profitably, and the use of the tax revenue affects the value derived from the resource. And both the tax burden and the use of the tax revenue are determined in a common property setting every bit as destructive of resource wealth as any other uncontrolled common property setting.

The ownership of government revenue is not determined by well-defined property rights. Instead it is a common property resource which is allocated on the basis of political competition among various interest groups. This competition favors relatively small groups, actively organized around a narrowly focused interest which is, or can be, served by some government program.

Each of these interest groups is in a position completely analogous to that of an individual exploiting a common property resource. The interest group that manages to pump more out of the public treasury secures all of the benefits, but pays only a minuscule portion of the costs. The incentive for an interest group to moderate its de-

mands on the public treasury for the long-run good of all is lacking completely. Such moderation will not be rewarded with reciprocal moderation on the part of other interest groups, and will be seen as a useless sacrifice. The result is a wasteful special-interest race for more government spending now, with little thought given to its long-run consequences.

Typically, special-interest waste in government spending is moderated somewhat by the resistance of the taxpaying public. The "somewhat" has to be emphasized here since taxpayers consist of such a large and diverse group of individuals with no one taxpayer likely to be heavily burdened by the costs of any particular government program. For this reason, it is difficult to mobilize taxpayers in order to resist any given program, no matter how wasteful it may be. But taxpayers are aware of their tax burdens and, without explicitly organizing, can send politicians a clear message at the polls that there are limits to the tax burdens that will be tolerated.

The Alaskan Case

In Alaska, however, taxpayers have little motivation to resist the transfer of private wealth into common property state revenue. Since the discovery of oil on Alaska's North Slope in the late 1960s, well over 80 percent of the state's tax revenue has come from taxes on oil. These taxes are paid almost entirely by consumers and investors who do not live in Alaska. Not surprisingly, fiscal restraint is an alien concept to Alaskan politicians. When faced with constituent pressures to increase spending, politicians in Juneau have seen little reason to resist. Why risk aggravating those who can vote you out of office when they can be accommodated by increasing the taxes of those who cannot?

Since 1968 the Alaskan legislature has increased taxes on oil 12 times. Even though Alaska had by far the highest taxes in the nation on oil production, the 1989 state legislature increased the state taxes on Prudhoe Bay production by 25 percent, and by about 60 percent on production out of the nearby Kuparuk oil field. The Alaskan state government is capturing over 50 percent of the net return generated by the recovery of North Slope oil, which is 70 percent more than the share received by the oil industry.

These oil revenues are fueling state spending at unprecedented rates. Alaska is far out in front of the rest of the nation in per capita state spending. In 1986 per capita state spending in Alaska was \$7,309—two-and-a-half times that of its nearest rival, Wyoming, and nearly five times the national average. The higher cost of living in Alaska can account for only a relatively small share of these differences.

The wealth contained in North Slope oil has been treated as a vast common property resource by Alaska's politicians and their special-interest clients. Predictably, the motivation has been to grab as much as possible with little worry about waste or regard for the future.

The politicians and special interests are surely aware that the oil fields are a depleting resource, and that current rates of state spending cannot long be continued. They must be aware that the long-run advantage of all would be served by reducing spending today so more could be saved to finance the continuation of reasonable spending levels in the future. Indeed, if state spending had been kept at a reasonable level over the last 20 years, that level could by now be maintained indefinitely from the interest on what would have been saved. But each special interest also knows, as does every exploiter of a common property resource, that the money it does not capture today for its spending program will instead be captured, and immediately spent, by another special interest.

Budgetary Black Holes

There is no way the Alaskan state government can spend the tremendous oil revenues on programs that make sense economically. But given the huge common property pool of oil revenues at their disposal, the politicians in Juneau are well aware that spending vast amounts on wasteful programs makes sense politically. Not surprisingly, the state of Alaska is literally spilling oil wealth throughout the state on one economic black hole after another. Consider some examples.

In 1978 the state initiated a program to promote barley farming in Alaska. Over \$50 million has been spent by the state on the project, providing farmers with loans that were not repaid, building access roads to the anticipated barley fields, purchasing railroad hopper cars to transport the barley, and constructing grain elevators

to store the anticipated barley production, most of which was never grown. While taking money from the state government for the purpose of growing barley, Alaskan farmers were at the same time taking money from the federal government in return for *not* growing barley. The state spent \$5.8 million on a barley processing terminal in the town of Seward before halting construction. If the terminal had been completed, at a projected cost of \$8.2 million, it could have processed all the barley grown in Alaska during its peak production year in 4.5 hours.

While public school students in other states are taking an occasional field trip to a nearby attraction, many Alaskan students are flying off to Europe at public expense. The Bering Strait School District, for example, received a \$300,000 grant from the Alaskan Department of Education in 1980 under a program that sponsors what are known as adventure-based education projects. This grant was used to provide students with a European tour. While the \$88,414 travel cost for the trip was expensive, it was less than the \$106,034 spent on "consultant fees" paid to the adventure-based educational "specialists" who arranged the trip and accompanied the students to Europe.

The Alaskan state government has become an active supplier of below-cost and poorly collected loans. The Alaska Renewable Resources Corporation (ARRC) played a minor, but interesting, role in this loan activity. Established in 1978, the stated purpose of ARRC was to provide venture capital to those who attempted to utilize Alaska's renewable resources to develop such businesses as timber harvesting, seafood, fur farming, and wild berry candy. Being reluctant to discriminate against proposals just because they may be considered a bit bizarre, the ARRC has made loans for such purposes as developing dog-powered washing machines. It should come as no surprise that as of 1985, ARRC had written off \$13 million in bad loans and investments, and a report by the legislative auditor classified another \$16 million in loans as of "doubtful collection."

Unfortunately, ARRC loans make up only a small percentage of subsidized loans the state of Alaska uses in its effort to promote economic development. The success of Alaska's overall loan program offers little encouragement for those who see industrial planning by government as the



ANCHORAGE TIMES

Center for the Performing Arts, Anchorage.

best way to channel investment funds to emerging growth industries. As of the end of 1987, over \$233 million in loans made by the Alaskan state government were in default and another \$1 billion were delinquent.

The state of Alaska has not been content to confine its industrial efforts merely to making loans. The state acquired a meat plant for \$3.5 million in the mid-1980s—and it has been losing money ever since. A state-owned dairy is another financial black hole. Despite the fact that the Anchorage School District is required to purchase milk from the state dairy at a price which is 7 percent above the prevailing market price (a markup which costs the school district approximately \$25,000 per year), the dairy is persistently in the red (it lost \$887,000 in 1987 alone).

Performing arts centers, sports arenas, and convention centers, built in towns and cities throughout the state, do little more than stand as monuments to government extravagance and waste. An example is the \$70 million performing arts center constructed with state money in Anchorage. Independent auditors say, that under the rosiest of revenue projections, the center will lose over \$1 million annually. This projection considers only operating costs, ignoring completely the capital cost of the facility.

There are an almost inexhaustible number of examples that could be given of wasteful spending by the Alaskan state government. The above examples, along with the figures presented earlier

on per capita state spending, are compelling evidence that the state of Alaska distinguishes itself in terms of the sheer magnitude of governmentally induced waste. When it comes to wasteful government spending, no other state in the United States can challenge Alaska.

The explanation for Alaska's wastefulness is not to be found in the venality of Alaskan politicians and officials, any more than the oil spill in Prince William Sound can be blamed on the corruption of oil industry executives. In both cases, the outcomes are the result of people responding in predictable ways to the incentives that exist in the presence of common property resources.

If there is a difference between the consequences of decisions on the transportation of petroleum by oil industry executives and decisions on the use of petroleum wealth by Alaskan politicians, it comes from the fact the former are far more subject to the constraints of public opinion than are the latter. Almost everyone is aware of the waste resulting from the Exxon oil spill, as they will be of the waste from any future spill; and this public awareness serves as a powerful incentive for the oil industry to make careful use of our oceans and waterways. Almost no one is aware of the far greater waste resulting from the political exploitation of Alaska's oil wealth. And because this Alaskan oil spill is going unnoticed by the media, and therefore by the public, the politicians responsible for it continue their improvident ways with impunity. □

The Investor as Hero

by William B. Irvine

Recent stock market crashes have been a disaster for American investors. In the Crash of '87, they saw the aggregate value of their investments fall by \$1 trillion in less than a month; and in the Friday the 13th crash of last October, their investments sustained a \$200 billion loss in a single hour.

How did investors respond to these crises? For the most part, with silence. What is striking about this reaction is what investors did *not* do. They did not ask the government to return the money they had lost. They did not complain that the system had treated them unfairly. They did not ask that the markets be closed to prevent similar disasters in the future. What they did (in all but a few cases) was accept their losses as part of the price of risk-taking.

This attitude used to be common among Americans: If you take risks, you have to take an occasional loss. Although this attitude still predominates among American investors, they are unusual in this respect. More and more, Americans are willing to accept the rewards of risk-taking but not the costs. Consider some illustrations.

When several state-insured thrifts collapsed in Ohio a few years back, savers—who for years had been happy to accept the above-average interest payments of these institutions—were confronted with the downside of their risk-taking. How did they respond to their losses? They petitioned the State of Ohio to bail them out. The state was glad to comply with their request. It not

only made good their losses, but let them keep the rewards (i.e., the above-average interest payments) that their years of risk-taking had earned them.

North of Los Angeles one finds a rather special breed of risk-takers: people who own million-dollar homes on Malibu Beach. There is strong evidence that Mother Nature does not want houses built on Malibu Beach. In one season she sends down boulders and mud slides to crush the houses, and in another she sends massive waves to wash them away. The residents of Malibu Beach are content to accept the rewards of their risk-taking, but no sooner are they asked to pay a price for it than they request various forms of government assistance—funded, one should note, by people who cannot afford million-dollar homes.

Farming is by its very nature a risky business, and one would assume that farmers realize as much. In this century, though, farmers have shown themselves to be far more adept at banking the profits of good years than they are at absorbing the losses of bad years. As a group, farmers are notorious for their willingness to turn to the government for subsidies in times of adversity and for their unwillingness to relinquish these subsidies when adversity is conquered. A point of interest: Five decades later, farmers are still benefiting from programs created to deal with the drought conditions of the 1930s.

Businessmen, too, have a tendency to run to the government when they gamble and lose. For years bankers have been trying to palm off their bad Third World loans onto America's taxpayers. The bankers would have resented it if, in the 1970s, a government official had advised against



WIDE WORLD PHOTOS

A flurry of activity: Friday the 13th.

these loans or taken steps to block them; now that the loans have gone bad, these same bankers are happy to turn to government officials for advice—and, more important, for financial help.

This list could go on, but I think the point is clear. In years gone by, Americans who took risks expected to pay for their losses—and were expected to do so by the rest of us. These days, though, Americans who take risks all too often view Uncle Sam as a form of disaster insurance: When times are good, premiums cost nothing; when times are bad, claims can be filed with the media and various elected officials.

This attitude is unfortunate in two respects. First, it reveals what many would take to be a serious character flaw. If you expect freedom to do as you choose, it is only right that you should be willing to take responsibility for your actions. Likewise, those who accept praise for what they do should be also willing to accept blame. The desire to accept the rewards of risk-taking but not its costs is at best a sign of immaturity and at worst a sign of amorality.

Second, when the government has a policy—stated or unstated—of bailing out risk-takers, the economic consequences can be disas-

trous. If we tell risk-takers that they will have to pay the price for their miscalculations, we give them an incentive to think long and hard before taking risks and thus improve the chance that they will take only “rational” risks. If, on the other hand, we adopt policies that let them pocket their winnings and walk away from their losses, we encourage recklessness in their risk-taking. Worse still, we force taxpayers to pay for the damage caused by this recklessness.

This brings us back to the investors who were sent reeling on Black Monday in 1987, and on Friday the 13th in 1989. Taken as a group, America’s 40 to 50 million investors took their losses in a matter-of-fact way. In doing so, they showed us the stuff they are made of. The silence of America’s investors was not, as some might suggest, a sign of their inherent fatalism or masochism. Instead, it marks them as responsible risk-takers, a breed whose numbers have declined substantially in recent decades.

America’s investors may not have emerged from the recent crashes with their nest eggs intact, but at least they emerged with their dignity intact. Not every American risk-taker can say as much. □

The Folly of Rent Control

by James A. Maccaro

Rent control was established in New York City during World War II as an emergency measure to combat feared wartime profiteering. More than two generations later, rent control is still in place, and has inflicted more damage on the city than the war itself. As Swedish socialist economist Assar Lindbeck has written, "... rent control appears to be the most efficient technique presently known to destroy a city—except for bombing."¹ Anyone who seeks confirmation of this statement needs merely to tour the urban blight which sadly covers much of New York City.

The destructive effects of rent control are predicted by the laws of supply and demand. The law of supply states that the supply of a product, such as housing, will increase as the price rises; while the law of demand states that demand for a product will decrease as its price rises. These propositions would appear to be intuitive, and are illustrated countless times in the marketplace.

In the free market, supply and demand are kept in balance by the self-interest of market participants. If demand for housing increases, investors will pour capital into the market in order to reap the profits. Any attempt to take advantage of shortages by price gouging is futile, except in the very short term, because excess profits will attract other investors who will increase supply.

Legislatures cannot repeal the laws of supply and demand. Whenever prices are set by government coercion below the market-clearing level,

shortages will result. Investment will evaporate as those with capital to invest will look elsewhere, rather than enter a market where the rules of the game are skewed against them. Meanwhile, demand will increase, and consumers will have to scramble to get a share of the supply that remains.

The chaotic results of rent control are clearly evident in New York, where the outcome has been a perpetual housing emergency.

The rents charged for apartments subject to government regulation are kept artificially low and frequently bear little relation to the owner's costs.² Any increase in rent is subject to government approval, and in a city where renters are the largest and most vocal special interest group, are only reluctantly granted. As a result, few people invest in rental housing that is subject to government regulation.

The housing shortage is further exacerbated because rent-controlled tenants, whose rents are often a fraction of their units' fair market values, are loath to relinquish their apartments. For example, New York Mayor Ed Koch has lived in a mansion provided by the taxpayers, yet has maintained a rent-controlled apartment as a second home.

Slaves of New York

Stories abound about how difficult it is to find a decent apartment in New York. A recent best-selling book and movie, *Slaves of New York* by Tama Janowitz, is based on this theme. Its main character is described as a "slave" of the city, since she lives with an abusive boyfriend because he has a lease for an apartment. If she were to end their relationship, she would have no place to live. According to the author, the ambition of "slaves" is to find an apartment of their own, which can take years, and in turn, to continue the process by acquiring their own "slaves."

A bizarre by-product of rent control in New York is "commuter leases." Finding an apartment is so difficult that people are willing to rent apartments for just nights and weekends; the rest of the time the apartment is occupied by someone else. For instance, Justin Martin, a 24-year-old who works in public relations, pays \$600 a month to sublet a one-room apartment on East 49th

Mr. Maccaro, who lives in Whitestone, New York, is a free-lance writer and a law student.

Street.³ Under his lease, he has the right to use the apartment only on weekends and during the week from 5:00 P.M. to 9:00 A.M. The rest of the time, the apartment is used as a studio by an artist.

Fairness and Equity

The cry of those who imposed rent control was "fairness" and "equity." Yet rent control accomplishes the opposite: poor and middle-class renters and would-be renters are harmed to a disproportionate degree, while affluent tenants are in the best position to reap the benefits.

The lack of investment in housing and the low vacancy rates caused by rent control combine to create a static rental market. Those who live in poor neighborhoods cannot "move up" to better apartments because few are on the market, and those that are available are generally not within their financial reach.

Other factors work against the poor. Desirable apartment buildings usually have long waiting lists. Consequently, landlords need not publicize the availability of units, and can pick and choose their tenants. As a result, getting an apartment depends to a great extent on personal contacts and the ability to impress a landlord as a reliable tenant. Furthermore, the rent control-induced housing shortage leads to under-the-table "key money" payments to bribe landlords to lease apartments.

Apartment buildings housing low- and middle-income occupants are the hardest hit by rent control. Landlords of buildings in desirable neighborhoods catering to more affluent tenants can more easily raise the rents on vacant units to counterbalance the low rents charged on the other apartments in these buildings. In addition, they are encouraged to maintain their properties by the prospect of converting them to condominium or co-operative ownership. Landlords in lower-income sections of the city don't have these incentives. Rather, they are faced with the prospect of continuing losses and eventual bankruptcy. For this reason, more than 500,000 apartment units have been abandoned in the city, destroying entire neighborhoods and severely decreasing the

housing stock available to the poor and middle class.

Winners and Losers

While there are losers as a result of rent control, there are also winners. Rent control creates a privileged special-interest group, namely, those who have leases on desirable apartments. Since rent increases don't match increases in costs, and bear no relationship to the market value of the apartment, tenants who remain in their units rather than relocate will find that, after a short number of years, they are paying a fraction of the true value of their units.

Under rent control, a lease becomes, in effect, an investment. As such, it has an economic value. For instance, "vacate" or "move-out" fees paid by landlords to tenants are common. A few years ago, a New York landlord offered his tenants \$15,000 for each room of their apartments if they would move out so that he could convert the building to a condominium. Incredibly, the tenants' association sued the landlord in order to get an injunction against the offer, claiming that it was an illegal attempt to subvert tenant solidarity.⁴

The effects of rent control have been disastrous. Politicians who refuse to recognize this, and support rent control to garner votes, add to the problems of the urban homeless and the deterioration of the quality of life in our nation's cities. To achieve the goals of an efficient and equitable supply of housing, the free market must be allowed to function. The free market will permit all consumers of housing to make rational decisions on a level playing field. The alternative of government intervention protects a select few and distorts the housing supply, resulting in chaos. □

1. Assar Lindbeck, *The Political Economy of the New Left* (New York: Harper and Row, 1972), p. 39.

2. In Santa Monica, California, for instance, rent increases have been set at about two-thirds the rate of inflation. Marc Beauchamp, "Bankrupt Landlords in Wonderland," *Forbes*, March 20, 1989, pp. 105-107.

3. Mr. Martin's strange plight is described in an article in *The Wall Street Journal* by Jeffrey A. Trachtenberg entitled "And for the Summer, He's Rented Sunday Mornings at a Beach House," April 11, 1989, p. B1.

4. The courts rejected the tenant group's claims, *Karpf v. Turtle Bay*, 127 Misc.2d 154, 485 N.Y.S.2d 173 (1984).

Lessons in Liberty: Hong Kong, “Crown Jewel” of Capitalism

by Robert A. Peterson

For over 100 years, the name Hong Kong has been synonymous with free enterprise. Today, the label “Made in Hong Kong” can be found just about anywhere, from clothing stores in Manhattan to gift shops in London, as the raw materials of the world are turned into finished products in Hong Kong’s busy shops. To millions of tourists, Hong Kong beckons as one of the world’s most alluring bargain counters. Here Swiss watches—at less than Swiss prices—compete with duty-free Japanese cameras and stereo equipment, and silks from Thailand glow beside bolts of Italian cloth and Harris tweed. As a result, little Hong Kong enjoys one of the highest standards of living in all Asia, second only to Japan and perhaps Singapore.

In 1987, Hong Kong—with 14 times as many people per square mile as Japan—had a per capita income of \$8,260. Just a few miles away, across the Sham Chun River—in Communist China—people of the same racial stock, living in the same subtropical climate on shores washed by the same South China Sea, were able to produce a per capita income of only \$300. (Incredibly, even some of that paltry sum was fueled by Hong Kong’s economy, which both invests in and purchases from the mainland.)

What is it that has turned what a skeptical Lord Palmerston, in the 19th century, called “a

barren rock” into such an economic powerhouse? What is it that has made this tiny Crown Colony (now a dependency) of the British Empire into one of the “Asian dragons” feared by protectionists in the world’s largest nations?

The answer, pure and simple, is free market economics and limited government. Throughout most of its history, Hong Kong has had no tariffs or other restraints on international trade. It has had virtually no government direction of economic activity, no minimum wage laws, no fixing of prices, and no capital gains taxes. Despite some government intervention—in building public housing for refugees from Communist China—the British officials who govern Hong Kong have confined their role to that of umpire. They enforce the rules of the game, but do not help one side or another gain an economic advantage. As a result of these laissez-faire policies, Hong Kong has flourished.

The story of how Hong Kong came to be the “emporium of the East” is a fascinating tale of how limited government and free markets have combined to elevate one corner of China far above all the rest. In that history also lie insights for other nations whose greater resources have remained untapped because of socialistic economic policies. Now, when the world is on the verge of losing this modern exemplar of free markets and limited government—its sovereignty is scheduled to be transferred to Communist China in 1997—it is important to understand the forces

that made Hong Kong what it is today. For unless right action is taken—action consistent with its history of limited government and free enterprise—Hong Kong's free-wheeling, highly creative society will be no more.

Throughout most of Chinese history, the island of Hong Kong and the nearby shore was the site of several small fishing villages that maintained a livelihood by fishing and cultivating the scanty soil. Hong Kong's greatest asset—in fact, its only natural asset—was its magnificent, almost landlocked harbor, which served as a haven from the dreaded tai-phoos (“big wind”—the origin of the English word typhoon) of the South China Sea. For many years, it was used almost exclusively by pirates. (The name Hong Kong, in Cantonese, means “fragrant harbor.”) Thus, for nearly 2,000 years, the only substantial form of wealth in Hong Kong was that stolen and brought there by pirates.

The British in Hong Kong

When the British discovered Hong Kong in the 1800s—her merchant-explorers seeking to obtain Chinese tea—they immediately recognized its value and set up trading posts there to be near Canton. Unfortunately, friction soon developed between the British and Chinese, resulting in the Opium War of 1839–42. Negotiations to prevent the war were hindered by the fact that all Europeans were considered barbarians by Chinese officials, with whom direct communication was forbidden, and by the continued smuggling of opium into China by British merchants. As a result of the Treaty of Nanking, which ended the fighting, Britain received Hong Kong Island “in perpetuity” so that her merchants might have “a port whereat they may careen and refit their ships.”¹ (A subsequent treaty in 1860 gave Kowloon Peninsula to Britain while in 1898 China leased the New Territories to Britain for 99 years.)

News of the end of “hostilities” (war was never declared) was greeted with much satisfaction in England, where the ideas of free trade and non-intervention were gaining popularity. There was less rejoicing, however, at the news that the British negotiator, Sir Henry Pottinger, had exceeded his instructions and obtained Hong Kong. (The British government said it would have been satisfied with a treaty guaranteeing the security

of its merchants.) Ironically, the ascendancy of the disciples of Adam Smith in England made the government hesitant to assume any more colonial responsibilities.

Yet it was precisely because free-trade ideas were on the rise that Hong Kong, from the very beginning, was set on its course as a model of free enterprise: Hong Kong would be accepted into the Empire not as a “Gibraltar of the East,” as some military strategists wanted, but as an emporium of trade between East and West—a free port. The free-traders viewed the British Empire not as a military empire held together by the force of arms, but as a commercial empire held together by millions of mutually beneficial relationships. These were the kinds of libertarian attitudes that helped make the period from 1815 to 1914 one of the most peaceful centuries in the history of the world.

In the early years, Hong Kong was viewed as little more than an arid rock. Lord Palmerston, the foreign minister, called it “a barren rock with nary a house upon it,” while Prince Albert is supposed to have laughed when he heard that the mighty British Empire had obtained little Hong Kong. And when provoked to strong language, fashionable London ladies cried, “Go to Hong Kong!”²

In defense of his actions, Pottinger wrote: “. . . the retention of Hong Kong is the only single point in which I intentionally exceeded my modified instructions, but every single hour I have passed in this superb country [China] has convinced me of the necessity and desirability of our possessing such a settlement as an emporium for our trade and a place from which Her Majesty's subjects in China may be alike protected and controlled.”³

Hong Kong probably would have remained undeveloped, and Sir Henry would have been discredited, had it not been for its status as a free port, where virtually no duties or tariffs would be collected. Not having tariffs would provide several key advantages that would guarantee prosperity.

First, inefficient industries would be quickly eliminated, since Hong Kong entrepreneurs would be able to respond to the true vicissitudes of the market; no buggy whip factory would outlive its usefulness shielded by a “protective” tariff.

Second, the market would direct the people of Hong Kong to do what they do best. For exam-

ple, although Hong Kong has one of the world's best harbors, it has little farmland. No matter how high Hong Kong might place tariffs on foodstuffs to "protect" and encourage its own farms, it would never be able to become self-sufficient in agriculture (even though today its capitalist farmers harvest eight crops per year). Instead, Hong Kong would do better importing food—at the lowest cost possible—and servicing ships in its excellent harbor to pay for it. This is indeed what happened.

Third, free trade would allow the people of Hong Kong to buy commodities and raw materials as cheaply as possible. The money saved by not paying a tariff, duty, or tax could be used to buy additional products and materials and thus realize a higher standard of living than otherwise would be possible. Instead of sending the fruits of their labor to Great Britain in the form of customs duties, Hong Kong consumers and businessmen would be able to spend and invest this "saved" money as they saw fit. French economist Frederic Bastiat went so far as to refer to such "savings" as a gift: "When a product—coal, iron, wheat, or textiles—comes to us from abroad, and when we can acquire it for less labor than if we produced it ourselves, the difference is a gratuitous gift that is conferred upon us."⁴ Hong Kong, with few natural resources, would depend on tariff-free "gifts" for its livelihood.

Finally, since resources could be obtained more cheaply, production could be enhanced, thus satisfying consumers, further improving quality and lowering costs, and creating more jobs.

An Oasis of Freedom

From the very outset, the British sought to remain true to their intention of setting up Hong Kong as an oasis of freedom—and not just for businessmen. Captain Charles Eliot, the military governor of Hong Kong, issued a proclamation that guaranteed protection for all the people and assured them that they were "further secured in the free exercise of their religious rights, ceremonies, and social customs. . . ."⁵ The colony was charged with operating a limited and frugal government: the principle was stated that the British government "expects that the local revenue will be adequate to defray . . . all the . . .

expenses of the government of Hong Kong," and that there should be "a strict observance of an enlightened frugality in every branch . . . of the local government."

Having no tariff income, Hong Kong's government was financed by the sale or lease of land. As far as the opium trade was concerned, the British government set forth the following policy: "The British opium smuggler must receive no protection or support, and all officials must hold aloof from so discreditable a traffic." The first ordinance passed in Hong Kong forbade all forms of slavery. This made conditions in Hong Kong consistent with the rest of the Empire, which had abolished slavery throughout its realms in the early 1800s.

Soon Victorian voluntarism began to meet the needs of the people of Hong Kong. Churches and places of worship were among the first buildings to be constructed. The London Missionary Society, under the leadership of Dr. James Legge, built the Union Chapel in 1845. American Protestant missionaries were particularly active. The first church was built by the American Baptists, followed soon after by the Catholic Church of the Immaculate Conception. The Moslems erected a mosque, while the Chinese began building their own temples. In 1849, the Anglican Church was completed, and an Anglican bishopric was established completely through private endowment. Societies of all kinds were set up. A Chinese branch of the Royal Asiatic Society, an amateur dramatic club, St. Paul's College, the Hong Kong Chamber of Commerce, and private schools for both Chinese and British were created by voluntary effort.

Although Hong Kong was a place for individualism, the flip side of individualism is not a wanton disregard for the needs of others, but the principle of voluntarism. Such voluntary and philanthropic efforts were consistent with the policies of English free-traders, who thought that each colony should be able to fend for itself and create its own services.

Those who decry Western values—including the classical liberal political and economic tradition that developed in the West—should take note of the British treatment of the thousands of Chinese who flocked to live under the British flag. Tossed to and fro by the whims of despotic mandarins, quarreling war lords, and the corrupt

Manchu Dynasty, the Chinese found both opportunity and near equality with the British in Hong Kong. The appointment of Chinese to responsible positions was agreed to as early as 1855. In 1857, Chinese were allowed to qualify as lawyers. In 1858, Chinese were permitted to serve as jurymen, allowed to register their ships under the British flag (if they held land in Hong Kong), and wills drawn up in accordance with Chinese usage were considered valid in court. The British also extended equal treatment to the boat people, or Tanka. For centuries, Chinese law forbade them to settle ashore, marry landowners, or take government examinations. Such discrimination ended under British rule and the Chinese population grew from 20,338 in 1848 to 121,825 in 1865.

Despite all the advantages the British gave to the Chinese, it was no one-way street. In 1894, Lord Ripon wrote to Governor Sir William Robinson: “. . . under the protection of the British Government, Hong Kong has become a Chinese rather than a British community . . . and Chinese settlement . . . has been one main element in its prosperity.”⁶

Throughout the 19th century, Hong Kong's business pursuits were centered around shipping and trade. In 1881, over 3,200 ships entered Hong Kong. That same year over 24,000 Chinese junks also passed through the harbor. To service these ships, there were 400 ship chandler shops, 20 rope factories, 93 boat works, two cannon foundries, and one dry dock. To handle all the transactions that went along with these services, many banks were founded or established in Hong Kong, including the Oriental Bank; the Mercantile Bank of India, Australia, and China; the Hong Kong and Shanghai Bank; and the United Service Bank.⁷

Into the 20th Century

In the 20th century, a new phase of Hong Kong history began: over the next 80 years Hong Kong would become a refuge for millions of Chinese fleeing persecution, instability, and violence, a home to millions of people, an industrial dynamo, as well as the site of a great airport built on land reclaimed from the sea.

The influx of refugees came in six major waves in the 20th century. The first wave came in 1911, as a result of the revolutions that overthrew the

Manchu Dynasty and established the Republic of China. The second wave came in 1937, after Japan invaded China. During World War II, Hong Kong was captured by Japan. Cut off from world markets, the island languished. More than one million Chinese left Hong Kong and returned to mainland China. Since both were ruled by the heavy hand of Japanese militarism, there was little advantage to staying in Hong Kong. The third wave began in 1949 when the Communists took over China.

A fourth wave of immigration occurred in 1962, when widespread starvation—the result of Communist China's socialist land-use policies—forced thousands of Chinese to emigrate. In one 25-day period in 1962, Communist Chinese border guards allowed 70,000 Chinese to walk to freedom in Hong Kong. The Cultural Revolution in the late 1960s sent another human wave into Hong Kong, while the 1970s saw over 100,000 Vietnamese boat people find refuge there. Fourteen thousand were given permanent resident status, while 100,000 were permitted to work in Hong Kong pending transfer to permanent homes abroad.⁸

In the years after World War II, Hong Kong took advantage of the human capital from Communist China, and began producing goods that appeared in markets all over the world. With few raw materials, no local sources of power such as coal and oil, and shortages of land and water, Hong Kong developed one of the fastest growing economies in the world.

From 1,050 separate industries, employing 64,000 people in 1947, the figure rose to 17,239 industries employing 589,505 in 1970. Most of the factories were still family concerns, using their own “capital”—including family members' hard work—to produce quality goods at low prices. By 1970 the textile industry employed 30 percent of the work force and produced 40 percent of total exports. Plastics accounted for 12 percent of exports; electronics, 10 percent. Highly developed countries, such as Great Britain and America, began “protecting” themselves by asking Hong Kong to impose “voluntary” quotas on many of its exports. By this time, Hong Kong's trade volume had passed that of much larger countries, such as New Zealand.⁹

In the early 1980s, realizing that socialism had failed to produce a healthy economy, the People's



HONG KONG ECONOMIC AND TRADE OFFICE

Hong Kong's Central District.

Republic of China established four Special Economic Zones where its people could learn the world's economic ways. All the zones were set up in southeast China, and for good reason: to be near Hong Kong. Since that time, investment capital, visitors, and Hong Kong know-how have crossed the border to quicken the pace of Chinese economic development. Shenzhen, the largest and most successful of the economic zones, is located directly across the border. In 1983, of some 1,600 government-approved contracts, about 50 percent were with Hong Kong firms. Short of space, Hong Kong entrepreneurs were using land in China for everything from country clubs to cemeteries.¹⁰

Today, little Hong Kong—which fuels its own vibrant economy as well as much of China's—has more than 150 banks, four stock exchanges, and is the world's third largest financial center. It is the third largest diamond and gold trading center, the largest manufacturer of toys, and the second largest maker of watches. It has an infant mortality rate lower than that of either Britain or the United States, and one of the highest protein-

consumption rates in the world. In the early 1980s, during a worldwide recession, Hong Kong had a maximum 5.2 percent unemployment rate when Britain's was more than twice as high. Over 2 million tourists visit annually, to shop in this oasis of freedom where East meets West. Chinese author Han Su Yin described Hong Kong as "the deep roaring bustling eternal market . . . where life and love and souls and blood and all things made and grown under the sun are bought and sold and smuggled and squandered."¹¹ Fueled by free trade, Hong Kong's growth rate from 1975 to 1987 was 11.8 percent, while Communist China's was only 4.3 percent.

A recent Fodor's tourist guide book to Hong Kong and Macau has this to say about "Doing Business": "Hong Kong is one of those rare places on earth that plays the free-trade game according to the classical rule. . . . A national of any country may do business or set up business (so long as it is legal). . . . The rules of business in Hong Kong are few. Whether you are a visiting businessperson or a potential entrepreneur, you will not go far wrong if you remember this:

You are in a 'free country.' If you succeed, you can take all the credit; if you fail, you must take all the blame. The authorities give some help (but no subsidies, tax reliefs, or featherbeds); what is more important, they don't hinder you. . . . There is no capital gains tax . . . income arisen from abroad goes tax free. . . . The Hong Kong salaries tax return is one simple sheet. . . . There is no income tax withholding. . . . The government's intervention in business affairs is minimal."¹² Milton Friedman has called Hong Kong "the modern exemplar of free markets and limited government."¹³

No Utopia

Hong Kong is no utopia: never has been, never will be. A nexus between East and West, it has always been a center of opium trade—first legal, now illegal. It is one of the most crowded places on earth, and hence, there is little tolerance for new refugees. There are great disparities between rich and poor. Yet there appears to be little discontent about the division of wealth because of the opportunity for advancement. Yesterday's shanty dweller lives in a resettlement block today, tomorrow—if he works hard—he may live in upscale Repulse Bay.

Unfortunately, Hong Kong's days are numbered. In 1984, Britain signed a Joint Declaration with Communist China, turning over sovereignty of the New Territories (over 90 percent of the colony) to China in 1997. China guaranteed that the capitalist system would last for at least 50 years and that democratic institutions would be preserved. Their slogan for the union: "one country, two systems."

Hong Kong has not reacted well to the negotiations or the settlement. From 1981 to 1983, stock-market prices fell 50 percent. The budget for 1983-84 incurred a deficit, something unheard of in Hong Kong, which believes in surpluses. Billions of dollars flowed out of Hong Kong, so much that neighbors like the Philippines, Thailand, and Malaysia set up programs to attract its panic money.

Hong Kongians had hoped that Britain would give them British citizenship or the "right of abode" on British soil if they had to flee the Communists. So far, the British haven't acted. Unlike people in "dependencies" belonging to

other countries, those in British dependencies don't automatically have British citizenship. As a result, even before the massacres in Tiananmen Square, a mass exodus began. In 1986, 19,000 residents left; in 1987, 30,000; in 1988, 45,000.

The exodus is carrying away some of the city's most productive citizens—professionals and middle managers. Seventy-five percent of all pharmacists are planning to emigrate before China takes over in 1997; shortages among police, fire, and judicial officers are already growing serious. After 1984, many people began leaving Hong Kong for a time to live in countries like Canada, the U.S., and Australia in order to qualify for a foreign passport. Then they can return to Hong Kong safe in the knowledge that if things go bad, they have a refuge.¹⁴

The massacre in Tiananmen Square and the deception that followed have only confirmed Hong Kong's fears. Polls taken immediately after the Beijing massacre indicate that most Hong Kongians don't want to leave—Hong Kong is their home. Yet to stay would place them under the same coercive government from which they and their parents fled. "The majority of people in Hong Kong feel helpless," says Jonathan Chao, director of the Chinese Church Research Center there. One prominent lawyer went so far as to say, on Hong Kong television, that "For England to give 5.5 million people to Communist China is like giving 6 million Jews to the Nazis." As this is being written, delegations from Hong Kong are appealing to Great Britain for the right to emigrate and live there.¹⁵

Supporting the idea that all Hong Kongians should be given British citizenship, Frank Ching, writing in *The Wall Street Journal*, explains:

"No other democracy denies a dependent people the right to self-determination or forces them to live under a Communist government.

"No other democracy issues passports that do not entitle their holders to enter the country that issued the passports.

"When British Gibraltar and the Falklands were threatened with takeover by another country, Britain offered the people protection by giving them full-citizenship rights.

"Hong Kong is the only exception. The British are now preparing to hand over its 5.5 million people to a Communist government. The decent thing for Britain to do is to restore the citizenship

rights of the people in Hong Kong. It is the only way remaining to salvage Hong Kong and restore British honor."¹⁶

As Ching points out, even if the British acknowledge that the land was on a lease, the people are not. As such, they should be given full citizenship rights—much as the U.S. has extended rights to Puerto Ricans, and Holland has given full rights to her dependents in the Netherlands Antilles and Aruba. British citizenship would be something the Communist Chinese couldn't take away, if and when they dismantle Hong Kong's free market system. It might even insure that China wouldn't tamper with Hong Kong's market.

In the light of Tiananmen Square, the British should use every means to renegotiate the joint accords, telling the Chinese that what happened this summer was not acceptable. The Tiananmen Square massacre—set against the backdrop of China's historic political instability and isolationism—makes it inconceivable that Communist China would allow Hong Kong to continue its Western contacts—including Western newspapers with their stock market reports, its aviation and shipping treaties, its checkbook accounts (which are not permitted in Communist China) and myriads of other capitalistic institutions.

China's Communist regime is trapped in a catch-22 situation: the only thing that can save its economy—a free market such as exists in Hong Kong—is the very thing that will reduce the regime's totalitarian powers by giving power to entrepreneurs and consumers. So far, whenever Communist leaders have had to choose between a better economy or keeping power concentrated in their hands, they have always chosen the latter. To allow Hong Kong to continue "business as usual" after 1997 would guarantee a heavy flow

of ideas on liberty, and that, as the world saw last summer, the present Chinese government cannot tolerate. It was apparently Deng Xiaoping who ordered the army to fire on the students, the same man who signed the Hong Kong accord with Margaret Thatcher.

Ironically, Communist China would be the chief beneficiary of continued British sovereignty over Hong Kong. Hong Kong accounts for at least 35 percent of China's annual foreign exchange earnings. China also benefits from Hong Kong's financial services, port facilities, and skills in marketing Chinese products. All this will most likely change when Hong Kong passes into Chinese hands. China threatens to kill the goose that lays the golden egg.

Britain needs to act quickly. To lose Hong Kong as an outpost of freedom in 1997, with its 5.5 million people, would be tragic indeed. □

1. G. B. Endacott, *A History of Hong Kong*, 2nd ed. (Hong Kong: Oxford University Press, 1964, 1988), p. 22.

2. John Scofield, "Hong Kong Has Many Faces," *National Geographic*, January 1962, p. 4.

3. Endacott, p. 22.

4. George Charles Roche III, *Frederic Bastiat: A Man Alone* (New Rochelle, N.Y.: Arlington House, 1971), p. 53.

5. Endacott, p. 26.

6. *Ibid.*, p. 215.

7. *Ibid.*, p. 195.

8. *Fodor's Hong Kong and Macau* (New York: Fodor's Travel Guides, 1987), p. 25.

9. Harry Robinson, *Monsoon Asia: A Geographical Survey* (New York: Frederick A. Praeger, 1967), p. 476.

10. John J. Putnam, "China's Opening Door," *National Geographic*, July 1983, pp. 64-83.

11. *Fodor's Hong Kong and Macau*, p. 58.

12. *Ibid.*, pp. 106-109.

13. Milton and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1979, 1980), p. 34.

14. Frank Ching, "Hong Kong's Hopes Wane as Britannia Waives the Rules," *Wall Street Journal*, April 19, 1989, p. A19.

15. These impressions were gained from telephone interviews with an American student in Hong Kong through the month of June, 1989; Jonathan Chao, quoted in *World*, July 1, 1989, p. 7.

16. Ching, p. A19.

What We Should Teach the Eastern Europeans

by Tibor R. Machan

President Bush went to Poland and Hungary last summer, and those who care about the resurgence of freedom in Eastern European countries should be concerned about the significance of these visits. As a Hungarian refugee, and also as someone very interested in political affairs, it concerns me that the Bush visit may begin a period of international blunders. Will Mr. Bush make clear to the leaders in these countries what is most important to their future both on the economic and political fronts—indeed, as viable, flourishing cultures?

The most important lesson the Polish and Hungarians can learn at this time is that they must build opportunities for self-help. This means, among other things, that economically the worst thing for these societies would be to learn to depend on foreign aid from the United States and other governments. It would be best for them to create a truly hospitable business climate.

Yet the problem goes beyond economics, all the way to the kind of culture these societies might develop after years of having to dance to the Kremlin's tune. One thing they do not need is further dependence on the decisions of the politicians of other nations—in either the Soviet Union or the United States. And getting involved in a massive aid program—whereby instead of making the business climate suitable for foreign investment, it is to foreign government help that they will look—is entirely ill-suited to becoming an independent society, a culture with its own

identity and political independence.

The lesson of the value of political independence could be taught no better than by leaders of the freest society in the world, the United States. The very birth of the U.S. testifies to the importance of establishing political independence by means of economic self-sufficiency. Some Poles and Hungarians might believe that the way out from under the yoke of the Soviet Union is to cuddle up closely to the several major Western governments, but they are mistaken. Indeed some Hungarians are fully aware of this. Let us consider for a moment the Polish and Hungarian situations.

Both Poland and Hungary are supposed to be proof that the Soviet bloc is no longer true to its Stalinist ways. There are reports of thawing in the Soviet orbit. This has led to the view that there is a real chance for socialism with a human face, with its Stalinist, tyrannical elements fully shorn. A visit to Poland and Hungary confirms this impression. The thaw itself, of course, has much to do with such economic facts as Hungary's benefit from Western trade and tourism.

Personal Testimony

There are other reports as well. Let us start with the most personal testimony I can think of, from my own mother, who now lives in Germany, coaches fencers in Austria, and has hardly a moment to herself because of the demands of her busy schedule. Yet she would never trade the hustle and bustle of her Western life for what she regards as the still basically phony atmospherics of contemporary Budapest. (She was allowed to

*Tibor Machan teaches philosophy at Auburn University, Alabama. He was smuggled out of Hungary in 1953. He recently edited *The Main Debate: Communism versus Capitalism* for Random House.*

leave at retirement age: socialism has no use for retired citizens.) By her account, "Up until recently it has been mostly surface stuff; the regime may still be able to resume its old style." The full import of that remark may be better appreciated when expressed in the words of a Hungarian scholar who has had the rare privilege of travel in the West. In the early 1980s he spoke to me as follows:

No, you no longer find the kind of brutality in Hungary we experienced in the Stalinist era of Rakosi and immediately following the 1956 revolution. But why? Partly because it is no longer necessary—people have accepted the system and have come to learn how to live around it. The people no longer believe it can be gotten rid of by forcible retaliation against the regime and its Soviet backers. They no longer believe anyone from the West is going to help them—they certainly do not, as they used to, count on America for such help, even though they still wish for it. But should there be a revival of the hard-line attitude in the population, there is no good reason at all to think that the brutal approach would not be tried again.

This scholar, who shall remain nameless for obvious reasons, also mentioned in a letter to me that there recently have been more basic obstacles to the re-emergence of Stalinist Marxism in Hungary. They have to do in part with what has been going on since the 1956 revolution.

The plain fact is that there are no Marxists, in the sense the Soviets use that term, left in Hungary—or, for that matter, in most of the Eastern bloc nations. I would add that there are more Marxists, even of the soft type, in the West than in the Eastern bloc! The doctrine has been given up not just because of the use to which it was put. After all, there are many who are Marxists and considered Stalin an abomination. But the system does not work in a more profound sense: one cannot govern a society in terms of it. We cannot look at people as simply tools to prepare for a revolutionary future. Planning a society is literally impossible, and we now know this. Marx, Lenin, Stalin, and the rest did not know this, nor did their ideological supporters. Among Hungarian in-

tellectuals no one believes in the possibility of a genuine socialist society, unless one distorts this term to mean something highly decentralized on the order of a kibbutz or convent. To allocate resources, to generate creative energy, to prepare for future needs, wants, and contingencies of actual people—rather than the homogeneous ant colony fantasized in orthodox Marxism/Leninism—one requires a free marketplace, period. We know this, the Poles know it, and I know some of the Russians are coming to realize it too.

Some Complex Realities

By now it clearly appears that many of Hungary's leading intellectuals have changed philosophically. The prevailing economic philosophy is anything but socialist, even though for political reasons there are not yet major institutional changes that reflect this transformation. It is these changes in outlook and new ideas, in the midst of the intractable and devastating results of socialist mismanagement of the country—not merely the equally necessary thawing of Soviet socialism—that account for the "liberalization" we perceive in Hungary. But there must be more to the current transformation than the motivation to do something new, to abandon an experiment that never should have been tried in the first place.

Economics is just one aspect of life, and change in economic understanding will not suffice to produce lasting constitutional and institutional changes. In these other areas, where realities are more complex and hidden and do not stare you in the face as economic realities often do, there is an actual revolution—a basic change—under way in Hungary.

Again, there is not much that can be reported—indeed, when some years ago I offered to do a major story on these developments for a national magazine, my sources begged me to desist: "You will give away the ball game!" Suffice it to say that during the last decade, in the various corners of culture that are touched by the work of intellectuals of all disciplines and specialization, Hungarian statism and censorship have been gradually undermined. Slowly, but deliberately, the Hungarian intellectual community has been



laying the foundation for a new culture. The reading materials, the works of art, and the dramatic offerings in Hungarian culture are once again recovering their earlier, pre-Nazi, post-Hapsburgian cosmopolitan and liberal flavor. The intellectual community has been making excellent use of the “thawing,” which is partly the result of heeding the lesson Milton Friedman has been teaching us for decades: with economic freedom you are bound to gain more political freedom. (Dr. Friedman’s books recently have been translated into Hungarian, and both Polish and Hungarian economists are openly turning to his free market theories to get help in their efforts to rejuvenate their economies.)

There is a lesson for us in this, and Western diplomatic and economic experts dealing with Eastern European affairs might pay heed to it: A society is in need of a vision of itself; the people need an integrating, broad political idea as to the basic principles the system should exhibit.

What is very scary is that Western liberal democracies are losing sight of this vision. We are now in a situation where those few prominent people who are espousing the vision of a free society are all economists. But their specialized discipline cannot be fully entrusted with the task of spelling out and creating the motivation to up-

hold the system. The economist is not in the business of setting priorities for us, but in the business of explaining what the consequences of various institutional policies are for our overall material well-being.

Western diplomats and foreign policy strategists should not, therefore, rely only on the advice of economic policy experts, but draw lessons from thinkers such as the American Founding Fathers and Abraham Lincoln. These individuals knew that America’s pre-eminence in the world did not depend merely on capitalism, but was the function of a deeper philosophical ideal, namely, that of individual sovereignty. That idea helped undo America’s worst institution, slavery. It may, if its leaders keep it in mind, undo the enslavement of people throughout the world.

And from a practical standpoint that is just what places like Poland and Hungary need: a fundamental commitment to individual liberty and, *therefore*, a self-regulating marketplace. So, by insisting on the basic ideals of freedom, Western diplomats in touch with the new leadership in Poland and Hungary will help to pave the way for the best possible kind of business recovery in the Eastern European countries—a recovery founded not on temporary public policy but on basic reform of the institutions of society. □

Communal Politics in India

by Rayasam V. Prasad

“The communal card always played a key role in our electioneering, but has never enjoyed the blatant currency it is beginning to now. The tragedy is that it is not the ruling party alone that is to blame. For decades, political parties of all hues have pandered to communal forces.”

Recently, a reporter—while discussing the brutal killings and property damage caused by communal riots in India—wondered about the powerful influence of caste and religion on India’s public life. He recommended that a sociological study be undertaken on the subject.

During the euphoria of India’s struggle for independence, many predicted that this anachronistic division of society would disappear with the spread of literacy. But the communal virus continues to affect all—poor and rich, literate or otherwise. In a recent speech, Prime Minister Rajiv Gandhi said that the people are still dividing themselves on the bases of religion, caste, and sub-caste, and that this is perhaps the most dangerous trend in the country today.

It is common to talk about how each caste is represented in the state and central cabinets. For example, one Indian commentator recently stated: “Choosing a high caste man [as a chief minister] would have been tantamount to setting the clock back in a state where the alignment of social classes and castes had definitely been in favor of the backward castes.” Politicians and newspapers routinely engage in such calculations.

In the name of socialism, the government con-

centrates power in its own hands, controls access to production, and engages in arbitrary distribution of goods and services. In such an atmosphere, to belong to a group with influence over politicians and bureaucrats means survival, progress, and prosperity. The caste system serves as an old solution to these new problems.

In day-to-day life, communal influences are very strong. If you are a government official, for example, your superior, who may belong to another caste or religion, can downgrade your evaluation and thus your chances for promotion. You can be transferred to places you never knew existed. People belonging to a powerful caste can obtain jobs, promotions, and exclusive permits and licenses. It is cheaper than to pay the huge bribes.

People belonging to other castes and religions feel threatened, huddle together, and wait for their chance at the wheel. Leaders of these groups negotiate with politicians for a slice of the power in return for votes. “We have decided to create a strong vote bank on our demands. Only those who support these will get our votes,” says a religious leader.

Even the judicial and police appointments aren’t immune from communal considerations. With enough support from politicians, one can engage in criminal behavior with no fear of reprisal or punishment. With the backing of these criminals, politicians intimidate their opponents on a regular basis. Thus, one cannot dream of entering public life without the constant support of an army of hooligans.

“I cannot trust police any more in this town,” says a victim of recent communal clashes. People, out of desperation, take the law into their own

Mr. Prasad, who immigrated from India in 1975, is a free-lance writer in Atlanta, Georgia.

hands, and communal riots are as predictable as monsoon rains.

This artificial division of society does trouble some Indians. The judge who recently ruled in favor of “Tamas”—a television show attacking fundamentalists in both the Hindu and Muslim communities—said, “the message is loud and clear, directed as it is against the sickness of communalism . . . the extremists stand opposed . . . when realization dawns on both communities who ultimately unite as brothers.” Both Hindu and Muslim extremists opposed the screening of this program.

For most people in socialist India, however, the lure of communalism is too powerful to resist. By belonging to a ruling caste, you get a promotion and your son gains admission to a good college. Soon, belonging to a particular religion or caste becomes an integral part of your self-image. You learn to distrust “others” as a part of this learned behavior that benefits you.

Politicians know that if they ignore these powerful forces, they are doomed. They go with the flow, and gain maximum advantage from caste and religious differences. The power they accumulate—all in the name of socialism—helps them cater to various factions. The caste system thrives in this atmosphere of political patronage.

There is another reason why people distrust “others” and seek comfort among their caste members. The explanation can be found in Hernando de Soto’s magnificent book, *The Other*

Path, in which he describes the various networks of “cousins” and “uncles” operating in Peru’s underground economy.

People in free market economies slowly learn to trust strangers. The reason is simple. You and your business partner have an enforceable contract. The same goes for consumer and provider, landlord and tenant, stockholder and company, employer and employee, and so on. Respect for private property and enforceable contracts enable millions of strangers to deal with each other in complex, large-scale production and distribution processes.

In India, as in Peru, high tax rates and overwhelming governmental regulation have driven a large part of the economy into the informal sector. Even the legal businesses have two sets of books.

People operating in such an illegal underground economy don’t have the luxury of enforceable contracts. They have to depend upon people they know and can relate to. In India, the caste system serves as a convenient vehicle for that kind of kinship.

Communal politics in India is a new phenomenon spawned by socialism. Deregulation, reduced tax rates, and transfer of productive processes back to the people will melt away the foundations of the underground economy. All this coupled with decentralization will destroy the forces behind communalism, corruption, violence, and disorder. □

IDEAS
ON
LIBERTY



The Despotism of Faction

The despotism of faction is not less to be dreaded than the despotism of an individual. When the bulk of the community are engrossed by private concerns, the smallest parties need not despair of getting the upper hand in public affairs. At such times it is not rare to see on the great stage of the world, as we see in our theaters, a multitude represented by a few players, who alone speak in the name of an absent or inattentive crowd: they alone are in action, while all others are stationary; they regulate everything by their own caprice; they change the laws and tyrannize at will over the manners of the country; and then men wonder to see into how small a number of weak and worthless hands a great people may fall.

—ALEXIS DE TOCQUEVILLE

A Room with a New View

by Steve Lopez

Three years ago, architect Peter Fox is fresh out of college and catches a bus for his first day on the job. The bus pulls up to 20th and Chestnut, the door opens, and there's some guy camped out on the sidewalk like he owns the property.

Next day, same thing. And the next day, and the next.

"I had to step over him every morning," Fox says.

Fox would continue on to work, where he sat against a window one flight above 20th Street. Sometimes he'd design a new swimming pool for someone who was unhappy with their old swimming pool. And when his work didn't seem to reflect reality, there was always the window.

Three years later, the man is still out there; Peter Fox is still looking.

They don't know each other. But Fox has found comfort and inspiration in just looking. And the man—oblivious to his starring role in the drama Fox sees through his window—is comfortable with his own invisibility.

The man outside says he is John Madison, Vietnam veteran.

"Shortly after I started," Fox wrote in a letter, "a Korean fruit stand opened. At first the street guy would bum them for food and money."

Agents of Change

It looked like only a matter of time before one of them drove out the other. But that didn't happen.

Reprinted with permission from The Philadelphia Inquirer, April 9, 1989.

"Pretty soon they had him helping unload their truck in the morning when it arrived from the food distribution center."

This despite a language barrier. On some level, maybe because both Madison and the Koreans were on the edge of things, they made a connection.

"Next he was sweeping the sidewalk, then driving the truck for them, all the time his appearance improving."

Partly because he was getting paid by the Korean fruit vendors. A couple bucks here, a couple bucks there. What was emerging, gradually, was the new John Madison.

"Better clothes, haircut, apparently now off the street. And the wild look disappearing from his eyes."

What Fox didn't know—nobody knew—was that Madison had taken to camping in a quiet alcove near the Boy Scouts of America office several blocks away. Though it was still the street, to him it was a fancier address, fit for a man of his upward mobility.

New Responsibilities

"As the fortunes of the vendors improved, they, along with their relatives, bought several shops on the block, and the street guy became responsible for maintaining all of the shops, as well as the street and sidewalk along the entire block."

Fox watched as the John Madison Corporation conquered new territory. With a household broom, he had staked out the west side of 20th Street from Market to Chestnut. He had the side-

walk so clean you had to look twice to figure out what was wrong with the picture. He even dug cigarette butts out of cracks.

And he was diversifying.

"He is now holding down two jobs—collecting trash for a private hauler in the early morning and then arriving (usually hanging off the side of the trash truck) to work for the Koreans and other merchants."

Madison's abilities did not escape the notice of the management of Nuts to You, one of the few remaining non-Korean businesses on the block. Manny Radbill, the owner, occasionally had Madison clean his van. One time Madison found money in it and immediately gave it to Radbill. Debbie Alexander, Radbill's manager, remembers the time she handed Madison a Christmas bonus. He refused.

Much out of Little

To John Madison, words and possessions are confusing fragments of a complicated world. His

luxury is to need so little.

His only vice, Radbill says, is a beer or two on a warm afternoon, a habit the Koreans do not seem to appreciate. Most of them, however, see in Madison a little bit of themselves. He works hard, says Hyun Jin. What else is there?

There is Peter Fox, watching the whole thing out the window. And there's Madison, the man he used to step over.

"It has been very inspiring to watch all of this happen. It's a great reflection of the Korean merchants, refugees themselves, who in establishing themselves and their families in this country have found room in their plan to reach down to someone more displaced than themselves and pull him up with them."

Madison says he's off the streets now and rents space in a North Philadelphia house for \$3.00 a night. He liked hearing that people have seen the change in him and appreciate what he's done for the block.

As Madison smiled at the thought, broom in hand, Peter Fox watched through the window. □

IDEAS
ON
LIBERTY



Self-Reliance

I yield to no man in the world in a hearty goodwill towards the great body of the working classes, but my sympathy is not of that morbid kind which would lead me to despond over their future prospects. Nor do I partake of that spurious humanity which would indulge in an unreasoning kind of philanthropy at the expense of the great bulk of the community. Mine is that masculine species of charity which would lead me to inculcate in the minds of the labouring classes the love of independence, the privilege of self-respect, the disdain of being patronised or petted, the desire to accumulate, and the ambition to rise. I know it has been found easier to please the people by holding out flattering and delusive prospects of cheap benefits . . . rather than by urging them to a course of self-reliance, but while I will not be a sycophant of the great, I cannot become the parasite of the poor.

—RICHARD COBDEN

The Coming Push for National Health Care

by Terree P. Wasley

Conservatives and free-marketeers across the country have cause to celebrate these days. For the first time in decades, Congress has eliminated a welfare-state program. Repealing the catastrophic care plan for the elderly has raised hopes that future spending sprees on health care will face insurmountable opposition in Congress. Health care experts, journalists, and broadcast commentators have advised that other forays by the government into health issues, such as mandated benefits, long-term or nursing home care, national health insurance, and nationalized health care are virtually dead in the water. *The Wall Street Journal* even remarked that this recent defeat has killed for now any further attempts to socialize American medicine.

Despite this remarkable success in rolling back one program, now is *not* the time for those who believe in free markets to relax. If current wisdom is correct, then the Bush Administration has a unique window of opportunity through which to propose major reforms to this country's ailing health care system, bringing it back into balance with our free-market convictions. The time may be right to urge significant changes that would curtail spiraling health care costs, making health care more affordable and offering citizens the chance to choose the way to provide for their own future health care needs.

The Administration must act now, for to wait may allow an opportunity to pass that might nev-

er come again. Those who believe government can best provide for our lives are already working behind the scenes for passage of a comprehensive national health care plan for *all* Americans—and their target date is 1990.

Calls for some kind of national health care program have increased during the past year and are coming from a variety of sources. The rapid escalation in health care costs, particularly in the 1980s, and attention to the fact that approximately 30 million Americans lack health care insurance, have raised demands for some kind of universal solution.

Not too surprisingly, the A.F.L.-C.I.O. used its national convention in November to kick off a major campaign for national health insurance legislation in the next Congress. However, what has amazed some are voices from the business community speaking out for more federal government involvement in health care. Ever-rising health care costs, due to government interference and a perverse system of incentives and controls,¹ have so frustrated American business leaders that some have now resigned themselves to failure and are asking the government to bail them out.

Art Puccini, vice president at General Electric, in a speech early last year, said, "rising employee medical costs may lead some of us who today are free-market advocates to re-examine our thinking and positions with respect to government-sponsored national health insurance." Ford Motor Company has been using its seat on President Bush's competitiveness council to push for government health care, and General Motors vice president Beach Hall has been seen at several recent Capitol Hill meetings on the issue.

Terree P. Wasley is a Washington-based economist and free-lance writer who has worked on tax and health care issues for the U.S. Chamber of Commerce, the Goldwater Institute, and The Heritage Foundation.

Walter B. Maher, director of employee benefits for Chrysler Corporation, has urged that a national budget be set for health care each year—much like in Canada, Britain, and other countries with national health care plans. The Washington Business Group on Health, which represents about 180 Fortune 500 companies on health issues, is one of several groups drafting a national health care plan with the goal of controlling health-related spending.

Astonishingly, it's not just big business, frustrated with mounting health care costs, that is turning a favorable eye toward a national health plan. A recent Dun & Bradstreet survey of *small* business found that 38 percent favored some form of national health insurance. The Independent Business Federation says 15 percent of its members polled in 1989 would agree to a mandatory national health insurance program.

In addition to business, another unlikely group has joined the clamor for national health care: physicians. Last year, Physicians for a National Health Program, a two-year-old group of 1,200 doctors from across the U.S., proposed a single public insurance plan that would pay for all approved medical services. According to Dr. Arnold Relman, editor-in-chief of the *New England Journal of Medicine*, "Nothing short of a comprehensive plan is likely to achieve the goals of universal access, cost containment and preservation of quality that everyone seems to want."

Many experts believe that it is currently impossible to undertake a national health care program of any kind, because of Federal budget deficits. Despite this, polls are showing that Americans see the deficit as less and less of a threat and that they are concerned about those who don't have access to health care because of its current high costs. Because of that concern, and if skyrocketing health costs are not slowed, some health care experts, such as Harvard University professor Robert J. Blendon, predict that national health care will become a major issue during the next few years.

Socialized medicine, the word normally used for a national care program, conjures up vivid images in most Americans' minds. One sees Soviet citizens dying because of a lack of adequate medical care, British citizens waiting for months to undergo a simple procedure or surgery, rich Europeans paying under the table to get their names

pushed to the top of a waiting list, and Canadians hopping the border into the U.S. to have procedures done, rather than wait months or maybe years in their homeland.

No one, including most members of Congress, expects the American people to accept a socialized system like that of the Soviets, with its centralized control of every aspect of health care. Recent attention given to the severe problems besieging the British national health care system has prompted Prime Minister Thatcher to institute some market-based reforms and has turned proponents away from that example. However, many bills recently introduced in Congress would provide for a system of national health insurance modeled after the perceived success of the Canadian health care system.

One of the bills receiving the most attention is Senator Kennedy's "Minimum Health Benefits for All Workers Act." This bill would require all employers to provide health care insurance for workers and their dependents. Besides being a major intrusion by the government into individual and business decisions, the bill would increase health insurance costs by \$100 billion, result in a loss of one million jobs, and spawn a further escalation in medical price inflation. One cannot overlook that mandated benefits are really transfer payments in disguise, with all the pernicious economic consequences of such transfers. A study by the National Center for Policy Analysis estimates that as many as 25 percent of the uninsured lack health coverage because current state-mandated benefit laws make it too expensive.

Governor Michael Dukakis has been touting his new Massachusetts universal health insurance program as a model for the nation, and politicians in some states have believed him. Under the Massachusetts program, all companies with more than five employees that don't provide insurance are required to contribute as much as \$1,680 a year for each employee to a pool providing health insurance to people without coverage. Interestingly, a year after the plan has gone into effect, it is facing severe budget shortfalls, and hospitals and businesses are concerned they will be left footing the bill for skyrocketing costs.

Many politicians have praised the Canadian system of health care as successful in providing satisfactory health care at lower costs than the United States. But the problems inherent in any



health system based on social insurance or direct government funding are already showing up in the Canadian program. These endemic flaws should give pause to U.S. lawmakers eager to adopt a plan similar to the Canadian one.

The underlying problem with any social insurance system is that patients make little or no contribution to the cost of their care. What follows is the exorbitant increase in the demand for health care services, and the resulting price controls, rationing, income controls on physicians, shortages of equipment, deterioration of medical facilities, and long waiting lists. Canada has exhibited all of these symptoms, and many Canadians routinely cross the border into the U.S. for treatment. Price controls, rationing, and waiting lists do put a lid on health care spending, and that is exactly why many politicians can boast that Canada spends less on health care than the United States. But is that the quality of health care Americans want?

As mentioned above, a unique window of opportunity may exist in Washington following the collapse of the catastrophic health care legislation. Now is the time to reverse the trend toward nationalizing our health care system and replace it with a free market. The creation of Medicare and Medicaid in the 1960s, their continued ex-

pansion, and the addition of a crazy quilt of health care programs by both the Federal and state governments have virtually destroyed Americans' access to reasonable and efficient health care.

Government intervention has our health care system caught in a vicious cycle of government-encouraged demand that drives up costs, bankrupts Federal and state budgets, and leads to still more infusions of money and program expansions that encourage additional consumption. Only the elimination of government interference and a return to a free market in health care will end the move toward nationalization. Only a free market will break the spiral of ever-increasing medical costs. As Ludwig von Mises wrote, "The pricing process of the unhampered market directs production into those channels in which it best serves the wishes of the consumers as manifested on the market."² Only a free market in health care will allow individuals maximum choice in meeting their health care needs. □

1. For a detailed history of our health care system, see *Critical Issues: A National Health System for America*, edited by Stuart M. Butler and Edmund F. Haislmaier (Washington, D.C.: The Heritage Foundation, 1989), chapter 1.

2. Ludwig von Mises, *Human Action: A Treatise on Economics* (Chicago: Contemporary Books, 1966), p. 394.

Readers' Forum

To the Editors:

Robert James Bidinotto (*The Freeman*, September 1989) is too hasty in dismissing prison work programs. They don't reduce recidivism, and they can be used to mount prisoner escapes, he argues.

Faced with rising prison costs and problems with prisoner idleness, many states have looked to prison work as a solution. Fifteen American states have now initiated programs involving the employment of prison inmates by private companies. Prisoner employees are paid at the market rate (except where minimum wage laws intrude), and deductions are made to pay for prison accommodation, for victim compensation, and to pay taxes. What remains is put into a savings fund, available to the offender upon release.

These programs have not emerged as the result of lobbying by what Bidinotto calls the "Excuse-Making Industry." They usually have as much support from conservatives as from the left, because they reduce prison costs at the same time as aiming at something more constructive than incarceration. The programs are also ethically sound, because they help to make amends to the victim. Without work, offenders languish in prison at the expense of their victims.

There is evidence to show that the programs reduce recidivism. In California, prisoners are employed by TWA as flight reservation agents. The scheme has been in operation for only three years, but early evidence shows substantially lower rates of re-conviction for those who have passed through the program. This evidence has been carefully dissected and does not suffer from any statistical bias.

Individual evidence also points to the success of these programs. Take a young unskilled offender, provide him with a marketable skill, and

this gives him an alternative to crime when he is released back into society. To quote an offender who benefited from one of the programs run by the private company PRIDE in Florida: "I have developed a new sense of direction towards a productive life. It was the push in the right direction that I needed."

Criminologists are agreed that the most important influence on re-offending is whether the ex-prisoner secures a job in the first few weeks of release. Prison industry programs help in three ways: First, they provide the offender with a marketable skill; second, the savings fund accumulated while inside can be used to help them through their first few weeks of freedom; and third, some of the companies involved will provide the offender with a job upon release.

Part of the appeal of these schemes is that they are profit-making. For the companies involved, prisoners are a flexible work force, providing them with labor during holiday periods and over weekends. Once training has been given, the company will retain staff because they are valued employees.

Most workplace facilities are located within the perimeter of the prison, so the possibility of escape does not arise. In any case, evidence shows that most prisoners are on best behavior in order to retain their places in the program. The nationwide study made by the University City Science Center found that work programs have been accompanied by a fall in disciplinary offenses (Grant G. Grissom, *Impact of Free Venture Prison Industries Upon Correctional Institutions*, University City Science Center, January 1981).

Mr. Bidinotto's hostility to what he regards as soft-options for criminals is based on his image of the typical criminal as a violent fiend. In any

prison system the majority of inmates are non-violent offenders. Also, there are large numbers of remanded prisoners—people who have not been convicted of any offense. Criminals are as diverse as the crimes that they commit, and there is little point in presenting a caricatured stereotype: the rogue immune to any type of reform process.

Nor is there much to be gained from retributive spleen, from complaining about more relaxed regimes in prisons. It is no great surprise that prison inmates—just like other folk—do not react well to being oppressively governed. Private enterprise managers of U.S. prisons are known to maintain very soft regimes inside their prisons: Prison guards are known as correctional staff and wear T-shirts rather than uniforms. They do this, not from any heinous liberal motives, but because it makes the prison more tranquil, cuts costs, and helps the company to attain the recidivism targets written into its contract with the state government.

There is a growing realization on both sides of the Atlantic that prisons have so far been a failure. Mr. Bidinotto's rather depressing solution is to build more of them. A more imaginative solution would be to make prison work the basis of the whole system.

NICK ELLIOTT
London

Mr. Bidinotto replies:

Mr. Elliott disputes the "image of the typical criminal as a violent fiend," arguing that "the majority of inmates are non-violent offenders." This is untrue. Due to prison overcrowding, most non-violent offenders are given probation or "alternatives to incarceration"; most prison beds are, in fact, reserved for dangerous and chronic felons. To repeat an example from my series, the Massachusetts Department of Correction (DOC), whose policies typify those around the nation, concedes "the fact that 85 percent of the DOC inmate population has a present or past violent criminal history."

He contends that prisons are "a failure." But that depends on what one intends them to accomplish. My main argument for imprisonment was neither retribution nor even deterrence: it was incapacitation. One hundred percent of those behind bars are prevented from committing

other crimes against those on the outside—a perfect rate of success. A Federal study I cited found that the average state prison inmate, while free, had been committing 187 crimes per year, at an estimated cost to society of \$430,000 per criminal. Putting just 1,000 more criminals behind bars for a year would have averted about 187,000 crimes and saved society over \$400 million, net.

He is upset with my dismissal of various "prison work" programs. These, he says, provide a young offender "with a marketable skill." Despite his protestations to the contrary, that's just another way of saying that unemployment causes crime—a claim I rejected in Parts I and III. A causal relationship between unemployment and crime is indeed present: *criminality causes unemployment*. The typical criminal, who "is at heart antiwork" (as Stanton Samenow puts it), isn't going to be enticed away from the fast buck of a drug deal or burglary by what he views as the "trap" of a 40-hour work week.

Mr. Elliott cites a California work program which, he claims, has measurably reduced inmate recidivism, even after carefully controlling for "statistical bias." But is that true? Invariably, the worst, most dangerous inmates are screened out of such programs. Measuring the recidivism of the *select group* allowed to participate always gives glowing, but biased, results. That's no doubt the case here. Otherwise, we'd have to believe that TWA is indiscriminately hiring the full range of prison inmates, from rapists to murderers, to man its ticket counters.

Likewise the study by the University City Science Center: we've heard it all before. Exhaustive research (such as that reviewed in Wilson and Herrnstein's *Crime and Human Nature*) indicates that work programs make no real difference in reducing recidivism rates. Upon review, occasional studies claiming otherwise reveal a variety of self-serving methodological biases.

To be sure, recidivism isn't 100 percent. So there are always individual "successes" in such programs—just as there are criminals who claim to have been "reformed" by finding a good woman, religious inspiration, or some other positive influence. But whether such influences will work depends upon the prisoner's receptivity, his own earnest desire to change.

Regrettably, most do not. Despite years of such programs, a new Bureau of Justice Statistics

(BJS) study of 108,580 released inmates found that over 60 percent were rearrested within three years. A 1988 report for the BJS summed up: "By the end of the 1970s, the vast bulk of research criticized the effectiveness of rehabilitation programs for criminal offenders . . . [T]here can be little argument that, empirically, rehabilitation has not worked."

It all comes down to one's view of human nature, particularly, the nature of the typical criminal. I've cited in my series abundant evidence that the criminal chooses to be predatory in his outlook and values. If so, there's simply no way to "rehabilitate" him without his compliance. To suggest otherwise is to embrace some form of determinism. And like other correspondence my series has generated, Mr. Elliott's letter reveals that sympathy for the free market system does not necessarily rest on consistent "free will" premises concerning human nature.

Another theme arises in a few critical responses to my crime series. Some seem to forget that the government's very reason for being is to protect our individual rights against *any* initiation of force, fraud, and coercion. In making cases against the dangers of an unchecked government, they've lost sight of the very danger government was established to confront: the danger of criminals in our midst.

Today, by any reasonable gauge, criminals pose a far more immediate and serious threat to most of us than do our government officials. At their worst, American officials must operate under many legal constraints and face political accountability, while individuals usually have considerable legal and political recourse against their abuses. Criminals, however, now operate with virtual impunity and pose increasing risks to individuals, who have little legal protection against them.

Some free marketers have lost all perspective about such things. When U.S. officials committed a petty burglary against political rivals, it was seen as such a scandalous abuse of power that even a President was ousted. Yet while constantly citing such marginal incidents as evidence of the imminent peril to our rights posed by government, many advocates of liberty remain utterly mute about the three million reported burglaries committed by criminals against private individuals in 1988.

Let's be sensible. Having to pay taxes, pre-

dictably and non-violently, for a hodgepodge of programs both good and bad, isn't remotely equivalent to being unpredictably confronted by some sociopath wielding a sawed-off shotgun and demanding money, or awakening to the sound of a burglar's footsteps downstairs. Facing the prospect of military conscription with a variety of legal options at your disposal is not remotely as horrifying as boarding an airliner with a terrorist hijacker on board, or having your child kidnapped from the sidewalk by a serial killer.

We lose all credibility with the American people when our abstract concerns and fears are so disproportionate and so removed from the very real threats they see at hand. How can they take seriously those who ignore the pressing problem of violent crime, while railing against, say, the Federal postal monopoly? Agreed, that monopoly is a costly, unjust, and unnecessary imposition on us all. But in all honesty, who poses a greater danger in one's neighborhood: the postman or the pedophile?

No one familiar with my work can contend that I've failed to speak out against the threats posed by unconstrained government. We must continue our vigilance against all efforts to unleash it. But realistically, the threat of dictatorship still remains distant and hypothetical. Such is not the case with the threat of crime, a clear and present danger in our midst. Through what distorting lens, then, do many alleged champions of individual rights view a largely benign government as a greater menace to its citizens, than those cold-blooded predators whom it was constituted to pursue and punish?

I would be gratified if "Crime and Consequences" could help to change such perspectives and public perceptions about this vital issue.

ROBERT JAMES BIDINOTTO
New Castle, Pennsylvania

To the Editors:

I agreed with almost everything in Robert James Bidinotto's stunning three-part series on our criminal justice system, but I do have two criticisms. One concerns his setting up free will as being diametrically opposed to determinism (*The Freeman*, July 1989, p. 261). The philosopher David Hume showed in 1739 (*Treatise of Human Nature*, Book II, Part III, Sections 1 and

2—"Of Liberty and Necessity") that free will is not only not incompatible with determinism, but actually depends on it, for exactly the same reason Mr. Bidinotto stated that "human volition, then, isn't an affront to the law of causality: it's an instance of it" (same page as above).

Hume's arguments were reiterated and expanded upon in 1939 by Moritz Schlick (*Problems of Ethics*, translated by David Rynin, chapter VII—"When is a Man Responsible?") to include criminal justice, and constitute what is known as "the Reconciliationist" position (reconciling free will with determinism). Both Mr. Bidinotto and the Objectivist philosopher David Kelley, whom he referenced in Part I, are confused on this issue. Ironically, Mr. Bidinotto conceded that he does indeed believe both in determinism and free will in the second paragraph of Part III when he stated ". . . Aristotle's point about causality applies: the nature of an entity *determines* what it will do" (my emphasis). Essentially, the Reconciliationist viewpoint is that, yes, everything is determined, but to have one's actions determined by one's own atoms, one's own molecules, one's own cellular structure and neuronal circuitry, one's own brain, i.e. *oneself*, is really just another way of saying that one has free will—free in the sense that no external coercive force is involved—free to behave according to one's own nature. I refer the interested or unconvinced to Schlick's essay.

My second criticism is of Mr. Bidinotto's unsupported statement that "in cases of pre-meditated murder in which there is no question of guilt, it [capital punishment] should be the *standard* sentence" (*The Freeman*, September 1989, p. 348). As far as I'm concerned, society is justified in using only that amount of force necessary to protect itself, i.e., a sentence of life imprisonment without possibility of parole. I consider capital punishment to have a brutalizing effect on society. I have no desire for it, and don't wish to have a State-appointed executioner killing in my name.

HAROLD KYRIAZI
University of Pittsburgh

Mr. Bidinotto replies:

Dr. Kyriazi did not define his terms, so I'm not sure I grasp the nuances of his position. If I interpret him correctly, he believes something like the

following:

"Causality" and "determinism" are interchangeable concepts. The free will of human nature can be reconciled with both of these; but to do so, we must redefine our terms. "Human nature" must be defined so narrowly as to include only physical attributes, such as our atoms, cells, and biochemistry. And "free will" must be defined to mean only the independence of these internal bodily attributes from external forces. This biological determinism is apparently what he means by "being free to behave according to one's own nature."

By contrast, I defined "free will" as "the premise that the individual can make some primary, irreducible choices about his thoughts, feelings, or actions." I argued that free will is a special instance of "causality," and hence compatible with it. I also argued that "determinism"—the theory that all human thoughts, feelings, or actions are necessitated by antecedent factors—is the logical antithesis of "free will."

In essence, Dr. Kyriazi shrinks the traditional notion of "free will" so as to fit within the narrow confines of determinism. I argue that the traditional notion of "causality" must be expanded so as to admit free will.

Our disagreement hinges on whether "causality" is the same thing as "determinism." Dr. Kyriazi insists on using the two terms interchangeably. I argue that causality need not imply determinism—if volition itself is a primary cause. Thus, when I wrote that "the nature of an entity determines what it will do," I was not implying any link between "causality" and "determinism." By emphasizing that human nature *includes* free will, I was arguing quite to the contrary.

As I wrote in Part I, equating "causality" and "determinism" stems from thinking of causality *only* in mechanical, "billiard-ball" terms. Note that Dr. Kyriazi's description of "oneself" consists exclusively of *physical* attributes: atoms, molecules, cells, neurons, the brain. This narrow, reductionist view of human nature excludes *volitionally directed awareness* as a primary, irreducible cause of subsequent human action.

Thus Dr. Kyriazi's "free will" is not free at all. By his view, man is enslaved not to external social forces, but to inner biological ones. To be determined exclusively by atoms, molecules, cells, neurons, and the physical brain is to *be-have*, not to

act. His view is no "reconciliation" of free will with determinism: it simply rejects the former for the latter. To take his position seriously, one would have to conclude that Dr. Kyriazi had no choice about the conclusions he has expressed: his biochemistry made him do it.

Finally, regarding capital punishment. By "using only that amount of force necessary to protect itself," society would be rejecting the goal of justice, and saying that its *only* aim in sentencing is *future* public safety, by incapacitating the offender from committing other offenses.

While my *primary* argument for imprisonment is incapacitation of the career offender, I don't want to imply that such goals as retribution (justice) and deterrence are irrelevant. If we sentence solely according to the presumed future threat a criminal poses, instead of commensurate with the seriousness of his past crime, there could be no justice in the system. Sentencing would have no relation to the offense committed.

Retributive justice does not simply make victims and survivors feel better. It constitutes the premise that the level of punishment must fit the severity of the crime. This does not mean a literal "eye for an eye": society need not sink to the specific tactics of the criminal. But it does mean that society recognizes gradations of evil, and reacts accordingly.

In a society whose ultimate premise is that the individual life is an end in itself, pre-meditated

murder is a crime in a class by itself. It negates the highest end of civil society: the irreplaceable individual life. Society would certainly be safer by locking up a murderer for life (assuming "life" really meant "life"). But a life term in prison still allows the murderer a multitude of values, options, and experiences his victim will never know. And in many cases, it prevents the victim's survivors—who are also crime victims—from ever burying their pain and resuming their lives.

To deny the sentence of capital punishment for murder, then, is to deny the very principle of fitting punishments to offenses. On what grounds can we uphold that principle of equity for lesser offenses, if we dismiss it for the most serious of crimes?

Far from brutalizing society, capital punishment for wanton murderers is society's way of affirming the supreme value of *innocent* life—and the existence of a class of irredeemably evil acts. It is a way of announcing: "We respect innocent life so much, that we won't tolerate those who presume the right to take it. They must be prepared to pay with their lives for those they take."

RJB

Note: Copies of the special "Crime and Consequences" reprint are still available—single copies, \$3.00 each postpaid. To order, contact The Foundation for Economic Education, 30 South Broadway, Irvington-on-Hudson, New York 10533.

The Midnight Economist

by John Chamberlain

Professor William R. Allen, who for ten years has been giving economic instruction to thousands of listeners over 200 radio stations, calls himself the Midnight Economist. He has collected his broadcasts, along with some other essays, in a book called *The Midnight Economist: Meditations on Truth and Public Policy* (San Francisco: ICS Press, 332 pages, \$12.95 paper). Milton Friedman, in a wise introduction, notes that Allen's genius is for bringing into the open the elementary principle involved in an issue without being hortatory about it. Friedman marvels at Allen's versatility, the wide range of problems and issues that he covers. We can join Friedman in his admiration.

In addition to being instructive, Bill Allen is a lot of fun. He professes to giving shelter in his office to two mice. One goes by the name of Karl. The other is called Adam. Karl doesn't like economists. They are too gloomy with their eternal insistence on scarcity. Adam humors Karl. He defends economic truth by expressing a general sympathy for Karl's "sickness." Karl has been snarling about the concept of market equilibrium and announcing that economists "want equilibrium at any price."

"You may be sick for wrong reasons," says Adam. "We don't want equilibrium at any price; rather, we want a price at which there is equilibrium. And we want an equilibrium price, not because that will solve all problems, but because it generally avoids making a hard life still harder."

Karl, not really listening, snaps "we mice of sensitivity and compassion want government to make things better. One way is to stipulate fair prices."

It takes Adam Mouse, reasoning like Adam Smith, a little while to make Karl Mouse see the connection between unhappiness and uncleared markets. But Adam Mouse gets there because he has common sense on his side.

Karl Mouse accuses Adam of having no soul. But Adam has been "blessed with companionship of my rabbit Bunnie and my dog Winnie." Neither Bunnie nor Winnie add to the Gross National Product, but they contribute to happiness. "All our cleverness and wit," says Allen, interjecting at this point, "all our tools and technology, will leave us poor, indeed, a disgrace in the eyes of the Deity, as long as we lack the goodness and grace and gentility of Bunnie Rabbit and Winnie."

When he is not listening to his two mice, Allen is concerned with general economic dumbness. His midnight commentary assails as "mythology" such statements as "the minimum-wage laws raise the income of the poor," or "government jobs programs increase employment," or "tariffs increase domestic employment and wages," or "we could have enough of everything if we were fully to exploit our fantastic productive power." Our Congress spends most of its time trying to put 20 separate "myths" into new laws that will become drags on our economy.

A few states—Connecticut is one, New Hampshire is another—frown upon the income tax. Allen finds it significant that the states that grow most rapidly have the lowest level of income tax and property tax per person and the highest level of per capita sales taxes.

The proof of the pudding is in the record. "After New York lowered its progressive income tax

rates in 1977," says Allen, "its economic growth increased and its unemployment fell in relation to the national average." Tax cutting, Allen concludes, is not a panacea. "But higher income and property taxes certainly are not a long-run road to prosperity—and since 1980 such state and local taxes have been rising rapidly."

Allen finds our Latin American policies to be mainly stupid. There have been calls for a Latin American Marshall Plan. But Europe in the late 1940s and early 1950s bore little resemblance to the Latin American circumstances of the 1980s. Anyway, contrary to nearly universally held mythology, the Marshall Plan was not a significant economic factor in European postwar recovery. It was, says Allen, basically a political strategy in economic clothing—a statement of intent to preclude further Russian advance in western Europe.

A lot of the Allen columns are pure historical exposition. He tells the story of the Roman Emperor Diocletian, who minted so many new coins that inflation from a superfluity of metal worked as do the printing presses of modern governments.

As I write this review, the homeless are descending upon Washington to demand government support of new building programs. Allen reminds us that rent control has greatly diminished financial incentives to build new housing. "Substantial homelessness," says Allen, "is man-made. And men perversely make it mainly with rent control." □

PROTECTIONISM

by Jagdish Bhagwati

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Reviewed by Russell Shannon

In recent years, some economists have been lured away from the profession's traditional attachment to the principles of free trade. Instead, they advocate "strategic trade policies" in which governments subsidize favored domestic firms to help them gain an international advantage.

However, one who hasn't lost his moorings, Jagdish Bhagwati of Columbia University, has written a strong defense of the *laissez-faire* line.

Although some passages in his book are a bit cryptic, he generally avoids technical jargon. Indeed, the book is a delight to read, for in addition to being salted with Bhagwati's wisdom, it is peppered with his wit.

Bhagwati begins by discussing the growth of trade and economic development since World War II. Under the auspices of the General Agreement on Tariffs and Trade (GATT), several series of multilateral negotiations have dramatically reduced tariff barriers.

The author poses an intriguing question: does economic growth cause trade—or vice versa? In part, the answer depends on one's point of view. From the perspective of *macro*-economics, the chain of causation runs from growth to trade, for, as people become more prosperous, they tend to purchase more imports.

In the context of *micro*-economics, however, the relationship is reversed: opening up trade (as the U.S. and Canada have recently done) permits increased specialization which yields more efficient use of resources, spurring economic growth and raising living standards. And since economic growth makes it easier to adjust to problems caused by increasing imports, it becomes easier to strike down the barriers which inhibit trade. In the author's felicitous phrase, we have a "virtuous circle" of tariff reductions, trade expansion, and economic growth.

With the success of GATT, protectionists have had to resort to new tactics. Although their arguments are generally fallacious, they often have a convincing ring. Just as it appears that the sun revolves around the earth, so too many people with a myopic economic outlook see only the job losses that result from the competition of imported goods. It takes a broader view to understand that consumers benefit from the lower prices that free trade brings, that flourishing export industries provide new job opportunities, and that the overall benefits of free trade swamp the losses.

Capitalizing on the failure of many people to take this broader view, protectionists have argued that we should impose tariff barriers to offset similar restraints imposed on our exports by foreign countries. Bhagwati points out, however, that as far back as Adam Smith, economists have spurned this approach on the grounds that the harm outweighs the good.

Unable to rely on tariffs to achieve their ends,

protectionists have advocated quotas and "voluntary" export restraints to curb imports. Such non-tariff protection, Bhagwati notes, is usually "porous," since foreign producers can usually devise ways to evade it by relocating facilities to other areas (as Hong Kong producers have shifted apparel production elsewhere) or by slightly altering their products (as the Japanese have switched to larger automobile models in the face of export limits). Yet we still have a distortion of resource use which violates the fundamental principles of sound economics.

Often, American producers complain that their foreign rivals are being unfairly subsidized or are selling their products below cost. Yet we, too, often subsidize our producers (such as farmers and the merchant marine), and as Bhagwati caustically notes, forbidding all producers from selling below costs would effectively prevent post-Christmas sales!

Bhagwati is encouraged by the fact that our government's executive branch has generally taken a pro-trade stance and that in recent years it has been particularly emphasizing the need to open up foreign markets for agricultural products and services, items for which the U.S. has a comparative advantage. However, there is also a dark side to the stress on export markets.

Some people contend that we should have trade balances with each and every country, and even in specific items such as textiles. Yet no one would suggest that a nurse should maintain a trade balance at her local supermarket by checking the temperature and blood pressure of the

clerk who runs up her bill. Nor do we expect Maryland to have a trade balance with Oklahoma. Is anyone alarmed about our banana deficit? Then why should a deficit with Japan alarm us? We do, after all, have offsetting surpluses with such countries as The Netherlands, which is as it should be.

Finally, Bhagwati rejects the argument that "manufacturing matters." We need not, he notes, rely on manufacturing to be technically progressive; just look, after all, at the many improvements in medical services. Nor is it true that only manufacturing jobs are character-forming. Is a steelworker morally superior to a dentist?

Yet poking fun at these arguments may not suffice to deflate them. Bhagwati argues that, if we want the idea of free trade to triumph over the pressure of special interests, we must reform our institutions. For example, when the International Trade Commission investigates charges that foreign firms are dumping products in our markets, it considers only the harm being done to domestic firms. Bhagwati suggests that the Commission look at both the costs and the benefits of providing relief to our firms. Taking a more balanced and reasonable approach would likely result in fewer barriers.

So long as some economists can present such lively arguments in defense of free trade, there is reason to hope that we can turn back protectionist pressures that would greatly reduce all the world's living standards. □

Professor Shannon teaches in the Economics Department, Clemson University.

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THE FREEMAN

IDEAS ON LIBERTY

44 The Writings of Adam Smith

Julio H. Cole

Remembering the author of *The Wealth of Nations*.

47 The Other Side of Adam Smith

William B. Irvine

A careful reading of *The Theory of Moral Sentiments* yields some surprises.

50 Soviet Admissions: Communism Doesn't Work

Peter J. Boettke

Economic self-criticism in the age of glasnost.

57 America Needs Organic Farming—And Pesticides

John Hood

Caution: Government intervention into farming can be hazardous to economic decision-making.

59 Crop Controls and Indian Raids in Colonial Virginia

Gary M. Pecquet

Additional costs of production arise to eliminate the benefits of crop restrictions to the recipient.

61 The Failures and Fallacies of Foreign Aid

David Osterfeld

What are the results of foreign “aid”?

72 Progressivism Comes to Houston

J. Brian Phillips

A growing acceptance of controls on private property is paving the way for comprehensive restrictions in this unzoned city.

76 The Flag and Freedom: Which Should We Protect?

Douglas Mataconis

Upholding the principles of individual liberty that the flag is supposed to symbolize.

77 Readers' Forum

78 Book Reviews

John Chamberlain reviews *The Secret of American Success: Africa's Great Hope* by Ndabaningi Sithole. Also featured: *Opening Up the Soviet Union* by Jerry F. Hough.

CONTENTS

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The Freedom Rule

Economically our country, and much of the world, is in better condition than at any time since World War II. We have not had anything comparable to the Great Depression in half a century and have avoided a repetition of World War II for more than four decades. Econometric data show the cyclic nature of business, but it is flourishing at present. Despite this good overall picture, we have a problem that is perhaps best expressed by Leonard Read's acronym LOOT: living off others thoughtlessly. We have a massive transfer economy imposed by government whereby money is taken from groups of people (generally taxpayers) and given to other groups. Let us follow not only the Golden Rule but also the Freedom Rule: Do not force others to do for you what you would not wish others to force you to do for them. Living by these rules would improve ourselves, our community, and our country.

—WILLIAM J. ELLENBERGER, Washington, D.C.

The Soviet Future

Marxism is wrong—for a variety of reasons, but most importantly because Marx never appreciated the role individuality has in human life. He was a thoroughgoing collectivist who said, "The human essence is the true collectivity of man." This is dead wrong. Man is by nature both human and an individual, a self-developing, choosing, diverse creature. This is not part of the Marxist-Leninist ideology. And since it is not, Soviet leaders make no plans for this in their conception of the future. They think you can have a little taste of freedom, for practical purposes, and then return to totalitarianism. But that will not work.

—TIBOR R. MACHAN, Auburn University

On Discrimination

American law has ruled that minorities and women are what they always were in the eyes of God—equal, as to basic human rights—but common sense tells us that every person is different as to talents, qualifications, character, etc. It is ludicrous for civil rights activists to expect applicants to be hired because of their race or gender alone. As a woman, I have no desire to simply

satisfy a quota on someone's spreadsheet, but rather to fill a position because I happen to be best suited for the job. If in the workplace I am an equal, then I should be prepared to be judged according to the same standards as all other applicants and hired because of my qualifications, not in spite of them. This same line of thought would hold for racial minorities as well. Being a woman, or black, or Asian, or WASP male, for that matter, should not make or break a prospective employee.

—ELLEN GILLETTE, Fort Pierce, Florida

Projections Without Prices Don't Come True

Projections based on "if present trends continue" are usually wrong. Such projections depend on "baseline data" that are often drawn from too short a period. Baseline data on racquetball court construction in the early 1980s, for example, would predict that the entire earth would be covered with racquetball courts by the year 2010. And nature is even less linear. Height projections, for example, based on a baby's growth rate up to age two, would predict teenagers 20 feet tall.

Projecting U.S. forest depletion based on logging rates in the late 1800s would predict that the last tree would have fallen years ago. But projections based on logging and growth rates in the late 1900s would predict that forests would cover every square inch of America in the next century.

Projections of future resource scarcity go off the mark when they fail to include: 1) the effects of future prices on the supply of and demand for that resource, and 2) the effects of new technology—developed in response to higher prices—to find, conserve, recycle, or discover substitutes for that resource.

The difficulty of accurately forecasting future resource scarcity is not new. According to economists Charles Maurice and Charles W. Smithson, "Forecasts of doom and gloom have existed for as long as civilization has existed. The important fact is, however, that all of these forecasts of doom have been wrong. No civilization has collapsed due to the depletion of a resource.

Instead, freely functioning markets with people acting in their own self-interest have eliminated the shortages." (*The Doomsday Myth*, Hoover Institution Press, 1984)

—GREGORY F. REHMKE, writing in the April 1989 issue of *Econ Update*.

The Essence of the Market

After several decades of uninterrupted government programs in Bolivia, we are forced by events to recognize that this state of affairs must be halted. Another policy must be adopted to permit economic freedom and private initiative to develop fully and to be transformed into the "engines" of social and economic development. Private enterprise in our country has developed under a system of economic restriction in which government intervention distorts the economy and limits the freedom of the market.

In those countries where the free market has flourished, everyone—the entrepreneur, the professional, the worker, the butcher, the baker, the plumber, the policeman, the bureaucrat—eats well and dresses well. They can count on having essential services, travel by various means, participate in world events through the communication media. And finally they have access to all those benefits which make their and their family's lives more comfortable.

The essence of the free market system is freedom—freedom to imagine, to think, to discover, to produce, to buy and sell, to own property, to be, and to believe. This freedom is the basis of the system of justice which permits every individual to attain what he wants, to pursue his goals, and to gain by his own efforts. Under this system neither total nor interventionist government is called for; all that is needed is for the legal body to see that the rights and obligations of each individual are respected. Under this system acting individuals may efficiently carry out the basic market function, that is to cope with scarcity and transform it into abundance. This is why the free market is necessary if our country is to be strengthened.

—from an editorial in *Mundo Empresario*, Santa Cruz, Bolivia. Translated by Bettina Bien Greaves.

The Writings of Adam Smith

by Julio H. Cole

Two centuries after his death in 1790, Adam Smith is still justly regarded as the single most towering figure in the history of modern economics. His celebrated work on *The Wealth of Nations* captured the spirit of industrial capitalism, and presented its theoretical rationale in a form which dominated the thinking of the most influential political economists of the 19th century and which continues to inspire free market advocates to this day.

However, though few people would question the importance of Adam Smith for the history of economics, it is also important to realize that he was not merely (or even primarily) an economist—the field had not yet developed into an independent discipline in his time—and he himself regarded his *Wealth* as only a partial exposition of a much larger work on “the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society,” which he hoped to write but never completed in his lifetime. Moreover, even in *The Wealth of Nations* it is evident that Smith’s conception of economic science encompassed much more than today’s “core” fields of price theory, production and distribution, money and banking, public finance, international trade, and economic growth, each of which is regarded today as a specialty in itself. These topics are of course discussed at length in Smith’s book, but it also includes detailed excursions into fields as diverse as ecclesiastical history, demographics, educational policy, military science, agriculture, and colonial affairs. Indeed, the sheer

catholicity of his interests, embracing not only economics, ethics, political philosophy, and jurisprudence, but also literature (ancient and modern), linguistics, psychology, and the history of science, must seem staggering to the modern specialist, but no less staggering is the analytical depth which he applied in all his studies.

Early Life

Adam Smith was born in 1723 in Kirkcaldy, Scotland, the posthumous son (by a second marriage) of Adam Smith, comptroller of customs, and Margaret Douglas. The exact date of his birth is unknown, but he was baptized on June 5, 1723, and this date is often mistakenly taken as his birthdate. Little is known about his childhood, except that at the age of 4 he was kidnapped by a band of Gypsies, though prompt action by his uncle soon effected his rescue. “He would have made, I fear, a poor Gypsy,” commented John Rae, his main biographer. Apart from this incident, Smith’s life was singularly quiet and uneventful, and his story is essentially that of his studies and his books.¹

In 1737, at the age of 14, having finished his term at the Kirkcaldy Grammar School, Smith entered the University of Glasgow, whereupon he came under the strong influence of “the never to be forgotten” Francis Hutcheson, the famous professor of moral philosophy. Upon his graduation in 1740, Smith won an important scholarship (the Snell Exhibition) to Oxford, studying for six years in Balliol College. However, the intellectual atmosphere at Oxford at the time was lax and disappointing (“ . . . the greater part of the public professors [at Oxford] have . . . given up altogether

Professor Cole teaches in the Economics Department at the Universidad Francisco Marroquin in Guatemala.

even the pretence of teaching,” and “. . . it will be his own fault if anyone should endanger his health at Oxford by excessive study. . . .”² These years were devoted largely to a program of self-education in which he read widely in both classical and modern literature and philosophy.

Returning to his mother's home in 1746, Smith cast about for suitable employment, and meanwhile continued his studies. In 1748 he went to Edinburgh, where, under the sponsorship of Lord Henry Kames, he gave for three years a series of public lectures on rhetoric and belles lettres. In 1751, on the basis of this performance, he was called to his own University of Glasgow, first as professor of logic, and shortly after as professor of moral philosophy. The latter position he held for 12 years, a time which he later described as “by far the most useful, and therefore by far the happiest and most honorable period of my life.”

His course was divided into four parts: natural theology, ethics, jurisprudence, and political economy. In 1759 he published his first book, *The Theory of Moral Sentiments*, which embodied the second portion of his course, and which almost immediately established his scholarly reputation. In 1761 he published an essay on “The First Formation of Languages” which was included as an appendix in later editions of the *Moral Sentiments* (six editions were published during Smith's lifetime).

In 1763 Charles Townshend offered Smith a lifetime pension in return for acting as tutor to his stepson, the Duke of Buccleuch, on a three-year tour of France. Smith thus gave up his professorship and embarked on his only trip abroad, in the course of which he met Voltaire in Geneva, and associated with Turgot, Quesnay, and other French *encyclopedistes* during his stay in Paris. In 1766 the sudden illness and death of Hew Scott, the Duke's younger brother, also in Smith's charge, cut short the continental sojourn and forced a hasty return to England.

The Wealth of Nations

For the next seven years Smith lived with his mother at Kirkcaldy, and devoted most of his time to his *Wealth of Nations*. This period too he described as a happy one (“I was never, perhaps, more [happy] in all my life.”) In 1773 he traveled to London, taking his manuscript with him, and

apparently fearful for his health, named his friend David Hume as his literary executor, with instructions to publish in the event of his death his early essay on the “History of Astronomy,” which was apparently part of an earlier grand project of “a history of the liberal sciences and elegant arts.” (As it turned out, however, Hume died first, in 1776.)

For the next five years he lived in London, and his close friends included Edward Gibbon and Edmund Burke. In March 1776 *The Wealth of Nations* was published and was an immediate and lasting success: the first edition was exhausted in six months, and in Smith's lifetime the book went through five editions (1776, 1778, 1784, 1786, and 1789). Also, within three decades it had been translated into at least six foreign languages: Danish (1779-80), three French versions (1781, 1790, and 1802), German (1776-78), Italian (1780), Spanish (1794), and Russian (1802-06).

The only other work published by Smith in his lifetime, apart from two articles on literary subjects written for the *Edinburgh Review* in 1755, was his “Letter to [William] Strahan” on the death of David Hume.³ His unqualified praise of his dear friend's moral qualities raised a storm of protest throughout Britain. As Smith was later to note: “A single, and . . . very harmless sheet of paper . . . brought upon me ten times more abuse than the very violent attack I had made upon the whole commercial system of Great Britain.”

In 1778 Smith was appointed Commissioner of Customs for Scotland, and held that post until his death, dwelling with his mother and his cousin, Miss Janet Douglas, in Edinburgh. In 1787 Smith was elected Lord Rector of Glasgow University, and served until 1789. On July 17, 1790, full of honors and recognition, Smith died at the age of 67.

Prior to his death, Smith had ordered the destruction of most of his unpublished manuscripts, among which were probably his lectures on natural religion and jurisprudence, and his early lectures on rhetoric. Most of this material was thus probably lost forever, though part of it has since been recovered indirectly in the form of students' notes taken in the early 1760s.

In 1795, Smith's literary executors, Joseph Black and James Hutton, edited and published a collection of *Essays on Philosophical Subjects*, which included the aforementioned essay on the history of astronomy. The most well-known modern edition

of these essays is that by J. R. Lindgren (ed.), *The Early Writings of Adam Smith* (New York: Kelley, 1967), which also includes the essay on the formation of languages.

Lecture Notes

The story of Smith's writings does not end here, however. In 1895, Professor Edwin Cannan was alerted to the existence, in the hands of an Edinburgh lawyer, of a manuscript which he identified as the lecture notes, taken by a student, of a course on jurisprudence delivered by Smith some time before his French voyage. (Later scholars have established that the lectures were delivered in the portion of the 1763-64 session which preceded Smith's departure.) Cannan edited these notes and published them as *Lectures on Justice, Police, Revenue and Arms, delivered in the University of Glasgow by Adam Smith* (Oxford: Clarendon, 1896).

In 1929, the Clements Library of the University of Michigan acquired a collection of papers which had belonged to Alexander Wedderburn, among which was an item which Professor G. H. Guttridge identified as a memorandum on the "American problem" written by Smith in 1778. This material was edited by Guttridge and published in the *American Historical Review*, 38 (1933), pp. 714-20.

Finally, two additional sets of student notes were discovered by Professor John M. Lothian in 1958. One of these related to Smith's course of lectures on rhetoric and belles lettres, as delivered at Glasgow in the 1762-63 session. These notes were edited by Lothian and published as *Lectures on Rhetoric and Belles Lettres* (London: Nelson, 1963). The second set of notes, relating to Smith's course on jurisprudence as delivered in the same session, was not published until 1978, as part of the

Glasgow Edition of the Works of Adam Smith.

In our age of over-specialization, no one can help but be impressed by the range and depth of Smith's scholarship, a truly great embodiment of the spirit of the Scottish enlightenment. However, much as we must admire his many accomplishments in so many fields, there is no denying that posterity has chosen to remember him mainly for his contributions to economics, and his fame will always rest foremost on his masterpiece, *The Wealth of Nations*. Though written in English in the 18th century, it now belongs to the world and to all times. Smith took economics forever beyond the narrow mercantilistic framework which denied the gains from trade between nations, and made of it a study of the spontaneous and largely unintended social order which arises from free exchanges between individuals, exchanges which produce benefits for all parties involved, whether domestic or foreign. For as long as the love of liberty survives in this world, free men will continue to derive inspiration from Adam Smith, author of *The Wealth of Nations*. □

1. John Rae, *Life of Adam Smith* (London: Macmillan, 1895; reprinted, New York: Kelley, 1965), p. 5. See also William R. Scott, *Adam Smith as Student and Professor* (Glasgow: Jackson & Son, 1937), pp. 22-25. These two books are still the standard sources of biographical information on Smith's life. A good modern biography is that of E. G. West, *Adam Smith: The Man and His Works* (Indianapolis: Liberty Press, 1976).

2. Adam Smith, *The Wealth of Nations*, Cannan edition (New York: Modern Library, 1937), p. 718, and *Correspondence of Adam Smith*, E. C. Mossner and I. S. Ross, eds., (Oxford University Press, 1987), p. 1.

3. First published in 1777, and subsequently reprinted in most editions of Hume's *Essays*, most recently in *Essays—Moral, Political, and Literary*, ed. Eugene F. Miller (Indianapolis: Liberty Classics, 1987), pp. xliii-xlix.

Editors' Note: Professor Cole has prepared a layman's guide to the scholarly literature surrounding the work of Adam Smith. If you would like a copy, please contact The Foundation.

The Other Side of Adam Smith

by William B. Irvine

Adam Smith has suffered the fate that often befalls the creator of a new “ism”: We no longer regard him as a mere mortal, but instead take him to be the embodiment of the doctrine he espoused. Many would like to think of Adam Smith as a one-dimensional, all-purpose capitalist.

If the truth be known, though, Smith had another side that some will find shockingly anti-capitalistic. Nowhere does this “other side” come through more clearly than in Smith’s *Theory of Moral Sentiments* (see especially Chapter 1 of Part IV). In this work, published 17 years before his better-known *Wealth of Nations*, Smith is more interested in philosophy than in economics; and in it he questions what many would take to be basic tenets of capitalism.

Smith, to begin with, questions whether material wealth, which capitalism produces so efficiently, is worth possessing: “Power and riches appear . . . to be, what they are, enormous and operose machines contrived to produce a few trifling conveniences to the body.” The machines in question consist “of springs the most nice and delicate, which must be kept in order with the most anxious attention, and which in spite of all our care are ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor.” He reminds us that poverty—i.e., the absence of power and riches—has its advantages: “. . . the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for.”

Capitalism, as Smith well knows, is prodigious

when it comes to supplying consumers with an endless stream of gadgets. Smith suspects, though, that little good can come of them: “How many people ruin themselves by laying out money on trinkets of frivolous utility?” “All their pockets,” he tells us, “are stuffed with little conveniences They walk about loaded with a multitude of baubles . . . , some of which may sometimes be of some little use, but all of which might at all times be very well spared, and of which the whole utility is certainly not worth the fatigue of bearing the burden.”

By way of illustration, Smith tells us that “A watch . . . that falls behind above two minutes in a day, is despised by one curious in watches. He sells it perhaps for a couple of guineas, and purchases another at fifty, which will not lose above a minute a fortnight.” There is a bit of a paradox in this, though, since after obtaining the new watch, the person in question “will not always be found either more scrupulously punctual than other men, or more anxiously concerned upon any other account, to know precisely what time of day it is.” What has happened, of course, is that the owner of the watch has become more concerned with the watch itself than with his reason for buying a watch in the first place. Anyone who has ever traded up to a better stereo, car, or food processor knows the feeling.

Smith then describes for us the life of “the poor man’s son, whom heaven in its anger has visited with ambition” This son admires the condition of the rich, and soon finds himself longing for a palace, a carriage, and servants; and to obtain them, he “labours night and day to acquire talents superior to all his competitors.” Indeed, to obtain

the "conveniencies" of being rich, "he submits in the first year, nay in the first month of his application, to more fatigue of body and more uneasiness of mind than he could have suffered through the whole of his life from the want of them." Consider, along these lines, the fate of the first-year law student or of the entrepreneur who puts in 80-hour weeks in his attempt to start a new business.

Smith concludes his tale of the poor man's son as follows: "Through the whole of his life he pursues the idea of a certain artificial and elegant repose which he may never arrive at, for which he sacrifices a real tranquility that is at all times in his power, and which, if in the extremity of old age he should at last attain to it, he will find to be in no respect preferable to that humble security and contentment which he had abandoned for it." Smith would presumably not find it surprising that many Americans are willing to spend 50 weeks engaged in what is often unpleasant employment so that they can spend two weeks of "artificial and elegant repose" at some beach or mountain resort.

According to Smith, the retirement of the ambitious man is not one to be admired: "It is then, in the last dregs of life, his body wasted with toil and diseases, his mind galled and ruffled by the memory of a thousand injuries and disappointments which he imagines he has met with from the injustice of his enemies, or from the perfidy and ingratitude of his friends, that he begins at last to find that wealth and greatness are mere trinkets of frivolous utility."

Intimations of Thoreau

I cannot read the above passages without thinking of Henry David Thoreau, whom many would take to be the polar opposite, philosophically speaking, of Adam Smith. A century after Smith, Thoreau told us that the mass of men lead lives of quiet desperation and asked, "Why should we be in such a desperate haste to succeed, and in such desperate enterprises?"

Like Smith, Thoreau doubts that wealth can bring happiness and thinks that men's labors tend to be in vain. "The twelve labors of Hercules," he tells us, "were trifling in comparison with those which my neighbors have undertaken; for they were only twelve, and had an end." He continues in the same vein: "How many a poor immortal soul have I met well nigh crushed and smothered under

its load, creeping down the road of life, pushing before it a barn seventy-five feet by forty, its Augean stables never cleansed, and one hundred acres of land, tillage, mowing, pasture, and wood-lot!" This is but one passage from *Walden* that would have blended perfectly into the text of *The Theory of Moral Sentiments*.

What are we to make of all this? Some might be tempted to deny that Adam Smith wrote the words I have attributed to him. Others might suggest that perhaps there were in fact *two* Adam Smiths, one (a capitalist) who wrote *The Wealth of Nations* and the other (a proto-Marxist) who wrote *The Theory of Moral Sentiments*. Yet others might pass off *The Theory of Moral Sentiments* as a youthful indiscretion on the part of Smith, and hold him to have later outgrown the views he expressed there.

I would like to suggest, though, that the writings of Smith in *The Wealth of Nations* and *The Theory of Moral Sentiments* are not as inconsistent as they might appear to be. Indeed, I would like to suggest that those who claim that they are inconsistent are confused about the essential nature of capitalism.

Notice, in the first place, that economics, insofar as it pretends to be a science, should be value-neutral. It is not the economist's job to tell us what we should want or what we should do; rather, it is his job, once we have told him what we want, to tell us how best to get it. Thus, it is not his job to tell us that we should reduce the unemployment rate; instead, it is his job to tell us how best to do this, once we have decided it is worth accomplishing. Likewise, it is not the economist's job to tell us that we should take steps to guarantee every worker a minimum wage; instead, it is his job to point out to us the undesirable consequences (i.e., undesirable according to *our* values) of our taking such steps.

To be sure, most economists occasionally make pronouncements on "what we should do." We should realize, though, that when they engage in this sort of behavior, they have temporarily set aside the mantle of the scientist and put on the mantle of, say, the philosopher. We should listen to what they have to say, but we should be skeptical about the claims they make. (Let me add that we should likewise be skeptical whenever a philosopher presents us with economic forecasts.)

Seen in this light, there is nothing inconsistent about Adam Smith, in his role as economist, telling



us that capitalism can provide us with a remarkable array of kitchen gadgets, and Adam Smith, in his role as philosopher, telling us that kitchen gadgets aren't really worth manufacturing or owning.

Notice, in the second place, that contrary to popular belief, one can consistently be both anti-materialistic and a capitalist. For capitalism, besides possessing a remarkable ability to satisfy our desire for material things, is capable of satisfying our desire for nonmaterial things. In a capitalist system, the resources of society are drawn (by an "invisible hand") to produce efficiently whatever it is that the members of that society want (or, more precisely, whatever it is that they are willing to pay for). If Americans were suddenly to lose interest in acquiring kitchen gadgets and instead

found themselves driven to learn advanced topology, our capitalist system would likely respond by taking steps to put advanced topology into the hands (or rather, the minds) of the masses. Similarly, if enough Americans decided to take after Thoreau and abandon their spacious homes in favor of huts in the woods, they would find the capitalist system amenable to their ends.

Of course, capitalism in a society with Thoreauvian values would be quite unlike the capitalism we know in our society. It is unlikely that the resources of that society would be devoted to building automobile factories or banks; but then again, in a society with Thoreauvian values, few would regard this (or the disappearance of jobs that it would entail) as a loss.

Those who are shocked by Smith's anti-materialistic utterances in *The Theory of Moral Sentiments* are for the most part those who incorrectly equate capitalism with materialism. Not only can one be an anti-materialistic capitalist, but it is quite possible that Adam Smith *was* one.

Furthermore, just as one should not make the mistake of equating capitalism with materialism, one should not make the mistake of equating socialism with anti-materialism. A socialist can consistently have as his goal providing BMW's to *all* people, and not just to the rich. Indeed, a case can be made that one of the reasons socialist societies are crumbling around the world is that these societies failed to deliver the material goods they promised in the past. Just as it is possible for a capitalist to ridicule Americans' obsession with acquiring cars, houses, and kitchen gadgets, it is possible for a socialist to find himself craving a new VCR.

In summary, Adam Smith was not the dogmatic capitalist that some would like him to be, but was instead a reflective person, one who realized that there is more to life than material well-being. Capitalists everywhere would do well to take this lesson to heart and to keep in mind the other side of Adam Smith. □

Soviet Admissions: Communism Doesn't Work

by Peter J. Boettke

There are annoying misprints in history, but the truth will prevail!

— NIKOLAI IVANOVICH BUKHARIN (1937)

The civic rehabilitation of Nikolai Bukharin (1888-1938) in February 1988 was an event of tremendous significance in Soviet history.¹ The historical resurrection of Bukharin, who in the 1920s was arguably the most important Marxist theorist in the world and considered by Lenin to be “not only a most valuable and major theorist of the Party; . . . [but] he is also rightly considered the favourite of the whole party,”² offers a direct challenge to orthodox Stalinism. Not only in political terms, but also on economic grounds, Bukharin represents the key opposition to traditional Stalinist planning. As Thomas Sherlock has argued:

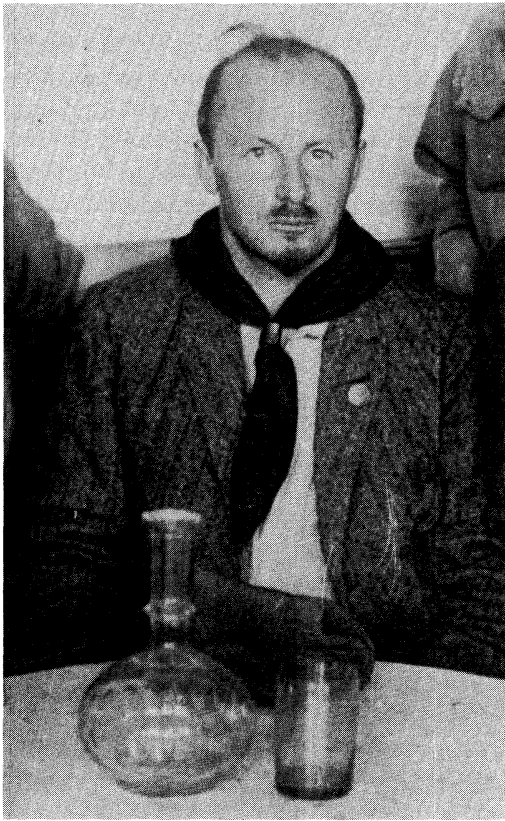
Bukharin's rehabilitation has placed his conciliatory rural program, as well as his advocacy of moderate cultural and political lines, in direct opposition not only to the Stalinist “revolution from above,” which dramatically expanded the bureaucratic reach of the state, but also to the terror of the 1930s, which destroyed the party as an autonomous political institution. The resurrected image of Bukharin is seen as a powerful antidote to the prevailing “Stalinist” relationship between the Soviet party-state and society and to “bureaucratic centralism” in the party.³

Bukharin, however, is not without ambiguity himself. Recognized as the author of the New Eco-

nomic Policy (NEP) (1921-1928), which tried to reconcile market relations with government planning, he also was the architect of the Bolsheviks' attempt to implement pure Communism within Soviet Russia during the “War Communism” period of 1918-1921.⁴ He represented the official position of the Party throughout the 1920s. Bukharin, as Alexander Erlich put it, “was undoubtedly the best educated economist not only of his group, but of the whole party as well, with a truly outstanding facility for the rationalization, in terms of theory, of any political viewpoint he happened to embrace, and for pushing them toward the full logical consequences.”⁵ His books, *The ABC of Communism* and *The Economics of the Transition Period*, were regarded as the theoretical manifestos of the war communism period. These books defended the extreme centralization policies, as well as the use of non-economic coercion, that the Bolsheviks had implemented from 1918 to 1921.

The failure of war communism by 1921, however, changed Bukharin's ideas about the construction of socialism and economic rationality. As he wrote in 1924, “The adoption of NEP was a collapse of our illusions . . . we thought then that our peacetime policy would be a continuation of the centralized planning system of that period. . . . In other words war communism was seen by us not as a military, i.e., as needed at a given stage of civil war, but as a universal, general, so to speak ‘normal’ form of economic policy of a victorious proletariat.”⁶ Bukharin, though, possessed a paradigm for

Professor Boettke teaches in the Department of Economics at Oakland University, Rochester, Michigan.



THE BETTMANN ARCHIVE

Nikolai Bukharin

interpreting the collapse of the Soviet system under war communism—the economic theory of the Austrian school of economics.⁷

Bukharin's work on NEP, which argued for the necessity of market relations of production for economic development, are found in such volumes as *Building up Socialism* (1926) and in the collection of essays edited by Richard Day, *Selected Writings on the State and the Transition to Socialism* (1982). In his work on NEP Bukharin forcefully argued against the bureaucratization of the economy and for the importance of incentives in economic activity. In fact, in perhaps his most famous essay of this period, "Concerning the New Economic Policy and Our Tasks," written in 1925, besides encouraging the peasants to "enrich themselves," Bukharin explicitly acknowledged Ludwig von Mises's criticism of socialist planning and argued that Mises was "one of the most learned critics of communism."⁸ Bukharin went so far as to admit that Mises's criticism of Communism was correct—at least for the historical epoch in which he wrote.

"A Bureaucratic Utopia"

Amazing as this admission is, Bukharin was not the only Bolshevik to recognize the problem confronting economic planning. Even Lenin had to admit the serious problems the Bolsheviks encountered in their attempt to implement socialism. In a speech to the Political Education Department on October 17, 1921, for example, Lenin admitted that "In attempting to go over straight to communism we, in the spring of 1921, sustained a more serious defeat on the economic front than any defeat inflicted upon us by Kolchak, Deniken or Pilsudski. This defeat was much more serious, significant and dangerous. It was expressed in the isolation of the higher administrators of our economic policy from the lower and their failure to produce that development of the productive forces which the Programme of our Party regards as vital and urgent."⁹ Moreover, in a secret letter on February 19, 1921, he wrote, "The greatest danger is that the work of planning the state economy may be bureaucratized. . . . A complete, integrated, real plan for us at present equals 'a bureaucratic utopia.' Don't chase it."¹⁰ Trotsky also would write, in his stinging criticism of Stalinist planning, *The Revolution Betrayed* (1937), that while "the obedient professors managed to create an entire theory according to which the Soviet price, in contrast to the market price, has an exclusively planning or directive character. . . . The professors forgot to explain how you can 'guide' a price without knowing real costs, and how you can estimate real costs if all prices express the will of the bureaucracy. . . ."¹¹

These admissions, though, were buried for several decades as the Soviet bureaucracy exercised its power over the Soviet economy and the minds of its people. With the Gorbachev reforms (both glasnost and perestroika) Soviet analysts are now beginning again to admit the fundamental flaw in the Communist ideal. Socialist planning, as Mises demonstrated in his classic *Socialism* (1922), is logically impossible because of the social system's inability to provide knowledge about which production projects are feasible and which ones are not. Without private ownership, and specifically private ownership in the means of production, rational economic calculation is untenable.

Nevertheless, economic planners once in power must find some rationale upon which to base their

decisions, and since economic rationales are out of the question, decisions are based instead upon political considerations. As a result, those who have a comparative advantage in exercising discretionary power will rise to the top of the planning apparatus. This is, as F. A. Hayek showed in *The Road to Serfdom* (1944), the basis for the totalitarian tendency within socialist economies.

Soviet-style economies, thus, do not conform to the ideal picture of a rationally planned Communist economy because that system is a hopeless and unachievable utopia. Instead, the Soviet-style economy is a vast military bureaucratic system designed to yield profits to those in positions of power.¹² The root of the Stalinist bureaucracy that plagues the Soviet economy, however, lies in the original Marxian aspiration to plan the economic system rationally even if the original goal is unattainable. Stalinism is, whether intended or not, the logical consequence of Marxism.¹³

Criticisms Come to Light

While these criticisms are becoming more and more common in the West, it is fascinating to see them come into print in the Soviet press during the age of glasnost. But appear they have, and with increasing frequency over the past few years. Here are just a few examples.

Nikolai Shmelyev, in his courageous *Novy Mir* article "Advances and Debts" (June 1987), argued that "economics has its own laws which are just as terrible to violate as the laws of the atomic reactor in Chernobyl." The following are excerpts from Shmelyev's article:

We must call things by their proper names: foolishness as foolishness, incompetence as incompetence, Stalinism in action as Stalinism in action. . . . Perhaps we will lose our ideological virginity, but it now exists only in the fairy tale editorials of the newspapers. . . .

We need to permit companies and organizations to sell freely, to buy and borrow funds from their reserves so as to create a powerful and vibrant goods market, to invest their enormous but idle resources, to unleash in practice—not just in words—economic initiative in the country. In place of fruitless efforts at central planning of our entire industrial production (some 24 million items), we should introduce contracts

between supplier and consumer.

We need to realize that there is such a thing as natural unemployment among people who are looking for work or changing their place of employment. . . . The real possibility of losing one's job, of being shifted to a temporary unemployment subsidy, or being forced to move to a new place of employment is not at all bad medicine to cure sloth and drunkenness.

The economic situation of enterprises and co-operatives will have to depend directly on profit, and profit cannot fulfill its function until wholesale prices are liberated from subsidies. Over the centuries, humankind has found no more effective measure of work than profit. Only profit can measure the quantity and quality of economic activity and permit us to relate production costs to results effectively and unambiguously. Our suspicious attitude toward profit is a historical misunderstanding, the result of the economic illiteracy of people who thought that socialism would eliminate profit and loss.

It is time to stop deceiving ourselves and stop believing the office ignoramuses. . . . Direct contractual links and wholesale trade in the means of production are two indivisible sides of the same process. If an enterprise is to market its planned and excess production through the marketplace, the enterprise will have to be interested in the ultimate results, and this will be a level of interest stretching beyond the fondest dreams of those who now specialize in "consciousness raising." Bottom-line, market stimuli must extend to all stages of the process: research, development, investment, production, marketing and service. Only the marketplace, and not mere administrative innovations, can subordinate this entire chain to the demands of the consumer.

Such admissions by Soviet intellectuals of the failure of socialism and the efficacy of market relations would continue in an article by Soviet historian V. Sirotkin, "Lessons of NEP," *Izvestia* (March 9, 1989). Sirotkin argued:

It has become a copybook maxim to assert that the policy of "War Communism" was imposed on the Bolsheviks by the Civil War and the foreign intervention. This is completely untrue, if only for the reason that the first decrees on introducing the "socialist ideal" exactly "ac-

cording to Marx" in Soviet Russia were issued long before the beginning of the Civil War (the decrees of Jan. 26 and Feb. 14, 1918, on the nationalization of the merchant fleet and of all banks), while the last decree on the socialization of all small handicraftsmen and artisans was issued on Nov. 29, 1920, i.e., after the end of the Civil War in European Russia. Of course, the conditions of the Civil War and the intervention left an imprint. But the main thing was something else—the immediate implementation of theory in strict accordance with Marx (from "Critique of the Gotha Program") and Engels (from "Anti-During"). . . .

The results of the policy of "War Communism" were catastrophic for the economy: By the beginning of NEP, the country was producing pig iron at only 2% of the prewar (1913) level, sugar at 3%, cotton fabrics at 5% to 6%, etc. So the attempt to introduce "communism from above" had led to a rift between city and countryside, a sharp economic decline, the scattering of the working class, and armed resistance from the peasantry. . . .

A most important aspect of NEP was the economic reform based on decentralization and broad autonomy for enterprises that had been switched to economic accountability (within the framework of the state budget and stable prices) and business accountability (obtaining of a profit at contract and market prices).

Today, from the heights of historical retrospection, one can say that Lenin's "fundamental change in our entire viewpoint of socialism" went far beyond the bounds of Soviet Russia alone. Essentially [NEP] was a model for restructuring the entire system of economic and social relations in the world, i.e., it was the world revolution, but a peaceful one, achieved by synthesizing the positive aspects of socialism and capitalism, in conditions of economic competition between the two systems.

Despite the interventionist confusion contained within his analysis, Sirotkin's discussion of the failure of war communism and the "success" of the reintroduction of market mechanisms under NEP is astonishing, especially if we keep in mind that his comments were originally read before the Plenary Session of the Communist Party Central Committee.

The Legacy of NEP

NEPist thinking permeates the Gorbachev reform era.¹⁴ Gorbachev, himself, has invoked the NEP model as an historical precedent for his reforms. In his book, *Perestroika* (1987), Gorbachev describes his policy of economic restructuring as a return to the teachings of Lenin. *Perestroika* is the new NEP.

The Gorbachev reforms, while challenging the Stalinist past to an extent, do not go far enough in their criticism of the Stalinist economic system. In fact, Gorbachev and Abel Aganbegyan, his chief economic advisor, argue that Stalin's economic policies of collectivization were necessary given the state of development of the Soviet Union in the 1930s.¹⁵ Neither Gorbachev nor Aganbegyan address the fundamental problem of the Soviet system; the lessons of history are not learned. Others within Soviet academic and intellectual circles, however, do not shy away from the obvious historical conclusion of the Soviet experience.

The stagnation of the Brezhnev era is a direct result of the Stalinist legacy in economic relations. And at least two writers have gone further and published essays in the Soviet press explicitly linking Marxist-Leninism to Stalinism and the Gulag. The problem with the Soviet system lies in the fundamental political and economic mistakes inherent in the Marxist-Leninist project.

Philosopher A. Tsipko, in a series of four essays published in *Nauka i Zhizn* between November 1988 and February 1989, entitled "The Roots of Stalinism," challenged the very idea that Stalin was a peculiarity of Marxian thought:

I personally get the feeling that the presently vogueish myth that Stalin's extreme-leftist "leaps" were of peasant origin was created in order to lay to rest the question of the doctrinal reasons for our failures in socialist construction and of the Party intelligentsia's and the working class's responsibility for Stalinism.

Paradoxically, it seems that restructuring makes it more difficult to cleanse Marxism of certain typical blunders of 19th century social thought. Judging from certain journalists' articles, we have no right to judge Marxism on the basis of our socialist history. Philosopher I. Klyamkin tells us, for example, that the socialism that Stalin built has nothing to do with the

socialism of Marx, or even with that of Trotsky, but was the product of the feverish mind of an unbalanced patriarchal peasant. If we accept that view, then we indeed have no right to compare scientific socialism and real socialism. But if we separate scientific socialism from real socialism in this way, we leave the former dangling in the air. . . .

It is difficult to accept the fact that the reasons for the failures of a movement with which our entire life is bound up lie in the movement itself, its own blunders and mistakes. It is comforting to believe enemies and external causes are to blame. . . . The temptation to separate Stalinism from our socialist construction is great, but one must consider what such a separation might lead to. What's more, one must proceed from the real historical facts.

It is common practice today to criticize the deformed, barracks-style, egalitarian socialism built in the 1930s. But that criticism diligently sidesteps the structural reasons for our barracks-style approach. And it avoids the central question: Can a nonbarracks-type, democratic socialism be built on a noncommodity, nonmarket foundation? That question is central not only for those who are thinking about the future but also for those seeking to understand the past. Why is it that in all cases without exception and in all countries . . . efforts to combat the market and commodity-money relations have always led to authoritarianism, to encroachments on the rights and dignity of the individual, and to an all-powerful administration and bureaucratic apparatus?

Marx never saw that difficult question, since he lacked appropriate historical experience. Lenin sensed it at the end of his life. . . . All this bespeaks an urgent need for a serious and open "self-audit" of Marx's teachings on the economic bases of the future society, on how the theoretical forecast relates to the real results of its implementation in real life.

Whether we want to or not, we have an obligation, in the name of our future, to take a more sober look at the nature and motives of leftist radicalism. And there will be no getting away without at least some reassessment of values and without clarifying what represents the greatest danger to us today. Criticism of Stalinism that is not carried to the point of principles

will be of little benefit. . . . The truth is our sole guarantee against a restoration of Stalinism; it alone can protect us. Perhaps our whole problem, including the horrors of Stalinism, is precisely the result of having dissembled for so long, of not having learned to honor the truth *per se*, the truth of our history and its lessons.

Perhaps the most important essay to appear in the Soviet press, however, was written by the economist Vasily Selyunin. Selyunin's essay, "Sources," which appeared in the May 1988 issue of *Novy Mir*, argued that political and economic freedoms are inexorably connected and that the Soviet political terror under Stalin was a result of the Bolsheviks' economic policies under Lenin. Selyunin maintained that state interference with the economic system disrupts the natural workings of supply and demand and stifles economic incentives. Soviet economic problems, stated Selyunin, are the legacy of Leninist policies. As he pointed out with reference to Lenin's early policies, "It was not famine that occasioned the grain requisitioning, but just the other way around: The mass requisitions caused the famine."

The Failure of Central Planning

Selyunin also challenged the concept of rational central planning. "It can be argued," he stated, "that historical experience has failed to demonstrate any particular advantages of directive planning. To the contrary, we all know the disastrous losses society has sustained in strict accordance with the plan." The problem is a lack of any means to aid the planners in rational economic calculation from above; in the absence of market prices for the means of production, how do planners know which production projects are feasible and which ones are not? Economic planners, rather than formulate *ex ante* plans as was expected in Marxian theory, are forced to rely upon the world market to generate knowledge about resource allocation. As Selyunin wrote:

The problem here lies not in individual mistakes but in the mistaken idea that you can prescribe from above, more or less in detail, the proportions and priorities of economic development and the scale of production of even the most important products. Our planners themselves belie this idea when they carefully study

world trends, which are determined by market forces, in order to plan what we should produce. Thus they tacitly admit that there is a better means than ours for the regulation, or rather self-regulation, of the economy.

Perhaps Selyunin's most important insight into Soviet history and the current reform movement concerns the classical liberal argument about the interconnection of political and economic freedoms. In a very eloquent fashion he stated the connection:

Under market-based capitalist production, a person has complete freedom to either get rich or freeze to death. Individual rights are the obverse side of merciless economic liberties. Conversely, under total state ownership, the temptation arises to expropriate the individual himself, his physical and spiritual energies, in order to organize work according to a single plan and uniform procedures. Under such conditions, the individual can be viewed as merely a cog in a gigantic machine. . . . It would be strange to speak of the individual rights or civil liberties of a cog.

The relative success of NEP, Selyunin maintained, was due to the establishment of the rule of law. "The economic successes of NEP went hand in hand with democratization: Coercion was sharply curtailed, the rule of law was strengthened, and personal liberties were greatly expanded." Therefore, if perestroika is to succeed similar action must be taken. And action must be immediate. The bureaucracy will resist change, but this obstacle must be overcome if there is to be any chance of real restructuring of the Soviet economy:

That is where the chief danger for restructuring lies. Losing time means losing everything. Any economic-management possesses tremendous inertia and will reject alien elements, no matter how progressive they might be. That is why it is useless to gradually introduce new rules into the existing system. The only thing that can be accomplished that way is to discredit restructuring: "You see, years have been wasted on talk, and one can't see any changes." History will not forgive us if we miss our chance. An abyss must be crossed in a single leap—you can't make it in two.

These brave admissions by Shmelyev, Sirotkin,

Tsipko, and Selyunin challenge to the core a government that derives its justification from Marxist-Leninist ideology. This legitimization crisis is perhaps most apparent in the growing political unrest within the Baltic nationalities. If glasnost exposes the Stalin-Hitler pact (1939) as immoral and illegitimate, then what does that mean for the status of Estonia, Latvia, and Lithuania?

But the legitimization crisis is felt even within such mundane affairs as day-to-day economic existence. Perestroika and glasnost evoke both hope and dismay, as Serge Schmemmann has argued, "hope that at last the millions who have lived through the tyrannies and chronic shortages endemic to Communist states find some relief; dismay that so much of the terrible sacrifice, struggle and deprivation they have endured for so long must now be acknowledged to have been in vain, that the secular faith that once promised so much now stands revealed to its own adherents as a failure."¹⁶

Reforms Fail to Bring Change

The Gorbachev economic reforms, slow in introduction and inconsistent in application, have not produced any significant change in the Soviet economy. Long lines and shortages of basic food items are still the norm. This is occurring at the same time that more and more of the Soviet people are becoming aware of the reason for their misery—the Soviet system of economic administration.

Within this grand drama, however, there is another story unfolding. The death of Communism as a legitimating ideology is the ultimate vindication of several classical liberal scholars who were ridiculed for exposing the truth of the socialist system of economic planning. History has borne witness to the intellectual triumph of individuals like Ludwig von Mises, F. A. Hayek, Michael Polanyi, and Paul Craig Roberts. As Stephen Bohm writes with regard to Mises, "it is really scandalous to observe how decades of ridicule poured upon Mises's 'impossibility thesis' suddenly give way to an appreciation of his views as if they had been part of the conventional wisdom all along. . . . Surely, the belated appreciation of what was once widely thought to be his greatest blunder is Mises's ultimate intellectual triumph."¹⁷

Communism, plain and simple, has revealed it-

self for the whole world to see as an unfortunate and terrible historical mistake. Zbigniew Brzezinski, in his controversial book, *The Grand Failure: The Birth and Death of Communism in the Twentieth Century*, concludes:

The Communist phenomenon represents a historical tragedy. Born out of an impatient idealism that rejected the injustice of the status quo, it sought a better and more humane society—but produced mass oppression. It optimistically reflected faith in the power of reason to construct a perfect community. It mobilized the most powerful emotions of love for humanity and of hatred for oppression on behalf of morally motivated social engineering. It thus captivated some of the brightest minds and some of the most idealistic hearts—yet it prompted some of the worst crimes of this or any century. . . .

Communism's grand failure has thus involved, in summary form, the wasteful destruction of much social talent and the suppression of society's creative political life; excessively high human costs for the economic gains actually achieved and an eventual decline in economic productivity because of statist overcentralization; a progressive deterioration in the overly bureaucratized social welfare system which represented initially the principal benefit of Communist rule; and the stunting through dogmatic controls of society's scientific and artistic growth.

That historic failure, now explicitly acknowledged by the Communist leaders advocating reforms, has deeper roots than the "errors and excesses" finally regretted. It stemmed from the operational, institutional, and philosophical shortcomings of the communist experiment. Indeed, it was deeply embedded in the very nature of the Marxist-Leninist praxis.¹⁸

If, as Voltaire argued, history is philosophy that teaches us by example, then the lesson of the Soviet experience should challenge our basic preconceptions concerning government interference with free market processes. Not only socialist policies, but interventionist policies which derive their justification from the same pretense of knowledge must be challenged. Perhaps we have finally learned the lesson that the history of the Soviet

Union has to offer us. If not, I fear, as Selyunin wrote, "history will not forgive us." □

1. On Bukharin's rehabilitation see *The Current Digest of the Soviet Press*, XL, #5 (March 2, 1988).
2. V. I. Lenin, "Letter to the Congress, December 25, 1922," *Collected Works* (Moscow: Progress Publishers, 1977), vol. 36, p. 595.
3. Thomas Sherlock, "Politics and History under Gorbachev," *Problems of Communism* (May-August 1988), p. 24.
4. For a discussion of this period of Soviet history see my "The Soviet Experiment with Pure Communism," *Critical Review*, vol. 2, #4 (Fall 1988), pp. 149-182. Also see my *The Political Economy of Soviet Socialism: The Formative Years, 1918-1928* (Boston: Kluwer Academic Publishers, 1990).
5. Alexander Erlich, *The Soviet Industrialization Debate* (Cambridge: Harvard University Press, 1960), p. 9.
6. See Alec Nove, "Some observations on Bukharin and His Ideas," *Political Economy and Soviet Socialism* (Boston: George Allen and Unwin, 1979), p. 86.
7. It is interesting to keep in mind that during Bukharin's exile from Russia in 1914, he studied economics in Vienna and attended Boehm-Bawerk's famous seminar on economic theory. He later embarked upon a serious study of the theories of Walras and Pareto. His studies are found in *The Economic Theory of the Leisure Class* (New York: Augustus Kelley, 1970 [1919]), which is a criticism of the Austrian school of economics and other non-Marxian schools of economics. Bukharin was well aware of both Boehm-Bawerk's and later Mises's criticisms of Marxian economics. In fact, he stated that his reason for concentrating upon the Austrian school was because "it is well known that the most powerful opponent of Marxism is the Austrian school."
8. Nikolai Bukharin, *Selected Writings* (New York: M. E. Sharpe, 1982), p. 188.
9. V. I. Lenin, "The New Economic Policy and the Tasks of the Political Education Departments," *Collected Works*, vol. 33, pp. 63-64.
10. Letter to G. M. Krzhizhanovsky, *Collected Works*, vol. 35, p. 475.
11. Quoted in Michael Harrington, "Markets and Plans," *Dissent* (Winter 1989), p. 60.
12. See Gary M. Anderson, "Profits from Power: The Soviet Economy as a Mercantilist State," *The Freeman* (December 1988).
13. For an interesting discussion of how even decentralized and humanistic Marxism leads logically, though unintendedly, to centralized administration of economic and social life see David Prychitko, "Marxism and Decentralized Socialism," *Critical Review*, vol. 2, #4 (Fall 1988), pp. 127-148. Also see Prychitko, "The Political Economy of Workers' Self-Management: A Market Process Critique," Ph.D. thesis, Department of Economics, George Mason University, 1989.
14. As Theodore Draper argues in "Soviet Reformers: From Lenin to Gorbachev," *Dissent* (Summer 1987), p. 287, "This return to a NEP-type reform is particularly characteristic of the unfolding Gorbachev period; Gorbachev himself has invoked the precedent of the NEP, as if it gave him a license to do what he wants to do. Thus, we are not straying too far from the present in paying special attention to the NEP period. Nep-thinking is imbedded in the present."
15. See Mikhail Gorbachev, *Perestroika* (New York: Harper and Row, 1987), p. 41, where he argues that the "industrialization and the collectivization of agriculture was indispensable" and Abel Aganbegyan, *The Economic Challenge of Perestroika* (Bloomington: Indiana University Press, 1988), p. 46, where he argues that the period of industrialization and collectivization allowed a backward Soviet Union to speed its development so that by 1941 the "Soviet Union was already producing 10% of the world's industrial output and had caught up with the developed European countries."
16. Serge Schmemmann, "In Hope and Dismay: Lenin's Heirs Speak," *New York Times* (January 22, 1989).
17. Stephen Bohm, "The Austrian Tradition: Schumpeter and Mises," in Klaus Hennings and Warren J. Samuels, eds., *Neoclassical Economic Theory, 1870-1930* (Boston: Kluwer Academic Publishers, 1989).
18. Zbigniew Brzezinski, *The Grand Failure* (New York: Charles Scribner's Sons, 1989), pp. 231, 241.

America Needs Organic Farming — And Pesticides

by John Hood

Organic farming is all the rage these days. After a spring of food scares and a summer boomlet of environmentalism, a report issued last September by the National Academy of Sciences (NAS) has quickly become revealed truth to legions of editorial writers, public officials, and farming mavericks. Synthetic drugs for livestock are out. Synthetic pesticides are out. Synthetic fertilizers are out. Synthesizing itself is out.

And what is in? Natural fertilizers, crop rotation, careful breeding—basic farming practices making a comeback after some 50 years of neglect. The report says that such practices can be as productive, and in some cases even more so, than the standard synthetic chemical approach.

This finding has been greeted with almost hysterical glee. Many view the popularity of organic farming as the start of America's "Green Revolution." There is no question that the public's appetite for natural foods, for foods free of dangerous chemicals and cancer-causing preservatives, is large and as yet unsatiated. When reports surfaced earlier this year about Alar, a cancer-causing preservative used on apples, supermarkets with organic food sections found themselves making a bundle off concerned shoppers (such foods are typically much more expensive than chemical-tainted wares). Grocery chains across the country have jumped on the bandwagon by issuing "pesticide-free" pledges.

All this hype has occurred despite the efforts of many scientists to communicate a basic message to a fearful public: the food supply is safe. Agricultural chemicals, they say, pose little if any risk of cancer to consumers. Bruce Ames, the noted chairman of the Department of Biochemistry at

Berkeley who developed the standard "Ames" test of cancer risk, estimates that the number of cases of cancer or birth defects caused by man-made pesticide residues in food or water is "close to zero."

Even so, the NAS report does make a significant point. American farmers have used synthetic chemicals and machinery reflexively, despite evidence that organic methods can in some cases be more cost effective and maximize long-term profits. The real problem is not health but economic efficiency. And the report correctly identifies the culprit: Federal commodity programs which encourage overproduction and punish farmers who rotate their crops.

The Federal programs, which cover about 70 percent of farm acreage, are crop-specific, paying farmers subsidies to plant the same crop year after year. If a farmer reduces his acreage, say to leave fields fallow for a year, he gets less money. If a farmer plants alfalfa or another crop designed to replenish his soil's nutrients, he gets less money. So farmers have an incentive to keep the same amount of land planted each year in the same crop, replacing crop rotation with heavy doses of synthetic fertilizers and pesticides. As the NAS report points out, the Federal subsidies insulate farmers from the true costs of the synthetic approach: soil erosion, loss of nutrients, and increased use of expensive agricultural chemicals.

James Bovard of the Competitive Enterprise Institute has identified other Federal farm programs that distort the costs and benefits of farming practices. In dry areas, Bovard writes in his book *The Farm Fiasco*, Federal irrigation projects sustain crops that otherwise would be replaced with dry-weather crops more suited to soil conditions. Federal disaster payments and drought insurance

reduce the financial risk to farmers who plant in low-yield or highly erosive soils, since catastrophe becomes a government problem rather than a private one. Insurance programs also relieve farmers of the need to diversify, thus placing the entire operation in greater risk when pests, weather, or disease wipe out a particular crop.

All these government programs are defended with the argument that the free market, which operates most of the American economy, simply does not work in agriculture. But the fact is market forces have not been allowed to impose the costs of farming methods on those who practice them. Farmers are making their decisions based on signals from Washington rather than signals from their own fields. In this way, government has established a bias toward synthetic approaches and away from organic farming, distorting agricultural markets and costing taxpayers \$25 billion a year in Federal subsidies.

Unfortunately, the economics behind organic farming are being overshadowed by its supposed health benefits. Instead of recognizing agricultural chemicals as tools that have been overused, many policy-makers and environmental groups are treating them as poisons to be discarded. Instead of ending the current bias toward synthetic chemicals, they would replace it with a bias against them.

Groups such as the National Toxics Campaign and National Resource Defense Council (they started the Alar scare) have long pushed for a ban on many pesticides deemed carcinogenic, and they hope the new impetus toward organic farming will increase support for such measures in Congress. Many sympathizers look to farm programs as leverage for enacting the environmentalist agenda by making "nature-conscious" practices a condition for receiving subsidy checks. Even John Pesek, the Iowa State University agronomist who headed up the NAS research effort, says that "the growing demand for safer food and a cleaner environment suggests the time is ripe" for organic farming.

But the fact is that foods grown without agricultural chemicals are rarely more safe, and sometimes are less so, than foods grown with chemicals. "All plants produce their own natural pesticides to protect themselves against fungi, insects, and predators such as man," says Ames of Berkeley. Tests of these natural pesticides have revealed that about the same percentage cause cancer in laboratory animals (30 percent) as do synthetic pesticides. Cancer-caus-

ing agents occur naturally in such foods as mushrooms, cabbage, broccoli, pineapples, and carrots.

Ames and other scientists are not saying that Americans are at high risk of cancer. Both naturally occurring and synthetic pesticides pose a negligible risk of cancer in the doses found in foods. What they are saying is that man-made chemicals are no more dangerous than those produced by the plants themselves.

In fact, breeding plants to be highly resistant to pests or disease—an approach favored by environmentalists and the NAS report to reduce the need for synthetic chemicals—doesn't always make the plants more healthful. In one case, a new variety of celery that was highly insect-resistant was introduced in California. When people handling the vegetable began to complain of severe rashes, researchers found out that it had 10 times the level of a natural carcinogen found in regular celery. "Many more such cases are likely to crop up," says Ames, "because there is a fundamental trade-off between nature's pesticides and man-made pesticides."

Nevertheless, organic farming proponents are basing their case chiefly on the specious food safety issue, when the focus should be on productivity and efficiency. Merely changing Federal farm programs to encourage crop rotation instead of synthetic chemicals, on environmental or food safety grounds, would be as big a mistake as the previous policy has been.

Each farmer's case is different. Growing one crop in one region may require use of synthetic pesticides and fertilizers. Farming another crop in another field might be done cheaply and productively with purely organic methods. Even then, when pests or diseases suddenly strike, chemicals still may be the only effective response.

Heavy-handed government involvement, no matter how well-intended, cannot reflect these case-by-case concerns as well as can individual farmers operating in a free market. The best solution to America's farming woes is to stop treating farmers like wards of the state and start treating them like business people. Eliminate the subsidies. Let farmers decide how to plant their crops without interference from Washington bureaucrats or phobic environmentalists. Besides ending our silly bias against organic farming, we could save \$25 billion from the Federal budget to invest in more worthwhile pursuits, of which there is, indeed, a bumper crop. □

Crop Controls and Indian Raids in Colonial Virginia

by Gary M. Pecquet

The British colonized Virginia in 1607, and by 1612 they were growing tobacco. It soon became the colony's major export. But heavy reliance upon tobacco proved troublesome for the Virginians. Small changes in the supply could produce large changes in tobacco's price.

The tugs of demand and supply altered the price of tobacco and produced the "trade cycle" of the Chesapeake Bay colonies. Under British mercantilist law, all tobacco had to be shipped directly to England. English merchants marketed the tobacco products to the rest of the world. As new markets were opened and new uses for tobacco were discovered, the demand for tobacco increased and so did the price. A "tobacco boom" in Virginia would be followed by increased migration to the colony. This in turn led to an increase in supply, depressing the price and ending the boom.

Occasionally a "tobacco bust" occurred when favorable weather fostered overproduction and slashed tobacco prices. Sometimes war severed the colonies from their markets, which also hurt the growers. During the 17th century the overall trend for tobacco prices was down, as the colonists learned better cultivating techniques.

From time to time, colonial authorities imposed crop restrictions upon the growers. The chief purpose of these regulations was to maintain an "adequate" price for tobacco in much the same way that crop controls and price supports do in 20th-century America. In both cases crop restrictions may enrich the farmers, but only at the expense of consumers. Moreover, since restrictions discourage or destroy production, a net decrease in wealth results.

What farmers needed then (as they do today) was insurance to protect them against uncertainty in the prices of their products. Today, this might be achieved through the commodity futures markets. In the 17th century, Virginians could purchase bills of exchange. These bills entitled the holder to buy merchandise on credit. The prices of tobacco and bills of exchange varied inversely, since the bills amounted to claims upon future merchandise that colonists could purchase with the present tobacco crop. By altering his portfolio, a colonist could effectively insure his assets.

The colonial assembly began to restrict directly the number of tobacco plants with the inspection law of 1629-1630. This law limited the number of plants to 2,000 per family member. Subsequently, these crop restrictions became more limiting. Family members not engaged in tobacco cultivation were no longer counted. Later, only nine leaves per plant could be cultivated. In 1633, the assembly reduced the maximum number of plants to 1,500 for each family member engaged in tobacco production.

These limitations drastically altered the planting habits of the Virginia colonists. The fertility of the plantations already under cultivation tended to decline with each successive planting season. This tended to reduce the size of the tobacco plants. The planters tried to improve their crops by fertilizing the lands with cattle manure. This, however, tainted the flavor of the tobacco.

The best way to comply with the crop restrictions and still maximize the value of the tobacco crop was to grow the tallest and highest quality tobacco possible. This could be done only on virgin land. By the end of 1637, the colonists discovered



Tobacco planting in the colonies.

that the best tobacco-growing lands were along streams.

Virginia planters hastily attempted to secure the new land before gaining legal title. They intended to retain their old land and homes while cultivating the new ground with their legal quotas of tobacco plants. The primary costs of securing the land included the expenses of clearing the forests, the construction of usually unsubstantial living quarters for the workmen—and the increased danger of Indian attacks. Frontier tobacco plantations could not be easily defended by the colonial militia. Over one-third of the laborers had to be stationed on guard duty.

Almost no one would have predicted that the crop limitations of the 1630s would increase tensions with the nearby Indian tribes. Economic theory, however, predicts that whenever the government creates an artificial benefit for some group in society, people will expend resources to avail themselves of these benefits. Thus, if the government attempts to support agricultural producers by imposing a price floor on farm products, farmers tend to grow more crops. If the government doesn't wish to stockpile farm produce, it must then restrict agricultural production. It can limit acreage, but this encourages farmers to work the allowable acres more intensively. It can limit the number of plants in the field, as did the Virginia colonial assembly, but this only induces the farmers to increase their production costs in other ways which maximize the value of each plant instead of cultivating many smaller plants. These costs may be incurred due to increased fertilization, relocation, and so on.

Basic economics argues that, in the long run, additional costs of production will arise to eliminate the benefits of crop restrictions to the recipients. It worked this way in 17th-century Virginia, as it must today. Only the particular manner in which these expenses manifested themselves—in the form of increased risk of Indian attacks—was unusual. Moreover, as costly as these crop restrictions were, they did not prevent the decline in tobacco prices. By 1639, the price of tobacco dropped below subsistence levels. The colonial authorities passed new regulations that permitted destruction of a large part of the crop. This policy, too, produced only disaster. It not only destroyed the fruits of over half of Virginia's productive resources, to the extent that it did support tobacco prices it encouraged more lands to be brought under cultivation.

Throughout its colonial history, Virginia attempted many other crop control schemes. After the 1630s, most of them proved ineffective for yet another reason. Maryland became a major competitor in growing tobacco. Any restriction of the Virginia crop could be replaced by increased production from its neighbor. Crop restriction schemes required collusion between the two colonies. The Maryland economy, however, was more diversified than Virginia's. The many non-tobacco growers were unlikely to vote for measures designed to increase the price of tobacco when they had to obtain the weed in order to pay their taxes and settle their debt accounts. Thus, the Maryland assembly seldom approved crop restriction proposals. Competition replaced monopoly in the field of tobacco production. □

The Failures and Fallacies of Foreign Aid

by David Osterfeld

The case for foreign "aid" is seldom made; it is taken as axiomatic. In its 1980 report, *North-South: A Program for Survival*, the Brandt Commission states that "The poorer and weaker countries have not been able to raise much money on commercial terms. For them, Official Development Assistance or aid is the principal source of funds" (1980, p. 224). Such questions as why some countries remain poor and weak while others progress, or why these countries are unable to raise money on commercial terms are never raised. "Aid" is simply assumed to be "essential."

The Commission laments the "disappointing record" of such developed countries as the United States which have not met the 0.7 percent target for Official Development Assistance established by the United Nations in the early 1970s. "An increase in total aid," says the Commission, "must remain a high priority," and "the overall flow of wealth must increase" (pp. 226-27).

In its follow-up report three years later, the Brandt Commission reiterated its call for increased "aid." The Commission asserted that despite "a few glaring examples of misused or unsuccessful aid loans," most "aid" was effectively used (1983, p. 78); observed that there remained substantial unmet needs, especially in the poorest of the less-developed countries (LDCs) (p. 75); deplored the "strong current mood in the donor community to require greater efforts by aid recipients to improve their own economic performance"; called on donor countries to "respect . . . differ-

ent economic systems" (p. 73); and urged "donors to double by 1985, in real terms, the aid flows which the poorest countries received in the five years up to 1981."

The report also called on the donor countries to waive all "official debt" for the least developed countries (pp. 76-77). And, just in case there was any doubt, the Commission emphasized that even if the LDCs did implement the policy reforms called for by the World Bank and many donor countries, such "reform is not a substitute for more assistance; it *requires* more assistance to be successful" (p. 74, emphasis in original). Nowhere in either of the Brandt Commission reports is the question even considered of whether "aid" is the appropriate vehicle for stimulating economic development.

Indeed, that any but the misanthropic could oppose programs whose stated goal is to provide "aid" to the less fortunate is generally met with incredulity. For example, in December 1983 on a panel on "Liberation Theology and Third World Development," Lord Peter Bauer presented a critique of foreign "aid." Dr. Murdith McLean, who followed Bauer on the panel, opened by commenting that "I was going to begin by saying that everyone thinks foreign aid is at least a good thing to those less well-off than ourselves. It may appear that we have at least one disagreement on that contention in the panel" (p. 39).

But using the term "foreign aid" to describe the political process of transferring wealth from First World taxpayers to Third World governments prejudices the results. There is, as Thomas Sowell notes (p. 239) no more *a priori* justification for calling it "foreign aid" than "foreign hindrance."

Whether wealth transfer is an aid or a hindrance, Sowell points out, is an empirical question, not a forgone conclusion.

The point is well taken. What are the results of foreign "aid"?

1. The Record

In *The Economics of Developing Countries*, Wayne Nafziger asks "How effective has aid been?" After listing several criticisms, he concludes (pp. 396-397) that "Nevertheless, the evidence suggests that aid has been essential to many low-income countries in reducing savings and foreign exchange gaps." However, no evidence is presented to support this assessment. Similarly, Nafziger acknowledges several criticisms of food aid but concludes (p. 401) that "Nevertheless, food aid has frequently been highly effective" and "plays a vital role in saving human lives during famine or crisis." Again, no supporting evidence is provided.

Whether bilateral or multinational, the official original purpose of foreign aid—the transfer of resources from one government to another—was to stimulate economic development. However, with the passage of the U.S. Foreign Assistance Act of 1973 and the adoption of the New International Economic Order by the General Assembly of the United Nations in 1974, the additional goal of directly increasing the living standards of the poorest strata in the recipient countries was added to, if it did not in fact replace, the original goal (Eberstadt, 1985b, pp. 25-26; Erickson and Sumner, pp. 1-21).

Clearly, "aid," at least according to its original intent, was to be temporary. Once the capacity for self-sustaining economic growth had been achieved, "aid" would no longer be required. Yet, as Paul Craig Roberts has observed (p. 20), "Far from developing, most Third World countries seem to be more dependent than ever on aid." In fact, it was precisely because of the growing dissatisfaction with the results of foreign "aid" that the "reforms of 1973" altered the focus of the program. As Eberstadt put it (1985b, p. 25) the problem "was that the strategy of export-oriented, self-sustaining growth which we had advocated since the 1940s did not actually benefit the common people of the countries it transformed."

Yet, by either goal, that of generating self-sus-

taining economic growth or improving the lot of the poorest segments of the recipient countries, the evidence lends precious little support for the contention that "aid" actually aids.

The total *net* transfer of capital, private and public, from the West to the Third World between 1950 and 1985 amounted to the staggering sum of over \$2 trillion in 1985 prices. Private investment accounted for about 25 percent of this total, but its share has fallen from about 40 percent in the 1950s to only about 16 percent in the 1980s. The \$2 trillion, Eberstadt notes (1985a, p. 25), was enough to purchase not only all the companies on the New York Stock Exchange but, in addition, the entire American farm system. What has this massive transfer accomplished?

"Aid" has been directly responsible for the pauperization of large segments of the population in places such as the U.S. trust territory of Micronesia and elsewhere (Fitzgerald, pp. 275-84; Manhard, pp. 207-14).

"Aid" has in many places actually destroyed the possibility for sustained economic growth by driving local producers, especially farmers, out of business. Such was the case in Micronesia, Bangladesh, India, Egypt, Haiti, Guatemala, Kenya, and many other places (Bovard, p. 18; Bandow, p. xiv; Fitzgerald, p. 278 and 288; Eberstadt, 1985b, p. 22).

Some experts believe that food "aid" to India "may have been responsible for millions of Indians starving" (Bovard, p. 18). Other studies have shown that malnutrition in Bangladesh actually rose as food aid to that country increased (Krauss, p. 160). It is unlikely that these are isolated occurrences. Countries such as Peru, Haiti, and Guatemala have either refused to accept U.S. "food aid" or pleaded with the U.S. government to restrict such "aid" (Bovard, p. 18).

Africa, traditionally a food exporter, "lost its historic ability to feed itself," notes Sowell (p. 239), precisely when donor agencies began to "smother Africa with project aid." Many observers believe that the relationship is not accidental and that Africa's economic deterioration, and in particular its tragic agricultural situation, was caused, in part, by "aid" (Ayittey, 1988; Fitzgerald, pp. 287-89; Bauer, 1984, pp. 46, 51-52).

In practically every case, the influx of "aid" has been immediately followed by the emergence of a massive, unproductive, parasitic government bureaucracy whose very existence undercuts the re-

cipients' ability for sustained economic growth (Fitzgerald, pp. 283, 285-86; Sowell, p. 240; Manhard, p. 209).

More systematically, the World Bank notes (1983, p. 18) that Official Development Assistance totalled five percent of the gross domestic investment of the low-income countries of South Asia, but over 40 percent in the low-income countries in Africa. It also notes (1980, Table 2.8, p. 11) that for the decade of the 1970s per capita income in South Asia's low-income countries grew over five times faster than it did in the low-income countries of Africa.

Conversely, the most economically developed parts of the world—Western Europe, the United States, and Japan—developed without aid. Similarly, Hong Kong and Singapore, two of the most economically vibrant areas over the past two decades, received only negligible “aid.”

Finally, Taiwan and South Korea are often touted as “foreign aid” success stories. However, their impressive economic performances began only *after* large-scale economic aid from the U.S. was discontinued (Krauss, p. 190).

In short, despite the truly massive infusion of “aid” into Third World countries, there is little to suggest that this has succeeded in either stimulating self-sustaining economic growth or improving the plight of the poorest strata of people in the recipient countries.

2. Reforming Foreign “Aid”

Many who acknowledge that foreign “aid” has done little or nothing to help the people of the LDCs believe that the solution lies in reforming the aid program. What is needed, they maintain, is better accounting methods, a closer scrutiny of program grants, or simply better, or more public-spirited, administrators.

It is no doubt true that such reforms, if implemented and followed, would eliminate some of the more unsavory aspects of the aid program, such as the blatant waste, mismanagement, and corruption that has been a part of foreign “aid” since its inception.

One problem, however, is that “aid” has increasingly come to be viewed, by recipient as well as donor countries, not as something freely granted by the latter to the former, but as something the more-developed countries (MDCs) owe the less-

developed countries (LDCs). And since the LDCs have a “right” to the “aid” it is impermissible, in fact “immoral,” for donor countries to place restrictions on how the “aid” is to be used.

The view that everyone has a moral and legal right to have his “basic needs” supplied was the thrust behind the Foreign Assistance Act of 1973 as well as the Report of the Presidential Commission on World Hunger, commissioned by the Carter administration. The latter suggested that a principal goal of foreign “aid” is to reduce hunger in the world and that this could be achieved by “redirecting income from the rich to the poor” (in Eberstadt, 1985b, p. 28). Similarly, the United Nations' New International Economic Order states that “every country has the right to adopt the economic and social system that it deems to be the most appropriate for its own development and not to be subjected to discrimination of any kind.” Put simply, the MDCs have an obligation to provide the LDCs with “aid” but no right to stipulate any conditions for its use. Given this outlook, and also given the fact that “aid” is now channeled increasingly through multilateral agencies dominated by the LDCs, it is unlikely that such reforms will be implemented.

But there is a far more serious difficulty. Proposals to reform foreign “aid” do not call into question the aid program itself. They assume that, if only the programs could be successfully administered, beneficial results would follow. In fact, even if the proposed reforms were implemented, the expected beneficial results would not appear. The basic problem lies not in the way the programs are administered; it lies in the nature of programs, themselves. Foreign “aid,” *by its very nature*, retards economic growth and development.

3. Economic Problems of Foreign “Aid”

The economic case against foreign “aid” can be subdivided into two categories: (a) the problem of incentives and (b) the problem of calculation. Each will be dealt with in turn.

a. Incentives. Individuals act to maximize their utility. One of the ways they do this is by making trade-offs between additional units of wealth (and thus work) and additional units of leisure. Each person must decide whether an additional unit of wealth is more valuable to him than the unit of

leisure he would have to forgo in order to obtain that wealth. If so, he will prefer to increase his wealth at the expense of his leisure; if not, he will prefer to increase his leisure by reducing his work, and thus his wealth.

The implications are significant. If individuals find themselves in positions where the benefit from a unit of leisure exceeds the benefit resulting from an additional unit of work, it will be rational for them to choose leisure over work. For example, a 100 percent tax on all production, it is safe to assume, would eliminate all productive behavior. This is so since it would sever any connection between an individual's economic behavior and his economic position. That is, his individual economic activity would have no bearing on his economic status, which, in turn, would render any productive work on his part utterly worthless to him. While each increment of leisure would be less valuable than each preceding increment, it would still retain at least some value. Consequently, when confronted with a choice between work, which has no value to the individual, and leisure, which has at least some value, the rational choice would be to choose leisure over work. Similarly, insuring individuals of a certain level of wealth or supplying them with certain economic goods, regardless of circumstances, artificially reduces the value of work relative to leisure. If this is correct then one would expect to find that the more lucrative such benefits become, the greater the amount of leisure individuals would choose (See, e.g., Osterfeld, 1986; Osterfeld, 1988b).

The evidence bears this out. The Great Society and War on Poverty programs of the 1960s not only failed to eliminate poverty in the United States, but actually led to an increase in the number and in the percentage of the poor. The poor, notes sociologist Charles Murray (p. 9), "continued to respond, as they always had, to the world as they found it, but we . . . changed the rules of their world. . . . The first effect of the new rules was to make it profitable for the poor to behave in the short term in ways which were destructive in the long run. Their second effect was to mask these long term losses—to subsidize irretrievable mistakes. We tried to provide more for the poor and produced more poor instead."

In short, in an effort to aid the poor, a large segment of American society has been pauperized. The pauperization of the once-proud Navaho In-

dians, after decades of being heavily subsidized by the U.S. government, is another case (Bauer, 1981, p. 113).

The Micronesians

There is no reason to believe that the disincentive effects of "aid" are limited to domestic programs. The pauperization of the U.S. trust territory of Micronesia is a direct result of "foreign aid." The U.S. acquired Micronesia as a trust territory in 1945 following its liberation from the Japanese. Outside private investment was discouraged because it would, according to U.S. Navy officials, "reduce the people to cheap labor" (in Fitzgerald, p. 276-77). Instead, the people of Micronesia were given free food, clothes, and other supplies. One result was that the distribution of free food and clothes bankrupted many local stores. Another was that it undermined the incentive to work. Not surprisingly, Micronesians preferred "to accept free and usually gratuitous welfare, thus avoiding the work and sacrifice required for real economic progress" (Manhard, pp. 213-14).

As productivity plummeted, Micronesia became entangled in a vicious circle: the more the economy deteriorated, the more "aid" it received; and the more "aid" it received, the more the economy deteriorated. Between 1947 and 1985 this territory of less than 150,000 people received \$2.4 billion, and its inhabitants were eligible for close to 500 government programs (Manhard, p. 213; Fitzgerald, p. 279).

The statistics are indeed revealing. Nearly two-thirds of all Micronesians are now employed by island governments financed by American taxpayers. In terms of acreage cultivated, every category of agriculture declined. Between 1963 and 1973, acreage devoted to coconuts fell by 50 percent, vegetables by 70 percent, and citrus fruit by nearly 60 percent. During the same period, imports of food that traditionally had been produced locally rose five-fold while exports declined by half (Fitzgerald, p. 279). And a 1984 U.S. State Department report lamented the fact that despite massive infusions of funds, the local fisheries sector is no more productive than it was in 1945 before Micronesia became a trust territory (Fitzgerald, p. 282).

Minister of Administration Hauro Willter has publicly complained that "We have no technicians,



WIDE WORLD PHOTOS

Main Street in Micronesia: Run-down corrugated metal buildings line the main street of Kolonia, the district center of Ponape, one of the multitude of tiny, primitive islands which form Micronesia.

no plumbers, no electricians. We have no economic base to be self-sufficient because the U.S. Government just handed us everything and didn't ask us to do anything for ourselves" (Fitzgerald, p. 275). Yet, the American response to the alarming deterioration has been to *increase* "aid" to Micronesia over the next 15 years to a rate more than double the average of the first 38 years!

The point, of course, is not that Micronesians are inherently lazy. It is that they behaved rationally given the context within which they found themselves. There was no need for them to trade off leisure for wealth since they could have as much or more wealth, at least in the short run, without sacrificing leisure than they could obtain by working.

What makes Micronesia so pertinent is that it is composed of more than 2,100 islands comprising numerous cultures and nine distinct languages. One might expect the results of foreign "aid" to vary from culture to culture. But as Fitzgerald points out (p. 275-76), this was not the case: "What should confound sociologists but vindicate free-market enthusiasts is that nothing of the sort occurred. The uniform application of government in Micronesia, placing it at the center of economic life, produced in every culture and among every is-

land group a uniform result—stagnation, dependence, disaster and despair."

"Food for Peace"

There is little doubt about the disincentive effect of foreign "aid." The "Food for Peace" program, or PL-40, began in 1940. The program distributes surplus U.S. food overseas. In country after country, including Bangladesh, India, Haiti, and Guatemala, the result, Bovard (p. 18) notes, is that the program "has fed the same people for more than a decade, thereby permanently decreasing the demand for locally produced food and creating an entrenched welfare class."

Perhaps even more tragic is that since "consumers naturally will not pay for what they can get free" (Bandow, p. xiv), the program has driven local producers out of business. Thus, not only has "food aid" pauperized large segments of the Third World, it has also penalized local producers, thereby resulting in a "de-skilling" of the local population as well as retarding the development of those attitudes—thrift, industry, and self-reliance—that are essential for economic development.

But what of emergency relief such as that ex-

tended to famine-stricken countries like Ethiopia? Again, the record speaks for itself. During the 1973-74 famine, Ethiopia received large amounts of food from Europe and America. Although the provinces of Eritrea and Tigre were most affected, food was diverted from them to starve the rebels there into submission. The government of Haile Selassie sold much of the donated food on the world market; the money went to line the pockets of regime members. The government even offered to sell the U.S. 4,000 tons of grain, which the U.S. would then donate back to Ethiopia, thereby helping the U.S. to fulfill its pledge of 22,500 tons of donated food. The offer was declined (Shepard; Legum; Osterfeld, 1985, pp. 264-66).

The actions of the Mengistu government during the 1984-85 famine were remarkably similar. Though thousands starved, the government not only spent over \$200 million to celebrate the tenth anniversary of the Marxist revolution, it also earned \$15 million in revenues by charging ships loaded with donated food a port-entry fee of \$50.50 a ton. Ships unable to pay the fee were turned away, cargo unloaded (Fenwick). Again, the Eritrea-Tigre area was sealed off, and those smuggling food into the area were attacked by the army. Food shipments were seized and some of it used to feed the army. Some has been sold on the world market, and the money earned used to buy munitions for the war against the rebels.

"Most of the food destined for Eritrea—as much as 100,000 tons each month—has arrived at the Ethiopian-controlled port cities of Aseb and Mitsiwa." But, says Anthony Suau (pp. 391, 400), since "Ethiopia tries to prevent outside aid from reaching the people in Eritrea . . . food aid and medicine must enter the way I did: from Sudan, crossing the border without official permission and moving only at night to avoid Ethiopian planes." The steady trickle of Eritrean refugees into Sudan, about 400,000 between 1967 and 1984, has turned into a flood, with many of them either starving or wounded from strafing and the bombing of civilian centers by the Ethiopian military (Kaplan).

But even under the best of circumstances, the benefits of emergency aid for victims of famine or other natural disasters may be only an illusion. First of all, if the "aid" is distributed free of charge, it will, as already noted, drive local shops and markets out of business, thus retarding recovery, or

even preventing it altogether. But if the food is sold at local, pre-disaster prices, it will tend to freeze domestic production at the disaster level. That is, if enough food is provided by outside "aid" programs to prevent food prices from rising, there will be little incentive for local farmers to return to their pre-disaster level of production, since the additional food could be sold only at lower prices. Thus, even if donated food were sold at pre-disaster local prices, it would still permanently displace much local production. And finally, while there are shortages of food in particular places, there is no shortage of food in the world as a whole. And, if necessary, food production could be greatly expanded (see, e.g., Osterfeld, 1988a). Consequently, the reduction in local output due to drought or other natural disasters would, if local prices were permitted to rise, stimulate the importation of food. Significantly, this would not disrupt the recovery process. On the contrary, the higher prices would actually stimulate it since they would encourage local producers to return to their pre-disaster levels of production. As these levels were reached, local prices would fall, crowding out not the local producers but the foreign importers.

That is what would happen in the event of an actual natural disaster. But, as Eberstadt (1985a, p. 25) notes, the fact is that there is very little that is natural about today's "natural disasters." "Acts of God," he writes, "cannot be prevented, but the quotient of human risk and suffering can be vastly and systematically reduced." During the first decade of the 20th century more than 8,000 Americans died in hurricanes. During the last ten years there have been only 100 hurricane-related deaths. How does one explain this decline despite a doubling of the population? "Improvements in communications, transportation, weather tracking, emergency management, rescue operations, and relief capabilities have made it possible to reduce dramatically the human price exacted by even the worst hurricanes in the most populated areas. Purposeful private and governmental actions," Eberstadt continues (1985a, p. 26), "can now substantially cut the toll from other natural disasters as well, even in the poorest nations."

Given the surplus of world food coupled with the use of "early warning systems" ranging from aerial and meteorological surveillances to using price fluctuations in local markets as a barometer of the size of regional harvests, there is no reason

in today's world for local crop failures, due to such natural conditions as drought, to result in famine. Where famine has occurred, it is traceable to government policies which have, intentionally or unintentionally, short-circuited both the early warning systems and the price-induced transfer of food to the affected areas. In many cases, such as the starvation of millions of Russians in 1929-39, the starvation of at least a million Ibos in Nigeria in the late 1960s, the starvation of 100,000 Timorese after Timor's annexation by Indonesia in the mid-1970s, the starvation of an estimated two million Cambodians after the Khmer Rouge seized power in the late 1970s, the mass starvation in Afghanistan following the deliberate destruction of Afghanistan's food system after the 1979 invasion by the Soviet Union, and massive famines in Eritrea in the 1970s and 1980s, *starvation was the deliberate intention of the government* (Eberstadt, 1985a, pp. 25-27; Zinsmeister, pp. 22-30).

In other cases, such as the starvation of 20 to 30 million Chinese during the "Three Lean Years" from 1959 to 1962, and the massive famine in most of the sub-Saharan countries in the 1980s, starvation, while not the intention of the government, was nevertheless the direct, albeit unintentional, consequence of ill-advised government policies such as price controls, collectivization, marketing boards, and other interventionist measures which not only reduced the production of food locally but discouraged or even prohibited the importation of food from abroad.

In the former case, aid was not desired, since starvation was the direct intention of the government. In the latter case, "aid" may have done more harm than good since by subsidizing the effects of ill-advised government policies, it enabled, even encouraged, the governments to continue pursuing the very policies that were responsible for the catastrophe in the first place, thereby compounding the harm.

b. Calculation. Another problem inherent in the nature of foreign "aid" is that of economic calculation. It is economically rational to pursue a project only when the (expected) benefits exceed the costs. Although this may be occasionally overridden by non-economic considerations, any country interested in economic growth and development must adhere to this general principle.

This poses a serious problem for the recipients of "aid." Since the transferred resources would be

scarce, their transfer at *zero cost to the recipients* would seriously distort cost data. Thus, even assuming that the public officials honestly desire to benefit their people, the artificial lowering of costs entailed by the transfers would make many projects *appear* profitable which in fact are economically unsound. That is to say, trying to determine whether costs exceed benefits in the absence of accurate cost data is rather like trying to cut a piece of paper with a single blade of scissors. In such circumstances, it is inevitable that numerous mistakes will be made and the waste of resources will be enormously high.

Moreover, private investors risking their own capital are under the economic constraint of serving consumers. But public officials to whom resources are transferred are largely relieved of this constraint. In fact, since they receive resources at *zero cost to themselves*, they are able to treat these as "free goods."

Even when public officials are not corrupt, they are human. Relief from the economic constraint of serving consumers enables public officials to substitute their own priorities, however well intentioned, for those of consumers. Since economic development is often confused with industrialization, the result has been the diversion of resources from the satisfaction of consumer desires to use in capital-intensive projects even when there is little or no demand for their products or the products can be bought more cheaply elsewhere. This has included such projects as the construction of steel mills, hydroelectric dams, modern airports, double-deck suspension bridges for nonexistent railroads, giant oil refineries in countries that neither produce nor refine oil, giant crop-storage depots that have never been used because their locations are not accessible to local farmers, and numerous other "white elephants" (Ayittey, 1988; Ayittey, 1987, p. 210-11; Fitzgerald, pp. 284-85; Bauer, 1988, p. 5; Chapman).

Although such projects are undertaken in the name of industrialization, they do not contribute to economic growth. They are the modern counterparts of the Egyptian pyramids: colossal, impressive, and a wasteful drain on the resources of the country. As a result, foreign "aid" has historically led to a "notable increase in the amount of capital devoted to economically wasteful projects" (Fleming, pp. 78-79. And Bauer and Yamey, 1980, p. 61; Friedman, pp. 205-06).

4. Political Problems of Foreign "Aid"

There are also serious political problems endemic in foreign "aid" programs.

a. **Centralization.** Foreign "aid," the transfer of resources from government to government, inevitably means the centralization of governmental power over the economic affairs of the recipient country. Aside from the potential for serious restrictions on individual freedom that this centralization involves, there are other untoward ramifications.

One of these is the diversion of activity from economic production to political distribution. As Bauer has put it (1978, p. 162)

The question of who runs the government has become paramount in many Third World countries and is especially so in multiracial societies, like those of much of Asia and Africa. In such a situation the energies and resources of people, particularly the most ambitious and energetic, are diverted from economic activity to political life, partly from choice and partly from necessity. Foreign aid has contributed substantially to the politicization of life in the Third World. It augments the resources of governments as compared to the private sector, and the criteria of allocation tend to favor governments trying to establish state controls.

This diversion of energies into political activity is especially pernicious since what is not produced cannot be consumed. Thus, in contrast to market relations in which the economic output expands to the benefit of everyone, the politicization of economic life, by reducing the amount of energy devoted to production, reduces overall economic output relative to what it would be in the absence of politicization. Moreover, the conflicts generated by the political process of distribution must likewise retard production. The result is that foreign "aid" transforms the economic process of production on the market with its corollary, *voluntary exchange for mutual benefit*, into the political process of transferring wealth from politically weak to politically powerful groups, with its corollary of coerced "exchange" where one group benefits itself *at the expense of another*. It transforms a process that is inherently positive-sum, where the sum of the gains exceeds the sum of the losses, into

a process that is inherently negative-sum, where the sum of the losses exceeds the sum of the gains.

b. **Environment.** Further, it is a mistake to regard "aid" as a net addition to the capital stock of a country. The expansion of government control over the economy reduces "pressure on the government to maintain an environment favorable to private enterprise." Since this discourages private investment, domestic and foreign, the result is often a net reduction in the amount of capital available (Friedman, p. 207).

This is especially true of multilateral "aid." The U.N.'s New International Economic Order has discouraged private investment by encouraging LDCs to adopt policies that militate against protection of private property. It has, for example, referred to nationalization as an "inalienable right." And the International Development Association (organized by the World Bank in 1960) encouraged large-scale borrowing by making "soft" or interest-free loans readily available to LDC governments.

Private banks were encouraged to make loans to LDCs by the availability of export credit insurance provided by government organizations such as the U.S. Export-Import Bank (Ayittey, 1984, p. 32; Fitzgerald, p. 284), by less formal government pressures and assurances about the soundness of the loans (Meigs, p. 114), and by the inflationary macro-economic policies of the U.S. government during the 1970s which, by reducing real interest rates, encouraged lending, and especially foreign lending, by U.S. banks (Mussa, p. 82). The result was that many LDCs began systematically substituting foreign *borrowing* for foreign *investment*. Private investment in the LDCs, as we have already noted, over the last three decades has fallen from 40 percent to less than 16 percent of total transfers from the First to the Third World.

This means that far from additional "aid" being necessary to relieve the foreign debt burden of the Third World, it is, in fact, foreign "aid" that bears a large responsibility for the foreign debt crisis. It can hardly be a coincidence that the debt crisis emerged promptly following the adoption of the New International Economic Order in 1974. For example, between 1975-80 Argentina's debt rose by over 300 percent, Brazil's by 250 percent, and Mexico's by 280 percent (Bartlett, p. 207).

The "capital flight" that has bedeviled so many Third World nations is in part due to the hostile en-

vironment for private investment, and in part due to rampant corruption resulting from the politicization of economic life. But both are at least in part a consequence of foreign "aid." As George Ayittey has observed (1988), "More than \$10 billion in capital leaves Africa every year. That is more than comes in as foreign aid. Much of this capital is booty, illegally shipped abroad by the ruling elites." Zaire's President Mobutu places more money in his personal Swiss bank account each year than the \$45 million a year that the U.S. contributes in "aid" to Zaire (Ayittey, 1986a). And economist James Henry observed that "More than half the money borrowed by Mexico, Venezuela and Argentina during the last decade has effectively flowed right back out the door, often the same year or even month it flowed in" (in Ayittey, 1986b).

In short, there would be neither a Third World "debt crisis" nor a capital flight problem were the domestic environments in the LDCs more receptive to private investment. But since foreign "aid" not only removes the pressure on governments to foster such an environment, but also contributes to the politicization of Third World economies, foreign "aid" makes it neither necessary nor, in some cases, even possible to create such an environment.

c. Incentives. Related to the foregoing is the problem of the political incentives created by foreign "aid." Foreign "aid" is a multi-billion dollar industry. The net transfer of resources, bilateral and multilateral, public and private, from the more-developed countries to the less-developed countries has been placed at as much as \$80 billion a year (Eberstadt, 1985a, p. 28). The U.S. spent over \$12 billion on bilateral "aid" in 1985 alone (U.S. Department of Commerce, 1987, p. 766, Table 1339). In donor countries the result is large foreign "aid" bureaucracies with vested interests in maintaining the programs. In the recipient countries, the result is often unscrupulous rulers who all too often divert the money into their own and their cronies' pockets. It is no accident that some of the world's wealthiest individuals are or were rulers of some of the world's poorest countries. The Marcos, Duvalier, and Mobutu fortunes are only the tip of the iceberg.

It is important to understand that foreign "aid" "goes not to the pitiable figures we see on aid posters or in aid advertisements," Bauer and

Yamey point out (1983, p. 125), "it goes to their rulers." Dispensing "aid" on the basis of need, which has become increasingly the case with multilateral programs, especially after the adoption of the New International Economic Order, as well as with bilateral "aid," following the passage of the "Reforms of '73," creates a perverse incentive: it provides Third World rulers with an incentive to perpetuate the poverty of their subjects.

There is little doubt that this is the case. Throughout the Third World one finds entire occupations being outlawed, and hardworking and industrious groups being subjected to brutal treatment, ranging from discrimination to exclusion from choice occupations to outright slaughter. An example of the former is Mobutu's expulsion of traders or middlemen that promptly reduced Zaire's per capita income, thereby qualifying Zaire, i.e., President Mobutu, for increased "aid" (Bauer and Yamey, 1983, p. 125). Examples of the latter include the brutal mistreatment of economically wealthy but politically weak groups in Algeria, Burma, Burundi, Egypt, Ethiopia, Ghana, Indonesia, Iraq, Kenya, Malaysia, Nigeria, Sri Lanka, Tanzania, Uganda, Zaire, and Zambia. "Because the victims' incomes were above the national average," says Krauss (p. 158), "their maltreatment promptly reduced average incomes and thereby widened income differences between these countries and the West." The result is that the self-inflicted economic deterioration qualified these countries for additional "aid."

Since "bureaucratic success" is measured by the size of an agency's budget, or, in the case of transfer organizations, by the volume of loans dispensed, these agencies have far more incentive to increase the amount of wealth transferred than to be concerned about how it is used (Sowell, p. 238; Manhard, pp. 212-13). Both the World Bank and the International Development Association are examples. The Bank's authorized capital increased from an initial \$12 billion in 1944 to \$86.4 billion in 1981. The International Development Association's increased from an initial \$916 million in 1960 to \$12 billion in 1981.

Some observers, however, have defended World Bank and International Development Association activities. The Brandt Commission reports (1980, p. 226) that "the overwhelming proportion of aid money has been usefully spent" and that it has "done much to diminish hardships in

low-income countries." And Robert Ayres (pp. 15, 37, 63) argues that while there have been difficulties, World Bank and International Development Association loans have benefited the world's poor and that any curtailment would cause "societies in transition" to suffer. Yet one finds little concrete evidence to support these conclusions. On the contrary, there are numerous references to such things as "benefit deflections" (pp. 103, 124, 193) and "shortfalls" (p. 126). Ayres states that the World Bank always "seeks assurances from the recipient country" about the way the loan will be used, but then observes that "the Bank can obtain all of the assurances it wants, but it is up to the recipient country to make good on them, and the Bank does not always possess the leverage or supervisory capability for seeing to this" (pp. 43-44).

Elsewhere Ayres says that "the political elite in most recipient countries does not care about the poor majority. Where there is the absence of political will and commitment it is difficult for the Bank to be effective" (p. 57). He acknowledges that "In several of the countries many of the housing units in the Bank-financed projects had in fact been occupied by families with incomes higher than originally intended by the Bank. In some instances . . . it reflected a deliberate decision by the government" (p. 193). He notes that "World Bank resources could free recipient-country resources for the pursuit of other projects" (p. 216). When the Bank financed \$23 million for a rural development project and \$23.5 million for educational development, Ayres (p. 217) notes that "The Brazilian government has \$46.5 million to spend on other, including non-developmental concerns. Seen in this light, Bank resources financed not only the projects that had been appraised and approved but also projects, perhaps even perverse ones, that had not. Even the approved projects may have entailed side benefits going not to the poor but to those allied with the political regime." And finally, Ayres acknowledges that some bank officials "admitted that they cooked up the evidence" (p. 108).

In short, foreign "aid" generates incentives which, by their nature, militate against economic growth and development.

5. Conclusion

Far from stimulating growth and development as was its original intention, foreign "aid" actually

retards development and perpetuates, even exacerbates, poverty. While reforms might reduce some of the damage caused by the program, the real causes for the failure of foreign "aid" lie in the nature of the program.

Foreign "aid" retards the development of those attitudes—thrift, industry, and self-reliance—that are essential for economic growth and development; it blurs lines of investment and distorts cost data, resulting in a massive waste of scarce resources; it politicizes life in the recipient country, thereby diverting energy from economic to political activities; it reduces pressure on the recipient governments to maintain an environment favorable to private enterprise, thereby discouraging private investment; and by providing money to governments on the basis of the poverty of its subjects, it gives the ruling elites in the recipient countries a vested interest in policies that impede or prevent economic development.

Moreover, since there are large, politically powerful foreign "aid" bureaucracies in both donor and recipient countries with vested interests in maintaining or even expanding the size of the "aid" programs, it is highly unlikely that effective reforms, even were that possible, could be implemented. For example, the occasional proposals made to reform the U.S. "aid" programs to Micronesia and elsewhere have never been seriously considered (Fitzgerald, pp. 289-90). Certainly one reason for the plethora of nearly 500 different "welfare" programs available there is that it is a beautiful island chain that is a perfect vacation spot. And once a bureaucrat's agency has a program there, he naturally finds that he must visit the island chain in order to see that his agency's program is being operated properly. Since the visit is in the line of duty it is, of course, at taxpayer expense (see, e.g., Manhard, pp. 212-13).

Finally, many maintain that the more fortunate have a moral obligation to help those who are less fortunate. However this may be, foreign "aid" cannot be justified on such grounds for, as already alluded to, it does not transfer wealth from the more to the less fortunate. True, it transfers wealth from rich to poor nations, but this is hardly the same as transferring wealth from rich to poor individuals. Many of the taxpayers in the rich nations are themselves either poor or middle-income wage earners; many of the recipients in the poor nations are the economic elite. As Ayittey (1986a, p. 9) points out,

"Aid, rather incongruously, often turns out to be a tax on the poor people in rich nations for distribution to the rich people in poor nations." Thus, foreign "aid" is actually a program for transferring wealth upward, from the poor to the rich.

Foreign "aid" is not "aid" at all; it is foreign "harm," and the sooner this is recognized the better. The capitalist countries of the West developed without "aid," as did Japan. The most rapidly developing Third World countries—Taiwan, Hong Kong, Singapore, and South Korea—received little "aid" or began developing only after massive amounts of "aid" were discontinued. What is needed, as Melvyn Krauss perceptively points out (p. 109), is not the transfer of wealth but the transfer of prosperity, i.e., the "transfer of the ability to produce adequate amounts of real income." Since the public sector can only transfer wealth while the private sector produces wealth, "the transfer of prosperity," Krauss points out, "depends greatly on private sector participation."

As Peter Bauer has written (1972, pp. 97-98): "If all conditions for development other than capital are present, capital will soon be generated locally or will be available . . . from abroad. . . . If, however, the conditions for development are not present, then aid . . . will be necessarily unproductive and therefore ineffective. Thus, if the mainsprings of development are present, material progress will occur even without foreign aid. If they are absent, it will not occur even with aid." □

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Progressivism Comes to Houston

by J. Brian Phillips

During the Progressive Era of the early 20th century the nation's first zoning ordinances began to appear. Public control of private property was a popular cause at the time, and land-use restrictions were frequently used to achieve this end. During the Progressive Era, and in the years since, only one major American city did not enact some form of zoning. That city is Houston.

While other cities have imposed severe restrictions on property use—through zoning, strict building codes, rent control, and so on—Houston has generally respected property rights. This, however, is changing, as a growing number of restrictions are imposed on private property. As the 20th century comes to a close, Houston is entering its own Progressive Era.

The Zoning Issue in Houston

Zoning is not a new issue in Houston. No less than four times in this century, some form of zoning has been proposed for the city.

In 1912, at the height of Progressivism, a landscape architect from Massachusetts was hired to develop a zoning plan for Houston. This plan was largely ignored until 1922, when the city established its first planning commission. In 1929 a zoning plan was formally presented to the City Council, but real estate interests opposed the plan.

In 1936, several city leaders suggested that the plan of 1929 be implemented. Over the next seven years, neighborhood meetings were used to gain support for the proposal. Realtors again opposed

the plan, and were joined by the owners of property in Houston's older residential neighborhoods. The zoning proposal was submitted to voters in a non-binding referendum in 1948. It was rejected by a two-to-one margin, and plans for zoning were temporarily dropped.

Not easily discouraged, zoning advocates raised the issue again in 1957. Five years later, voters once more went to the polls to cast their ballots on zoning. Though zoning was again rejected, the margin of defeat was much narrower.

The most recent push for zoning began in earnest in the early 1980s. Public opinion is now much more supportive of property use controls. Through the slow erosion of property rights, Houston is being prepared for a comprehensive zoning plan.

During the past decade the city has passed or considered at least eight ordinances aimed at controlling private property. In other cities, these ordinances would have been included in a comprehensive zoning ordinance. In Houston, they represent what some critics call a "backdoor" approach to zoning. In most cases, city officials have aimed their restrictions at unpopular businesses and development practices.

Often regarded as the billboard capital of America, Houston enacted an ordinance in 1980 that severely restricts the size and location of billboards and outdoor signs. Mayor Kathy Whitmire and a majority of the City Council support the restrictions, as does one of the city's major newspapers, *The Houston Post*.

Another backdoor approach to zoning during the past decade has been increased regulation of sexually oriented businesses. As with billboards,

the absence of zoning and the booming economy of the late 1970s and early 1980s allowed such businesses to proliferate. The city has responded with a growing number of ordinances regulating the location and operation of these businesses. The public has been very supportive of the controls.

To many Houstonians, including some zoning opponents, controls on billboards and sexually oriented businesses are unrelated to zoning. Both ordinances have received enormous public support, yet zoning—in its traditional form—remains relatively unpopular.

However, the growing acceptance of controls on private property is paving the way for comprehensive zoning. Both intellectually and politically, attitudes toward zoning are changing.

Advocates of Zoning

Over the years, the arguments put forth by zoning advocates have changed very little. What has changed is the public's acceptance of those arguments, many of which have been economic. Zoning supposedly protects property values by prohibiting "undesirable" land uses. An article in *The Houston Post* in 1929 argued that "specialization by districts [zoning] increases the efficiency and value of real estate."¹

More recently, Houston architect, planner, and urban designer Peter Brown and City Planning Commission member Kay Crooker wrote that zoning "gives investors and developers confidence in the economic strength and future potential of an area."² Zoning, its advocates insist, is essential to long-term economic growth.

Ironically, while some assert that zoning is essential for attracting investors to Houston, others are denouncing those same investors. "There are investors in Toronto and Mexico City, Denver and Pittsburgh," wrote *Post* columnist (now Editor) Lynn Ashby in 1982, "who don't give a hoot about living conditions in our town, but make a bundle off our problems."³ We need zoning, Ashby says, to control these "greedy absentee landlords."

While the advocates of zoning are unsure whether restrictions on property are necessary to attract or to control investors, they agree that zoning will protect the city's "quality of life." In a 1960 report, the Houston Commission on Zoning stated that "we must now zone ourselves so that our children may live in a city that is not chaotic." Twenty

years later, Lynn Ashby wrote: "[W]e are probably creating an unlivable city for our grandchildren. . . ."⁴

Like statist of every variety, advocates of zoning seek to impose their vision of the "good life" on everyone. Declaring the free market "chaotic" and "unlivable," they insist that they know the solution and can make the world a better place for everyone. Of course, there is a cost for this utopia: freedom.

Brown and Crooker wrote: "Perhaps one of the reasons some politicians and developers in Houston have traditionally opposed city planning is its very democratic nature—it redistributes some of the power and decision-making authority and invites public debate on important issues."⁵

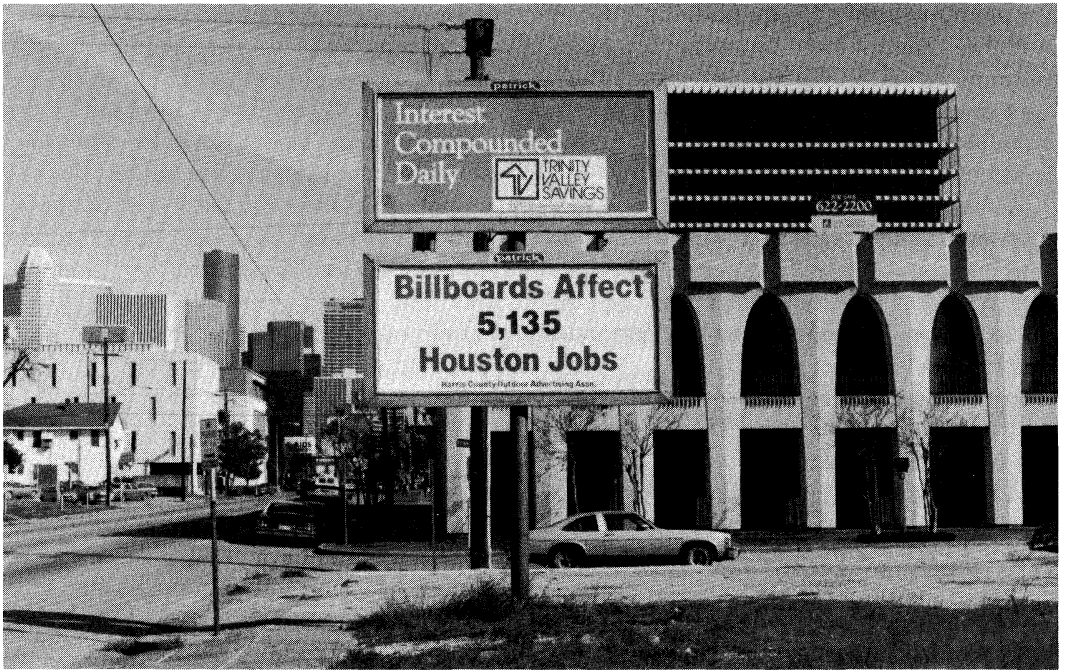
The "important issues" are the uses of private property. To "redistribute some of the power and decision-making authority" means to take from those who have earned and produced and to give to those who have done neither. The advocates of zoning seek to use political power—physical force—to redistribute economic power—production.

Planning and Zoning

In Houston, zoning is regarded as a four-letter word. Some call it "that Z-word." Like the early 20th century Progressives, who advocated socialism yet wanted to avoid the stigma attached to that word, pro-zoning forces try to hide their true intentions. They generally prefer the term "planning."

This euphemism has been used to great advantage by zoning advocates, who frequently cite the many advantages of master-planned communities. Such developments abound in the Houston area. Deed restrictions—i.e., voluntary contractual agreements—control property use in these communities. The popularity of master-planned communities is often used to justify city-wide planning.⁶ For years, the city's Planning Department, Mayor, and City Council have called for increased city planning. Now in the process of developing a comprehensive city plan, Planning Director Efraim Garcia has said that the proposed system will be "informational" rather than mandatory. In other words, the city will "suggest" land uses, rather than require them.

Many see the planning process as a compromise between zoning and laissez-faire, between government control and private control. Groups such as



Houston billboard companies present their case to the public.

the Houston Apartment Association—which has vehemently opposed zoning in the past—endorse the planning process.

Planning differs from zoning, its supporters argue, because planning does not have the power of law, i.e., a developer cannot be prevented from deviating from the plan. But recent experience demonstrates that that can change. Until recently, the Houston City Planning Commission had no enforcement powers. Today, the commission can impose fines to penalize violators of land-use ordinances. Once a comprehensive plan is accepted, implementing zoning will be merely a matter of giving the Planning Commission further enforcement powers.

A Sign of the Times

Following the passage of a sign and billboard ordinance in 1980, the outdoor advertising industry took the matter to the courts. The ordinance eventually was upheld by the Texas Supreme Court.

One of the provisions of the ordinance allowed for the creation of “scenic or historic districts” in which outdoor signs are severely restricted. The City Council has created numerous districts around the city, and civic groups have begun presenting petitions to the council calling for similar

status in their areas.

Two of the city’s largest developers—Gerald Hines and Kenneth Schnitzer, support controls on billboards. In 1984 Schnitzer sent 500 letters to civic and trade organizations trying to raise support for legislation aimed at “visual pollution” in Houston. Hines is on the advisory board of Billboards Limited, a local anti-billboard group. “Damn it, we’ve got to clean this city up,” Schnitzer once said in explaining why he supports such controls.⁷ In the past, businessmen and developers have been the primary defenders of property rights in Houston. Today, this is no longer true. Men like Hines and Schnitzer, and business organizations like the Chamber of Commerce and the Houston Economic Development Council (which Schnitzer founded), openly endorse greater government controls on private property.

After the Texas Supreme Court upheld the Houston ordinance, local billboard companies began using their signs to present their case to the public. “Billboards Affect 5,135 Houston Jobs,” declared one. “Billboards Protect Freedom of Speech for Social and Political Messages,” said another. But these signs have had little impact, largely because the public and the industry agree on one basic premise: the right of the city to regulate the sign industry.

In an Op-Ed article for *The Houston Post*, Rob Schmerler, president of the Harris County Outdoor Advertising Association, wrote: "Outdoor advertisers are very much in favor of stringent regulation and control of billboards." He went on to write that the "industry agrees with the majority of Houston's sign regulations and is working toward fair compromises of our few differences."⁸

Having agreed that the city can regulate their industry, billboard companies can only squabble over the level of that regulation. This is like a banker agreeing to be robbed, and then complaining that the robber has taken too much. Once a principle is accepted, debating its application is pointless.

The Political Climate

Traditionally, advocacy of zoning meant political death in Houston. In recent years, as property controls become more acceptable, this has been changing.

For example, in 1987 five candidates for City Council supported zoning, in one form or another. A candidate for mayor in 1989 ran on a pro-zoning platform. And the city's comptroller once suggested that zoning might be appropriate to control the city's traffic problems.

Planning Director Garcia has said that the land-use controls adopted by Houston differ from traditional zoning. Traditional zoning tells developers what they can and cannot do with their property. In Houston, Garcia says, land can be used for anything, "as long as it doesn't negatively impact adjoining parcels," a policy known as performance zoning.⁹ Of course, what is considered a "negative impact" depends upon one's tastes and values. It is frequently an esthetic issue, and always a moral one. When the government is permitted to determine values—whether moral or esthetic—the values of some are forced upon others.

The growth of government is frequently a gradual process, as new controls are enacted to try to

correct the problems caused by previous controls. The issue of zoning in Houston is an example of this. While land use has remained relatively free in Houston, much of the supporting infrastructure—such as water, sewage, and roads—is controlled by the city. Today, the city's inability to plan future infrastructure needs is one of its primary arguments in favor of developing the planning process. In a totally free society, where water, sewage, and roads would be provided by the private sector, the city would have no such concern.

The Outlook

Houston is a city ripe for zoning. The public readily accepts controls on land use, and the city soon will have a comprehensive plan in place. As more politicians and citizens openly call for zoning, it is only a matter of time before that demand is satisfied.

Houston has virtually no organized intellectual defense of property rights. Even those most directly affected by the city's growing list of restrictions—the billboard companies and developers—support land-use controls.

The victims of land-use controls are sanctioning their own enslavement. Through appeasement and compromise, they are allowing the city to dispose of their achievements. They grant the city the power to control them, then timidly complain that the controls are excessive. By then, it is too late. □

1. B. C. Burchfield, "Thawing Houston Real Estate Market," *The Houston Post*, December 29, 1929.

2. Peter Brown and Kay Crooker, "We've Strayed Far from City Planning," *The Houston Post*, April 17, 1988.

3. Lynn Ashby, "Houston Overdue for Sensible Plan," *The Houston Post*, June 3, 1982.

4. Lynn Ashby, "Boom Town," *The Houston Post*, March 4, 1980.

5. Brown and Crooker.

6. For a fuller discussion of master-planned communities, see my article "Private Cities" in *The Freeman*, March 1989.

7. Lisa Paikowski, "'Visual Pollution' Target of Development Council," *The Houston Post*, December 9, 1984.

8. Rob Schmerler, "We Need to Look at What's Right with Billboards," *The Houston Post*, April 27, 1987.

9. Bob Sablatura, "Council Vote Ignites Zoning Battle," *Houston Business Journal*, September 22, 1986.

The Flag and Freedom: Which Should We Protect?

by Douglas Mataconis

The recent Supreme Court decision overturning state and Federal laws that made it a crime to burn or desecrate the American flag has created a storm of controversy. By now, the arguments against the decision have become familiar: by making it legal for the flag to be burnt or desecrated, it is argued, we are denigrating the banner under which Americans have fought and died for over 200 years. Furthermore, it is held, people who burn or desecrate the flag are attacking America as a nation and do not deserve the protection of the Constitution of the nation they are implicitly rejecting.

However, the reaction to the decision has focused more on emotional appeals than rational analyses of the issues at hand. We must not allow personal esthetic or emotional attitudes about flag burning to obscure the essential question: which should we be protecting, the flag of the United States or the principles of individual liberty, responsibility, and self-government upon which the United States was founded and which the flag is supposed to symbolize?

In adopting the position of the opponents of the Supreme Court decision, one would have to accept the seemingly contradictory idea that in order to protect the symbol of a nation founded on individual liberty, one must restrict individual liberty. Taking this position also leads one into dangerous territory in relation to other areas of action or thought and the effect that they might have on the rest of society. After all, if flag burning can be

banned because a majority of the public are offended by an attack on what they believe to be a sacred symbol, then why not extend the ban into other areas where an individual's actions might be offensive to others? If we ban flag burning, then why not ban movies or books that depict in an offensive way religious figures or other subjects considered to be sacred? Why not ban magazines, films, or groups that offend the sensibilities of women, blacks, Jews, or any other minority group?

A person who opposes flag burning may argue that he would not extend his logic as far as that in the above examples. But the reasoning behind these examples and that behind flag burning are of the same majoritarian parentage: the belief that if a sufficiently large number of people find an activity offensive then they can use the coercive power of the state to regulate or, preferably, to ban that activity.

The problem, then, with taking the position that the flag should be protected even at the expense of individual liberty is not that flag burning or any other activity deemed to be offensive has some sort of redeeming value, or that symbols such as the flag are unimportant, but that in banning these activities, one is accepting a principle that is ultimately destructive of a free society. By accepting this principle, we are allowing for the creation of a society wherein appropriate expressions of patriotism, appropriate forms of artistic expression, and appropriate activities are decided by a process of majority rule that, rather than minimizing conflict in society, heightens it to a dangerous degree.

Mr. Mataconis is a senior at Rutgers University majoring in political science.

A preferable position would be to assert that while the flag is an important American symbol, it is more important that we protect principles such as liberty, private property, freedom of speech, and freedom of thought that have been at the very core of the American system, even if this means that we must tolerate activities that offend us. In taking this position, one would not have to assert that these activities have any redeeming value or recommend that others engage in them, but simply that toleration of such acts is the price that must be paid for living in a free society. Most important, it would not be left up to the state or an ever-shifting majority to decide what is offensive and whether something that is deemed offensive should be banned. This would minimize the conflicts over such sensitive areas as religious belief and artistic expression.

It is undeniable that to most Americans, including those who value liberty, flag burning is offensive. We do not like to see someone set fire to a banner that is a symbol of freedom, especially when that person rejects the freedom the flag sym-

bolizes. However, we must not allow our love for the flag-as-symbol to blind us to the reality that a law banning flag burning or desecration would be as much a restriction on individual liberty as would be a law banning publication of a book that seems to denigrate a religion. Neither must we forget that the moment one concedes that certain activities should be banned simply because they offend other people, one is allowing for the creation of an environment in which no one is safe to do what he might, lest he offend someone and bring down on him the heavy hand of the government.

The answer to the question, "Which should we protect, freedom or the flag?" is that we should protect freedom above all else. In denying an individual the right to burn his own flag in protest or to engage in any number of offensive but otherwise harmless activities, we are denigrating the principles that the flag is supposed to symbolize and are doing a disservice to the patriots who established this nation not to protect a flag but to enshrine freedom. □

Readers' Forum

To the Editors:

David Hood's piece on the Century Association (it is not called a "club") in the October *Freeman* is well done. It gives me the occasion to mention something that all accounts have suppressed, namely, the disingenuous nature of the effort to get women into the Century. The argument advanced was that career women were deprived of the chance to make deals at the Century, where, presumably, the boys get together to carve up the world. Very good. But just see who were among the first "career girls" to make it into our boys' club in order to enhance their careers! There's

Jacqueline Kennedy Onassis (who toys at publishing). There's Beverly Sills, retired queen of New York opera, not in need of deals. There's Shana Alexander and Toni Morrison (noted writers), Ellen V. Futter and Alice Ilchman (college presidents), Lily Auchincloss (foundation trustee), Margaret E. Mahoney (foundation president), and so on. The general outline of a disreputable *Putsch* is evident. A few revolutionaries wanted to capsize a club started by William Cullen Bryant and his friends, and they used dishonest arguments to carry the day. Beware the do-gooders!

WILLIAM F. RICKENBACKER
 Francetown, New Hampshire

Africa's Hope

by John Chamberlain

The Reverend Ndabaningi Sithole is founder and president of the Zimbabwe African National Union, and he personally appointed Robert Mugabe, the present Prime Minister of Zimbabwe, to be his secretary general. He spent ten years without trial in prison under the Rhodesian government, using his time to write books and articles that have been translated into eight languages. His newest book, *The Secret of American Success: Africa's Great Hope* (Washington, D.C.: Gazaland Publishers, 235 pages, \$15.95), is the product of a long sojourn in America, where he interviewed 500 people in 31 states. Currently he is the founder and chief executive officer of the Zimbabwe African Research Center in Washington, D.C.

Sithole is not only an indefatigable interviewer, he is also a prodigious reader of books by Americans. His footnotes spot everything from Thomas Jefferson to *The Closing of the American Mind*. But his new book stands four-square on the interviews. A sample of his quotations includes a trade unionist, James Stewart of Pittsburgh (who spoke of "the unintended consequences of free enterprise"), Jim Smith, a Dallas entrepreneur ("Free enterprise is the secret of American success."), Jim Parker, an advertiser from Chicago ("Free enterprise is the thing that makes America tick."), J. L. Carlton, a bus driver (Free enterprise is "our secret for everything we've achieved so far"), and Bill Stump, a Houston aerospace engineer ("We believe in free enterprise."). We can be sure that Sithole is accurate, but the question of the validity of his sample arises. He chose activists, not professors, for the interviews. And he obviously asked all of them the same leading question. One wonders how his listeners would have responded if he had opened his interviews with a request for opinions

about the way we elect our Congressmen, or the way we put up with pressure groups, or the way we put Presidential choices for the Supreme Court through the mill. We might not seem so perfect if Sithole had not practically directed the interviewees.

Even so, nobody will seriously dispute the idea that free enterprise has been primarily responsible for American prosperity. Some of our teachers whose tenure dates to the Sixties may deride business, but it was John D. Rockefeller who subsidized the University of Chicago and Leland Stanford who supported Stanford. Sithole fills long pages of a big book with what individuals like the Rockefellers have done. He writes: "As one lands and takes off from the various American airports and sees scores and scores of American international and domestic airlines and hundreds and hundreds of small planes, one is impressed by the fact that all of these are privately owned, and not government owned. . . . the most powerful newspaper networks that circulate millions of copies daily . . . the TV and radio networks that inform and entertain millions of American adults, teenagers and little children are privately owned . . . property ownership by the American individual is unprecedented in the recorded history of mankind. . . . the question now arises, who controls the American mind? Is it the people themselves or the government?"

The answer to this question is surely obvious. The American regards government as his servant, not his master.

Sithole wants to see the American system transported almost totally to Africa. He lists 16 points of imitation for African governments to pick up. Some of the points are repetitive. Number Six ("Allow the profit motive to have full expres-

sion.”) is practically the same as Number Two (“Allow the people free enterprise, and they will succeed beyond belief”). But there are nuances in the repetitions.

Despite his schooling in British-owned Rhodesia, which was part of a commonwealth that has no written constitution, Sithole endorses his Point Seven (“Give Africa impartial written laws instead of the whims of her rulers”).

Sithole is very Jeffersonian in his insistence that government be bound by a constitution. He would also protect inventors. “Governments,” he says, “have never invented anything. Communities have never invented anything. It has always been the individual. Only the individual knows where his shoe pinches.” In Point Twelve Sithole says, “Let everyone in Africa have his own dream, not another’s dream. . . . In colonial days people were forced to become subjects of the colonial power; in present day Africa people are still forced to become Marxists, Marxist-Leninists, communists or socialists. In other words they are forced not to become themselves, but carbon copies of others.”

Sithole has a most positive psychology. He hymns the virtues of education and hard work. If Africa will only adhere to his 16 points, he says, “success cannot fail to come her way.”

It’s all breath-taking as Sithole paints his picture of the future. But one goes from his book to the map on the wall. Sithole’s own Zimbabwe is smack in the middle of a belt of African states that are more Marxist than not. Jonas Savimbi is trying to change Angola, but he could be forced into a disastrous compromise by the Portuguese-Marxist two-thirds of the country (including its big cities) that he hasn’t taken over. Mozambique is supported in socialism by troops from Zimbabwe itself.

Elsewhere in Africa there are states that turn directly to Moscow. Ethiopia has provinces whose dissident people were calculatedly starved to death by a dictator who used donated foodstuffs to feed his friends. Idi Amin was driven out of Uganda, but to the south of Uganda the tribesmen of Rwanda and Burundi cheerfully slaughter each other. Tanzania is still struggling to feed itself with agricultural socialism. Libya wants to lord it over Chad and has built the facilities to make poison gas. Kenya is not the free place it was in Kenyatta’s time.

There is diversity in Africa, all right, but a diversity that includes thousands of mercenaries under the control of Fidel Castro is not the diversity that

the Reverend Sithole wants.

The “great hope” for Africa is that Moscow’s Gorbachev may get tired of paying Castro’s bills. But that hasn’t happened yet. □

OPENING UP THE SOVIET UNION

by Jerry F. Hough

The Brookings Institution, 1775 Massachusetts Avenue NW, Washington, DC 20036-2188 • 1988 • 100 pages • \$8.95 paper

Reviewed by Russell Shannon

During the “blockbuster” film summer of 1989, there was one particularly astonishing film shown on American screens called *Little Vera*. Unlike such mythical and adventurous films as *Batman* and *Indiana Jones*, this film showed the stark reality of life in the contemporary Soviet Union, replete with alcoholism, boredom, and air pollution. But what made the film especially remarkable was the fact that it was produced in the Soviet Union by Russian film makers—strong testimony to the success of Mikhail Gorbachev’s policy of glasnost (openness).

Yet the film makes one wonder if the other element of Gorbachev’s reforms, perestroika (restructuring), has any chance of success. Furthermore, how should we Americans react to the dramatic changes that are now being promoted in the land we have long thought of as our archenemy?

These two questions are the subject of this fine little book by Jerry Hough, a professor of political science at Duke University. Hough has read widely in current Soviet publications and conducted numerous personal interviews, so he is both well informed and able to provide some unique insights.

After taking a brief look at the present situation regarding the Soviet Union and its relationship to the outer world, Hough examines internal forces both retarding and promoting perestroika. In the third chapter, he details the steps Gorbachev has taken over the past decade or so to obtain and consolidate his power. So extensive have been his efforts and so wide-ranging his success, involving both the Politburo and the ruling Central Committee, that one is left strongly persuaded to share Hough’s conviction that Gorbachev is not a man we can lightly dismiss. Hough then examines relations between the Soviet Union and the rest of the world,

first explaining the new foreign economic policy and then considering how both American business people and our government should respond.

In Hough's view, perhaps the greatest fault of the Soviet economy—and yet the one least recognized—is its policy of economic protectionism. As Hough points out, this policy does not involve the simple tariffs and quotas which nations such as the United States use to deter foreign trade; rather, the Soviet government monopolizes and restricts all trade. This bent toward autarky is a legacy of Lenin, reinforced by the anti-Western attitude of Stalin and his men. As a result, Soviet producers lacked the benefit of foreign competition; in Hough's words, "protectionist policies are as disastrous for economic performance in the East as in the West."

Soviet economists recognize the problem. Hough quotes one of them, Anatolii Dinkevitch, as stating that "economic autarky is, as history shows, a course without a future." But can the Soviet economy change? Will bureaucrats, content in their positions of power and perquisites, permit it? Even more important, will the Soviet people challenge change?

Although, as Hough notes, Marx is part of the panorama of Western ideas which many Soviet leaders spurn, it is Marx's view of capitalism that has held the Soviet economy in thrall. Readers familiar with Marx's works know that he particularly condemned capitalism for two alleged failings: first, because capital accumulation supposedly destroyed jobs and created a "reserve army" of unemployed; and second, the standard of living for workers supposedly was pressed down to the subsistence level by capitalist greed. To overcome these presumed flaws, the Soviet rulers have assured jobs for all workers and have subsidized the costs of food, housing, medicine, and other basic needs.

If the Soviet economy in its drive for efficiency does actually become more capitalistic, then workers must face the prospect of losing their jobs if they are not up to snuff or if market conditions change. And at least initially, the prices of food and shelter will have to rise to approach their true costs of production. So resistance is likely.

But Hough points out that Gorbachev is handling this resistance in adroit fashion. That's where glasnost fits in: the Soviet people have more freedom of expression and movement, so perhaps they

will be willing to tolerate some measure of economic insecurity. (Alas, this is a lesson the Chinese Communist leaders haven't learned. While it had appeared that reform of the Chinese economy was outstripping that of the Soviet Union, the Chinese regime has refused to grant other freedoms. The frustrations of the Chinese people and the determination of the rulers met head-on in Tiananmen Square last spring; the Beijing massacre was the tragic result.)

If economic reform does occur in the Soviet Union and the cold war continues to thaw, how should we react? As for business people considering joint ventures in the Soviet Union, Hough argues that they need have little to fear regarding expropriation, since that would be counterproductive for the reform efforts. But there is still a lot of uncertainty and red tape to deal with. Yet Hough argues that there will be at least some American producers so anxious to serve the vast Soviet market and so eager to gain a foothold from which to make future ventures that they will be willing to overcome such obstacles.

Should we permit them to do so? Hough notes that in recent years we have learned that "government control and regulation are not necessarily the answer to every problem," so there has been a trend toward domestic deregulation. He suggests that such an approach is just as applicable to foreign as it is to domestic policy. He notes that economic sanctions and embargoes against foreign countries have usually "accomplished nothing productive": Castro's Cuba is surely witness to that statement.

Perhaps Hough best captures what he believes should be our approach to perestroika by mentioning a story by Aesop which is as charming as *Little Vera* is chilling. The story involves a contest between the North Wind and the Sun to see who could get a man to remove his coat. "The North Wind blew and blew, and the man clutched his coat more tightly around himself. The Sun simply came out from behind a cloud—and won, for the man took off his coat by himself."

Hough believes that American firms operating in the Soviet Union will provide irresistible evidence of the superiority of our system. More than anything else, the examples we furnish might assure the success of perestroika. □

Professor Shannon teaches in the Economics Department at Clemson University.

THE FREEMAN

IDEAS ON LIBERTY

84 The Grapes of Opportunity

Hannah Lapp

Learning self-respect, purpose, and hope from family and field.

88 Soviet Economic Reforms: An Inside Perspective

Yuri N. Maltsev

Observations from a former Senior Researcher at the Academy of Sciences of the U.S.S.R.

93 Auto Insurance Chaos in California

D. T. Armentano

Government regulation of prices and profit rates is hardly a step forward for consumers.

95 Friendly Societies: Voluntary Social Security — And More

John Chodes

How voluntary self-help associations provided a "safety net" for working class families.

99 National Service: A Solution in Search of a Problem

Thomas J. DiLorenzo

Do young citizens have special "duties" that must be fulfilled through "national service"?

104 Saying No to Federal Disaster Relief

William B. Irvine

How disaster relief today can lead to additional disasters tomorrow.

106 Art, Censorship, and Markets

Steven Yates

Getting government out of the art business.

108 Beyond Eminent Domain

Lee Ownby

What happens when developers initiate public condemnation of private land for private purposes.

111 Playing Hard Ball

Evelyn Pyburn

Compelling taxpayers to do more than root for their home team.

112 Academic Freedom at a Public University

John R. Lott, Jr.

Some lessons in practical politics.

116 Book Reviews

John Chamberlain reviews *Grede of Milwaukee* by Craig Miner. Other books: *The Grand Failure: The Birth and Death of Communism in the Twentieth Century* by Zbigniew Brzezinski and *Choosing a College: A Guide for Parents and Students* by Thomas Sowell.

CONTENTS

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Senior Editors: Beth A. Hoffman
Brian Summers
Contributing Editors: Bettina Bien Greaves
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Paul L. Poirot
Copy Editor: Deane M. Brasfield

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PERSPECTIVE

East and West

These are tumultuous times in Eastern Europe. While refugees are flooding across borders, the Western media is making much ado about freedom, capitalism, and democracy. What is being lost in the shuffle is that West differs from East only in degree and not in kind. Western governments are also interventionist and they threaten to grow more so every year.

Freedom, capitalism, and democracy are catchy words, but we must be careful with them. Freedom and capitalism have never been fully attained, so we can speak only of degree. At present, we are better off than Eastern Europe, but the trends are ominous. As a small example, the West German government is offering to subsidize refugee housing. Thus, West Germans will be "free" to pay for their neighbors' well-being.

Democracy is surely the watchword of the 20th century. However, events around the world have demonstrated that democracy alone can guarantee neither prosperity nor stability. In fact, prosperity and stability seem to be the prerequisites for a workable democracy.

Prosperity and stability arise from the unrestricted, or the least restricted, exchange of goods, services, and ideas. As we watch the events of Eastern Europe unfold with great hope for the future, we must also remember to keep our own house in order. We must not be distracted. It is only our awareness and vigilance that stand between limited and unlimited government.

—DENNIS PEKIN
San Diego, California

Communism and Racism

It is the Marxist-Leninists who often think like racists with their continued blather about the proletariat and the bourgeoisie and their consequent refusal to confront the individual on his merit. This attitude has resulted in a sort of apartheid in the Soviet Union in which the *nomenklatura* (largely European, of course) has some of the privileges of a master race: special stores, a special currency, the right to travel, and the use of country houses and restricted vacation resorts.

There is, after all, little difference in labeling a person a black and persecuting him and labeling him a kulak and persecuting him. In both instances there operates a superstitious kind of dehumanization. In the one case the human individual is sacrificed to some ghost called race. In the other he is sacrificed to an equally dubious specter styled class. It was no accident that when W. H. Andrews founded the South African Communist Party in 1921, he ended the party manifesto with the ringing words, "Workers of the world unite and keep South Africa white."

—LEONARD E. BREWSTER,
University of Zimbabwe

The Corruption of Socialism

When India gained independence in 1947, its government promised to take care of the nation's people. The state would supply the needs of its citizens without any of them having to plan or take risks. It was all very alluring.

In practice, however, the socialistic Indian government had to make millions of economic decisions. Suddenly, politicians and bureaucrats inherited enormous powers which they had discretion to use or, more appropriately, misuse. Corruption and nepotism started to spread.

Soon, prices were being set for political favors. To get a government job, the figure was close to the annual salary of the position. Bribes to get permits and licenses were decided by competitive bidding. State chief ministers, in spite of the support of the party high command, had to buy votes from their legislators. To win elections and stay in power, politicians needed a lot of money.

In one of the state capitals, a group of merchants paid the chief minister to designate a busy road as a one-way street. Businessmen on the other side entered the bidding war, and the street's orientation was changed several times, leading to a lot of creative driving.

The ability to collect and pass on bribes was rewarded. Following orders—even if they were in conflict with the laws and values of society—was the best means for advancement. Honest people were viewed as obstacles, and were weeded out or silenced. The rest gave up their values.

Corrupt leaders are not the reason why social-

ism fails. They are the products of a socialistic system. Without a fundamental rethinking of the relationship between the individual and the state, India will continue to be a land of great corruption.

—RAYASAM V. PRASAD
Jonesboro, Georgia

War on Drugs

The government declared "War on Drugs," but its citizens will have to wage it. How should we citizens fight this war? Let's get our priorities straight.

We must cut off the tremendous wealth the drug lords are amassing from the artificially high street-prices of illegal drugs. First priority then is to abolish the anti-drug laws that have allowed these dealers to become so financially powerful.

Once anti-drug laws are abolished, drug prices will fall to somewhere near the cost of production, and drug revenues will plummet.

The greatly reduced revenues of the drug lords won't completely solve the drug problem (remember, nothing will completely). But the entire illegal drug industry will be denied the extra funds it has been using for worldwide expansion.

We American taxpayers will get a double benefit from abolishing anti-drug laws. No longer will we have to face the staggering costs the government tells us will be needed to wage its war on drugs. In addition, the crimes committed by addicts to support their habits would be substantially reduced.

Abolishing anti-drug laws also will release our government from the hopeless task of trying to coordinate our drug policy with foreign countries. This would end the killing of Colombian officials for cooperating with U.S. policy.

If we succeed in repealing our anti-drug laws, cut off underworld excess profits, and save taxpayers the cost of massive enforcement programs, we will have taken an important first step. Then, perhaps, the remaining problem with individual addicts can be dealt with by more traditional means and institutions such as education, medical treatment, and rehabilitation.

—RICHARD W. HOLDEN
Avon, Connecticut

The Grapes of Opportunity

by Hannah Lapp

“We-e-e are go-o-oing down the A-arkansas River Bottom Lands!” chanted four young girls standing up behind the cab of a ’59 pickup truck on its way to an Arkansas hayfield. At ages 9 to 16, they were laborers already—field laborers, as was evident by the dark shades of their faces burned in the heat of southern summer. Their plain home-made dresses, some patched or mended, were tossed about by rushing air as the truck rolled along. Skirts and pigtails fluttered, and the spirited childish voices were all but snatched away, but that gave even more reason to sing out loud. Indeed, now was the time to sing, for in a few minutes more the pickup would stop and discharge the girls in a hayfield full of heavy bales to load. Once out of the wind, they’d feel the hot glare of sun in cloudless skies and 100 degree temperatures, which, combined with the strenuous work, would temporarily mute them.

The children were my sisters Lydia, Drusilla, Nancy, and Lavina, working for their own living and for their family. They were migrant workers in the bloom of their youth. The demands of the fields had given them muscles and grit, but alienated them from the world of parties, dances, theater, and dating. The fields and parental guidance had given them something they would not trade for anything else: self-respect, purpose, hope, and contentment. In the fields, you learned reward for labor.

Just the term “migrant labor” conjures repulsive images in the minds of many people who have

heard of or seen only such examples portrayed in John Steinbeck’s *The Grapes of Wrath*. The term is often associated with poverty, shame, desperation, and helplessness. What’s frequently overlooked by those enjoying material ease is the fact that happiness isn’t measured only by standard of living, and that poverty isn’t necessarily unfortunate in the minds of those involved. There exists among human beings a wide range in personal attitudes and priorities regarding living standards. Some of this could be attributable to culture, some to personal feelings, and some to the human capacity of adapting to varying circumstances. It is important to recognize that these differences in priorities are normal and acceptable by society.

In our own migrant labor experiences, we were often appalled by the living conditions as well as careless manner of some of the other workers. But we learned through firsthand experiences that pitying them to the point of insisting on change was improper. You could break your heart over them, but they’d go right on singing, joking, and making merry amid their want and filth. For many of them, this was simply preferred over the disciplined, and to them, cumbersome, life of those who plan ahead and save toward ever higher goals. “You guys aren’t happy till you got a million!” one migrant laborer observed of the more well-to-do society. “Well, we just got a dolla’, we satisfied.”

Tell my sister Drusilla that migrant workers are miserable, exploited people, and she’ll draw her lips tight and face you with an ominous shine to the eye. “What are you trying to say?”

You’re telling these people they are not capable of looking out for themselves, and most of them know that simply isn’t the case. Drusilla will under-

Hannah Lapp is a dairy farmer and writer in Cassadaga, New York. This article is excerpted from a book she is writing about her family and their experiences as farmers and farm workers.

stand what you mean when you talk about the physical strain for young children of long hours in the fields. She has felt the aching muscles and fatigue, the heat, the cold, the rain. She has felt the pain of on-the-job accidents; once, a misstep under the weight of a heavy burden of peaches left her with a leg gash that required 13 stitches. Drusilla's message to those who sit in government offices concluding from such instances that children should therefore not be permitted to work is, "You haven't got the whole picture."

Perhaps these people have never felt the demands of the fields and therefore cannot know the joy in completing a task or a day's work and being able to sit down basking in the bodily relief and mental satisfaction of having reached your goal. When you're a child, working with the encouragement of a close family, the opportunity to expend great efforts toward your family's livelihood, and bring in cash toward your joint needs and dreams, does to your sense of worth what almost nothing else can do. To try denying a family this opportunity sadly overlooks the individual desires and potential of a child. It is an insult to his dignity, an insult reinforced by child labor laws that have done today's youth more harm than the problem they were supposed to correct. I would not make this claim if I had not heard the figures of rising suicide rates among teens, not heard the tales of drug abuse, not seen the emptiness or even utter desolation in the eyes of America's youth who are being told, "We don't need you."

Measuring Happiness

What we need to recognize with children as well as adults is that there are different ways of measuring satisfaction and happiness. For example, sports for youth are viewed by most people as healthy recreation despite being at times extremely stressful both physically and emotionally. Field labor can give children all the envied fitness, fresh air, and chance for achievement as sports. Those individual cases where child labor is used to exploit and abuse children should be dealt with on an individual basis without casting an unfavorable shadow over the general concept of children as wage earners.

The effort to relieve the so-called plight of migrant workers has itself led to injustice by implying that a way of life which seems agreeable to one in-

dividual is intolerable to society. In his book, *The Ground Is Our Table* (Doubleday, 1966), Steve Allen does a good job of degrading the migrant worker by deploring his living conditions and then declaring him a helpless pawn of the farm employer. Some of the practices he laments, such as an eight-year-old picking beans all day, women picking crops at the top of "teetering" tall ladders, and a family using crates and boxes for furniture, are things to which we ourselves can say, "We've been there." And we object to having society bewail our "plight" because of it. The arrogant presumption that every person desires or should have the same standard of living, or that there is such a thing as a universally just level of material comfort, has led to many problems, including the welfare system itself.

Mr. Allen does expose some instances of migrant labor and living conditions that are unquestionably deplorable. What he fails to recognize in addressing the problem is the capacity within an individual to affect his own condition in either a positive or a negative way. Federal programs to solve the problem too often add to the helplessness and degradation of the human beings they were designed to aid. Private measures to relieve poverty are much more effective because they are more likely to encourage individual efforts.

We went to Arkansas, not as migrant workers, but in high hopes of establishing ourselves as a family dairy operation. Strout Realty's ad for a cheap farm caught Dad's eye, and the fact that it was located a thousand miles to the southwest didn't dismay him as it did some of the rest of us. Mom did not resist much, though—Dad's ventures always held the possibility of good fortune.

"A dairy farm," the realtor called the 50-acre lot set high in the northernmost fringes of the Ouachita Mountains. At one time someone had evidently milked cows in a tiny, simple milking parlor on the place, and mountain plateaus offered a little flat land for farming. Dad was assured that there was sufficient cropland around and that there would be jobs available for the children—although he had to wonder where the jobs were, considering that there were few other habitations for miles around.

It often occurred to Dad during the headaches that followed that perhaps we never should have moved away from our home in Virginia, where we had been able to maintain ourselves well. Yet he knew that his reasons for the change were legitimate. His job on the farm had been fine for just

himself, but the lack of work at home for the children made the family wish for a better way: owning our own dairy farm. It was the undesirable part of the migrant work that prompted us to look for something better—and landed us in more of the same.

Back in the summer of '66 when Susan was born, Mom could not work away from our home in Clearbrook, Virginia, so Dad obtained three weeks leave from his farm position to take the three oldest girls 80 miles away to produce country in Chambersburg, Pennsylvania. When they were inquiring for work at a tomato-packing house, they met Ray Nessone, who would give the children field work through that season and the next. Dad and the girls weeded and picked tomatoes until late September, with weekly breaks at home.

Apple Picking

By apple season in October, Mom felt she could wean her four-month-old baby and go to Chambersburg. Drusilla and sometimes Lydia accompanied her to the orchards and soon learned to pick as fast as she did. Drusilla built up her muscles, acrobatic skills, and self-confidence in the process of aiming for the highest possible count of bins per day. Mom was still a little stronger than her daughters and moved the high, heavy, and awkward ladders for them—but she let spunky, 13-year-old Drusilla do the tops of the tallest trees.

The girls seemed to cope well with heights, perhaps from having had childhood experiences in climbing. Lydia, Drusilla, and Nancy had been just 7 years old and up at the time when they used to help Dad catch pigeons for selling. They went out to neighborhood barns at night when the birds slept, and Drusilla and Nancy learned to climb high up under the barn roofs, hugging big beams with both arms while carrying flashlights in their mouths. Nobody told them they had to do it, but neither were they told they couldn't.

Apple picking involves a variety of skills, the most crucial ones being the positioning of ladders on springy tree branches and having a good sense of balance. Carrying the monster of a ladder without having it carry you is one step. Then you need a good eye for the proper "set" in the tree, where the ladder will rest against a branch while its legs sit firmly on the ground. Suspender-type straps support a three-quarter-bushel bag against your

chest so that you can use both hands for climbing and picking.

You learn constantly to test your ladder's balance while your hands fly from apple to bag, and you explore the bounds of stretching and leaning from your ladder. Ladders do tip, slide, and flip, so you must have some awareness of the closest good branches to grab in the case of your feet suddenly kicking into thin air. Drusilla learned to deal with a flipped ladder by monkeying down its underside with her hands when she happened to find herself dangling underneath it instead of resting on top. She even unnerved our mother by drawing Mom's attention to her feat with a spirited "ya-hoo!" as she went.

Apple picking is special the way it's so rough and so pleasant together. Tree branches whip your face, your shoulders sag from the weight hanging on them, and how your muscles hurt the first few nights after work! But by the time you're broken in, you're attached to it. It's generally less harsh work than tomato picking where you continually stoop, and the occasional wet and cold days of late fall are kinder than the summer heat of tomato season. There are factors like crop condition, weather, and employee management that make the difference of misery or pleasure on the job, and a good worker must take some of both. Mom and Drusilla sometimes put up with conditions that scared off most of the other pickers, partly in an effort to do their job well, and partly because you're anxious for work when you're far from home.

The next year, 15-year-old Lydia led her younger siblings in tomato picking. Early each Monday morning, Mom took the crew of five or six eager young bread-earners to the shanty at Ray Nessone's, left a food supply with them, and returned 80 miles home to get the day's laundry done and serve the rest of the family. On Wednesday night she would make a big kettle of soup, and the whole family would gather together at the shanty for supper, singing, and fellowshiping until it was time for the parents and youngest ones to go back home to Clearbrook.

It was an exciting experience for the young workers to practice fending for themselves, to discover how much money they could make if they worked really hard. Lydia, the crew leader, knew how to keep the younger ones in control while spurring them on with her own good cheer. "It's time you got up! The eggs are getting hard as



bricks!” might come her energetic call at six o’clock in the morning as she made breakfast.

They’d eat their Shredded Wheat, milk, and eggs, wash dishes, and get out to the fields at sunup. The girls’ skirts would get soaked if there was much dew in the morning, for the tomato plants were big, and so were the weeds in some places. There’d be a half-hour lunch break at noon with Velveeta cheese sandwiches, fig-bar breaks in between, and water handy for when they were thirsty. Otherwise, they lost little time.

The sun would become hot as the day advanced, and the weeds more prickly—weeds that were tall enough for a six-year-old like Barbara to hide behind to cry when things got too tough. But Barbara was big and strong in physique for her age, and even stronger in psyche, so she wouldn’t be left out. Sticking with the crew from sunup to “can’t

see” most days, she’d aim for her goal of 30 baskets of tomatoes—worth about four dollars. Sometimes she’d make it, and the pride would gush through her being to drown out her aches and pains. The physical drain on her energy would temporarily subdue her, but she’d march pretty tall in the walk home from the fields. Her hands would be almost as green with stain from the tomato vines as her brother Chris’s and her big sisters’ hands, and she’d scrub them long and hard with Mione soap. Even then, there would still be plenty of stain left to show Mom and the younger ones when they came.

After a supper of potatoes with canned pork-and-beans, the littlest tomato pickers would scrub faces, feet, and legs, and drop right off into good, deep sleep in their bunk bed, so that when morning came they’d be ready for another day. □

Soviet Economic Reforms: An Inside Perspective

by Yuri N. Maltsev

The crisis in the Soviet economy is now apparent to both Soviet and Western observers. The causes and manifestations of this crisis have been cogently described elsewhere.¹ The response of the Soviet ruling class to the deteriorating economy and growing societal alienation was the program of reforms known as perestroika, which was initiated in 1985 and significantly amended in 1987 and 1989.

A number of scholars have provided interesting analyses of the perestroika reforms, drawing on the history of past attempts (in 1957, 1965, 1974, and 1979) to restructure and reform the Soviet economic system. Much less attention has been paid, however, to the problems involved in making the transition from a centrally planned economy to a market system. Understanding the challenges of this task is of crucial importance both for assessing the prospects for reform in the Soviet Union and Eastern Europe and for shaping a coherent policy toward events and reforms in these parts of the world.

Fast-moving events in the Soviet bloc hold out the promise of a possible end or amelioration of the decades-long conflict between East and West. In light of the stakes involved, it is urgent to understand accurately the nature of the declared reforms and prospects for their success.

Dr. Maltsev was, until last summer, a Senior Researcher at the Institute of Economics of the Academy of Sciences of the U.S.S.R. in Moscow, where he worked with a team of leading Soviet economists on Mikhail Gorbachev's package of economic reforms. He is now a consultant with The Jamestown Foundation in Washington, D.C.

The spectacular failure to date of the "radical" economic reforms in the U.S.S.R. has been due to the unwillingness or inability of Mikhail Gorbachev's administration to part with the obsolete and economically destructive Marxist-Leninist ideology and its economic doctrines. Mr. Gorbachev and other spokesmen of the Communist Party are quick to point out that their commitment is not to abandon, but to "better and improve" the current system. They view the socialist system as progressive and correct; its failures in practice, they maintain, result from a lack of discipline and deviation from Marxist-Leninist principles.

The whole package of economic reforms adopted by the Communist Party Central Committee in June 1987 was aimed toward "perfection of the economic mechanism" and included measures which at best can be considered as inadequate to deal with the present situation. Designed by departmental bureaucrats and their academic assistants, these measures were rubber-stamped by inexperienced and economically incompetent officials who were easily deceived by the radical talk of the new ministry heads. The effect of these "reforms" on the economy was disastrous—they seriously undermined the vertical system of economic management but failed to replace it with horizontal linkages between enterprises. While the set of negative incentives for managers (discipline was maintained by the fear of being relieved of their duties or even loss of their Party membership cards) no longer works, the positive incentives failed to appear.

The real character of the so-called centrally

planned economy is well illustrated by a quip I heard some years ago by the Soviet economist Nikolai Fedorenko at a session of the Scientific Council of the Central Institute of Econometrics in Moscow. He said that a fully balanced, checked, and detailed economic plan for the next year would be ready, with the help of computers, in 30,000 years. There are millions of product variants. There are hundreds of thousands of enterprises in industry, agriculture, construction, transport, and distribution. It is necessary to make thousands of millions of decisions in the area of materials supply alone. The plans must also relate to labor force, wages, costs, prices, profits, investments, and economy of materials. These decisions originate from different parts of the planning hierarchy. They are all too often inconsistent with each other, as for instance when supplies don't match the output plan. Because next year's plan must be ready by next year, and not in 29,999 years, it is inevitably neither balanced, nor disaggregated.²

Today the concept of "directive planning" is being substituted by a system of economic normatives, state orders, and control figures which their creators claim are of a "truly revolutionary nature." But what kind of revolution is it when the state orders usually cover from 80 to 100 percent of the enterprises and all supplies are based on "non-obligatory" control figures?

Moreover, the so-called "political economy of socialism," formulated by Joseph Stalin in 1952, is still considered to be the sacrosanct theoretical foundation of economic policy and applied economic analysis in the U.S.S.R. It is nothing, however, but a collection of political slogans discredited by harsh economic realities. For example, according to the "political economy of socialism," the main economic law of socialism is the "Law of the Complete Fulfillment of the Rising Needs and Requirements of the People." Other "basic laws" include the "Law of Remuneration According to the Quality and Quantity of the Work Performed," the "Law of Planned and Proportionate Development of the Socialist Economy," the "Law of Reproduction of the Population on the Basis of Rising Standards of Life and Constant Improvements of Living and Working Conditions," and so on.

It is a testimony to the strictures and rigidity of economic theory in the U.S.S.R. that much of the ferment of perestroika has involved little more than heated discussions about these Orwellian

"laws." Some Soviet scholars argue, for example, that these "laws" can implement themselves only through the rational, conscious activities of the planners. Others oppose this view with the notion that this approach is contrary to the Marxist-Leninist assumption of the independence of production relations (objective phenomena) from the will and mentality of the people (subjective phenomena). The absurdity of the current situation in Soviet economic science is manifested by the existence of a third school, which insists that economic laws can exist but not operate.³ None of these "scientific" discussions have helped increase the supply of goods on Soviet shelves. Instead the obsolete theories are a significant part of the problem.

Another basic problem is that for the last 70 years, Western economics has been depicted in the U.S.S.R. as "bourgeois vulgar political economy." As a result, the vast majority of Soviet economists are unfamiliar with even its basic tenets. The old and discredited dogmas of Soviet economics are perpetuated by the system of higher education and academic training. The few Soviet economists who taught themselves modern economics have no access to the decision-making process, which is still dominated by economists like my former colleagues Abel Aganbegyan, Leonid Abalkin, and Boris Milner, and other economic advisors to the government, who may pretend to be reformers but still fall within the Marxist-Leninist mainstream.

The Economy Deteriorates

All of these factors, as well as the opposition of hard-line *apparatchiks* to any reforms (even the piecemeal ones), and widespread public confusion caused by the still-prevailing egalitarian thinking,⁴ have led to the serious deterioration of an already stagnant economy. The command economy was virtually disrupted by 1987, while the market economy failed to appear because of the inconsistency of the reforms package.

The most disastrous of all of the proclaimed "reforms" was in the field of labor and wage policy. Begun in September 1986, this reform was aimed at increasing wage differentials and reducing the army of 11.5 million industrial managers. The reform was supposed to establish special relations between wage hikes and productivity.

The execution of this reform was assigned to the State Committee of the U.S.S.R. on Labor and So-

cial Affairs. The results were quite the opposite to those expected: managerial staff, instead of being reduced, rose by 600,000, while income differentials increased but with no relation to productivity—all the gains were enjoyed by the very same managers whose numbers were supposed to be reduced. At many enterprises, the costs of the additional supervisory staff were simply included into the unit labor costs without any explanation or justification. The provision calling for linkage between wages and productivity was circumvented by false reporting, which is more common today than at any other time in Soviet economic history.

The labor/wage reform succeeded only in discrediting perestroika and Mr. Gorbachev in the eyes of the workers. The result has been the recent industrial unrest and the demands of the first Soviet free trade union—the “United Front of Workers”—for Mr. Gorbachev’s impeachment. The workers claim that the policy of restructuring was initiated by corrupt party and government officials, industrial managers, and liberal-minded, pro-Western intelligentsia who want to launder money they accumulated during Brezhnev’s era, to re-establish capitalism, and to enjoy new privileges at the expense of the working class. This labor hostility was manifested during last summer’s coal strikes, when the workers demanded the abolition of all forms of private business, especially cooperatives.

Rather than move forward with its reforms, the Soviet government is now trying to forestall social upheaval and reduce labor unrest by introducing rationing of most food items. The latest remedies and prescriptions issued by the Academy of Sciences of the U.S.S.R. and other government think tanks are testimony to the desperation of the Soviet leaders. For example, Academician Georgi Arbatov suggests that the U.S.S.R. must sell its strategic gold reserves to finance perestroika, arguing that this will immediately produce such positive economic results that the gold expended will very soon be replenished. Academician Leonid Abalkin seriously suggested in his speech to the Presidium of the Council of Ministers of the U.S.S.R. that one of the most important and urgent ways by which to stabilize the disintegrating economy was to construct boarding and lodging recreation facilities for families. Such construction, in his view, will absorb 20 to 30 billion rubles from the money market and

thereby greatly improve the financial situation.⁵

At the same time, bureaucrats with full support from the Academy of Sciences are introducing new prohibitive measures that seriously jeopardize any prospects for real improvement. For example, on August 15, 1989, new customs duties were introduced that at first sight seemed liberal—duties were reduced for 146 items including foodstuffs, children’s apparel, and footwear. However, new and heavy levies were imposed on all types of computers, electronics, and most durable goods. According to estimates by the Soviet Academy of Sciences, the Soviet Union’s computer capacity equals that of Thailand, which is 10,000 times less than that of the United States.

Lying with “Statistics”

The lack of sound economic theory is compounded by an absence of reliable economic and social statistics. Leading Soviet economists use CIA and other Western estimates rather than official Soviet statistics to support their arguments.⁶ (And Western estimates are no more reliable when they are based on Soviet data.)⁷ Until recently, statistics were treated as a form of economic propaganda and as such were used mostly to illustrate the “achievements” of the Communist Party. Even today, official statistics are frequently based on deliberately falsified reports of the ministries, republics, regions, districts, and enterprises, which are inclined to report economic indices in a way that is beneficial to them. National accounts in the U.S.S.R. are calculated by simply adding up the value of all material outputs at their stated prices. Services and other nonmaterial incomes aren’t included. This approach, based on the Marxist concept of “productive” and “non-productive” labor, leads to some of the paradoxical statements of Soviet economics. The dentist, for example, is a “non-productive” individual while the dental technician is a “productive” one.

In the Soviet Union, where the “market” (i.e., the existing system of distribution) is totally monopolized by government ministries and enterprises, prices do not reflect costs, nor do costs reflect anything except local or departmental bureaucratic interests. Centrally planned investment decisions, as well as government campaigns against the so-called “duplication and parallelism” of the 1960s and ’70s, led to a situation where the rate of

monopolization of production of most commodities is up to 100 percent. Moreover, Soviet prices are distorted by huge subsidies (104 billion rubles in 1989) and heavy indirect turnover taxes (105 billion rubles). These taxes sometimes constitute from 90 percent (cars) to 95 percent (alcoholic beverages) of the retail price.

Senseless economic decrees and regulations are being issued by the Council of Ministers of the U.S.S.R. at an accelerated speed of 2,000 per year, compared with "only" 500 to 700 a year during the Brezhnev stagnation years of 1965 to 1982. The 18 million bureaucrats employed by the system still determine everything in the sphere of production, distribution, and consumption. In the current situation, when 234 of 277 basic consumer goods included by the U.S.S.R. State Committee on Statistics in the "market basket" of the Soviet people are now outside the state distribution system, the power of these bureaucrats hasn't diminished, as was expected by the advocates of reform, but has increased enormously. Given such a system, there is no room for hope that in the foreseeable future the needs of the customer will influence what is to be produced.

How Bad Is the Crisis ?

Because of the lack of reliable economic data, it is impossible to quantify the depth of the economic and social crisis in the Soviet Union. Vital statistics, which to my mind are the best (although an indirect) source of information on the real economic situation and quality of life in the U.S.S.R., show absolutely desperate figures: life expectancy, the infant mortality rate, housing, and nutrition statistics can be compared only to those of developing countries. This is especially true in the more backward regions of the Soviet Union—central Asia, the autonomous republics in the northern part of the U.S.S.R., and Azerbaijan.

As my former supervisor, Deputy Prime Minister of the U.S.S.R. in charge of the economic reform, Academician Leonid Abalkin, has said, "If in 1.5 to 2 years the economic situation does not stabilize and no improvements are made, a shift of society to the right [i.e., to Stalinism] will be inevitable. What form this will take exactly, I don't know."⁸ Unfortunately, there are no visible reasons for such a stabilization to occur.

Moreover, desperate economic adventurism is

assuming larger and larger proportions. According to my estimates, the issuance of paper money unsupported by an adequate growth in the production of commodities reached 20 billion rubles in 1989. The devaluation of the ruble (from \$1.60 to \$0.16) in September 1989 is the direct result of decades of arbitrary expansion of cash in circulation which was not supported by an adequate growth in commodity production. Soviet consumers joke that the ruble has come to resemble a lottery ticket more than a currency. An estimated 300 billion "hot rubles" are in circulation—forced savings that would immediately be spent if anything worth buying appeared on the market.⁹

An urgent discussion is now going on in the West about how best to assist the Soviet Union and Eastern European countries in their efforts to reform their crippled economies. The economic crisis confronting the U.S.S.R. and Eastern Europe offers the West a unique and unprecedented opportunity to stimulate genuine economic and political reforms there. Such constructive leverage can be brought to bear through active, coordinated, and disciplined financial and trade policies. The goals of financial and other economic assistance to the U.S.S.R., both on a bilateral and multilateral basis, should be the following:

1. In the economic sphere
 - a) Massive privatization of the economy;
 - b) Denationalization of land and abandonment of the *kolkhoz* and *sovkhos* system (collective and state farms), which is still based on forced labor;
 - c) Massive reallocation of resources away from the military to the civilian sectors of the economy;
 - d) Sharp reductions in the size and power of the bloated government bureaucracy, elimination of its expensive privileges, and limitation on the share of national income commanded by the state budget (81 percent in 1989).
2. In the political sphere
 - a) Creation of a true multi-party system;
 - b) Legalization of free trade unions;
 - c) Establishment of a genuine legal system with an independent judiciary.

Continuing present, undisciplined Western lending practices (especially untied loans) serves

only to postpone the need for genuine economic restructuring in the U.S.S.R. and thereby increases the likelihood of socio-economic chaos. The best form that Western assistance can take is to provide the Soviets with a thorough, dispassionate economic analysis of their situation and an economic theory of transition to a free market system. The truism that "nothing is more practical than a good theory" is completely applicable to the present situation in the U.S.S.R. and Eastern Europe.

So, the main problem of Soviet economics today is the lack of understanding that mere recognition of the crisis isn't enough to deal with the situation. Today it is obvious that no amount of reforms aimed at the "perfection of the economic mechanism" can make the Soviet economy work unless the very foundations of the system are changed. The answer to the question "What should be done?" is obvious. That requires the establishment of a multi-party system, privatization of the economy, and denationalization of land. More specifically, the transition to a market economy should include:

- Introduction of employee shareholding plans at all industrial enterprises and most service establishments;
- Creation of stock exchanges and provision for free trade in shares;
- Restructuring of *kolkhoz* and *sovkhoz* farms into genuine independent cooperatives securing the rights of the peasants to withdraw with their share of land and other common property;
- Elimination of state price controls starting with luxuries;
- Creation of a national labor market by eliminating residence requirements (*propiska*) and securing the rights to travel and work anywhere in the U.S.S.R.;

- Immediate demunicipalization of housing;
- Drastic cuts in military and other government spending;
- A Ludwig Erhard-type monetary reform and achievement of currency convertibility on international markets;
- Liberalization of foreign trade and creation of favorable conditions for foreign investors.

Suggestions such as these, unfortunately, are ignored by Soviet leaders because it is obvious to them that the implementation of such a program would lead to their ultimate loss of power. Certainly, the transition to a market economy would be rather painful, but, to my mind, unavoidable in view of the present situation which already is unbearable. As the Soviet economist O. Bogomolov recently admitted, "The final choice in favor of the market has not been made."¹⁰ The time that will allow such a choice is expiring. □

1. See, for example, Abram Bergson, *Planning and Performance in Socialist Economies: The U.S.S.R. and Eastern Europe* (Boston: Boston University Press, 1988); Padma Desai, "Perestroika, Prices and Ruble Reform," *The Harriman Institute Forum*, November 1989, pp. 1-8; S. Andreyev, "Struktura vlasti i zadachi obshchestva," *Neva*, 1989, No. 1, pp. 143-173; Rachel Walker, "Marxism-Leninism as Discourse: The Politics of the Empty Signifier and the Double Bind," *British Journal of Political Science*, April 1989, pp. 161-89.

2. Also cited in Alec Nove, "The Problems of Perestroika," *Dissent*, Fall 1989, p. 463.

3. For an overview, see A. Nekipelov, "Is plena mifov i dogm," *Kommunist*, 1989, No. 7, pp. 21-29.

4. During the discussion of the Law on Taxation at the fall 1989 session of the Supreme Soviet, a People's Deputy from Khakassia took the rostrum to declare that behind the new Soviet cooperatives lurk Washington and the CIA. (*Moscow News*, 1989, No. 33, p. 7)

5. Yu. P. Chaplygin, "Ekonomicheskaya Reforma: v poiskakh putei razvitiya," *Izvestiya AN SSSR*, Ser. Ekonomicheskaya, 1989, No. 3, pp. 18, 19.

6. *Ibid.*, p. 21.

7. See, for example, Franklyn D. Holzman, "Politics and Guesswork: CIA and DIA Estimates of Soviet Military Spending," *International Security*, Fall 1989, pp. 101-31.

8. *Moscow News*, 1989, No. 26, p. 12.

9. *The Washington Post*, December 1, 1989.

10. *Moscow News*, 1989, No. 26, p. 12.

Auto Insurance Chaos in California

by D. T. Armentano

In November 1988, California voters changed the rules of the game in the automobile insurance industry. In passing Proposition 103, they decided, among other things, to vote themselves a 20 percent reduction in automobile insurance rates and to remove the insurance industry's antitrust exemption. In May 1989, the California Supreme Court sustained that vote with some important qualifications.

The Court held, consistent with a long legal precedent, that insurance rates could be lowered, but that the new rates must be sufficient to allow the private firms to earn a "fair and reasonable" rate of return. If, for instance, the firms were making extraordinarily high profits, then prices might be regulated downward. But if, as many of the insurance companies contend, they were experiencing a loss underwriting auto insurance in California, then insurance rates might have to be increased to restore a "reasonable" level of profitability. Indeed, many California auto-insurance carriers already have filed for rate increases consistent with the state Supreme Court ruling.

The political fight to lower auto rates in California was led by prominent consumer advocates who first greeted the Court decision warmly. After all, had they not argued that the unregulated insurance market was incapable of setting fair and efficient prices for auto insurance? Government regulation of insurance company classification and territorial rating plans was necessary, they held, to provide fair auto rates to consumers. In addition, they were convinced that the antitrust exemption

allowed the insurance companies opportunities to collude in restraint of trade. Ending the exemption, they argued, would end the collusion, increase competition, and lead to lower insurance prices.

Although the consumer advocates got what they wanted from the political process, they already are having second thoughts. And well they should. This "new" system of regulation is open to massive abuse by both the regulators and the regulated. The central difficulty is one of information. In the absence of a genuinely competitive market process, neither the regulators nor the regulated can know which prices or profit levels are appropriate or reasonable. The pricing problem is made especially difficult in property/casualty insurance since most of the "costs of production"—the loss experience—can be known only *after* the policy period has ended. This ultimate indeterminateness of (loss) cost in insurance makes the governmental attempt to set fair rates doubly absurd.

Non-insurance firms know their expenditure costs before they determine suggested prices for their products or services. The insurance business is fundamentally different. The total costs of insuring a motorist, for instance, can be known only at the expiration of the auto-policy period. This uncertainty concerning loss costs can be alleviated somewhat by the inter-firm pooling of historical loss experience in an attempt to better predict future costs. But these predictions often go wildly astray in the short run, and they contribute to the cyclical nature of insurance profitability.

Prior to Proposition 103, the competitive market process determined the ultimate reasonable-

Professor Armentano teaches in the Department of Economics at the University of Hartford in Connecticut.

ness of insurance rates and profits in California. Insurance firms that met modest capital and surplus requirements entered the market, pooled loss data, and wrote policies at rates that they expected to be profitable. Although entry and firm rivalry were restricted somewhat by law, and although the state regulated many other aspects of the property/casualty business, pricing (and profits) were determined essentially by market forces.

All of that has suddenly changed. Prices of auto insurance and the profitability of the insurance companies now must be determined by the California Insurance Department and, ultimately, by the courts. But given the fundamental subjectivity of costs and the inherent instability of profits in this industry, it is unclear how *any* regulatory process will be able to work efficiently. To put the matter bluntly, how can the regulators rationally decide which costs and expenses are appropriate and which rates of profit are reasonable?

Consumers Not Well Served

Regulatory history in insurance and other industries demonstrates that the regulated firms often have the upper hand in this process. For example, if the regulators rely on the firms for the essential expense and loss information (as they must), and if the state further restricts entry into the market, then the companies may be able to manipulate prices to near-cartel levels. On the other hand, if the insurance regulators are "tough" and systematically underestimate costs and expenses, or decide (as they recently have done in California) to freeze auto rates while they deliberate questions of "unreasonableness," then the insurance companies may choose to reduce supply availability and even abandon the market. In either case, consumers of insurance services will not be well served.

Ending the state antitrust exemption in California also will hurt consumers. Since the carriers were using the exemption to share essential loss-experience information, ending the exemption will lead to higher information costs in the industry. Many of the larger carriers have a sufficient pool of experience to make rational rates without sharing information. But hundreds of small insurance firms rely on the sharing of industry cost data and would not be efficient without it. Thus, ending the antitrust exemption will force many insurance firms out of business or into consolidation with larger companies. None of these developments is unambiguously pro-consumer.

Consumer advocates in California misled voters into believing that additional governmental intervention into auto insurance would improve consumer welfare. But government regulation of prices and profit rates can hardly be a step forward for consumers. Indeed, rate-of-return regulation is an attempt to restore the economic past in insurance.

A genuinely open market, where firms are free to be rivalrous *and* cooperative, is the economic wave of the future. In insurance, this means that markets must be opened to non-insurance companies (Proposition 103 does allow banks to sell insurance); that firms must be free to share risk and loss experience data (their antitrust exemption should be retained); and that companies must be free to price their policies and earn any return based on their relative efficiency. In short, all state regulation of insurance products and services should be curtailed.

The crisis in auto insurance is due to inappropriate regulation (Massachusetts is an even better example than California) and uncertain and wildly irrational tort law decisions. State governments would do well to fix their tort law crises and leave the insurance industry alone. □

Friendly Societies: Voluntary Social Security — And More

by John Chodes

In his retirement speech as Speaker of the House, Tip O'Neill contrasted the world of small government in the 1930s, when he entered politics, with today's big government emphasis on social services, which he helped create: "Health insurance was out of the question. For the elderly, life was filled with uncertainty, dependency and horror. Only the lucky few had pensions. There was no such thing as social security."¹

O'Neill was wrong. Working class families had a "safety net" long before Uncle Sam became involved. Our grandparents and even great-grandparents had benefit plans that protected them when they were sick, injured, out of work, or too old to work. Millions of workers belonged to "friendly societies."

Various forms of friendly societies have existed since ancient China, Greece, and Rome. In Britain, they arose out of the guild system. Daniel Defoe wrote in 1697 that friendly societies were "very extensive" in England. In the mid-18th century, as the Industrial Revolution hastened the growth of British towns, the friendly society system became well established. Sometimes they were called fraternal societies, mutual aid societies, or benefit clubs. Similar organizations developed in the United States in the 19th century.

The lengthy success of the friendlies reflects that they were much more than benefit institutions. Friendlies were voluntary self-help associations, organized by the members themselves. The workers regarded the friendlies with great pride,

as their own creation. More than just a means of support, they brought independence from the degradation of charity.

Friendlies served social, educational, and economic functions, bringing the idea of insurance and savings to those who might not have planned for the future. The social aspect of the friendlies should not be underestimated. Their meetings included lectures, dramatic performances, and dances both to inform and to entertain members.

Since members took turns at managing the friendlies, the typical workingman developed executive skills that could prove valuable in his everyday employment.

Nineteenth-century commercial insurance companies couldn't compete with the friendlies, so they focused on business clients and the rich. Workers were suspicious of the companies because of their numerous failures and scandals. Besides, insurance rates were higher than those the friendlies charged for comparable benefits. The reason? Friendlies didn't solicit. Thus, there were no salesmen and no commissions. Also, the member-managers worked on a volunteer or token salary basis.²

Types of Friendlies

Friendlies usually were formed by people with a common denominator, like the same occupation or same ethnic, geographic, or religious background. Thus, there were the Czechoslovak Society of America, Providence Association of the Ukrainian Catholics in America, Locomotive

John Chodes is the Vice Chair of the Libertarian Party of New York City.

Engineers Mutual Life and Accident Insurance Association, and the Fraternal Society of the Deaf.³

Unlike today's compulsory and standardized state-run plans, friendlies provided dozens of benefit packages. Each person created his own plan. One could retire at 60 or even 50 or get unemployment or illness aid equal to one's own wages. All that was required was higher premiums.⁴

Originally, friendlies insured against "disability to work," with little distinction between accident or sickness. This also came to mean "infirmity," i.e., insurance against old age. Most friendlies paid for a doctor's services, burial expenses, annuities to widows, and educational expenses for orphans. They built old-age homes and sanitariums for members and their families. Even in their early stages, they offered unemployment benefits for those in "distressed circumstances" or "on travel in search of employment." The most common pay-outs were for maternity leave and retirement pensions.⁵

1. Dividing Societies

These were among the earliest British friendlies, developing in the 1750s. After making payments for specified "events" (sickness, retirement, death, unemployment), the society would divide the balance of its fund among its members at the end of the year. The disadvantage of this was the constant need to recruit young people because these societies had no reserves, and the bulk of their claims tended to come from older members.

Still their appeal was considerable. Each contributor received an annual return even when things were going well. The fees were uniform and easy to calculate. They used no actuarial tables (which were considered morbid for predicting the odds of sickness and death). The contributions were higher than at other types of friendlies, but the members got back a lump sum at the end of the year. Dividing societies combined insurance with the idea of savings. As such, they advanced loans to members.

A good example of a dividing friendly was the Union Provident Sick Society. In 1880 its rules provided that no one would be admitted under age 16 or over 31. A 12-man executive committee was rotated among the society's members. Meetings were held "every quarter night." There were a small entrance fee and a small contribution every two weeks. Eighty percent went into the fund, 20

percent toward management. Sick benefits were roughly 25 to 33 percent of weekly wages for a year, and 15 to 20 percent for the remainder of the illness. For members over the age of 20, contributions and benefits were double. The surplus was divided each December, the members receiving shares in proportion to their contributions.

Five percent of the Union Provident's members were self-employed tradesmen or manufacturers who didn't need the society's help. They had been workingmen when first admitted, but still remained to show their moral commitment and to donate their managerial skills to the society.

Friendlies that did not divide gave higher benefits. One example was the Hitchen Friendly Institution. It provided benefits equal to full pay for a year to a member who was out of work due to illness, and half pay for the remainder of the illness.⁶

2. Deposit Societies

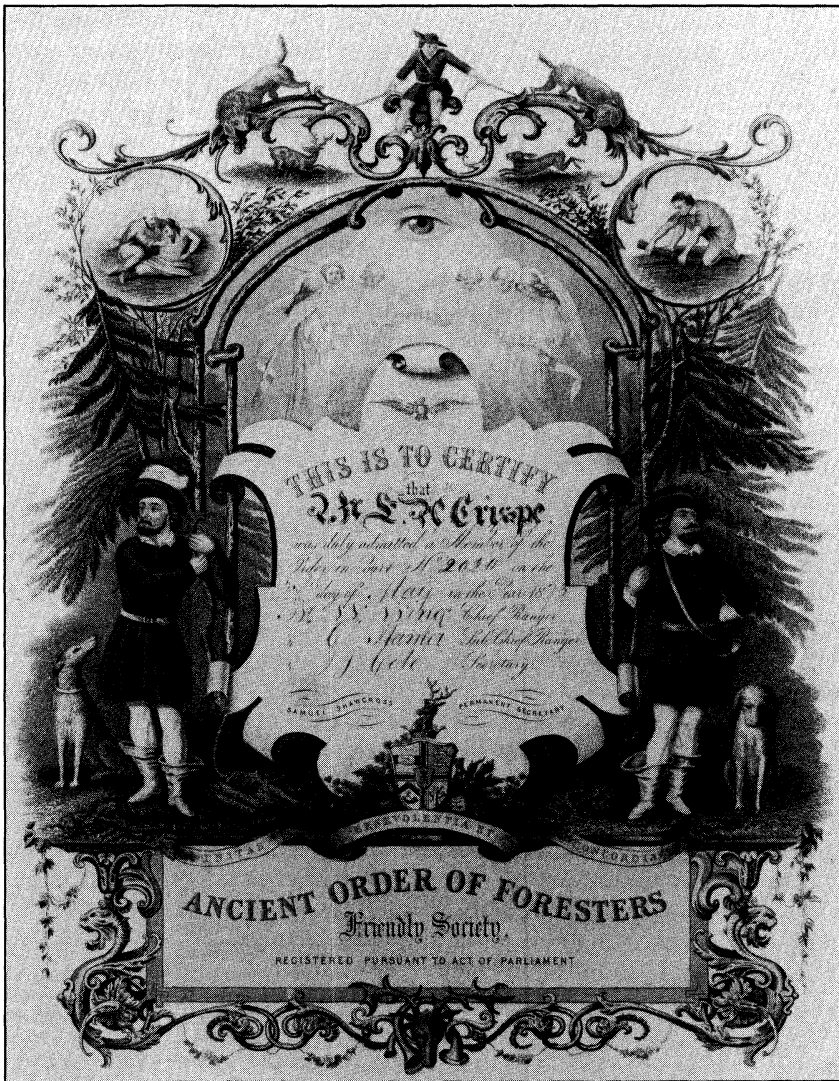
An English clergyman, Reverend Samuel Best, originated this more sophisticated system. He introduced the concept of savings to early industrial workers. The deposit system connected the savings account with an insurance account so that the benefits for sickness or distress were derived partly from each. The member had a specific credit in the insurance fund based on his savings, but the claim ceased as soon as his own fund was exhausted. This promoted thrift by encouraging the member to add to his savings, not to drain off the account.

If a person remained healthy throughout his working life, when he retired he would have a large amount in his personal account. With much sickness and exhausted savings, the sickness or distress benefits ended, but were replaced by "grace pay," which could be drawn for as long as benefits had been drawn. Grace pay related to the amount of savings.

The deposit system had major advantages over others. It did not use actuarial tables, which would force higher contributions on the elderly or sick, or exclude them from membership. Admission was without limitation.⁷

3. Burial Societies

This was the one area where commercial insurance companies competed successfully because the "event" (death) was easy to verify and actuarially predictable. For a long time burial societies were illegal because they "gambed on death."⁸



4. Factory Societies

There is a widespread belief that the 19th-century factory owner was heartless, providing no benefits for his workers. That picture is false, as evidenced by this report from an 1891 study of workingmen's associations: "There is scarcely a single large establishment . . . which does not make provision for its employees, whether accident, sickness or burial. The management is in the hands of the workingmen, while the firm acts as treasurer, exercising some supervision, and represents a moral influence through its chief officers. Membership was supported by the firm. These subsidies gave substantial benefits for small contributors."⁹ Another study noted that "the mill owners have created a fund, applied to the encour-

aging of women to cease work for a sufficiently long time before and after the birth of their children to prevent injury to the constitutions of mother or infant."¹⁰

5. Building Societies

Building societies were workingmen's financial institutions. They lent money to members for the purpose of buying a home. The "terminating" type ceased existence when all the members had bought a residence. The "permanent" type had more of the characteristics of a contemporary bank.

These societies had a powerful influence until fairly recently. Between 1918 and 1939, half of the

homes built in England were purchased with the aid of building society funds.¹¹

6. Fraternal Societies

"Fraternalists" were more like life insurance companies in that they tended to focus on death benefits and pensions. Because of this, in the long run they were more easily absorbed by the large commercial insurance organizations.

There were dozens of variations of fraternalists. Those with branches (or lodges) were commonly called "affiliated" or "federated" orders, with divisions of power between the central administration and the regional branches. Those without branches were referred to as "unitary" societies.¹²

Downfall of the Friendlies

The friendlies did not collapse financially. Nor did they disappear because they failed to do their job for working people. They declined because of government action.

British aristocrats feared the friendlies because they viewed their huge contributor funds as a means for political subversion. At the end of the 18th century, the aristocrats, dreading the political power of the united workers, moved against them. The Combination Acts, the Illegal Societies Act, and the Seditious Meetings Act were aimed at preventing workingmen's groups from forming. The one legal loophole was the Rose Act of 1793, which allowed "societies of good fellowship for security" to exist.¹³

Eventually, a steadily growing web of uniform state-mandated benefits first duplicated, then absorbed the "dangerous" friendlies.

•1793: State supervision of friendly societies' management and rules.

•1818: First bill to set up a standard of "scientific" contribution rates. This made the fees more uniform, weakened competition, and led to the gradual absorption of the smaller friendlies by the larger.

•1870-75: A royal commission studied the friendlies. Parliament created a rival state-run system, focusing on the most predictable "events": burial and retirement benefits.

•1911: National Insurance Act. State benefits were expanded, financed by compulsory contributions from employer and employee. Via subsidies, the friendlies were led to administer the state plan. Claims for benefits had to be filed with both systems.

•1946-48: The Labour government ended the National Insurance Act subsidies and bypassed the friendlies, structuring a complete and exclusive administrative machine of its own. The loss of funding and higher state benefit rates drove many friendlies out of existence.¹⁴

In the United States, the government was less worried about the friendlies. The first major legislation, in 1893, was promoted by the friendlies themselves. They lobbied in Washington through the National Fraternal Congress. This organization represented 100 friendly societies with 6 million members and \$7 billion in insurance funds. It pressed for passage of the "Uniform Bill," forcing all new friendlies to adopt the same mortality rates. This would put them at a competitive disadvantage to the established societies. However, instead of driving off the upstarts, this legislation blurred the distinction between friendlies and commercial life insurance companies. Legally they were grouped together. As a result, the commercial insurance companies gradually absorbed the friendlies, leaving consumers with fewer choices.¹⁵ □

1. Thomas P. O'Neill Jr., "When Government Was a Friend in Need" (*The New York Times*, May 16, 1986), p. A-35.

2. Walter Basye, *History and Operation of Fraternal Insurance* (Rochester: The Fraternal Monitor, 1919), pp. 41-52.

3. Richard DeRaimes Kip, *Fraternal Insurance in the United States* (Philadelphia: College Offset Press, 1953), p. 10.

4. Richard Price, *Observations on Reversionary Payments* (London: T. Caldwell and W. Davis, 1803), pp. 141-42.

5. J. M. Baerneither, *English Associations of Workingmen* (London: Swansonnerchem and Co., 1891), p. 164.

6. *Ibid.*, pp. 171-78.

7. William Henry Beveridge, *Voluntary Action* (New York: Macmillan and Co., 1948), pp. 45-50.

8. *Ibid.*, pp. 53-58.

9. Baerneither, pp. 201-05.

10. Michael Cross, editor, *The Workingman in the 19th Century* (Toronto: Oxford University Press, 1974), p. 75.

11. Beveridge, pp. 96-101.

12. Basye, pp. 122-32 and Beveridge, pp. 34-36.

13. Beveridge, p. 63.

14. *Ibid.*, pp. 63-84.

15. Basye, pp. 113-22.

National Service: A Solution in Search of a Problem

by Thomas J. DiLorenzo

In some intellectual and public policy circles, economic nationalism has struck a fever pitch in the form of proposals for so-called national service. There are now several plans floating around Congress and the White House for a national youth corps. One plan would provide a \$100 weekly salary and a \$10,000 yearly tuition credit voucher for people between 18 and 26 who join a "Citizens Corps" for two years or serve in the armed forces at a reduced rate of pay.

The reasons given for why the nation supposedly needs a "youth corps" are that it is important to instill in youth an admiration for collectivism and a distaste for individualism. Of course, national service proponents rarely are so forthright in their use of language. But a brief survey of some of the "national service" literature reveals that this is exactly what they intend.

One Congressional sponsor of a national service bill says the bill is "based on the premise that our young people must move beyond the narcissism of the Reagan years."¹ Such egocentricity, says the Congressman, was socially irresponsible because it "led many to ask what their country could do for them."² Thus, it is supposedly undesirable for citizens to think of government as an institution whose main purpose is to serve the public. Rather, it is the other way around: Citizens should be compelled to serve government. Citizens are thought to have

special "duties," as defined by government, which they must fulfill through "national service."

The National Service Coalition

Donald J. Everly, the executive director of an organization called the "Coalition for National Service," believes that "young people have a responsibility to their heritage to contribute a period of service to our land and our people in need."³ It is unclear, however, what portion of the American heritage he refers to and why individuals have "responsibilities" to it (by whose authority? to serve whose ends?).

One thing that is clear is that Everly is *not* referring to America's Constitutional heritage. The American republic was founded on the belief that individuals have inalienable rights to life, liberty, property, and the pursuit of happiness, not some vague obligation to become indentured servants for the government. This aspect of the American heritage suggests that citizens should strongly resist any national service schemes. True voluntarism is a legitimate part of the American heritage, but that's not what national service is about. National service under the auspices of the federal government is necessarily coercive.

Prominent members of the media also have jumped on the national service bandwagon. One *Washington Post* writer decries the "appeal to self-interest" and the "selfishness" that he claims was spawned by the election of Ronald Reagan. This *Post* writer maintains that what is needed is "a counter-appeal to altruism" in the form of a new

Thomas J. DiLorenzo is the Probasco Professor of Free Enterprise, The University of Tennessee at Chattanooga. This article is adapted from his forthcoming book, Paved With Good Intentions: Economic Nationalism and American Industrial Policy (Cato Institute, 1990).

"social contract." Such a contract would "define not only what our country will do for citizens, but what our citizens will do for our country."⁴

The word "contract," as used here, has a rather unique meaning. Millions of youths who would be subjected to a national service plan would have little or no say in the drafting of the contract, nor would they be asked to sign it. The "contract" presumably would be made out by a small group of national service advocates and their Congressional allies. When the government (or the Washington media establishment) starts talking about social contracts, it does not necessarily mean a contract that takes into account the preferences of the society in question. It means a contract constructed by a small group of social engineers who use the power of the state to impose the contract on the rest of society. And on top of all that, the rest of society, namely the taxpayers, are compelled to pay for the government programs created by the new "contract."

Sociologist Charles Moskos might be considered the intellectual father of national service. He has written a great deal on the topic including his 1988 book, *A Call to Civic Service*.⁵ In this book Moskos writes that the philosophical underpinnings of national service are based on the idea that "private interests are subordinated to the public good and in which community life takes precedence over individual pursuits."⁶ Such thinking, writes Moskos, "is laying the philosophical foundation for the popularization of national service."⁷

Like nearly every other supporter of national service, Moskos praises the collectivist philosophy and denounces individualism and economic liberty. He calls the latter concept "mean-spirited privatism" that allegedly has "led to a widening gulf between haves and have nots."⁸ He does not define what he means by "mean-spirited privatism" other than joining with Washington establishment figures in casting aspersions on Ronald Reagan. Nor does he attempt to demonstrate statistically that a "widening gulf" in the income distribution has occurred in recent years. In short, he does not define any particular problem, but he is absolutely convinced that national service is the "solution."

As far as Moskos's denunciation of "privatism" is concerned, he seems completely unaware that during the economic recovery from 1982 to 1989, more than 20 million new jobs were created in the

U.S. economy, and, according to the U.S. Department of Labor, most of them were relatively high paying. The unemployment rate fell from nearly 12 percent to just over 5 percent; inflation declined from 13 percent to one-third that rate; and bracket creep was eliminated by indexing the income tax for inflation. All the economic news wasn't good during that period, but the point is, the supporters of national service talk as though the nation were in the depths of the Great Depression as they bemoan the alleged failures of the private sector. Creating 20 million new jobs is hardly "mean spirited."

Voluntary or Mandatory?

Although national service is touted as "voluntary," some of its supporters' statements raise doubts. For example, Moskos claims that the philosophical foundation of national service "is nowhere better exemplified" than in the work of Michael Walzer, who Moskos labels as "one of the country's leading social thinkers."⁹

Moskos praises Walzer for explaining in a recent book "the merits of obligatory and unpaid, but temporary, labor to do the necessary work of society that is dangerous, grueling, or dirty."¹⁰ This sounds worse than indentured servitude, which at least provides some form of payment in return for labor.

One senatorial proponent of national service would like to have mandatory national service, but doesn't believe it would pass Congress, at least not yet. Another senator has introduced legislation that would provide "a full range of possible penalties to ensure mandatory participation."¹¹ A "full range" of penalties presumably would include prison terms for those young people opposed to forced labor.

Even if national service weren't mandatory at the outset, it would likely evolve into a mandatory system. Economist David Henderson offers the following entirely plausible scenario: "[N]ational service attracts few kids from higher-income families. Its advocates then argue that the only way to get broad participation across all income classes is to make national service compulsory. With the voluntary service network in place, the next step is compulsory national service."¹²

Fundamentally, a national service program *that is operated by the government* cannot be voluntary.

Anything financed by tax revenues is not voluntary because taxes are not voluntary. At best, so-called national service is a combination of bribery and extortion. Money is extorted from taxpayers in order to bribe young people to perform work that their governmental overseers think they should be doing.

The phrase "national service" is misleading because it implies that people pursuing their own careers, independent of governmental direction, are not providing a national service. The truth is that every private-sector business provides a service to consumers; otherwise it wouldn't survive, at least not without government subsidies. This elementary economic confusion is nowhere more apparent than in the White House where an Assistant to the President for National Service stated in 1989 that "from now on, any definition of corporate success must include serving others."¹³ Of course, no corporation can possibly be successful unless it serves others, namely, its consumers. What the presidential assistant apparently has in mind is somehow compelling corporations, in addition to the nation's youth, to perform additional "national service" work.

What national service proponents are advocating is not *more* service, but a different kind of service. As with all forms of social engineering, they are advocating the reallocation of resources from the private to the public sector. Thus, the taxes extracted from the public will be a disservice to taxpayers, although the beneficiaries of the new government program—service recipients as well as contractors, materials suppliers, and others—will benefit.

The text of one pending bill is quite explicit in announcing that the intention of national service is to *reallocate* the services that are provided in the United States, but not necessarily to provide *more* service. For example, the bill calls for marshaling "our nation's resources to meet national needs."¹⁴ The implicit assumptions in this statement are: 1) Young people should be viewed as a nationalized resource; and 2) since these resources are considered communal property, they must be allocated by a group of government bureaucrats, i.e., the administrators of a national service program.

To describe the lives of young people as "our nation's" resources quite explicitly assumes that these individuals have no inherent or inalienable

rights outside of those determined for them by government. They are viewed by national service supporters as a nationalized resource that should be compelled to serve the government's needs rather than their own.

The philosopher Ayn Rand put so-called voluntary national service proposals into perspective more than 20 years ago when she remarked that the "unnamed principle" behind all such proposals is: "Developing yourself into a productive, ambitious, *independent* person, is not regarded as a value to the United States; turning yourself into an abject sacrificial animal is."¹⁵ Rand's point was well taken: It is not socially costless to interrupt a young person's education or initial working experience to force him or her to, say, empty bed pans at a government hospital. It is costly not only in terms of the infringement on that individual's freedom, but also in terms of delaying the entrance of that young person into the working world where he or she will perform some service to society for market wages. According to national service proponents, someone "serves" the public only when engaged in an activity where no one values the output enough to pay for it.

Crowding Out Genuine Services

Proponents of national service are also misguided in their belief that an additional government program will create more of a sense of community. Charles Moskos, for example, says "the need for national service" is especially strong now "because of the relative weakness of other forms of community."¹⁶ What Moskos and others fail to recognize is that massive government intervention in the area of social policy over the past decades has been largely responsible for the weakening of many community efforts. Another social program would only make things worse.

For example, Social Security has weakened the sense of individual responsibility for one's parents and grandparents, not to mention the negative effects on incentives to save for one's own retirement. Food stamps have led to a reduction in private efforts to feed the hungry. Government housing programs have helped create a low-income housing crisis. The centralization and bureaucratization of the public schools has stolen control over education from parents. As Charles Murray has shown in his recent book, *In Pursuit of Happiness*

and *Good Government*, social policy over the past several decades has had a massive crowding-out effect on communities.¹⁷ An unfortunate result of this displacement of community efforts is that when the government programs prove ineffective, as they often do, those in need are left without either governmental or community assistance. National service may have its strong points, but instilling a stronger sense of community is not one of them.

Moskos and other national service advocates are correct that more can be done in the area of social policy, but they are misguided in their approach. National service would likely crowd out efforts by genuine, voluntary nonprofit organizations, especially by creating manpower problems for the nonprofit sector. Genuinely voluntary service is a positive good and a valuable asset to the United States. But a government-operated national service program would corrupt the whole idea of service because it is not genuine.

Another point that should be kept in mind is that since the 1930s, government "jobs" programs have been marred by useless "make-work" jobs that are, at best, an excuse to keep the programs running. There is every reason to believe that national service would evolve into just another make-work program.

Knowledge and Political Problems

Proponents of national service claim that there are millions of jobs in the U.S. that are left undone, and that young people should be required to perform them. But as long as resources are scarce and human wants are unlimited, there always will be certain jobs that remain undone, and for a very good reason: They are not done because the benefits of doing the jobs do not outweigh the costs. If they did, some entrepreneur would profit by performing the task. Many social services, such as the day-care industry, could use a strong dose of deregulation to make them more economically viable, but national service does not even address such alternative approaches.

A national service program also would suffer from the knowledge problem. It assumes that government can accurately assess the desires of the public and establish an appropriate plan to meet them. But this is what Nobel Laureate Friedrich

Hayek calls "the fatal conceit." It is inherently impossible for a group of governmental planners to possess and utilize such massive, dispersed knowledge. Only a free market, with the help of the price system, can adequately perform such a task. Any attempt by government to imitate the market process is mere guesswork and is inevitably counterproductive.

It is also likely that a national service program would quickly evolve into a massive political patronage system. According to various proposals, there would be a network of "national service councils" staffed by local politicians and political appointees. These people would surely want to use the program to reward their political supporters with jobs and to use the jobs as a means of garnering further political support. Consequently, there would be new possibilities for corruption by local politicians provided with free labor.

Once a "national service" network was established, the beneficiaries would soon form a strong lobby to expand the program's expenditures, as is the history of all such programs. Thus, a national service program is bound to allocate services according to political criteria more than genuine service needs. Members of Congress would compete to funnel patronage jobs to their home districts, and the costs of the entire system would rapidly escalate.

National Service in Other Countries

In the final chapter of *A Call to Civic Service*, Moskos outlines national service programs in Great Britain, Canada, and the Federal Republic of Germany. He uses these examples to make the "they're doing it, so we should be doing it" argument. But examples from other countries also can be used to make a case against national service.

For example, some years ago Germany enacted a "Law for National Labor Service" that required one year of service for every youth between the ages of 18 and 29.¹⁸ Like the current American proposals, the service was part military and part civilian. The plan was initially voluntary, but was made mandatory after two years.

The proponents of the German national service law promised that all work "undertaken by the Labor Service may only be supplementary, i.e., work which would not be undertaken in the ordi-



WIDE WORLD PHOTOS

Hitler Youth Camp in Bavaria (1935)

nary way by private enterprise.”¹⁹ Similar promises are made by contemporary American supporters of national service.

The German plan also praised collectivism and sharply criticized individualism and the market system. It advocated that young people be made to perform “service rendered to the German nation,” and its overall purpose was “to lift men out of economic interest, out of acquisitiveness, to free them from materialism, from egoism. . . .”²⁰ Moskos does not detail this particular German program because his examples of German national service are from the postwar Federal Republic of Germany, whereas the above statements were all made by supporters of the Hitler Youth during the 1930s. The Hitler Youth were institutionalized by the “Law for National Labor Service,” which operated under the premise that “the child is the mother’s contribution to the state.”²¹ This was the ultimate in national socialism: the nationalization of people.

This is not to suggest that the American supporters of national service are fascists or “national socialists,” but to underscore what a tremendous threat to individual liberty such a program entails. Current American proposals may not sound too threatening since they are supposedly voluntary.

But the Nazi program also was voluntary when it began, and, as mentioned above, there already are many powerful political supporters of mandatory national service in the United States. For these reasons, national service could pose one of the greatest threats to freedom in the coming decade. □

1. Dave McCurdy, “A Quid Pro Quo for Youth,” *New York Times*, June 26, 1989, p. 29.

2. *Ibid.*

3. David Broder, “An Idea With Force,” *Chattanooga Times*, January 28, 1988, p. A-9.

4. *Ibid.*

5. Charles C. Moskos, *A Call to Civic Service: National Service for Country and Community* (New York: Macmillan, 1988).

6. *Ibid.*, p. 5.

7. *Ibid.*

8. *Ibid.*, p. 8.

9. *Ibid.*, p. 6.

10. *Ibid.*

11. Cited in David Henderson, “Who Needs a Citizens Corps?” *Barron’s*, April 24, 1989, p. 9.

12. *Ibid.*

13. Cited in “Freedom and Philanthropy: An Interview With Milton Friedman,” *Alternatives in Philanthropy* (Washington, D.C.: Capitol Research Center), March 1989.

14. S.3, “The Citizenship and National Service Act,” 1989.

15. Ayn Rand, *Capitalism: The Unknown Ideal* (New York: Signet Books, 1967), p. 231.

16. Moskos, p. 9.

17. Charles Murray, *In Pursuit of Happiness and Good Government* (New York: Simon and Schuster, 1988).

18. Robert A. Brady, *The Spirit and Structure of German Fascism* (New York: Howard Fertig Publishers, 1969), p. 174.

19. *Ibid.*, p. 178.

20. *Ibid.*, p. 180.

21. *Ibid.*, p. 195.

Saying No to Federal Disaster Relief

by William B. Irvine

Hurricane Hugo and the earthquake in northern California have raised an old, but easily ignored question in political theory: What role, if any, should the federal government play in disaster relief? The current consensus seems to be not just that there is a role for the government to play, but that it is the government's duty, among other things, to help people rebuild homes and to help businessmen recover lost income.

Indeed, politicians have been falling all over themselves in trying to show how willing they are to spend government funds (i.e., taxpayers' dollars) on disaster relief. In the aftermath of the San Francisco earthquake, the federal government allocated \$3 billion for disaster relief, even though doing so made a shambles of the Federal budget. More such relief efforts are probably on the way.

I readily admit that the federal government has *some* role to play in disaster relief. It has, for example, a role in helping maintain order if local and state governments are unable to do so. It might also have a role in helping restore the infrastructure—again, if local and state governments are unable to do so. And of course if the federal government can take steps to save the lives of disaster victims, it should do so.

Where I would draw the line in Federal disaster relief is when it comes to compensating individuals and businesses for property and income lost in a disaster, either with grants or low-interest loans. I would like to argue that the government should in almost all instances refuse to make such compensation. In such cases, I think the government's duty

is to stand back and rely on private relief efforts.

In defending this position, I would first like to challenge the common notion that a disaster victim is somehow entitled to Federal funds, that his status as a victim gives him a moral claim to the wealth of others. It is entirely appropriate for this person to ask for our sympathy or even to ask for contributions from us, but he is mistaken if he thinks that because he has been victimized, we *owe* him a new house, or lost wages, or anything else. Stated bluntly, the fact that nature has victimized someone by depriving him of his property does not entitle this person to victimize the rest of us by depriving us of our property, either indirectly through taxation or in some more direct fashion.

Private relief efforts have one major advantage over Federal relief efforts: They rely on voluntary contributions, rather than on coerced tax payments. To the extent that someone abhors coercion on the part of government, he should disapprove of Federal disaster relief; and if this person thinks that the victims of disasters should be helped, let him make a charitable (and entirely voluntary) contribution to the disaster-relief organization of his choice.

In discussing the disasters in South Carolina and San Francisco, it is important for us to keep in mind that they were foreseeable: South Carolina has been the target of many hurricanes, and San Francisco is perched atop the San Andreas fault. Notice, also, that the residents of both places could have taken steps to minimize the harm they might experience when these foreseeable disasters took place. A case can therefore be made that many of the victims of Hugo and the San Francisco earthquake knowingly took chances. What else can you say about someone in South Carolina who built his

home on the beach or about someone in San Francisco who passed up earthquake insurance (as did four in five Californians)?

I have no objection against people taking chances; I object only when they expect me and my fellow taxpayers to bail them out when they lose their bets. And this is what many of those in South Carolina and San Francisco are doing when they petition for Federal disaster relief.

Americans are remarkably inconsistent in their views on whether a person should be compensated after experiencing a disaster. Suppose, for example, that someone in Kansas prefers to spend his money on a VCR rather than on homeowners insurance. Suppose that his house subsequently burns down. (It gets struck, let us assume, by lightning.) Who would argue, in such a case, that government funds should be spent to buy him a new house?

Extending this analogy, we might understand if this Kansan were to appeal to his neighbors for help in rebuilding. Suppose, however, that instead of appealing to his neighbors, he informs them that they owe him a new house. We might admire his boldness, but we would be foolish indeed if we thought that his failure to buy insurance gave him some moral claim to our wealth.

This Kansan's behavior would be particularly audacious if he happened to be wealthier than his neighbors. (San Francisco, of course, is one of the most affluent regions in America; and anyone who can afford to own a home in San Francisco probably isn't in need of a Federal bailout.)

For another example of how inconsistent Americans are on the issue of when disaster victims should be compensated, consider America's investors, who recently experienced a major disaster, the stock market crash of 1987. It is true that this disaster was economic rather than natural, but in terms of money lost, it was a disaster that put Hurricane Hugo and the San Francisco earthquake to shame. (The Crash cost investors \$1 trillion; Hugo and the San Francisco earthquake did under \$20 billion in damage.)

America's response to the Crash was most instructive. Many Americans laughed at the plight of investors and said that they "had it coming." Others had a less vindictive attitude and said that America's shareholders knowingly took chances and lost—too bad. It is my contention that this second attitude is entirely appropriate; my question is why we do not hold a similar attitude toward those

who suffered property or income losses in California and South Carolina. (Perhaps our difference in attitude stems from the fact that a shareholder clutching a worthless stock certificate isn't nearly as photogenic as a hurricane victim standing in front of his smashed seaside home.)

At this point, some might argue that Federal funds are *essential* to the relief efforts in South Carolina and California—that the only way these states will be able to recover is if the federal government assists them. Those taking this line might argue that private relief efforts, while desirable from a theoretical point of view, would not be sufficient to deal with major disasters like those experienced by South Carolina and California.

In reply to this argument, I can only point out that in 1906 San Francisco suffered from an earthquake far more devastating than the recent one, but recovered quickly even though Federal assistance was minimal. Despite what many politicians would have us believe, people can help themselves; and when people can help themselves, there is every reason for allowing them to do so.

Let me offer one last reason why the government shouldn't compensate disaster victims for their losses. Notice that when the government adopts (either explicitly or implicitly) a policy of making such compensation, it inadvertently sets the stage for even greater disasters in the future, disasters that may extract a terrible toll not just in lost property, but in lost lives.

If, after all, the government adopts a policy of bailing out those who lose the bet they place when they pass up earthquake insurance or build their home on a beach, the government unintentionally encourages people to engage in this sort of behavior. ("Why pay for disaster insurance when you can get it 'for free' from the government?") More generally, the government encourages people not to worry about tomorrow's foreseeable disasters. ("Why worry? The government will take care of us.") And by encouraging this carefree attitude, the government increases the chance that future earthquakes and hurricanes will do even more harm than they now do.

In other words, disaster relief today can result in additional disasters tomorrow; and those who genuinely care about the well-being of their fellow citizens should be willing to allow some suffering today to prevent a far greater amount of suffering tomorrow. □

Art, Censorship, and Markets

by Steven Yates

The art world has been in turmoil since Senator Jesse Helms charged the National Endowment for the Arts with using \$45,000 of government money to subsidize "obscene art." Helms' main targets were the photographs of the late Robert Mapplethorpe which depicted homosexual and sadomasochistic themes and that of Andres Serrano depicting a crucifix submerged in the artist's urine. Many in the arts community reacted sharply to Helms' actions and made the expected charges of censorship. The old issue of what "obscenity" is and who decides has resurfaced with a vengeance, and the ensuing debate has had all the usual characteristics of groups who talk past one another because of shared premises neither has examined.

First of all, let us distinguish between *aesthetic* considerations and *economic* ones. Whether certain works of art are "obscene" belongs to the former; the issue of whether they should be subsidized by the government belongs to the latter. I wish to deal only with economic considerations here.

Now if the basis of the art world's censorship charge is the Helms bill itself, which refuses government money to artists and exhibits deemed "obscene," then it seems the charge must fail, for it rests on a crucial unexamined premise: that the government has an obligation to subsidize the arts. If this premise is false, then refusal by Congress to fund certain exhibits is not censorship. Censorship would occur only if the exhibits were forcibly

closed down—and that has nowhere happened. Comparisons some in the art community have made between this incident and the Salman Rushdie affair are grossly exaggerated. But these remarks notwithstanding, the censorship charge refuses to go away. A publicly funded Washington, D.C., museum canceled a scheduled showing of the Mapplethorpe exhibit and this suggests that it might yet have some basis. Let us find out.

The same people who find the Mapplethorpe and Serrano exhibits offensive—and Helms certainly seems among them—rarely find anything offensive in the idea that government may go on subsidizing art which no one has deemed "obscene." In short, both Helms and his critics in the art world share the view that Federal dollars should be expropriated from citizens to support the arts—they just disagree on what should be subsidized.

It is here that a more subtle form of censorship enters the picture, for the kinds of art and artists enjoying continued support inevitably would be those with "official" political approval. If Federal dollars support certain artists and exhibits, then these artists and exhibits will gain an advantage they would not have had in an open market, the same way that government-subsidized automobile manufacturers will gain advantages they would not have had otherwise. The advantages, it is clear in these latter cases, are unmerited, for if one's company is propped up by the government at taxpayer expense, one can go on producing an inferior, unneeded, or irrelevant product and delay having to answer to market forces indefinitely. Does this situation have a parallel in the art world?

Now I will not deny that many people find the Mapplethorpe and Serrano exhibits offensive. But

Steven Yates earned a Ph.D. in philosophy from the University of Georgia in 1987. He has since taught philosophy at Clemson University and Auburn University and was awarded a research fellowship by the Institute for Humane Studies at George Mason University. He will be joining the faculty at Wofford College early this year.



notice that once we challenge both the art world's and Helms' hidden premise that at least some art deserves government support, this aesthetic issue is entirely beside the point; for in a free society neither individuals nor institutions have the right to impose artistic tastes on others, and no one is forced to subsidize any kind of art against his will. Instead, free individuals patronize those art forms they find interesting, pleasing, or provocative, and steer clear of those they find offensive, uncalled for, or simply boring.

The only satisfactory solution to the problem of censorship in the arts, therefore, is for the government to get out of the art business altogether, and allow people acting under free market conditions to support the kinds of art they want. Thus individuals wishing to support "non-offensive" art may

do so; likewise for supporters of the Mapplethorpe and Serrano kind of exhibit. Artists of the latter persuasion will have no grounds for claiming censorship; for without government interference, a censorship situation cannot arise.

Of course, there may be legitimate grounds for questioning the nihilistic impulses that seem to motivate much modern art. Art, at its most socially significant, mirrors a culture's world view. It may be that extremely avant-garde forms of art have a significance that easy charges of "obscenity" only obscure. Perhaps, too, they have a grassroots support that conservatives fear. These are all side issues; but notice that proper exploration of them can begin only when we allow market forces to decide just what kind of art really has public support, and from whom. □

Beyond Eminent Domain

by Lee Ownby

“I want your land!” If your neighbor made this statement and you did not want to sell, that would be the end of it, unless he fielded an army against you and took it by force. But, if he persuaded City Hall to take it for him, there is little that could be done to stop him.

Whittle Communications, an innovative publishing and marketing firm located in Knoxville, Tennessee, has enjoyed a rather spectacular rise to the forefront of the business community. Under the dynamic leadership of its founder, Chris Whittle, it has targeted certain specialty markets, and has successfully developed a variety of media to deliver its advertising to them. In 1987, Dr. William Fox, Associate Director of the University of Tennessee’s Center for Business and Economic Research, released a study which indicated that Whittle Communications has experienced a 25 percent annual growth rate and projected that Whittle would contribute \$125 million to Knoxville’s income by 1997.

In light of its growth, in 1986 Whittle Communications announced its desire to obtain a downtown site on which to construct the company’s headquarters. The company’s employees were scattered among several downtown buildings, and its leadership not unreasonably wanted to create in one location an atmosphere conducive to the successful implementation of its enterprise. Whittle’s special requirements precluded the use of unoccupied space in nearby high-rise buildings.

Its specifications for the development of a low-level, campus-style structure called for a site that was generally unavailable in downtown Knoxville.

Most urban communities have development agencies empowered by their state’s legislature to draw up redevelopment plans. Such legislation enables a city to purchase or condemn property located within a designated area. Spurred by the Whittle announcement, Knoxville’s Community Development Corporation drafted a plan that included some of downtown Knoxville’s most desirable real estate.

The land included within a redevelopment plan must be linked, at least tangentially, to a blighted condition. While this plan included property with brand-new law offices, the flagship store of Gateway Books, a new restaurant, assorted parking lots, and other viable businesses, the definition of blight was expanded to encompass “inappropriate economic use.” Because some of the property was underutilized, the entire tract could be included within the redevelopment plan. To be sure, this concept has been supported in court decisions, and local lawmaking bodies have been given liberal parameters in which to operate. An astute businessman could implement a plan utilizing the property to its fullest economic potential; he may have been standing before Knoxville’s city council in the person of Chris Whittle.

Property owners generally discovered their participation in the Whittle project when it was first announced in the Knoxville papers. They essentially had two choices: sell or suffer condemnation. Either choice deprived them of the ownership of their property. While several property owners strenuously protested the projected taking, all sold to Knoxville’s Community Development Corporation, and avoided lengthy and expensive condemnation proceedings.

Myron Ely, a local real estate attorney and former property owner, said that the redevelopment created a land-banking effect. "No one wants to buy property facing condemnation," said Ely. "It places a big, black cloud over the property."

Karen Sproles, owner of a popular restaurant said, "If developers and the city can do this much without telling anyone, how much more can they do? I think it was very rude the way they did it." "As it was," she said, "I feel like I had no choice."

Knoxville's downtown district, like those of many cities, has suffered from a growing flight of important businesses to the suburbs. Remaining businesses and civic groups favored any legitimate activity that would encourage people to remain downtown and spend money. Thus, despite the objections of the affected property owners, the Whittle project generated support among the business community and the general public. In fact, a poll conducted for the Knoxville *Journal* found registered voters favoring the use of public financing to assist Whittle by a better than 2-to-1 margin. Richard Cate, senior vice president for urban and government affairs for the Knoxville Chamber of Commerce, summed up much of the sentiment: "I don't think I need to remind you that we do not have companies or individuals standing in line to make this kind of investment in our community—let alone in our center city. The use of this limited amount of tax-increment financing is the key to making the Whittle project work."

Chris Whittle and his company unquestionably have made significant contributions to the Knoxville community. In April 1989, the Knoxville papers reported that he and his company were making a \$5.2 million gift to the University of Tennessee—the largest in the school's history. He had previously announced gifts to UT's College of Communications to fund scholarships for minority students, and also gifts to various downtown organizations. Whittle Communications, like any viable business, employs local people who spend their earnings in the community; that employment is an important contribution in and of itself.

So, what is the problem? Whittle is providing jobs, enriching the economy, and making sizable donations to the community. In the old westerns, he is the man wearing a white hat and riding the white horse.

The Fifth Amendment to the U.S. Constitution states ". . . nor shall private property be taken for

public use, without just compensation." Embodied within that amendment is a principle that holds sacrosanct an individual's ownership of private property. Thus, actions by the state and those assisted by the state which tend to undermine private ownership must be viewed with suspicion.

Legal Plunder

The perception that it is okay for you to take your neighbor's property so long as the community receives an economic benefit is reinforced each time a city assists in the acquisition of private property for private gain. Frederic Bastiat has written in *The Law*: "The nature of law is to maintain justice. This is so much the case that, in the minds of the people, law and justice are one and the same thing. There is in all of us a strong disposition to believe that anything lawful is also legitimate. This belief is so widespread that many persons have erroneously held that things are 'just' because law makes them so. Thus, in order to make plunder appear just and sacred to many consciences, it is only necessary for the law to decree and sanction it."

If the law legitimates such takings, then most of us will feel better about ourselves if we favor such a project, and even more so if we derive an economic or aesthetic benefit from its success. Knoxville Councilman Milton Roberts Sr. expressed a lot of unspoken sentiment when he was quoted as saying, "I want to vote for it, but I want to have a clear conscience."

Whittle is not the first company to use local government to help it take other people's property. In the early 1980s, General Motors persuaded the City of Detroit to condemn a large residential neighborhood nicknamed "Poletown" for the construction of an assembly plant, rather than lose it to relocation. Detroit was faced with the loss of a significant number of jobs and other economic benefits. GM presented the carrot and the stick; Detroit acted with a speed uncharacteristic of a government body, liquidating the property rights of hundreds of people under the power of eminent domain within six months. It has been estimated that the cost of acquiring, relocating, and providing utility service to the site exceeded \$200 million, but the site was sold to GM for a little over \$8 million. The merits of paying this kind of tribute to a large private concern in exchange for an expected preservation of the economic health of the region

can be debated for years, but there can be no doubt that the impetus for the taking was founded in the private sector.

A little-noticed side effect of this use of eminent domain is the public's association of business with the state's power to take. Justice James L. Ryan, the dissenting judge on Michigan's Supreme Court, which approved the condemnation, wrote: ". . . the Court has altered the law of eminent domain in this state in a most significant way and, in my view, seriously jeopardized the security of all private property ownership. This case will stand, above all else, despite the sound intentions of the majority, for judicial approval of municipal condemnation of private property for private use. This is more than an example of a hard case making bad law—it is, in the last analysis, good faith but unwarranted judicial imprimatur upon government action taken under the policy of the end justifying the means."

Many citizens understand the necessity of the state's power to condemn land for roads and public buildings; but when private developers initiate public condemnation of private land for private purposes that is sustained by the judicial system, their understanding of any important distinction is clouded. Heretofore, the sanctity of private property has been self-evident among the general populace, and the recognition of its inviolability was an impediment to encroachments of state power.

Cases like Whittle and GM expand the state's concept of public purpose and tend to anesthetize the public, even if only incrementally, into a greater acceptance of future takings. Without the proper barriers to such takings that is offered by a

narrower interpretation of the Fifth Amendment, what is to prevent some future court from making a determination that a privately owned rare painting is now the property of the general public? The quality of uniqueness, an element common to real property, has been devalued, and businesses which form partnerships with the state must share some of the responsibility for this depreciation. *The Knoxville News-Sentinel*, in a December 1987 editorial, wrote: "Little can be said against the potential positive effects Whittle's plan could have on downtown redevelopment. It is a plan that could reshape the image of the center city and attract commercial and residential spinoffs of equal quality. . . . Blocking the potential good it could do for the center city, has been painted as akin to opposing motherhood and apple pie."

Since construction on the Whittle headquarters began in May 1989, Time, Inc., has acquired a significant interest in Whittle Communications with an option to purchase more at a future date. The impact of this event may or may not lessen the opportunity for fulfillment of Whittle's economic potential and the realization of the community's expectations.

Whittle's present contributions cannot be denied; it is only when the line between public and private use has become so blurred as to offer no resistance to the exercise of state power that we may realize the inadequacy of our protest and the enormity of our sacrifice. If your neighbor, in hand with your mayor, comes to your home to take your Rembrandt for the new city art museum, be thankful that they wanted only your painting, and not your house for the museum. □

Playing Hard Ball

by Evelyn Pyburn

Many people lament the amount of money sports figures make, but seldom does one see a close analysis of the business to determine why such staggering sums are available.

It's been pointed out that athletes make that much money because the market is willing to pay, and therefore there is nothing wrong with it. While there's certainly nothing wrong with being rich, not all of the support for professional sports is "willing."

Undoubtedly, being a professional athlete would always be lucrative, just by the nature of the business, but professional sports as a whole benefits mightily by government subsidies—some hidden and some not so hidden—paid for by "unwilling" taxpayers.

No matter the sport, major teams are touted by municipal governments across the country. They are touted with the promise of all kinds of perks, most often the provision of an arena. In some cases the teams are paid outright in cash to locate in a community. All paid for by taxpayers.

And while baseball or hockey leagues do, in large part, finance their own training of prospective new players through the establishment of farm teams, football leagues have taxpayers at every level of the education system beguiled into wholly financing their training programs—of both prospective players and prospective coaches.

Wouldn't almost all business ventures do a whole lot better if most of their capital investments and training costs were given to them as a gift? Even employees of a service station, a shoe manufacturer, or perhaps a packing plant might find substantial raises in their pay, too, if the business owners were freed from such obligations.

Justification of this practice is most often in the

guise of economic development. But like all such claims for economic development, if it is indeed a viable commercial concern the money will be invested by the private sector—and in the case of most sports it probably would be.

Promoters of any professional sports team would seek capital from community businesspeople, television networks, or prospective advertisers—those most likely to benefit from the spin-off business. The investors would be taking a high risk, but since they are the ones who benefit most directly from the potential profits, who better to take the risk?

Of course, as far as they are concerned, it's a whole lot better if the taxpayers take the risk (and little or none of the profits). While it's understandable why the businesspeople would not likely pursue the risk if they can get taxpayers to do it, it's baffling why the taxpayers so meekly accept the situation. It is ludicrous, when one considers the big bucks involved. It falls under the fast-growing category of welfare programs for the rich.

What happens in actual practice is government takes money from people who would otherwise be spending it on education, clothing, medical care, housing, boats, vacations, or investments in their own business ventures, and redistributes it to others whose desires are somehow considered more worthy than those who earned the money in the first place.

A more astute observer of the market has pointed out that municipalities should charge the professional sports teams for the privilege of including the name of a city in their team name, because of the almost automatic ticket sales it generates from residents wanting to support the "home" team.

How the logistics of that would work, I don't know, but it certainly makes more sense than soaking taxpayers for the privilege of making professional athletes and team owners rich. □

Academic Freedom at a Public University

by John R. Lott, Jr.

A great deal of attention is paid to academic freedom. Among the benefits of such freedom, it is claimed, is that the free dissemination of information will allow better informed decisions to be made. The following story points out that public funding of academia creates certain subtle and not-so-subtle biases that are inconsistent with academic freedom. Given the continuing expansion of public involvement in academia, it seems important that these biases be openly acknowledged and discussed. While the following is a personal account of what happened to me several years ago when I was affiliated with Montana State University in Bozeman, Montana, it illustrates what I think are not unusual events at public universities.

Constitutional Initiative 27, which would have abolished property taxes in Montana, obtained ballot status in June 1986. Immediately it brought forth horror stories that it would lead to the virtual elimination of state and local government in Montana. The State Superintendent of Public Schools said that all elementary schools in the state would have to be shut down if the initiative passed. The typical numbers released assumed that public schools would bear the entire burden of the revenue reduction. The Governor and other state officials made similar claims, and it looked to me, and everyone else that I knew, that the initiative was dead before it even got a fair hearing.

Not surprisingly, the facts were quite different from what public officials were claiming. In 1984, Montana received 19.5 percent of total revenue for

state and local governments from the property tax. In Montana, total state and local government revenue equaled 29.46 percent of personal income as compared with a national average of 20.5 percent. Had the property tax been eliminated in 1984, state and local government treasuries still would have had \$2 billion to spend—23.7 percent of personal income in the state. Thirty-five other states did quite well spending less than 23.7 percent of personal income. In fact, this 23.7 percent figure overestimated the cut because income tax revenues would increase when people and corporations lost their property tax deductions.

The Governor's office released reams of numbers claiming such ridiculous things as Montana being the lowest or second lowest taxed state in the nation. They would get such numbers by assuming that Montana's farmers and businesses could "export" 100 percent of their taxes to other states by raising prices to others, but that businesses in other states bore the entire burden of the taxes that they faced. In other words, they subtracted such taxes as business taxes, taxes borne by farmers, some property taxes, and other revenue sources from the total for Montana but not from the totals for other states. Needless to say, that greatly reduced the relative total for Montana. The other big claim the Governor's office made was that property taxes amounted to almost 60 percent of all government revenue in Montana. What they really meant was "general tax revenue," which doesn't even include all tax revenue let alone sources like income from fees and federal government transfers.

I could go on, but I think that this makes the general point—government officials were being dishonest, and no one was challenging their num-

Professor Lott teaches in The John E. Anderson Graduate School of Management at UCLA.

bers. Initially, I planned only to write an op-ed piece that appeared on July 13, 1986, in the *Great Falls Tribune* and *The Montana Standard* (Butte). Until then I had no contact with the four sisters who were primarily responsible for putting the initiative on the ballot. After Naomi Powell, one of the four, got in touch with me, I agreed to stop off in Helena and talk to Frank Adams, a former newspaperman who was writing the ballot statement for the initiative, and then to meet with the sisters and some of their supporters in the small Montana town of Corvallis.

I met them, as I recall, on July 26. I quickly became aware why the initiative was having so many problems. The press had been relentlessly attacking the sisters as "John Birchers" and members of secretive groups, and further accused the sisters of refusing to answer the press's questions. What was happening was that when a member of the press would contact them with questions, the sisters would reply that they would investigate and send out a press release on the subject. Needless to say, the press wanted answers on the spot.

The sisters ranged in age from late 50s to late 60s and had retired with their husbands to the Bitterroot Valley. Living on fixed incomes, they had found themselves in a squeeze as the cost of living, especially their property taxes, had risen. These sisters were hardly wealthy—the furniture in Naomi's well-kept house was quite old and worn, and their windows had cracks that were mended with tape. The sisters had spent a great deal of their life savings trying to get the initiative on the ballot, and had gone around the state sleeping in sleeping bags while they collected the signatures for the initiative. The initiative, while not perfect, was pretty good and, at least to me, represented Americans seeing a problem and doing their best to solve it. However, getting the more than 50,000 signatures was one thing, defending the initiative in public was another.

By philosophy I am a limited-government type, but I think that it was the unfairness of the campaign that really got me to help out. The fact that Naomi had my op-ed piece taped to her refrigerator door, and told me that she would read it every time people attacked them and things weren't going well, probably didn't hurt either.

Initially, I said that they could refer "number-type questions" from the press to me. I quickly found that all inquiries from the press were being

routed in my direction, and that I had become the unofficial (and then official) spokesperson for the initiative. I viewed my primary role as just getting the correct numbers out to the press, although I did end up talking to quite a few legislators and other individuals about the benefits of lowering taxes. One week in early August, I was on the state-wide Montana Television News Network on four different evenings.

Opponents Take Aim

Newspaper editorials began attacking my involvement from the first appearance of the op-ed piece. By late August, it came to my attention that the Commissioner of Political Practices had almost filed felony charges against me because of a law forbidding state employees from engaging in political campaigns. I had no idea that such a law even existed. Fortunately, I wasn't on state salary at the time because I was planning to be on leave at the Hoover Institution in Stanford, California, for the coming academic year. When the commissioner's office was informed of this fact, the proposed charges were dropped. (Of course, no one thought of filing charges against all the other currently employed academics and other state employees working *against* the initiative.) During August I also began to hear of complaints from the Montana State University administration concerning my involvement with the ballot initiative. On several occasions I was told by the chairman of the Agricultural Economics and Economics Department that the dean had made it clear to him that he didn't want me to speak out on its impact.

Before I left for Hoover I was heavily involved in getting several prominent Montana political figures to endorse the initiative. Frank Adams (since the middle of August an official spokesperson for the initiative) and I had also put out quite a few press releases on its impact.

Even though I left Montana in late August, I agreed to continue to speak with the press and to return to the state in September and October to participate in debates. I first returned to Montana on September 19 to participate in a state-wide television debate on September 22. When I returned home the Agricultural Economics and Economics Department was in a state of panic. Several members of the department screamed at me that I was destroying the department because the university

was going to punish them for my involvement in the initiative. I learned from the department chairman that he had been getting telephone calls from the president of the university and the dean of the School of Agriculture threatening to hurt the department if they did not get me to "shut up." Apparently, they had told the chairman that the department had been very well treated financially in the past, and that since the department didn't seem to appreciate it, the university should look into moving some of the department's money to other departments that would appreciate it.

I ended up spending a couple of hours in the chairman's office on the 22nd listening to him describe the threats that my actions were posing to the department. I was told many times that while what I was saying was correct, it was best not to say anything on what was such a sensitive topic as the tax cutting initiative. While my name continued to appear in newspapers through the press releases the campaign issued, I decided very reluctantly to give in and not participate in the televised debate that night. We were able to get a local businessman to fill in for me. Incidentally, his opponent was a political science professor from the University of Montana.

During the next couple of weeks, I was deeply involved in talking to the press, as the Governor's administration was really going after the initiative. The Department of Revenue Director and part of his staff were working full-time attacking it. They appeared on television and gave frequent newspaper interviews.

I returned to Montana on October 9 to participate in a debate in Billings with a couple of state senators. When I arrived in Bozeman the next morning, I was confronted by an almost-panicked department chairman who recounted a telephone call he had received from the dean that morning. He wanted to know if I really had said that public school teachers are "overpaid." When I told him that I had, he told me how incredibly upset the dean was and that he was not sure what the consequences were going to be.

Given the extreme pressure placed on the department, I had not allowed myself to schedule any additional appearances in the state despite the offers of many groups to pay my way. (I wouldn't have minded a couple of expense-paid trips home to visit my wife in Bozeman.)

Constitutional Initiative 27, which would have

abolished property taxes in Montana, was defeated on November 4, receiving 46 percent of the vote. However, Initiative 105, designed to freeze property taxes at 1986 levels, passed by a comfortable margin.

Unfortunately, things didn't quiet down after the campaign ended. When the department evaluations took place after the beginning of 1987, I was in for a few more surprises. I received the lowest ranking in the department in the category of "outreach," which deals with communicating with the general nonacademic community. I usually have very little desire to do well in such a ranking, since I am normally much more concerned about getting academic articles published. On a 0-4 scale, with 0 being the lowest, I received the only zero. Given that many people had told me that I had become the best known economist in the state, I was a little surprised. However, since I value doing research and teaching much more highly than "outreach," I normally wouldn't have cared except that the ranking obviously was made to punish me for my ballot-initiative activity. I was told that my involvement in Constitutional Initiative 27 would not count because it was political, which was fine with me, but I still had written several other op-ed pieces that had appeared around the country, and *Forbes* and *Regulation* magazines ran articles which had mentioned my research. This low rating was made in part so as to reduce my overall evaluation enough to keep me from getting a raise. As it turned out, this was unnecessary since no raises were given that year.

Interestingly, faculty involvement in political activity is hardly uncommon on campus. In the spring of 1987, when the state legislature was debating university funding, professors canceled their classes so that students could take a bus trip to the state capital and demonstrate for more funds. The administration "unofficially" encouraged this activity. In another instance, a member of the Physics Department, who for six years served as possibly the most free-market member of the state legislature, had his university salary frozen during the entire period despite the fact that his state office required only 90 days work once every two years. Needless to say, how the university treated you depended on which side of the issues you were on.

The final straw fell when I visited the Agricultural Economics and Economics Department in

April 1987 and was told that the method by which the entire department was being ranked relative to other departments had been changed. This ranking is important since it helps to determine how the university's money will be divided among the departments on campus. In the past the Department of Agricultural Economics and Economics consistently had been ranked as the top department in the School of Agriculture. The dean reportedly told the chairman that they would go back to the old method if the department members, especially me, behaved themselves in the future (this was repeated to both my wife and me by the chairman). The administration was particularly concerned over reports that there was going to be a new initiative on the ballot in 1988. The chairman asked me to promise not to make any more statements to the press even if they contacted me. I informed him that I would

not make such a promise, in part because if I felt someone were being dishonest I would feel duty bound to point that out, if asked.

I suppose it is not too surprising, but one thing I learned firsthand is how strongly people who receive their income from taxes will fight to protect that income. While administrators at Montana State University will constantly give their opinions on the importance of academic freedom, they will not let something as trivial as academic freedom stand in the way of their doing what they perceive necessary to protect their jobs. This really convinced me about the inconsistency between publicly provided education and academic freedom. Even when people do not act as overtly as they did at Montana State University at silencing dissent, the fact that professors and administrators receive their income from taxes cannot help but color their opinions. □



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Grede of Milwaukee

by John Chamberlain

Craig Miner's book, *Grede of Milwaukee* (Wichita, Kansas: Watermark Press, 253 pages, \$22.50), has to open with an explanation that "Grede" is not pronounced as it is spelled. It is "Grady" to the ear. This is only the beginning of puzzlement when one is dealing with a complex character who spent all his life trying to simplify things about taxation, charity, the right to join or not to join trade unions, and the centralization of power in the state.

Bill Grede didn't find himself very hard to understand. He thought he could work with other activists and still keep to his own opinions. He didn't want to appear as an "extremist," and he tried to tone down some of his compatriots in the National Association of Manufacturers (NAM). He thought Dean Clarence Manion went too far in proposing to eliminate the Federal income tax. He couldn't accept Bob LeFevre's libertarian refusal to vote. But Manion and LeFevre were activists who could stir things up. So Grede supported them in hopes that "there may be some beneficial background effect from this kind of over-simplification of an issue."

Grede was one of the original members of the John Birch Society, whose general aim was to oppose the spread of Communism. There was nothing wrong in that, but Grede and other early "Birchers" were not prepared to ride the storm created by Robert Welch, the Birch founder who, in a pamphlet called *The Politician*, suggested that Eisenhower might be a dupe of the Communists. This wasn't quite calling Ike a party member, but the NAM education committee on which Welch

and Grede both served found itself split. There were those who wanted Grede to resign from the Birchers. He couldn't do that—after all, Welch was his friend. Privately he disagreed with Welch's manners, even as he considered that Joe McCarthy had gone too far when he failed to match names and numbers.

Grede, who could always be counted on to make a good anti-compulsory union speech, was asked in 1960 to become president of the J. I. Case Company, which owed \$178 million to 92 banks. He accepted. When a reporter asked him why he took the job, he said, "That's a good question. When you find the answer let me know." When a strike came, Grede, always "personal and personable," focused "on philosophy and [was] unyielding on principle." The company could not "in honesty to itself and in duty to Case employees" abandon its historic American principles by allowing compulsory union membership. "You are the Case Company," he told the employees, "and we don't wage a life and death struggle against ourselves." Unions could not provide jobs—only making and selling tractors created jobs.

When tax rates in 1955 went to 55 percent at an income level of \$16,000, Grede told audiences that the progressive rates (rising to 91 percent on some personal incomes) "serve primarily to harass, block and penalize those whose work and investments mean the most for the nation's future—the economic builders and job makers, not necessarily the wealthy."

Grede was in the foundry business, which meant that he had a special interest in pig-iron prices.

During the OPA period in World War II, Grede had his run-ins with John Kenneth Galbraith. He tried to tell Galbraith that OPA was making prices higher—it had gotten to the point where holding down the price of pig iron had made scrap iron more expensive. Instead of recycling scrap the Grede Foundries used all the pig iron they could, which increased the shortage. The pressure was on for an increase in the price of pig iron. Asked what he would do if the price increased, Grede said, “Don’t feel sorry for me; because you raise the price of pig iron \$5 a ton and I’ll get \$15 from my customers.”

This was where intervention got you. When *Forbes* magazine accused NAM of “bumptious bungling” in its criticism of Charles E. Wilson for his support of price controls, Grede charged *Forbes* with ignorance of NAM’s operations. *Forbes* got so much adverse mail on the subject that it voluntarily took a “second look.”

Says Craig Miner, “The NAM activity was a logical extension of what Grede for Christian reasons had been doing in his company all along. So was his YMCA connection. . . . Like most businessmen, Grede had in his early career been relatively quiet about his religious convictions. But in 1948 Grede told a YMCA meeting in Wisconsin that ‘the teachings of Christ are not a way of life, but life itself. It is the religion that we weave into our workaday world that is important.’”

The common thread between the NAM and the YMCA was that they were both interested in the individual—“one as a person making economic choices and the other as a child of God.”

There was, says Miner, a constancy in Grede’s lifelong interest in and criticism of education. He agreed with Leonard Read that the philosophy of freedom could not be taught in a speech or two. Classroom depth was required. But nothing could save the Birch Society from the sundering caused by the Vietnam War.

Grede never had to speak in the abstract. He could kid himself with manifest pleasure. He enjoyed a column written about him on his 80th birthday that said the first 80 years were the hardest. After that you could relax. “If you forget your name or anybody’s name . . . or spell words wrong, you need only explain that you are eighty. . . . Nobody expects much of you.”

That was Grede’s chosen exit at 80. He lived for 10 more years, however, and died in a mood of

self-criticism that was as keen as anything he had been talking about for decades. One of his final lines was, “I got to keep on fighting.” That is just what he did. □

(Readers may order *Grede of Milwaukee* through their local, independent bookstores.)

THE GRAND FAILURE: THE BIRTH AND DEATH OF COMMUNISM IN THE TWENTIETH CENTURY

by Zbigniew Brzezinski

Charles Scribner’s Sons, 866 Third Avenue, New York, NY 10022
1989 • 278 pages • \$19.95 cloth

Reviewed by Peter J. Boettke

This is a grand book—not exactly scholarly, but neither merely polemical. Rather, Brzezinski has written an informed essay on the grandest issue of our day: the debacle of the communist system of political economy. And he has written in a way that is accessible to all.

The 20th century has clearly been the age of socialism. Though, as Brzezinski points out, the century began without the slightest hint that communism would become a dominant political ideology, “Yet, as it turned out, much of the twentieth century came to be dominated not only by ideological passions but, more specifically, by a passion masquerading as scientific reason, namely communism.”

Many people forget that the titanic struggle between Stalin and Hitler in World War II “was a fratricidal war between two strands of a common faith. . . . Philosophically, Lenin and Hitler were both advocates of ideologies that called for social engineering on a vast scale, that arrogated to themselves the role of arbiters of truth, and that subordinated society to an ideological morality, one based on class warfare and the other on racial supremacy, and that justified any action that advanced their chosen historical missions.” Clarifying the intellectual connection between Lenin (and Stalin) and Hitler is itself worth the price of the book, but Brzezinski provides much more.

He points out the influence of Stalinism on Western intellectuals throughout the middle of this century: “Yet in the West the notion persisted even into the 1950s and 1960s that Stalinism was historically an ambivalent development, with much good offsetting the bad. . . . More revealing of the attraction to the twentieth-century mind

of Stalin's experiment in social engineering was the fact that much of Western scholarship was influenced by the view—propagated, for example, by the widely read and much cited historian Isaac Deutscher—that Stalinism had been a form of historical necessity, induced by the imperatives of rapid, politically imposed industrialization of a highly primitive society."

The publication of Solzhenitsyn's *Gulag Archipelago* put an end to the myth of a "positive" Stalinism. But, as Brzezinski points out, "the roots of the catastrophic legacy of Stalin go back to Lenin." The problem plaguing the Soviet Union is not a problem within the system, but rather of the system. The Marxist-Leninist system leads to totalitarian politics and an unworkable economy.

The difficulty Gorbachev faces is reforming this system. Brzezinski demonstrates the paradox involved in the current reform process. "The consensus on the need for reform," Brzezinski writes, "thus represented a compromise regarding the present, obscuring an important disagreement regarding much of the past." "That compromise," he continues, "had a double effect. On the one hand, it permitted criticisms of the Stalinist era to surface and be propagated. The Soviet experience and the Soviet model were thereby even further discredited in the world at large. On the other hand, by perpetuating the fundamentally totalitarian character of the system through the retention not only of the Leninist-type totalitarian party, with its claim of unique insight into the laws of history, but also of the principal institutions of the Stalinist-type behemoth state, with its crushing subordination of society, the scope of potential reforms was severely circumscribed." Thus, Brzezinski concludes, "The Soviet Union thereby paid a double price. It continued to lose its ideological appeal, but it did not gain domestically the wide-ranging freedom to recoup through a genuinely systemic reform."

Consider, for example, the problems with the ethnic nationalities, such as the nationalist passions of the Armenians and Azerbaijanis. The problems, whether good or bad, surfaced because of Gorbachev's policies. "It was impossible," Brzezinski points out, "to preach and even modestly to practice *glasnost* and *demokratizatsiia* without open expression of national grievances. The legacy of the Stalinist past was too bitter, and the recollections of Great Russian abuse too fresh

for the intellectuals and students among the non-Russians not to exploit the opportunities that *glasnost* now provided." Thus, Gorbachev has to do a tightrope act just to stay in power as the turbulence with the nationalities fuels the conservative fires within the politburo.

Gorbachev's political maneuvering, however, is not the crucial issue involved, no matter how important. "The real issue for the future," Brzezinski writes, "is not whether Gorbachev will last or even whether he will succeed or fail. The real issue is whether Soviet communism is evolving into a significantly more permissive and economically innovative system or whether it is decaying or even fragmenting." But the ability of the system to evolve into a more open society depends crucially upon the institutionalization of a more pluralistic political framework. Such a scenario, though, calls for the breakup of the party monopoly by monopolists themselves.

If the party refuses to let go of the power structure in society, then the crucial question becomes "whether economic reform can succeed if the party is unwilling to retract." As Brzezinski states, "Russian history and Soviet reality . . . both conspire against restructuring." "In brief," he concludes, "the fatal dilemma of the communist system in the Soviet Union is that its economic success can only be purchased at the cost of political stability, while its political stability can only be sustained at the cost of economic failure." The implications of this dilemma provide one with a lot to think about!

Brzezinski's book, though, is not just about the Soviet Union. He discusses current developments in Poland and Eastern Europe and China as well. The book addresses the "organic rejection" of communism as a justifying ideology of political power throughout the world. Communism has revealed itself as an utter political and economic failure.

"Communism's general crisis is deeply rooted in its deficient historical record," Brzezinski writes. That historical record reveals the extreme human costs associated with the communist experiment. "No experiment in social reconstruction in all of human history has entailed a higher price in human terms—or has been as wasteful—as humanity's encounter with communism during the twentieth century." "Humanity's catastrophic encounter with communism during the twentieth century," Brzezinski concludes, "has thus provided

a painful but critically important lesson: Utopian social engineering is fundamentally in conflict with the complexity of the human condition, and social creativity blossoms best when political power is restrained."

This is an important book to read and discuss. It is a powerful book; the appendix tables in themselves provide an ample picture of the extreme failure of the communist economic system. *The Grand Failure* is a first-rate contribution to the politics and history of our time. □

Professor Boettke teaches in the Department of Economics at Oakland University, Rochester, Michigan.

CHOOSING A COLLEGE: A GUIDE FOR PARENTS AND STUDENTS

by Thomas Sowell

Harper & Row, Keystone Industrial Park, Scranton, PA 18512
1989 • 224 pages • \$7.95 paper

Reviewed by David Hood

Thomas Sowell is a highly respected economist, scholar, and newspaper columnist known primarily for his work in the issue of race (*The Economics and Politics of Race*) and political theory (*A Conflict of Visions*). A Senior Fellow at the Hoover Institution, his scholarship is generally regarded as rigorous, thorough, and quite demanding for the reader. This makes it all the more interesting that his most recent book is geared primarily for high school students and their parents.

Choosing a College is a highly readable and eminently practical book, the purpose of which is to aid potential freshmen in the hunt for the perfect place to spend their next four years. In contrast to the large, statistic-filled tomes that one usually turns to for guidance, Sowell's contribution is more a "how-to" book that gives its reader a list of questions rather than a list of answers. Its major purpose is to prepare the reader for the college search, but in doing so Sowell also educates the reader about the current state of higher education. Therein lies the chief interest of the book to those readers not actively in the college hunt.

For example, one topic discussed by the author as he contrasts the different kinds of colleges and universities in the U.S. is the conflict between research and teaching at many institutions. Sowell

points out that while many schools are known for their sports programs (Ohio State, UCLA) or their distinguished researchers (Stanford, Harvard) almost none are famous for their teaching prowess. This is a function of the way in which a professor rises in the ranks; a process where teaching plays almost no role at all, or may even play a negative role. At Harvard, for example, the cash prize for Teacher of the Year offered by the student body is referred to by some junior faculty as "travel money" since the powers-that-be infer that the exceptional teacher has been neglecting his research responsibilities.

Sowell has a reason for spotlighting the "research vs. teaching" debate. His point is to tell rising freshmen that they may wish to look at a smaller liberal arts school to get a quality education, instead of focusing all their attention on becoming an undergrad at Berkeley or Michigan. As he puts it, "World-class universities do not mean world-class teaching." This is due to extremely large class size, frequency of graduate student-taught courses, and more demands upon the time of full professors at those places known chiefly for their research product.

Advocates of liberty in education should note that Sowell recommends mostly small, private institutions for undergraduates—underscoring the fact that the tax-supported schools and their mammoth bureaucracies are not likely to provide such a quality education. The evidence for this can be found in the percentage of students in a given college that go on to gain Ph.D.'s. Most large universities, particularly state-supported ones, are not even in the top 70 in this category. However, lesser known colleges like Davidson and Occidental rank near the top.

Another theme in the book is that one should attempt to match the institution to one's ability to do the work. He gives the example of the student with less-than-average qualifications who happens to get into an Ivy League school. That student might consider himself lucky, but will he feel that way when he consistently scores at the bottom of his class?

Sowell uses this point to discuss the issue of minority admissions at the top universities, and how the affirmative action programs tend to harm those they were intended to help. He argues that college admissions officials, in their rush to get a skin color-conscious body count, often let in stu-

dents who cannot do the work and who end up failing in college when they could have succeeded at less demanding institutions. At Berkeley, for example, the black student population has SAT scores that are above average nationally but are not comparable to those of the student body as a whole. As a result, nearly three-quarters of the black students fail to graduate, since the campus was mismatched with their level of high school preparation.

In pointing out this mismatch Sowell is not engaging in racism or bigotry, but simply arguing that SAT scores and other admissions criteria are related to expected college performance. By placing minority students at a campus where their SAT scores are much lower than the school average, one is hardly doing these students a favor—instead, one is guaranteeing that many of those students will fail. By way of illustration, Sowell notes that in 1987 only 600 black students scored 1200 or above on the SAT. Given that many of the top schools in the country have SAT averages at that level or higher, Sowell posits that many of these campuses will be forced to let in blacks with lower scores to fulfill their affirmative action goals. These students may not be able to keep up with their peers who attended higher-quality, better-funded secondary schools, and many may fail to graduate. This is hardly the “step-up” that affirmative action is supposed to provide to disadvantaged students.

The alternative for these mismatched students, according to Sowell, is that many of them will have to enter less demanding fields of study that will not be of much use to them even if they do graduate. This whole issue of “interdisciplinary studies,” and

majors that focus not upon a particular discipline but upon a geographic region or political perspective, is another topic in this book. Sowell advises caution in majoring in Women’s Studies, Afro-American Studies, Peace Studies, and the like because such “disciplines” do not give their students a structured way of thinking as do the traditional disciplines—physics or sociology, for example. He argues that these subjects could better be covered within the framework of a real discipline, where courses are more likely to be of educational rather than of propagandistic value. Thus, the role of women in society can be understood much better within the context of a sociology or history class rather than in a women’s studies class.

For the most part, however, Sowell’s book deals with the nuts and bolts of the admissions process. He discusses application procedures, how to conduct campus visits, the right questions to ask, financial aid, and other matters of immediate interest to those searching for a college. All through the book he cautions against reliance on college admissions officials, professional educators, and many guidance counselors, who may have agendas that have nothing to do with getting a particular student matched with the right school. This is good advice for students and their parents, for whom the aura and status of particular universities may obscure what kind of education they can expect for their money. All in all the book will do much to de-mystify the whole college search process, and should become an invaluable resource for high school students and their parents. □

David Hood is a law student at the University of North Carolina, Chapel Hill.

THE FREEMAN

IDEAS ON LIBERTY

124 The Advance Guard of Freedom

Andrew E. Barniskis

The 40-something generation works to bring America back to freedom.

126 Edwin Armstrong: Genius of FM Radio

Jorge Amador

How FM radio was nearly killed at birth by a combination of fearful competitors and government.

131 Freeing Digital Audio

Jeff A. Taylor

Solving technology disputes without government intervention.

133 Drugs and Dumbness

Scott C. Matthew

What a sad world this would be if everything that the majority thought was foolish were also illegal.

134 Trickle Up: A Solution to Third World Poverty

Barbara Sall

Recognizing the ability of the poor to work hard and lead productive lives.

137 The Great 19th-Century Timber Heist Revisited

T. J. Iijima and Jane S. Shaw

The reasons for harvesting vast stands of Great Lakes timber and the benefits that resulted.

142 Let the Market Protect Consumer Safety

John Hood

Sweeping Federal mandates have hurt consumers, impaired product development, and failed at promoting safety.

144 Israel's Grassroots Libertarian Revolution

Sam Lehman-Wilzig

How the Israeli public has forced the government's hand.

149 The "Earmarked Money" Illusion

William B. Irvine

It is rarely possible for a government to earmark revenue for a particular purpose.

151 Animal Rights Are an Individual Responsibility

Cherry Hill

Animal care, handling, and training techniques are a matter of personal and professional ethics.

157 Book Reviews

John Chamberlain reviews *The Vermont Papers: Recreating Democracy on a Human Scale* by Frank Bryan and John McClaughry. Also featured: *Taxpayers in Revolt: Tax Resistance During the Great Depression* by David T. Beito, and *The Enigma of Japanese Power* by Karel van Wolferen.

CONTENTS

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PERSPECTIVE

Apartheid: War on Capitalism

The whole ugly history of apartheid has been an attack on free markets and the rights of individuals, and a glorification of centralized government power. In 1900 when South African Prime Minister Jan Christiaan Smuts said, "It is ordained that we [Afrikaners], insignificant as we are, should be amongst the first people to begin the struggle against the new world tyranny of capitalism," he was recognizing that free markets along with their inherent dispersion of power have little respect for race. Therefore, South Africa declared war on capitalism. Now—in order to promote tranquility, dignity for the individual, and prosperity for all—South Africa's people must strengthen its beleaguered market forces, and declare war against centralized government power.

—WALTER E. WILLIAMS

South Africa's War against Capitalism

Jackie Robinson

One of the central myths of the modern age is the belief that politics is the arena for effective social action, and for the advancement of causes. To the contrary, however, politics only adopts causes which have already gained popularity or success, and then often does harm to them. . . .

The civil rights issue is a case in point. Before it ever became a political issue, countless numbers of successful black businessmen, clerks, scholars, and others were winning victories, each in their sphere. They won respect and established beachheads in a variety of areas.

Perhaps the two most important men in gaining civil and societal freedom for blacks were [Brooklyn Dodgers president] Branch Rickey and Jackie Robinson. The two men broke down the barriers in perhaps the most rigidly segregated aspect of American life, baseball. When Rickey first talked to Robinson [in 1945], he told him, "I need more than a great player. I need a man who will accept insults, take abuse, in a word, carry the flag for his race. I want a man who has the courage not to fight, not to fight back. . . . Can you do that?" Robinson thought it over and answered finally, "If you want to take this gam-

ble, I promise you there'll be no incidents." By 1949, Robinson had made his case. . . .

There is no national holiday for Jackie Robinson, but it was his character and action on center stage that changed the United States. Only some years later did political figures get on the bandwagon, dramatize the issue, and claim to have changed America.

—R. J. RUSHDOONY, writing in the Winter 1989 issue of *Lincoln Review*

The Function of Government

The main problem of the market, the main problem of human cooperation, is the fact that there are people who resort to violent action, who do not comply with the rules that are necessary for the preservation and operation of the market. In order to prevent this violent action, in order to make possible the workings of the market, of human cooperation, of human society, it is necessary to have an institution that protects the market against violence, against people who lack the knowledge or the will to comply with the rules of peaceful exchange of commodities and services. This is the function of government.

—LUDWIG VON MISES,
speaking at The Foundation for
Economic Education, February 22, 1969

Cambodian Catharsis

At the time of the Vietnamese invasion little more than a decade ago, this city [Phnom Penh] was a ghost town. The Khmer Rouge were ousted and the mass killing ended, but Cambodia was still governed by a Communist government. Such regimes produce little economic growth in peacetime, let alone during civil war, so I had mentally prepared myself for a city living in the stone age.

In spite of all that was depressing, the big news in Cambodia is the revival of life, the reconstruction of markets and economic activity. Progress is palpable, even astonishing. A French relief worker told me that since the government began implementing "free market" reforms a few years ago, the progress has come "almost hourly."

Indeed, as the Vietnamese pull out and their

influence in the Cambodian government wanes, Cambodians more and more are putting markets in charge of the economy. Agriculture has been largely de-socialized; farms are now chiefly in private hands, by either lease or outright private ownership.

There are no price controls, no wage restrictions, almost no controls over the movement of people and capital, no rationing and lines of people in front of stores. Having just visited the Soviet Union for a fourth time days before arriving in Phnom Penh, I found myself thinking how envious my friends in Moscow would be if they could see the variety and abundance of goods in Phnom Penh's markets. . . .

By the end of my stay, I was asking people to tell me just what was Communist about Cambodia anymore. Aside from the one-party political monopoly, the country is relying substantially on free enterprise to direct everyday life. Even former beggars, I was advised, are getting into business.

—LAWRENCE REED,
reporting on his August 1989 trip to
Cambodia, in the September 17, 1989,
Idaho Press-Tribune

The Power of Choice

High levels of productive employment and free competition are the best guarantors of consumers' and workers' rights. With plenty of jobs to choose from, a worker can decide to leave an unfair employer and work for a better one. But state-owned industry is a monopoly. In India, 67 percent of legal employment belongs to the public sector. Disgruntled government workers have few choices except to resort to frequent strikes.

Blind economic nationalism keeps foreign capital, technology, and products out of India and restricts competition. Indian economists never talk about the loss of jobs when a foreign corporation gets kicked out of the country. They forget that competition not only brings about efficiency, technological innovation, and effective use of limited resources, it gives real power of choice to workers and consumers.

—RAYASAM V. PRASAD
Jonesboro, Georgia

The Advance Guard of Freedom

by Andrew E. Barniskis

I was born a few weeks before the end of 1945, which placed me just in front of the leading edge of the Baby Boom. While I may not meet the technical definition of a Baby Boomer, I feel that those of us who were born late in World War II and early in the postwar period have always formed the Advance Guard of the Baby Boom, and we have always set the pace that our younger brothers and sisters would follow.

It was the Advance Guard that first watched “American Bandstand” on TV after school, and danced to music that is played regularly to this day. The birth of the Detroit “muscle car” coincided with the Advance Guard earning the first paychecks which would pay for them. Today, while the center of gravity of the Baby Boom may be 30-something, more and more of the people portrayed in advertising appear to be closer to 40 than to 30—sometimes closer to 50. My local newspaper adopted a larger, more open typeface shortly after I acquired my first pair of bifocals.

If the Advance Guard shares a common denominator other than age, it's that we come closer to sharing the memory of World War II, without having experienced it, than any later group. Our baby albums contain pictures of us being held by fathers or uncles in uniform, taken the day they returned from overseas. In our dreamlike memories of early childhood street scenes, the cars are square-backed, black, and '30s vintage—cars which disappeared overnight once postwar production got into swing. The old magazines stacked in our childhood closets contained war maps and centerfolds of fighter planes, and war memorabilia was the main-

stay of show-and-tell during our early school years.

If we inherited little pieces of our parents' immediate past, there's no doubt we inherited big portions of their beliefs and prejudices from that period. I clearly remember, at the age of 4, announcing bravely that I'd “kill any of them Japs who came over here,” and my mother explaining sadly that it wasn't Japanese, this time, but people called Koreans, who had started the new war that had just been announced on the radio.

Along with nationalistic prejudices, we also inherited the foundations for our future political beliefs. There were two political absolutes that I recall believing as a small boy. One was that it was impossible, in the purest sense of the word, for the United States to lose a war. The other was that the government had an unlimited amount of money, which it could use to accomplish anything it really wanted to. In retrospect, these beliefs were significant, not because they represented the naivete of a child, but because they represented the naivete of the adults from whom the child acquired his earliest ideas.

A few years ago, it occurred to me that in the United States we seem to treat the Baby Boom as an entirely American phenomenon. I started to think about this after a friend of about my age, from a Communist country in Eastern Europe, related some of his childhood memories from the early postwar period. His parents had survived unimaginable horrors during the war, and, though left destitute, moved into top-level government and management positions in the postwar period, simply because there were so few educated or competent survivors. They were not philosophically committed to Communism, but were caught

Andrew E. Barniskis is an aerospace engineer and consultant in Bucks County, Pennsylvania.

up in the momentum of history; political philosophies paled in importance compared to the memories of what they had witnessed a few short months before. The philosophy of their lives had become that nothing succeeds like survival—so the party in power must have done something right, because it not only survived, it prevailed.

These observations are hardly original. One of the geopolitical clichés of the postwar period has been to explain the Soviet psyche in terms of their memories of the Great Patriotic War. In documentary interviews, Soviet citizens often explain, even defend, their acceptance of authoritarian regimes by recalling the hardships of World War II. That explanation is entirely plausible, since the only way the human mind may be able to create a sense of order out of memories of the insanity and deprivation of a protracted war is by justifying the horrors as a necessity of survival. Mother Russia promised victory in return for unspeakable hardships, and the promise was kept. Should Soviet citizens not then have believed the promises of future prosperity in return for the comparatively minor hardships of a regimented society?

A generational view of history becomes more significant in light of the tremendous political upheavals that have taken place in the Soviet Union, Eastern Europe, and China in recent months—upheavals that in some cases could not have been predicted mere weeks before they happened. It is not only the magnitude of these changes which is amazing, but that similar changes are happening everywhere simultaneously. Could a partial explanation of this phenomenon be the coming to real power of the Advance Guard of a generation which has no firsthand memories of a Great Patriotic War?

I find this thought intriguing, not only for what it portends for the Soviet Union, Eastern Europe, or China, but for what it could mean within our own society. I have often been puzzled by World War II veterans who explain what it means to be a “real American” in terms of, “I went on the beach at Anzio (or Iwo, or Normandy) and . . .,” their sentences trailing off as if the fact that they had nearly died explains everything one needs to know about America. All too frequently, their next words advocate concentration camps for casual

drug users, death penalties for flag desecrators, or suspension of Constitutional rights “to straighten out what’s wrong with this country.” Their ideas often come uncomfortably close to the realities from which the citizens of the Communist world are now trying to escape.

To what extent has America’s recent history been shaped by the experiences of a generation that came of age during what has been termed, “The Good War”? In the early 1950s, it was suggested that the acceptance of housing developments “all made out of ticky-tacky,” that “all looked just the same” was made possible by a generation that had reached adulthood living in rows of Army barracks. More significantly, the socialization of America—the acceptance of central planning, and the de facto “nationalization,” albeit at the state or regional level, of most of the transportation, utility, and education industries—reached a peak just as those boys who went on the beaches during World War II were coming into their first years of real political power. Could there have been a greater parallel between the Eastern European and American postwar political psyche than we’ve cared to recognize? If there is the slightest chance that it is true, the question for our future becomes, will we soon follow the rest of the world in abandoning the failed theories of socialism, or must the disease run its full course, and reduce America to Eastern Europe’s level of virtual Third-Worldism, before we awaken?

World events have made me guardedly optimistic that we can change course short of disaster. Instead of emerging victorious from a Great Patriotic War, my generation of Americans fought a war that accomplished nothing but to erase years from our lives, and to erase entirely the lives of many of our friends. The parade-ground promises of the infallibility of discipline and authoritarianism proved false, and the siren song of collectivism has never rung true for many of us since. With our own war long behind us, and our careers reasonably secured, some of us in the Advance Guard are now working to bring America back to freedom. Our number, commitment, and influence remain to be seen. But then, only a year ago, who would have predicted two million people joining hands across the Baltic nations, seeking liberty? ☐

Edwin Armstrong: Genius of FM Radio

by Jorge Amador

This year marks the centennial of the birth of Edwin Howard Armstrong. Though his name is recognized by few today, his influence is literally all around us. What makes Armstrong's centennial significant is that, more than any other person, he was responsible for the broadcasting revolution.

Described as one of the last great free-lance "attic inventors," Armstrong is credited not only with originating many of the devices that made it possible to transmit and receive long-distance radio signals, but also with developing one of the major modes of transmission—wide-channel frequency modulation, which we know popularly as FM.

Armstrong's story, however, goes beyond that of a great inventor cranking out new gadgets for the good of mankind from the isolation of a lab. For Armstrong's FM radio was nearly killed at birth by a combination of fearful competitors and government. His is a cautionary tale illustrating the power to cripple not just one man's business, but an entire industry, when the state controls access to the basic resources that the industry develops.

His father sold Bibles and his mother was a schoolteacher, but from an early age Edwin Armstrong showed great aptitude for mechanical things, and by the time he was 14 he was set on a career in "wireless." Like other amateur radio enthusiasts at the turn of the century, Armstrong put together crude sets from coils and tubes, and spent countless hours in his Yonkers, New York, home listening intently for the faint dots and dashes of faraway Morse code transmissions.

In 1912, during experiments to increase his set's reception power, Armstrong, then an electrical engineering student at Columbia University, devised an improvement over the existing Audion vacuum tube. The regenerative or "feedback" circuit, his first invention, amplified the strength of incoming signals hundreds of times, enough to do away with the bother of earphones and to pick up signals from across the Atlantic.

Six years later, as a captain in the U.S. Army Signal Corps, Armstrong was asked to find a way to intercept German military radio communications, which were transmitted in frequencies too high for Allied receivers. Out of his research came the superheterodyne, another circuit with greatly improved amplification which is still the standard in radio, television, and radar sets. Together, the regenerative and superheterodyne circuits made modern broadcasting possible and secured Armstrong's place in the annals of telecommunications.

Among the select audience to whom Armstrong introduced the regenerative circuit was David Sarnoff, the future president of the Radio Corporation of America. The two became friends. Over the next decade, while Armstrong built his reputation as an inventor, Sarnoff rose to the top of RCA. One day in 1922 Sarnoff, frustrated over the problem of static interference with radio broadcasts, said to Armstrong, "I wish that someone would come up with a little black box to eliminate static."

Armstrong was well aware of the problem. Simple static electricity, such as that caused by lightning and electrical appliances, overwhelmed standard AM signals, and there appeared to be no way to get rid of it. Radio engineers, in fact, were

Jorge Amador is a free-lance writer and editor of The Pragmatist, a current-affairs bimonthly.



THE BETTMAN ARCHIVE

Edwin Armstrong as a young man, displaying his six-bulb portable radio.

resigned to it, and sought to reduce rather than eliminate static interference. "Static, like the poor, will always be with us," lamented one.

But Armstrong found a way. The scope of this article doesn't permit a technical discussion, but the gist of Armstrong's discovery was this: Instead of modulating (varying) the amplitude (strength) of the radio wave, Armstrong proposed to modulate a different aspect, its frequency (hence the

term "frequency modulation"). FM transmissions, he discovered, weren't subject to interference from sources of static. The "little black box" was a whole new broadcasting technology.

The Advantages of FM

Armstrong's FM has other important esthetic and economic advantages over AM:

(1) Because it operates on a wider frequency band, FM can reproduce almost the entire range of sound audible to the human ear, a feature we call high fidelity.

(2) In a process known as multiplexing, used for instance to provide music for stores and offices, the wider band enables the FM operator to send more than one signal at a time.

(3) Because of the way FM-generated waves propagate through the air, an FM station can serve a greater area than an AM station with the same power, or the same area with less power, making FM stations cheaper to operate.

(4) Yet FM stations on the same frequency can be placed closer together geographically than AM stations, because unlike AM their signals don't interfere with each other. In FM we hear only the stronger station, rarely both at the same time.

In 1933 Armstrong took out four patents on FM and presented Sarnoff and RCA with his invention, hopeful that his friend would take the lead in promoting the revolutionary new medium. RCA decided to test it, and in March 1934 invited Armstrong to set up his equipment at the company's Empire State Building facilities. Performance results exceeded Armstrong's claims.

Then, writes broadcast historian Erik Barnouw, in April 1935 the inventor "was 'politely' asked to remove his equipment. . . . That same month RCA announced its allocation of \$1,000,000 for television tests." TV was the new rage; nothing more about FM was forthcoming from RCA for another four years. Armstrong was angry over being induced to waste his time by a company that had no interest in developing his invention.

Determined to show the value of FM, Armstrong asked the Federal Communications Commission (FCC) for spectrum space for further FM experiments and sought permission to build his own station. At hearings in 1936, Sarnoff confirmed Armstrong's suspicions. He testified against allocating space to FM and urged that it be

given to television instead.

From RCA's perspective, the matter was simple. As put by Don V. Erickson, author of *Armstrong's Fight for FM Broadcasting*, "RCA did not own the patents on FM. It did own the patents on television." Thus the company stood to keep a greater share of any profits to be made from television than from FM radio. Moreover, since it was a vastly superior radio service, FM represented a threat to established AM operations—in which RCA, as the parent company of the NBC network, had made great investments.

Thus, explains Erickson, "in almost every overt and covert action, it can be seen that RCA (and the majority of the AM industry) were trying desperately to forestall something that would either cut down, or cut out, their operation." Not least among these efforts was to choke off FM's access to the airwaves, which was controlled by the FCC.

Spectrum Socialism

At this point it is useful to note that this and subsequent fights for spectrum space between FM and television were uniquely a product of government involvement. In the regime of spectrum socialism, under which "the public" is said to "own" the airwaves and a government agency (the FCC) administers them, those who wish to try a new broadcast service, even if they don't propose to take up frequencies currently in use, must go to the FCC for permission to operate.

Absent the FCC, if more than one set of operators wished to use the same general area of the electromagnetic spectrum, they could agree among themselves to divide up the virgin space in question. Or they could simply begin independently to operate at specific frequencies, establish by their use a claim to them as if the frequencies were homesteaded territory, and then if necessary trade or sell frequencies to achieve a consolidated band. In this way, there's room for everybody. Nobody can stake out all the possible frequencies for himself at once, or prevent another from staking out his own space.

Spectrum socialism, however, makes the allocation process controversial. It forces each party to thrash it out at the FCC, where the incentive is to try to get everything that's available. After all, if you must go to the effort and expense of making your case at a hearing—and particularly if you are

in competition with others—you might as well ask for all the frequencies at hand, in the hope of ending up with more than you might need. Suddenly there's not enough room for everybody, "justifying" the existence of the allocating agency that encouraged the problem. With this approach, one man's gain becomes another's loss.

The system also gives you the chance to shut out the competition by decree, as RCA attempted. Eventually the FCC allocated television 120 megacycles for experiments, while FM received just 2.7. The agency at first even denied Armstrong a license to build a station, but finally relented in the face of persistent efforts by the inventor.

Armstrong then proceeded to build his station, W2XMN at Alpine, New Jersey, to demonstrate FM's possibilities. Shortly after it began transmitting in July 1939, interest in FM soared. Armstrong commissioned General Electric to build 25 FM receiving sets at his own expense. GE liked the new medium so much that it began to prepare for mass production. The Yankee Network built another station in Massachusetts and began broadcasting in FM to New England.

By the fall of that year, the FCC had more than 150 applications to build FM stations. The space it had parsimoniously allocated to FM three years before was plainly not enough to satisfy existing demand. FM had arrived. Meanwhile, television was a curiosity at the 1939 World's Fair.

As *Fortune* magazine commented in October 1939:

[W]hile granting the reasonableness of a certain hesitancy, the observer cannot help remarking that the industry has been infuriatingly reactionary in its attitude towards Major Armstrong's development. . . . Moreover, the fact that RCA kept this inventor hanging on the end of a string, without committing itself definitely, was certainly not conducive to progress on the technological frontier. . . .

While the duty of the FCC in making short-wave band allocations was clearly to get television on the air as quickly as possible, the Commission's failure to understand frequency modulation, and to place the proper estimate on its technological importance, is just as deplorable as the industry's failure to push it. . . . What FM needs at the present time above all things is an allocation that will put it on a com-

mercial status and will at the same time be large enough to permit it to operate to full advantage.

On May 20, 1940, the FCC finally gave rein to FM. It took Channel 1 off the television band and allotted it to FM. The Commission assigned FM the frequencies between 42 and 50 megahertz, enough for 40 FM channels, and authorized commercial service beginning January 1, 1941.

The future looked bright for FM. Other radio set manufacturers, including Zenith and Western Electric (but not RCA, as we shall see), arranged royalty deals. Despite the United States' entry into World War II, the number of commercial FM stations doubled from 18 in 1941 to 36 in 1942, and grew to 46 in 1945. According to *Time* magazine, more than a half-million FM radio receivers were then in use.

Then came a shocker: In January 1945 the FCC proposed to kick FM up into the range of frequencies around 100 megahertz, and to give television additional space in the vacated area. This precipitated a third spectrum battle between FM and television.

The stated reason for the proposed move was the concern that, at FM's current frequencies, radio transmissions would be particularly vulnerable to interference caused by sunspots. It was necessary to make the move immediately, since the height of the next sunspot cycle was expected in 1948-49.

The Commission called hearings for the spring of 1945. It established a Radio Technical Planning Board in several subcommittees to evaluate the proposed general spectrum reallocation. Panel 5, which investigated the claims of sunspot interference, found the evidence lacking and voted 27 to 1 against moving FM. The Board as a whole also recommended against the move.

Armstrong's biographer, Lawrence Lessing, notes that AM interests featured prominently in the pro-FM move camp: "But a long string of witnesses, including representatives of CBS, ABC, Cowles Broadcasting, Crosley, Philco, Motorola, and DuMont, urged that FM be moved 'upstairs.'"

Despite the findings of its own experts and the strenuous opposition of Armstrong and the FM industry, the FCC went ahead with the move in 1945, ostensibly on the basis of the testimony of one engineer who later admitted his calculations had been wrong. The FCC then assigned this band,

from which FM radio was banished "for its own good," to television, which Lessing notes was "about twenty-five times more sensitive to any kind of interference than FM and which, moreover, was still required to use FM on its sound channel."

The dreaded interference never showed up, but the effect of the move on FM was disastrous. With one stroke the FCC "made obsolescent every FM radio receiver, every FM transmitter, and a major part of all FM equipment and tubes," writes Erickson. "Thus, with no new FM equipment on the lucrative postwar market and no advertisers to purchase time on the new band of frequencies, FM in its first ten years of existence was brought close to the brink of commercial death." Shortly after the FM shift was proposed, *The New York Times* reported that "The total investment of the country in transmitters, receivers and other [FM] paraphernalia was estimated 'in the region of \$50,000,000 to \$100,000,000.'" A spokesman for the Frequency Modulation Broadcasters Inc. predicted in February 1945 that the move "would cost prospective buyers of FM receiving sets \$100,000,000 more than if they would be permitted to buy sets now designed as soon as they could be made available after the war."

In a brief filed with the FCC, the broadcasters complained that "The change would cost a paralyzing delay during the post-war years when FM could move forward with great rapidity." The delay, in fact, would prove devastating. "FM practically had to start all over again," observed the *Times'* radio critic in 1949. Erickson describes the situation:

As though [FM was] just invented, equipment had to be put on the drawing board and experimented with to develop sophistication in these very high frequencies; stations had to be reconverted before they could program; and most drastic, the public had to be convinced all over again that FM was worth the purchase of another radio. In this great postwar market, then, AM broadcasting was able to step in and fill part of the great demand for new entertainment, with television coming up a fast second.

"The RCA-NBC forces . . . rejoiced," adds Barnouw. "The new development tended to protect the status quo in radio while providing spectrum space for the expansion of television."

More Controls

The 1945 spectrum shift presaged a series of postwar decisions by the FCC, all founded upon the state's control over the airwaves, which tended further to hamstring the FM industry. That same year the agency approved a "Single Market Plan," proposed by another AM network, the Columbia Broadcasting System, to limit the power and reach of FM stations to a single city or market.

The effect of this was to put FM at a further competitive disadvantage vis-à-vis AM. While many AM stations continued to be allowed to send their signals through "clear channels" across the continent, FM stations were prevented from attracting advertiser revenue by serving a wider area.

Radio set manufacturers were prohibited by the FCC from easing the frequency transition by building sets that could tune in to both the old and the new bands. In April 1951, the Commission prohibited FM stations from multiplexing signals to stores, offices, and other establishments, a nascent source of revenue for cash-starved operators. (The ban was lifted in July 1955.)

Before the war the invisible hand of the market had pointed to a rosy future, but the iron fist of the state nearly choked FM at birth, then pushed it into the broadcasting wilderness for decades. Three years after the spectrum shift, independent FM stations were reporting \$1.1 million in total revenues—and \$4.2 million in expenses, for a staggering loss of three times total revenue. FM's revenue did not approach even half its expenses until 1952, and the industry as a whole did not begin to make a profit until 1976. Television and AM radio enjoyed the fruits of the postwar entertainment market. The number of TV stations jumped from 12 in 1947 to 494 in 1957, and AM stations increased from 1062 to 3008. Meanwhile nearly 200 FM stations, which, despite the handicaps, had opened in postwar enthusiasm, found it necessary to close up shop.

RCA, which first ignored FM and then asked the FCC to rule it out of the airwaves, eventually accepted the new medium as a fact of life and started to manufacture FM receivers, as well as televisions with the required FM sound. Sarnoff had offered Armstrong a flat fee of \$1,000,000 for a license to use his FM system when it was first approved for commercial use in 1940, but Arm-

strong preferred a royalty arrangement. Subsequently RCA tried to negotiate similar deals a number of times, but Armstrong always refused, on the grounds that it would be unfair to other manufacturers who were paying royalties on sales.

However, RCA had a firm policy of making cash settlements. RCA, writes Barnouw, "did not pay royalties; it collected them." The company patented a rival FM system it claimed was different from Armstrong's, and licensed that to other manufacturers. So, although Edwin Armstrong held the basic patents on frequency modulation, RCA paid him nothing, and instead collected from others. Armstrong's final battle was on.

The inventor published a technical paper showing that RCA's product embodied no new principle and was essentially a copy of his. In July 1948, he sued RCA and NBC for patent infringement.

The pretrial proceedings dragged on for more than five years. "Armstrong, normally patient," writes Barnouw, "became a man possessed. All his energies came to be centered on the suit. Three o'clock in the morning would find him poring over transcripts. At all hours he called attorneys to discuss tactics."

The bitter, protracted struggle diverted Armstrong from his research, spent his fortune and health, and alienated his family and friends, who urged him to settle for his own sake. Late in January 1954, literally sick and tired, Armstrong surrendered. He gave his lawyer the go-ahead to explore a settlement. On the night of January 31, he dressed for the cold night and stepped out—out the window of his 13th-floor New York City apartment. His body was found the next morning. A few months later, RCA paid Armstrong's estate \$1,040,000 and the case was closed. □

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Freeing Digital Audio

by Jeff A. Taylor

Technical innovation has long been recognized as a by-product of free societies. It is also true that these technical advances sometimes outstrip the development of legal systems. This often forces basic principles to be re-examined in light of the new developments. Advances in medical technology, for example, have created a host of celebrated legal confusions and debates in recent years.

Now, advances in digital audio technology are pushing the legal envelope in ways unimagined a decade ago. The growth in the use of several related applications guarantees that legal arguments will rage into the next decade with increasing calls for government to come up with a solution. Whether that "solution" will be compatible with principles of limited government is very much up in the air.

The Dilemma

Digital audio turns sound waves into binary (digital) code. Because digital technology allows music to be reproduced perfectly, literally duplicating the code, it has the potential to be used without regard to copyright considerations or notions of intellectual property. At the same time, digital audio promises to bring exceptional fidelity and flexibility to both composer and listener at costs well below current state-of-the-art analog systems.

These aspects of digital audio already have

spawned numerous conflicts between record companies and hardware manufacturers, musicians and music fans, and even between musicians—all of them with legitimate interests at stake. Any new laws, or applications of old ones, regarding digital audio technology must take into account these competing claims.

The best known of the disputes raised by digital audio technology has been the fight between the record industry and digital audio tape (DAT) deck manufacturers. (See "Leave DAT Alone," *The Freeman*, November 1988.) From 1985 on, threats of legal action by the Recording Industry Association of America (RIAA) kept DAT machines out of U.S. markets. Indeed, for a time it seemed that the RIAA would succeed in convincing Congress that DAT would cost record companies billions of dollars in sales lost to pirated tapes. The RIAA lobbied Congress to impose a requirement that DAT machines be equipped with "copy-code chips" that would prevent specially encoded, pre-recorded digital music from being copied on a DAT machine. Congress, however, balked after the copy-code system advocated by CBS Records was found to reduce fidelity.

But last summer the RIAA won in a voluntary accord what it couldn't get through legislation: an agreement with hardware manufacturers that made massive pirating operations very difficult on new DAT machines. The agreement was made possible by a copy-protection system developed by the Dutch electronics giant NV Philips. The Philips system, called the Serial Copy Management System (SCMS), allows consumers to make copies of a prerecorded DAT, CD, or other copyrighted material, but copies of copies cannot be made.

Thus the SCMS system is compatible with current copyright law, which permits the "fair use" of copyrighted musical performances for personal use only. The music pirates are thwarted by SCMS because it makes high-speed copying of third and fourth generation tapes impossible. Also, any attempt to bypass the two-digit code will likely be expensive, thereby reducing the profit potential for pirates, and will also reduce sound quality, thus denying the chief benefit of DAT to pirates.

This happy outcome for proponents of property rights and limited government has one drawback. The RIAA, which isn't satisfied with the voluntary agreement, is expected to ask Congress to mandate the SCMS for all DAT machines. The RIAA

Mr. Taylor is a reporter at The Smithfield Herald in Smithfield, North Carolina.

should realize that attempts to enforce such a statute, with testing and spot inspections, would only drive up the price of DAT machines, reducing the market for RIAA-produced prerecorded tapes. Besides, the hardware manufacturers have no reason to invite RIAA litigation by renegeing on their agreement.

A Model for Other Disputes

If Congress doesn't intervene, the agreement between the recording companies and hardware manufacturers could serve as a model for resolving other disputes involving digital audio technology without government intervention. Currently, the conflict with the most money at stake and the fewest legal guideposts involves digital sampling.

Sampling is a recording technique that allows a snippet of music, in the form of a section of binary code, to be lifted out of one piece of music and stuck into another. Thus James Brown's primal screams and John Bohnam's thundering drums have turned up on other artists' recordings after being sampled. Only recently, as the sales of music made up of sampled sounds has soared into the millions, has the legality of the practice come into question.

As copyright law is now written, it isn't clear where sampling fits in. The composition of a song is copyrighted for sheet music, and the original master tape of the song is also copyrighted. But much of what is sampled is a distinctive sound or tone that cannot be reduced to sheet music. Music lovers have long recognized that what makes a performance special isn't so much a particular note, but the way that note is played. Sampling appropriates both the note and its performance.

Despite this, sampled sounds are not of long enough duration to make the new piece substantially similar to the old one—the traditional test for copyright infringement. As of yet no court has found that sampled music constitutes copyright infringement, but record companies already have made a tacit admission that the artists whose music is sampled must be compensated. For several years record companies that own the rights to the recordings have bartered pieces of sampled music back and forth. Now a few artists are being paid royalties by those who use and sell new versions of their music. Although these royalty rates are far from firmly established, the principle that

sampled music is the property of its creator is.

A body of case law on the subject is just being developed. The outcome of one case that is expected to have far-reaching effects involves the '60s group The Turtles and avant-garde rappers De La Soul. The Turtles have sued for \$1.7 million, claiming that De La Soul lifted an organ line from one of their songs without paying royalties. Across the industry, billions of dollars in royalties and copyright infringement awards could hinge on the outcome.

The high cost of such litigation should spur record companies and artists to develop clear contractual arrangements that protect artists from digital thievery while allowing the full range of digital recording effects to be explored. Given that every section of music, no matter how small, has its own digital code, contracts could be drawn up specifying which section of music is to be used.

Clearly, if an artist chooses not to put snippets of his work on the market, other musicians could not use that work as building blocks for material they intend to sell. Using this approach, no egregious government intervention is needed. Rather, copyright protection would be extended for music much the same way it was extended for books following the introduction of photocopiers.

Constant Change

Because digital audio is so new, there no doubt will be continued calls for government to "solve" the many legal questions it raises. Concerns over pirating will again be voiced when Tandy Corporation introduces its recordable CD this year, and copyright considerations will be re-examined as digital video grows in popularity.

However, we should remember that the reason free societies enjoy such rapid technological advances is that inventors are rewarded for their genius. A government that tries to restrict the availability of new technologies, an ultimately futile undertaking, violates the rights of both inventor and consumer. Likewise, artists should enjoy legal protection for their work and be free to sell their products unencumbered by government restraints.

For as long as principles of property rights and limited government are adhered to, advances in technology are not problems to be solved, but opportunities for free men to seize. □

Drugs and Dumbness

by Scott C. Matthew

Perhaps the most important question of the 20th century has been a simple one: Who owns the individual? Do I own myself, or do I belong to the state? Clearly if I belong to the state, then drug prohibition is a proper exercise of state power. The state, like any owner, is justified in protecting its property and in using that property as it sees fit. On the other hand, if I belong to myself, then prohibition is a clear and unacceptable infringement of my right to dispose of my property—myself—as I see fit.

In my opinion, drugs are a foolish way for you to spend your time. But since I don't own you, or have any property right in you or legal claim on you, my opinion shouldn't count for much. Your taking drugs in the privacy of your own home doesn't impinge on my property rights. After all, I think comic-book collecting is also foolish. Skydiving and mountain climbing are "dumb." I regard spending ten years training six hours a day for a one-in-a-million chance at an Olympic medal as a big waste of time. But those are decisions I can make only for myself.

What a sad world this would be if everything that the majority (or a vocal minority) thought was foolish were also illegal. Sometimes the one bright spark in a person's life is something most people think is dumb! Why else would they buck strong public opinion just to continue their "foolishness"?

Your temptation is to say that drugs are different, but they are not. Drugs are simply one dumb way to spend your time. Working 80 hours a week while your marriage falls apart and your kids learn

to hate you is also dumb. Falling to your death while mountain climbing, leaving your children alone and unprovided for is dumb. Dropping out of school one week before graduation because you "feel like it" is dumb and self-destructive too. Smoking cigarettes and eating fatty foods can kill you. Haven't you noticed that life is full of a million ways to be dumb and self-destructive, and thereby hurt the other people in your life? And you know what—not one of them is illegal! Just drugs.

Now, you still must *behave* yourself while on drugs. If you drive while stoned, you should be in trouble. If you give drugs to children, you should be locked away. If you commit a crime while high, you should do time for the crime. Drugs are not an excuse, but neither are they, themselves, for a *self-owning adult*, anything other than dumb.

A challenge of life is to *not* hurt yourself and others. But it is a challenge we often must face alone. No one can decide for you whether you should work for that gold medal. No one besides you can know whether you should go to law school or hitchhike across Europe. To someone doing one thing, the other thing can appear foolish. Do you want "society" to make this decision for you? Then why should society decide if you can get high?

To me, America is a *deal* we've all made together. It's a deal rarely found elsewhere in the world, and it's what makes America special. I promise to let you be a fool as long as you don't damage my property (including me), and in return you allow me the same freedom. Legitimate governments are instituted among men to protect them and their property from the aggression of others, not from their own foolishness.

With each of us living his own life, we have the chance to make something out of those lives. I should avoid drugs, as I should avoid all dumb things, but the decision on how to live a happy life is necessarily mine to make. It is true that I may fail, but life would be meaningless without that possibility. If, instead of working on improving my own life, I try to save you from being foolish, and you insist on saving me from being foolish, we will each reap nothing but frustration and failure. □

Mr. Matthew is studying law at the University of Chicago Law School.

Trickle Up: A Solution to Third World Poverty

by Barbara Sall

A couple of years ago I was in Haiti for the first time. I was quite anxious about the trip, anticipating masses of starving people begging for handouts of food and money. I was also expecting to see little work or activity amidst these incredibly poor people.

The reality of Haiti was something quite different. The level of human activity was tremendous. People were up at 5:30 A.M. walking to their favorite market spot, setting up lines of old Salvation Army clothing to sell, picking bananas to take to market, and bringing in small catches of fish from the beautiful capes and bays. Tiny charcoal fires smoked up the towns and cities, children were off on errands, and women bartered and sold their produce.

In the midst of all this were the lines of children, all dressed in identifiable private school uniforms, walking to open air one-room school houses.

At 10:30 in the evening they were all still at it; Port-au-Prince abuzz with soft Haitian dialects and singing, and Cape Haitien resounding with the squawking of chickens and the undeniable rhythm of drums signifying a voodoo ceremony going on somewhere in the bush.

I tried to analyze why my preconceived notion of a dramatically poor country differed so much from the reality of Haiti. It must be, I realized, that my idea of what poverty looks like had been based entirely on what I had seen in the United States.

Here in the U.S., and especially in the big cities, poor people are crammed together in government

housing projects and ghetto neighborhoods, isolated from the rest of society by freeways and railroad tracks. The inhabitants are given welfare checks, food stamps, and sporadic, confusing "special programs" designed to raise them out of poverty. Subsistence is provided, but opportunities for self-employment are very scarce. There's little productive activity in U.S. slums.

But in Haiti there are no welfare checks. To survive, people must work very hard. They gather what little they can of value and spend the long hours of the day trying to find a market for it.

In my wanderings in the markets, I asked people how they managed to sell their Bic pens, bars of soap, record albums, and used clothing. One man replied that the price of rice had recently fallen 50 percent, which allowed some people the luxury of buying small consumer goods. I watched as a child sold Chiclets to a well-dressed matron in a brand-new Cherokee wagon. And there was constant bartering among the inhabitants that allowed soap, food, and basic supplies to change hands.

All this activity exists in what Hernando de Soto, Peruvian author of *The Other Path*, calls the "informal economy." Participants pay no taxes, pass no regulatory guidelines for sanitation or market-stall location, and exist by their own efforts. In this way Haitians have been able to overcome Baby Doc Duvalier's monopolistic policies that strangled the middle class, to feed most (but tragically not all) of their children, and survive.

Poor Haitians aren't the only families in Third World countries working hard to keep body and soul together. People in Indonesia, Pakistan,

Barbara Sall is vice president of The International Alliance for Freedom and Peace, based in Boise, Idaho.



BARBARA SALL

"Tap-taps"—private buses in the form of converted pick-ups—provide cheap transportation, a way to earn a living for Haitian businessmen.

Kenya, and Bolivia, among others, participate in free-wheeling "informal" market economies requiring tireless efforts to maintain extremely low levels of existence.

The Trickle Up Program

Marching into this wide-open system of the "informal economy" is a private program for assistance that truly recognizes the ability of the poor to work hard and lead productive lives. It's called the Trickle Up Program and is directed out of New York by Glen Leet and Mildred Robbins Leet. During the past ten years of its existence, the Trickle Up Program, or TUP, has achieved some remarkable successes in Africa, South America, Asia, and the Caribbean largely by recognizing that element of self-help and entrepreneurship so rampant in undeveloped countries like Haiti.

Grants are made by TUP to selected groups of five or more people after a business plan is reviewed for them by unpaid TUP project coordinators. The maximum grant is \$100, and recipients must pledge to reinvest at least 20 percent of their profits in their businesses.

In the past ten years, more than 90,000 individuals have participated, 15,000 businesses have

been started in 86 countries, and over \$7.5 million in profits have been generated from TUP-funded businesses. All of this has been achieved without the involvement of governments, large staffs, or social researchers.

By now, you probably see why it's called the "Trickle Up Program." Funds aren't lavished upon government entities in poor countries with the hope that a small portion will somehow "trickle down" to the very poor. The grants go directly to the cagey entrepreneurs of the streets, including those in Port-au-Prince, Haiti.

Here's how the program works in the clearest presentation I could find—the words of a project coordinator in Jakarta, Indonesia:

Of the 81 women [in the project], Salima was definitely the worst off in all aspects of life. She and her husband Tukiman and three children lived in the smallest packing crate in the slum. Every week . . . Salima would greet us by begging for money. . . .

Finally I said, there is a program where you can get money if you get five people together and produce something and sell it. Well, Tukiman was already making some money by finding old sandals and repairing them to sell. They found six other people who could either make

or sell sandals and, with my help, they filled out the TUP business plan form and decided how they would spend the TUP \$50 conditional grant. . . .

The Tup business report showed that eight people worked. . . . A total of 19 people benefited from the business. They produced 180 pairs of shoes and sandals. Their income from sales in 15 months was \$176. They saved and reinvested 65 percent of their profit in their business. . . .

They were very enthusiastic when we met to fill out the final report. When I asked them if the business would continue they said, "It will continue until we die."

The joy of this program is the concrete proof it provides of the success of free market processes among the poorest people in the poorest countries of the world. It also confirms the fact that self-worth and a decent life earned by an individual's own labor are far more precious than billions in relief funds.

Why Are Results Ignored?

The tragedy of this program is that its results are ignored by the dispensers of billions of dollars to the Third World nations. This is summed up by the Leets in their September 1989 newsletter:

The World Development Report of 1988 published by the World Bank concluded: "Poverty in the developing countries is on the rise. Between 1970 and 1980 the number of people without adequate diets in developing countries increased from 650 million to 750 million people. Since 1980, matters have turned from bad to worse: economic growth rates have slowed, real wages have dropped and growth in employment has faltered in most developing countries."

If an amount equal to 10% of the \$320 billion [development aid spent by the 19 donor countries that are members of the Organization for Economic Cooperation and Development

(OECD)] was used with the Trickle Up process it would give the opportunity for 1.5 billion of the poorest of the poor to start 206.5 million businesses in which they would invest 770.5 billion hours of their underemployed time. This would end involuntary unemployment, which is the major cause of poverty on this globe.

The Leets then ponder the reasons their successful program has been ignored for so long by the major players in the Third World assistance game. They question their own efforts at getting out the word of their success and point out that direct assistance to the poor runs counter to "conventional wisdom."

Unfortunately, they make one wrong assumption about inter-governmental development agencies. The Leets state, "They do care about poverty." Although it's true they care about poverty, I'm afraid it's more in the manner described by Kimi Gray, welfare mother/housing advocate from Washington, D.C. "Poverty," Ms. Gray said on an October 1989 National Public Radio broadcast, "has been very profitable for everyone but poor people."

Tapping the energy of poor people around the world and directing it toward free market pursuits could result in an enormous increase in world wealth. Continuing to subsidize inefficient, centralized, and crippling governments will only keep those people and families on the edge of survival.

After personally witnessing the strength, beauty, and dignity in which the poor work for their own survival in Haiti, I became convinced of the ability of people to care for themselves and their families, if only they can be released from the economic restrictions imposed by governments. By recognizing this fact, the Trickle Up Program is definitely part of the solution to world poverty. On the other hand, massive infusions of money and capital to Third World governments is definitely part of the problem. □

Readers may contact TUP, 54 Riverside Drive, New York, NY 10024-6509, for further information.

The Great 19th-Century Timber Heist Revisited

by T. J. Iijima and Jane S. Shaw

In the second half of the 19th century, the timber industry cut down large stretches of native forest around the Great Lakes, leaving the land denuded and mills abandoned. Historians and, more recently, environmentalists have portrayed this episode as one of the worst environmental disasters of the 19th century. It has come to symbolize the view that capitalists will always destroy natural resources if they can make short-run profits by doing so.

However, the conventional wisdom about the Great Lakes timber harvest is incomplete. While it is legitimate to regret the logging of those trees, we should consider the reasons they were cut and the benefits that resulted. This article, based on the historical record, will make the following observations:

- Given the vast stands of timber in the United States and the demand for lumber for construction, the harvests were economically sound.
- The chief concern about the harvest at the time was that it would produce a “timber famine”—but this fear was based on poor understanding of economic forces. The nation was never in danger of running out of timber.
- While the denuding of land is offensive to people today, to the people of the 19th century, turning forestland into farmland and providing lumber for construction were more impor-

tant than the aesthetic condition of the land.

- Most of the timberlands regrew over time, and some stands of virgin timber remain.
- Society generally—and the Great Lakes region specifically—benefited from the harvests.

Did the Timber Barons Miscalculate?

A common theme of historians writing about the timber cuts of the upper Midwest is that the barons of the timber industry, perhaps reflecting the general opinion of the day, mistakenly thought that the Great Lakes timber would last forever. Andrew Rodgers, a historian of American forestry and plant sciences, is typical: “It was assumed that the continent’s forest resources were inexhaustible,” he writes. Robert Fries, in an award-winning book on Wisconsin’s economic history, states that “the very immensity of the forest[s] led most people to take them for granted, much as they did the sunshine and the air about them.”

But these claims about the dominant thinking at the time are overstated. Two economists, Ronald Johnson and Gary Libecap, have concluded that there was no serious industry-wide misinformation about the supply. Had there been a serious misjudgment, they point out, prices would have gone up rapidly at the point that people recognized a pending shortage of timber. There never was a run-up in prices and there never was a shortage.

Johnson and Libecap examined stumpage prices (the prices of standing timber). Writing in the journal *Explorations in Economic History*, they reported that rates of return on timber invest-

This article is based on a study prepared by T. J. Iijima while he was a Research Intern for the Political Economy Research Center (PERC), 502 South 19th Avenue, Suite 211, Bozeman, Montana 59715. Jane S. Shaw is a Senior Associate of PERC. The article was originally published as part of the PERC Viewpoints series.

ments were relatively constant through 1900; the rate of change in stumpage prices hovered around 6 percent per year or within approximately one percentage point of the prevailing yield on railroad bonds over that period of time. A look at the price of processed wood reveals a similar steady increase from 1789 to the 1930s.

The timber industry included savvy men who recognized the future value of the timber. This differs from their portrayal as reckless men who rushed into the prime timberlands, ravaged them, and quickly deserted them in search of more opportunities. For example, Philetus Sawyer, a lumber tycoon and U.S. Senator, started his fortune with well-placed purchases of forestlands. Some of these he kept off the market for as much as a quarter-century. He profited because he went to the expense of investigating the quality of forestland and invested capital in trees whose value would not be realized for some time.

Cornell University presents another example. As a land-grant college, Cornell obtained from the government rights to nearly a million acres, about half of which were in Wisconsin. Ezra Cornell, the school's founder, hired a talented and well-placed land agent who meticulously chose stands and skillfully negotiated sales to lumber mills over a number of years. The land was obtained in the 1860s, and most was sold by 1890, but final sales were not completed until 1925. The better tracts of land, which at times were barely worth \$5 an acre, were eventually sold for \$20 and more. Cornell's richest tract of land sold for \$82 an acre.

Thus, it appears that what the timber industry did was sound on economic grounds. Even if some firms or entrepreneurs unwisely cut down trees, other firms could easily respond by holding back their supplies in anticipation of increasing prices. The interplay of these judgments led to a gradually increasing price of timber, not to erratic prices or unusually high prices.

What Stopped the Timber Barons?

But even if the timber barons acted intelligently, they did cut down many square miles of virgin forest, and they did not replant. Some prominent people of the day thought that the timber barons would cut down all the trees they could—that, if left to themselves, nothing would stop them. Bern-

hard Fernow, the first chief of the United States Division of Forestry, exemplifies this view. He wrote in his 1902 book, *Economics of Forestry*:

The natural resources of the earth have in all ages and in all countries, for a time at least, been squandered by man with a wanton disregard of the future, and are still being squandered wherever absolute necessity has not yet forced a more careful utilization.

This is natural, as long as the exploitation of these resources is left unrestricted in private hands; for private enterprise, private interest, knows only the immediate future—has only one aim in the use of these resources, namely, to obtain from them the greatest possible personal and present gain.

Fernow was far from alone. Theodore Roosevelt predicted that if “the present rate of forest destruction is allowed to continue, with nothing to offset it, a timber famine in the future is inevitable.” (He is quoted in Sherry Olson's book, *The Depletion Myth*.) In fact, of course, the country has never experienced this timber famine. Why? The economics of supply and demand offers an answer. It explains why the timber industry did not eliminate all the wood in America and why, in spite of centuries of doomsday predictions, no significant natural resources (exhaustible or renewable) have actually been exhausted.

As prices of a commodity increase, consumers tend to reduce their purchases and look for alternatives. As they do, producers have an incentive to find materials that they can produce more cheaply to retain customers or obtain new ones.

As prices increased in the late 19th century, timber companies looked for alternatives; stands on the West Coast gradually became more attractive, as did the Southern pine forests after the 1876 repeal of the Southern Homestead Law opened these forests to logging. By the turn of the century, timber from the South and Far West began to dominate the market.

Similarly, consumers responded to higher prices by conserving wood. The railroads were a major customer for lumber, which was used in bridges and railroad ties. As railroad company executives began to foresee scarcity, they began researching ways to protect wooden bridges and ties against decay, develop steel ties and bridges, and design bridges more efficiently. So, gradually rising prices

of Midwestern timber led to the disappearance of the Great Lakes timber industry.

Were They Wasteful?

A related criticism by conservationists then and now is that the industry used inexcusably wasteful procedures in logging and milling the forests. Not only did the timber companies cut down vast stretches of forest, they didn't even use much of what they cut. Historian Frederick Merk, for example, reports: "It has been estimated that not more than 40 per cent of the magnificent forest . . . ever reached the sawmill." Robert Fries cites an estimate that a billion more board feet could have been produced in the years 1872-1905 had band saws been used rather than mule and circular saws.

If "wasteful" means that wood was thrown away that could have been processed and used, then the critics are right. But why were loggers so little concerned with conserving good wood?

At the time labor was scarce and expensive, as it was throughout much of U.S. history; in contrast, resources such as land and water were abundant and cheap. In 1871, the average daily wage of a skilled laborer in the United States was \$2.58; at the time, good pine stands could be obtained for \$4.00 per acre. During the Civil War, labor costs were particularly high and workers were scarce in the pine forests. "In 1864 . . . the wages of loggers in the northwestern pineries of Wisconsin ranged from \$3 to \$4 per day including board," writes Merk, who points out that all sawmill innovations were designed to increase output or save labor. Little effort was made to save lumber "since timber was still cheap and abundant."

The disparity of value also explains why the timber industry failed to replant as it does today. Wood was worth too little to justify using expensive labor. It would take 70 or more years before newly planted trees could be harvested, and forest regeneration occurred without human intervention anyway. Furthermore, property taxes made preservation more expensive. Forested land was usually taxed at a higher rate than unforested land. This gave owners an incentive to remove the trees. Once the trees were cut, taxes went down, but they still existed. With taxes due, but with the land unable to produce timber for many years, some owners abandoned these properties.



THE BETTMANN ARCHIVE

A champion load of logs on a sled, Michigan. The numbers painted on the log ends seem to indicate the weight of each. The total for this load: 7474 pounds.

Farming was of much greater value than setting land aside for forests, so much of the cut-over land was sold to settlers. Eau Claire, Wisconsin, once a major logging center, is now in the middle of a large farming area. Today, most land in the Great Lakes area is either productive farmland, timberland, or recreational land used by fishermen, hunters, and hikers.

A Matter of Aesthetics

It is true that, in the course of half a century, most of the old-growth timber (that is, timber that hadn't been touched by humans) in the Great Lakes area was converted from majestic age, grandeur, and beauty to what many would call wasteland. Nearly all the denuded lands have since either regrown into forest or been turned into farmlands; however, in a few small areas, because of the poor quality of the soil, the forests have never regrown.

Further, while the Great Lakes states today contain many thousands of acres of regrown forestlands, they contain only very limited amounts of old-growth forestlands. This is an aesthetic and environmental cost.

But people living in the middle of the 19th century saw the issue differently. They did not consider harvested forests a "wasteland." Indeed, the forests were the wasteland. A Wisconsin historian

writing at the time of the timber harvests praised the lumbermen on the Upper Wisconsin for their ability to reduce "those wild wastes, into a land of productive industry, equalled by no other in the state—scarcely in the west."

Even the people who became known as "conservationists" late in the 19th century were not primarily concerned about how the land looked; they were worried that the destruction would cause a dearth of timber. Conservation began to become more popular as the damage of widespread logging became evident, but these logging activities continued to be viewed generally as beneficial to the country.

Most of the population wasn't wealthy enough to concern itself with environmental amenities—per capita G.N.P. today is nearly ten times what it was then. Making sure there would be food on the table was a real daily concern, and fewer people had the time or resources to backpack, canoe, fish, or hunt for leisure. Setting aside land for regrowing forests would have reduced the average standard of living even further.

Although the widespread view is that the Great Lakes forests were totally destroyed, the fact is that we do still have virgin stands. What saved them was primarily the economics of their location. Timber stands that were largely inaccessible, difficult to log, or sparsely wooded (on steep hills, for example, or in swampy areas) were generally untouched throughout the 19th century—logging would not have been profitable. In Northern Michigan and parts of Canada, many thousands of acres were spared; fewer were bypassed in Minnesota and Wisconsin, where the terrain is less rugged and the forests were closer to population centers.

As the public became more interested in leisure, recreation, and the environment, many of these stands were purchased and preserved both by private individuals and the government. Even land that had been cut was purchased and the timber was allowed to regrow, resulting in beautiful lands today. Examples abound: The "Sylvania Tract" of Ottawa National Forest, the Huron Mountain Club near Big Bay, Michigan, the "McCormick Tract," just south of the Huron Mountain Club, Porcupine Mountains Wilderness State Park in Michigan, and some parts of the Boundary Waters Canoe Area in Superior National Forest all contain some virgin timber. Ironically, the forests of

the Porcupine Mountains were nearly logged under Department of Defense contracts during World War II. Private markets had not yet deemed the timber worth the costs of harvest, but the government wanted to cut the trees.

Benefits to Society

Had the forests of the Great Lakes region been off limits as a resource to settlers, Americans would have paid a significantly higher price for what lumber they could get. This would have placed even more hardships on them than they already faced, and would have slowed the country's economic growth. The profits from timber harvests benefited the nation as a whole and specifically benefited the regions in which the industry operated. Agnes Larson, who wrote about the white pine industry in Minnesota, states that the harvests had "as a direct result the more rapid settlement of the region and the better housing of its people."

Consider the Kingston Plains, a 40-square-mile area that has never recovered from the logging of 100 years ago. Efforts have been made to replant the area, but the soil is too infertile and sandy. It probably took hundreds of years for the original forest to grow, and it will take hundreds of years for the area to return to forest. The land is virtually useless now, so it is clear that cutting these trees represented a substantial cost to society; but what was the benefit?

At the time the trees were cut, good timber stands in the Great Lakes area were selling for around \$20 per acre. To estimate the value that society received from the harvest, suppose that the income from selling these trees had been invested in bonds or some other form of savings at the time. If those bonds or vehicles continued to return interest, the original amount would have grown to approximately \$110,000 per acre today. For the 40 square miles, this is \$2.8 billion—in other words, society, at least in theory, so far has reaped an estimated \$2.8 billion in value from cutting down those trees.

If those trees had been left standing, would the benefits derived over the past 100 years from having the land available for wildlife habitat, hiking, and other recreational activity have been worth forgoing the benefits that came from cutting them down? The answer to that question is highly



An ox team pulling lumber, c. 1890.

subjective, but such trade-offs are often ignored.

Looking at the problem from an economic perspective, then, the Great Lakes timber stands were harvested in a responsible way. The fear of a timber famine, which led the federal government to create the Forest Service, reflected poor understanding of natural resource economics. The number of acres harvested was the result of interacting forces of supply and demand; as these changed, people harvested or held back timber as they saw fit. The result was a slow but steady rise in the price of lumber. This rise ultimately led customers to substitute other materials and led the timber companies to find additional sources of wood in the West and South.

(In contrast, by the way, the Forest Service today responds to political forces in deciding how

much to harvest. Many environmentalists criticize it for cutting trees that would never be logged if supply and demand were allowed to operate.)

Our modern concern about the “timber heist” reflects a growing interest in preservation that has gradually developed over time. In the late 19th century, Americans wanted additional farmland and lumber more than they wanted to preserve the forests that would supply that land and lumber. As Americans have achieved more leisure and affluence, they have wanted more preservation and restoration. That change in attitude has occurred in the Great Lakes region as well as the rest of the country, and it is a good thing. But does it justify condemning our ancestors who, because they were poorer, did not have the aesthetic consciousness many of us have today? □

Let the Market Protect Consumer Safety

by John Hood

You're the new chairman of the Consumer Product Safety Commission. It has come to your attention that a number of children under 5 years of age have been poisoned by overdoses of aspirin. A research associate comes up with a solution to the problem: require child-resistant caps on all aspirin bottles in the United States.

His reasoning seems sound: make it more difficult for children to open aspirin bottles and fewer children will be poisoned. The caps may cost more to manufacture than regular screw caps, but the drop in child poisonings, he tells you, will be worth the expense. So you pass the regulation. And child poisonings slightly increase.

This is not a hypothetical case. In 1970 Congress passed the Poison Prevention Packaging Act to authorize Federal regulations that would address the child poisoning issue, and two years later protective safety caps were required on aspirin bottles. Since then, studies have shown that the requirement resulted in no significant drop in aspirin poisonings among children (the rate has come down, but not because of the rule—poisonings have gradually fallen since the 1950s). And the safety-cap rule may well have caused a slight rise, again adjusting for historical trends in the rate of non-aspirin poisonings.

How is this possible? Kip Viscusi of Duke University attributes the failure of the safety-cap standard to the "lulling effect" of government action: parents feel less need to take precautions about storing aspirin and other medicines away from their children because the caps are "child-proof."

John Hood is contributing editor of Reason magazine and political columnist for Spectator magazine in Raleigh, N.C.

Viscusi also suggests a design problem. "Consumers may leave the bottles open rather than grapple with caps that they find difficult to open," he says, making the medicine more available to children.

It would be unfair and unwise to fault all government regulation of product safety because of the safety-cap debacle—if it were an isolated case. But it is not. Since the creation of the Consumer Product Safety Commission in 1972, its sweeping mandates have hurt consumers, impaired product development, and bungled the job of promoting safety.

During a brief period in the second half of the Reagan Administration, the CPSC was less a nuisance, chiefly because of its deregulation-minded chairman, Terry Scanlon. But since he—and Reagan—have passed the reins of power to others, the CPSC may well resume its activist role with bans, recalls, and mandatory standards.

The regulatory burden might not be as infuriating if consumer product safety had been vastly improved by CPSC actions. But the evidence suggests otherwise. In 1985 Viscusi reviewed general accident statistics and specific cases of commission regulation for *The Journal of Law and Economics* and found "no evidence of any significant beneficial impacts on product safety." Home-accident rates, which have been falling steadily since at least the 1930s, were affected by changes in per-capita consumption and income, but not by changes in CPSC regulation.

If CPSC regulations simply failed to pan out, that would be one thing. But in many cases the regulations actually make consumers less safe by affecting product price and availability or by

"jumping the gun" on research. In one well-publicized case, the commission required children's pajamas to be treated with TRIS, a fire-retardant chemical. Later it was discovered that TRIS caused cancer in laboratory animals, so the commission had actually mandated an increased risk of cancer.

In another case, the Commission took action against a product called Worm Gett'r, which uses electricity to flush earthworms to the surface of the ground, where they can be easily harvested for fish bait. After one injury involving the Worm Gett'r, the CPSC wanted to ban it, although 28 people had been fatally electrocuted since 1971 using home-made devices such as hot-wired golf clubs, which the Worm Gett'r is designed to replace.

The Consumer Product Safety Commission fails so frequently not because of incapable staff, or contempt for consumers, or bureaucratic malfeasance. Consumer safety is simply not an area in which categorical government actions can

be successful. Every consumer is different—in taste, in wealth, in the willingness to take risks. These differences cannot be wished away or eliminated through regulation. And when the Commission tries to do so, consumers and producers of the affected products react in unanticipated ways.

Most accidents are completely unpredictable. They depend on the mannerisms and behavior of a consumer, the time of day, the weather, and just blind luck. This information is not available to regulators in Washington, and cannot be reflected in CPSC directives. But it can be reflected in a free market.

Regulators all too often view product-safety questions as static yes-or-no cases: if John Smith had not been holding an electric worm probe, he would not have been electrocuted by the probe. The real question is what John Smith would be holding and doing if the worm probe were unavailable. There are as many answers to that question as there are John Smiths. □

IDEAS ON LIBERTY



Freedom to Err

If the customer is left free to make his or her own selections, many of the selections made will be unwise, or even stupid, when measured by the standards of different people who have different tastes or desires. The real question is whether or not a person of mature years should be free to make mistakes. Should he be free to select an unsafe automobile, or at least one without seat belts, if that is what he wants? If his vehicle is more likely to create a special hazard to others who are legitimately using the highway, that is one reason for denying him the privilege of being on the road. But suppose the only danger is a danger to the customer himself. Should he be compelled to protect himself from that danger even though he would prefer to assume the risk? The interventionist would answer, and has answered, that question in the affirmative.

The interventionist would tell all customers that they should not be permitted to pay a higher price for a product in order to get it into a package of a unique or colorful size or shape. The interventionist is opposed to letting the consumer examine the article and act on his own judgment. The consumer must not be allowed a freedom of choice. For if he is allowed such freedom, he might hurt himself. And to allow him to hurt himself, that is, to allow the doctrine of *caveat emptor* to operate, would be immoral.

. . . Unwittingly, the interventionist is striving toward a rather drab society where the introduction of new products will be delayed or prevented, and the variety of articles being offered will tend to decline.

—BERTEL M. SPARKS

Israel's Grassroots Libertarian Revolution

by Sam Lehman-Wilzig

The Israeli government is freeing up the country's over-bureaucratized and over-regulated economy. However, this is no revolution from on high; rather, it is the Israeli public that has forced the government's hand. For the first time in that nation's young history, the citizenry—rather than the leadership—is calling the shots and setting the pace. The lessons to be learned have implications far beyond Israel's borders.

It is important to start off by understanding just how radical a break from the past is this recent libertarian phenomenon. From its inception in 1897, the Zionist movement has always taken a paternalistic approach toward nation-building. With the immigrant Jewish masses mostly impoverished, with few natural resources in Palestine itself, and with a general socialistic orientation naturally encouraging "governmental" (not private) initiative, virtually everything in pre-Israel was planned, financed, and developed by the powers-that-be. Indeed, paradoxically, the occasional pioneer who wished to go it alone invariably ended up establishing a *kibbutz*—the most collective form of socio-economic organization imaginable. In any case, Israel was not developed in the same fashion as the American West. The latter was marked by "rugged individualism"; the former by "ragged corporatism."

Thus, even after the State of Israel was established, the "top-down" approach not only was

encouraged by the authorities, but had become the accepted way of doing things by the Israeli public at large. Israel's first prime minister David Ben-Gurion even proclaimed it to be national policy: *Mamlakhtiut*—"statism." Instead of a pluralistic system emanating from the interests and predilections of the citizenry, Israel was to be built up through government unification and direction of as many economic, social, and cultural institutions as possible.

At first, this policy proved to be quite popular. Companies on the verge of bankruptcy? The government would save them. Housing in short supply? The government would build more. Entertainment lacking? The government would establish a (monopoly) television station. And so it went.

Until the early 1980s. Several reasons were behind the none-too-gradual shift away from such government paternalism. First, as Israel became more closely linked to the U.S. from an economic and especially a cultural perspective, Israelis began to view the American way of doing things as more modern and progressive than their own traditional approach. Indeed, in the late 1970s and early 1980s the chief economic guru and media star was none other than Milton Friedman, who visited Israel and whose ideas were eagerly sought after by government and public alike. (An indication of his continuing popularity is the latest joke making the rounds in Israel. The country is in the midst of a massive shift from the six-day to the five-day work week. As the apocryphal story goes, the government turned to him to advise it on the feasibility of such a change. His finding: "It would be a good idea to move the Israeli economy to a five-day

Professor Lehman-Wilzig is Senior Lecturer in Political Studies at Bar-Ilan University in Israel. During the current academic year he is serving as the Distinguished Visiting Professor from Israel of the Lipinsky Institute for Judaic Studies at San Diego State University.

work week—but do it slowly. First ensure that everyone works one day a week, then two. . . .”)

A second reason was that with the election victory of the economically liberal-minded Likud in 1977, the “establishment” was no longer perceived as being intrinsically paternalistic. Private initiative and personal volition had been given philosophical legitimacy for the first time in Israel, although it still would take some time for the government to put its money (really the public’s money) where its mouth was.

Finally, the population had by then become predominantly middle class, with far less need of all-embracing social welfare programs which were a huge burden on the personal pocketbook. The Israeli public had come of age: economically able to go it alone, and psychologically willing to stand on its own two feet.

But if the public’s newfound will developed into an increasingly irresistible force, the political establishment’s conservatism constituted an almost immovable object. In a country where the voters couldn’t easily punish their representatives electorally (the vote is for party lists, not for candidates), and security issues in any case dominated the election campaigns, how were the Israeli citizens to change the system? By hook or by crook—literally

Damming the Tide

Examples from several areas of socio-economic life should suffice to understand the general approach. The common thread here is the willingness of thousands—on occasion hundreds of thousands—to circumvent what they perceive to be unduly restrictive regulations, institutions, and laws. Faced with a “revolt of the masses,” the political establishment has been rushing of late to dam the tide, and when that has proved impossible, to channel the raging river of change.

1. *Mass Media*: After years of government monopoly in Israeli radio and television (the latter was established only in 1968), Israelis began to take matters into their own hands in the 1980s. Not only did VCR purchases skyrocket (by the middle of the decade Israel ranked second in the world—behind Saudi Arabia—in per capita VCR consumption), but a more “insidious” phenomenon began to appear: pirate cable television. Despite their being strictly prohibited by law and

actively pursued by the authorities, such stations sprouted as mushrooms after the rain with an estimated quarter of a million subscribing households (in a nation of barely one million family units).

Giving in to the overwhelming market demand, the government finally threw in the towel and in 1988 passed Israel’s cable TV and regional radio law, which will considerably expand the mass media in that entertainment-and information-thirsty country, commencing in early 1990.

2. *Health*: The public “revolt” here has taken several routes. Traditionally, virtually everyone in Israel belonged to a health plan (akin to American HMOs), with 90 percent of the Israeli population having membership in the system run by the giant labor federation Histadrut. The major problem with the Histadrut health system was that, given its socialistic orientation, the patient could not select the doctor or hospital of choice; rather, patients were arbitrarily assigned their physicians by the plan’s bureaucracy.

As a result, the Histadrut system began to lose members in the 1980s at the rate of about 13,000 a year, not to mention a severe drop in new memberships taken out by the younger generation of Israelis. Most recently, the Histadrut has bowed to this increasing hemorrhage, and turned to the “free choice” plan offered by its small competitors. Whether this will stem the tide remains to be seen, but “forced choice” as a health policy is no longer viable in Israel.

More socially problematic is what has become known as “black medicine.” Under Israel’s quasi-socialistic and highly bureaucratized health system, there is often up to a year’s wait for elective surgery (and for some serious, but difficult, non-elective operations such as open heart and kidney). Increasingly, patients have turned to doctors for a “private consultation” after hours, and then have been moved to the head of the operating queue by that same doctor who “happens” to be the hospital’s department chairman.

Not that such maneuvering always begins with sinister intentions. Because of the low base salaries paid to Israel’s physicians, care and treatment in the public health facilities can be quite cursory and deficient. As a result, tens of thousands of Israelis have taken to bypassing (or supplementing) their official health plans with private visits to physicians in the latter’s after-hours. Once again, as a result of this grassroots “desertion,” the authori-

ties have given ground, with a new system being worked out which would enable those willing to pay for the privilege to be treated in the public health facilities after hours.

3. *Education:* Perhaps the hottest social issue in Israel today is "gray education." Public education has suffered massive budgetary cutbacks over the past five years, and many parents are very concerned and upset with the present state of affairs (elementary school children are given less than four hours of instruction a day). Consequently, parents by the thousands are organizing and paying for after-hours classes inside and outside the schools to supplement or enrich their children's education. This has burgeoned into a quasi-private educational system, in direct opposition to the official policy of educational equality.

And therein lies the rub. Much of the educational establishment is against such a movement which threatens to enable some children to receive paid "enrichment" while others don't. The more well-to-do parents, of course, don't see it that way, but rather as giving their children the best education possible. If other parents can't do this, then they should complain to the source of the educational deficiency: the government.

Complicating matters even further is the fact that such afternoon enrichment programs (in many cases not "enrichment" at all, but rather replacement of subjects completely jettisoned in the cutbacks), tend to be far more remunerative than the truly meager regular salaries of Israeli teachers. The result is that the best teachers (in greatest demand for the afternoon programs) leave the regular school system altogether, as they can make a better living concentrating their energies exclusively on such after-hours work.

The educational establishment's antipathy to "gray education," then, is double-edged—a matter of social philosophy and pedagogic self-preservation. On the other side are parents who see it in terms of free choice for quality education, and teachers who seek an improved livelihood. While this struggle has not been settled yet, the latter seem to have the upper hand. However, the egalitarian-minded establishment will not give up this one without a serious fight.

4. *Finance:* For unadulterated surrealism, nothing beats Israeli public financial policy. For starters, given the relatively high rates of inflation over the past decade (over 400 percent on an annu-

alized basis in 1984), periodic devaluations became *de rigueur*. However, instead of the government deciding the timing of such devaluations, almost invariably it was the public (in anticipation of devaluation) who bought foreign currency—thereby forcing the authorities to devalue before the country's foreign currency ran out. It need hardly be added that this didn't help the situation at all, as the public already had protected itself from the oncoming devaluation through its foreign currency purchases. Thus, the next devaluation round was already set in motion, in a never-ending spiral of the government cat futilely chasing the public mouse.

Here, too, illegality reared its head. Trading in foreign currency is against the law in Israel unless done through the recognized banking system. Yet the public blithely ignores this, and not only is the "black currency" market well-developed, but due to public demand, the Israeli newspapers publish the "black dollar" rate on a daily basis. What the government legislateth, the public taketh away. . . .

On still another financial front, the public's rational economic behavior has forced the government into a broad retreat. At one point in Israel's history, income tax rates had reached a confiscatory (not to mention counterproductive) high of 80 percent. Due to massive tax evasion on the part of anyone who had the opportunity (the underground economy in Israel is estimated at 15 percent of GNP), the authorities have been forced to bring down the upper bracket to 48 percent, with promises of further reductions to stimulate economic growth.

The Israeli Stock Market

One could continue almost endlessly. One more example in the economic realm, though, should fill out the general picture. When the Israeli stock market collapsed in 1983 as a result of price manipulation by the banks of their own stock (worth approximately one-half of the entire market), the public pulled out and has not returned since. Once burned, twice shy? Not really. Rather, the public hasn't been willing to play in a game where the deck is heavily stacked against them.

Most of the shares in the Israeli market are non-voting. This essentially means that those who control the relatively few voting shares (sometimes as

low as a mere few percent of all outstanding company shares) decide on all matters of corporate policy—and it is no coincidence that many of these shares are tied to management in one form or another. Thus, here it is public inaction (staying out with arms folded) that has caused the government to shift course. At present, movement is afoot to turn all shares into voting shares (whether through stock market fiat or governmental legislation isn't clear at this stage). Once more, the barons have retreated in the face of their sovereign: the public.

Several lessons may be learned from the Israeli case which are applicable in part to the revolution occurring through much of the Soviet and Eastern European Communist bloc.

First, it is not necessarily the most impoverished countries that may find themselves in the throes of public anti-paternalistic pressure. Indeed, if Israel is representative, then one can posit that the more advanced (economically) the socialist society, the greater the libertarian urge on the part of the increasingly “mature” citizenry. This is not merely a matter of economic self-interest (greater personal control of more disposable income), but of psycho-political desire. Such societies invariably have raised their general educational level, and concomitantly there emerges the need for personal expression through, and beyond, economic gratification.

This in essence is Abraham Maslow's scale of graduated gratification extrapolated to the public at large. Once a certain level of economic sufficiency is reached, personal self-expression becomes the goal of man. In that sense, collectivist societies are by their very nature self-destructive. The more they succeed (assuming that they manage to succeed at all) in raising their population's material standard of living, the more that population feels a lack of psychological quality of life.

This would explain why East Germany and Hungary recently have come under such severe popular pressure to reform themselves politically. On the face of it, these are the two Communist countries which have done a relatively good job of satisfying their population's material needs. Why, then, the internal political uproar? Precisely because economic “prosperity” leads to political maturity. Such a public cannot be treated any more as untutored servants of the state.

The obverse lesson for the Soviet Union is not so sanguine, at least for the short term. If it took Israeli society about three decades to mature and grow out of its paternalistic cocoon, then one cannot expect the Soviet people immediately to know how to exploit their newfound freedom—especially as their glasnost was provided from the top down, in paternalistic fashion if you will.

Liberty's Carry-Over

Beyond this, it is clear that once the public begins to breathe the air of personal freedom, such liberty cannot be compartmentalized into a few specific areas of the government's choosing. While the Israeli grassroots revolution may have started in the economic realm, the carry-over to education, health, and information/entertainment, was relatively swift and universal.

This is a lesson that the Communist Chinese leadership is beginning to understand, although its most recent response has been to try to turn back the clock in both the economic and political realms, instead of progressing on both fronts. But this Pandora's box cannot be hermetically re-shut once opened. Mikhail Gorbachev, on the other hand, generally understood this relationship from the start; it is no coincidence that glasnost (political freedom) and perestroika (economic freedom) were introduced at about the same time. From this perspective, at least, the Soviets are liberalizing their system in the right fashion, as are the Poles and Hungarians.

Finally, as was the case with Israel's pirate cable TV, “black medicine,” and gray education, there seems to be no avoiding a certain increase in quasi-criminal behavior, at least over the short term. There are two reasons for this.

First, in any radical changeover from a stultified, centralized system to an open, multi-choice one, institutional asymmetries will inevitably exist. Thus, while the expectation is of immediate freedom across the board, the reality of development in certain social realms will lag somewhat behind others. It is in these retarded areas where parts of the public may take things into their own hands to speed the process along in order to bring them up to the more developed areas in society. By definition, most of such “expediting” will involve anti-normative, if not outright illegal activity.

Second, there always will be those who are inca-

pable of handling such freedom in the way that it was meant. Give some children \$100 in a candy store, and they will most likely buy as much (or more) than they can carry. Remove overbearing governmental strictures "overnight," and some adults will have trouble differentiating between freedom and license. This is not so much the price of undue liberty, but rather of overdue liberation. Freedom takes a little getting used to, but this minor problem is surely worth the ultimate goal of an unfettered life.

In the final analysis, then, the really important

aspect of Israel's dismantling of socialism—as well as similar processes in such countries as Poland and Hungary—is not that the well-educated policy-makers have become aware of their system's economic and philosophical bankruptcy, but rather that the less "sophisticated" citizenry are the source which pushed them to act. In such a situation, there is little chance of turning back the clock. There is all the chance in the world that the new system taking its place will be successful and stable, once the not-inconsiderable transitional difficulties are overcome. ☐

1989-90 Essay Contest Winners **"Education for a Free Society"**

sponsored by The Foundation for Economic Education

COLLEGE DIVISION

First Prize (\$1500): Sofia G. Bump, George Mason University, Fairfax, Virginia, "Why State Schools?"

Second Prize (\$1000): Eric Christian Pearson, University of Wisconsin—Stevens Point, "Education and the Free Market"

Third Prize (\$500): Gregory Mulhauser, Willamette University, Salem, Oregon, "Silver Anniversary"

Honorable Mention: Brian L. De Spain, Boston University, Boston, Massachusetts, "Individual Choice and Education"; Jeff Miller, Wittenberg University, Springfield, Ohio, "Free Education: The Re-establishing of Responsibility"

HIGH SCHOOL DIVISION

First Prize (\$1500 Scholarship): Miranda S. Doyle, Live Oaks High School, Morgan Hill, California, "The Need For a Private Educational System"

Second Prize (\$1000 Scholarship): Jennifer Kelley, Sammamish High School, Bellevue, Washington, "Education and Individual Freedom"

Third Prize (\$500 Scholarship): Andrew Trask, Milton Academy, Milton, Massachusetts, "Liberalism and the Liberal Arts"

Honorable Mention: Howard S. Hogan, Ridgefield High School (Connecticut), "Tomorrow, Educational Freedom"; Brenda Michele Koby, Beaverton High School (Oregon), "Choice and Accountability"

The “Earmarked Money” Illusion

by William B. Irvine

Two stories that made recent headlines were President Bush’s declaration of war on drugs, and securities firm Drexel Burnham Lambert’s payment of over \$300 million in fines and penalties for having engaged in insider trading. One would naturally think that these two events were in no way connected, but according to the government they were: Acting U.S. Attorney Benito Romano announced that most of the money paid by Drexel could be used to fund the nation’s war on drugs.

This announcement no doubt created an agreeable image in the minds of many people. By fining Drexel, the government was not only taking steps to discourage insider trading, but was simultaneously generating funds with which to fight drug abuse.

It is not difficult to come up with other cases in which politicians and government officials have claimed that certain government revenues were “earmarked” for particular purposes. The federal government, for example, sometimes gives money to other nations with the stipulation that the money be used to buy food and medicine rather than arms. Similarly, in some states the law requires that the money raised in state lotteries be spent on education. And sometimes when a municipal government raises the sales tax, it stipulates that the additional tax revenues will be used only for some worthwhile purpose—say, to improve transit systems.

The image created by claims that revenues have been earmarked for worthwhile purposes is

largely an illusion. It is rarely possible for a government to earmark revenue for a particular purpose.

Consider, for example, the claim that the Drexel fine could be used to fund the war on drugs. Suppose, as is most likely the case, that the \$300 million check from Drexel is deposited into an account which already contains funds from many other sources and from which a wide variety of programs are funded. What sense does it make to say, when money is drawn from this account to spend on the drug war, that it came only from the Drexel fine and not from any of the other sources of account funds? And what sense does it make to say that the Drexel fine was spent only on the war on drugs and not on any of the other programs funded from the account? It makes no sense at all.

In general, once you commingle funds in an account, it is impossible ever to separate them again. This is because money is, as economists like to remind us, a fungible commodity.

Suppose that the government, rather than commingling the Drexel fine with other revenues, is careful to start a new account in which the Drexel check is the only deposit. Suppose, too, that the only checks the government ever writes from this account are checks to fund the war on drugs. In this case, it might make some sense to say that the government has earmarked the Drexel fine to fund the war on drugs, but there is an element of illusion in even this claim.

Many would assume that because the government is earmarking the Drexel fine to fund the war on drugs, the war will receive \$300 million more in funding than would otherwise be the case. This, of course, isn’t necessarily true. For if the government, after declaring that the \$300 million in “the

Drexel account" will be used only to fund the war on drugs, proceeds to cut by \$300 million its general-revenues funding of the war on drugs, the war will be no better funded than it would have been without any earmarking of funds. In this case, all that earmarking the Drexel fine accomplishes is to allow the government to spend \$300 million from general revenues accounts on things other than the war on drugs. It might, for example, buy part of a Stealth Bomber.

Along these same lines, consider a state lottery whose profits are earmarked for education. Suppose that before starting the lottery, a state spends \$200 million out of general revenues on education. Suppose that the lottery brings in \$50 million in new revenue, which must be spent on education. If, in the face of this windfall, the state kept its general-revenues funding of education at \$200 million (so that education received a total of \$250 million), it might make sense to say that the lottery profits had "gone for education." Suppose, however, that in reaction to the \$50 million in lottery profits, the state cuts its general-revenues funding of education to \$150 million. In this case, the total amount of money that the state spends on education will remain at \$200 million; and in this case, all the state accomplishes by earmarking lottery profits for education is to free up \$50 million of general revenues to spend on something else. In short, although the lottery revenue is earmarked for education, education might be no better off because of it.

As another example of this phenomenon, consider what happens when our federal government gives another country money with instructions to spend it on food and not on guns. In such cases, who's to say that the money was spent on food? Suppose, for example, that before getting a \$5 million gift from the United States, the recipient country had planned (without telling us) to spend \$5 million on food and \$10 million on guns; and suppose that once it obtains our gift, it spends \$5 million on food and \$15 million on guns. It will look as if our \$5 million gift was indeed spent on food. (The country did, after all, buy \$5 million of food shortly after receiving our gift.) The real effect of our gift, however, is to enable the country to buy more guns than it otherwise could have afforded.

Of course, the earmarked-money illusion can take place outside the political realm. Parents might, for example, give their adult son a gift of money with the stipulation that he spend it on, say, neckties and not beer. If the son allowed the gift money to commingle with other funds, or if he would have bought neckties even if he hadn't received the gift money, it makes little sense to say that the money he spent on neckties was "really" his parents' gift.

The business world has also discovered the earmarked-money illusion. When, for example, a hotel provides a "free" continental breakfast to people who pay \$100 for a room, the breakfast isn't really free. After all, the hotel wouldn't let you have the breakfast if you didn't rent a room. When a hotel charges \$100 for a package of services, it makes little sense to say that the money "really" went for some of the services but not for others. Indeed, a hotel that says that \$100 will get you a room and a free continental breakfast could just as well say that \$100 will get you a continental breakfast and a free room; either way, the claim borders on nonsense.

Returning to claims that government revenues are being earmarked for certain purposes, we are faced with a new question: If such claims are generally illusory, then why do politicians and government officials persist in making them? In part because they don't realize that they are talking nonsense and in part because it often serves their purposes to talk nonsense.

When, for example, government officials wish to raise revenues by means of a new tax, they may, if they are clever, try to "sugarcoat" the tax by claiming that the money raised won't be wasted on frivolous things, but will be earmarked for some worthwhile cause. Nine people out of ten not only will accept this claim, but will applaud those who make it.

Of course, we citizens should realize that you can't judge a pill by its coating. And whenever a politician or government official tells us that the money the government is taking from us is being earmarked for a worthwhile cause, we should think twice before swallowing the pill. Chances are that beneath its sugar coating, it will turn out to be a bitter pill indeed. □

Animal Rights Are an Individual Responsibility

by Cherry Hill

Animal rights are making the news with increasing frequency, and few topics evoke stronger emotions. "Animal rights are the third most popular issue in this country today, ranking just after the national deficit and Medicare-Medicaid in numbers of letters received by legislators in the nation's capitol," states Marilyn King, Region 5 chairman for the American National Cattlewomen animal care committee. As she speaks nationally, she encourages animal industry people to counter the radical positions of animal rights groups who often propose inappropriate government intervention.

To date, laboratory and food animals have received far more attention from animal rights groups than have sport or companion animals. However, more frequently, people who are not knowledgeable about animals are protesting that the physical demands made on sport and work animals are too great. More specifically, established humane organizations are taking stronger stands on activities that they feel may be causing stress in horses. Racing, rodeo, endurance riding, and pleasure and gaited-horse show classes are receiving

the closest scrutiny. Becoming more familiar with the situation in today's horse industry can help any citizen better to understand the animal rights issues especially as they relate to outside intervention.

Horse people are acutely aware of abuse issues. In a recent *Equus* magazine poll, horse people were asked to list their deepest concerns regarding the state of the horse industry. The results were reported in the November 1989 issue: "The most pressing concern across the board, in the number of people affected and the strength of their reaction, is the abusive treatment of horses."

Animal abuse not only hurts animals and destroys people's integrity, but it also severely undermines animal-related businesses. Even though such a survey shows that horse people are aware of and are dealing with abuse issues in-house, they may be increasingly put on the defensive by overzealous welfare groups to explain their management, training, and exhibition practices to non-horsemen.

The American Horse Council is a national association which unites, informs, and represents America's horse community. Since its formation in 1969, AHC has become the recognized voice of the American horse industry, and it works directly with Congress, Federal regulatory agencies, and the media to protect and promote horses. The AHC's Board of Trustees, at its June 13, 1989, meeting, passed a resolution stating: "That the AHC continues its affiliation with and support of the Farm Animal Welfare Coalition coordinated by the Animal Industry Foundation, a subsidiary

Cherry Hill is a full-time equine journalist and book author in Livermore, Colorado. Her articles have appeared in The Chronicle of the Horse, American Farrier's Journal, Horseman, and numerous other equine publications. She is the author of The Formative Years: Raising and Training the Young Horse From Birth to Two Years, From the Center of the Ring: An Inside View of Horse Competitions, and Horsekeeping on a Small Acreage. She is a judge for the Appaloosa Horse Club, The Palomino Horse Breeders of America, and the International Buckskin Horse Association.

of the American Feed Industry Association, which gives direction for educational activity, monitors activities of animal rights groups, including proposed legislation, and keeps all segments of animal agriculture informed."

According to the AHC Executive Secretary Mary D. Midkiff, "The AHC also promotes a concept which allows the horse to perform in a progressive manner, within its capacity, under humane conditions as determined by experienced, knowledgeable horse persons."

It is essential that regulation of horse issues be left in the hands of knowledgeable horsemen. Although it is true that cases of animal neglect and exploitation *do* exist, it is also true that normal and acceptable methods of animal care and handling are more frequently being labeled abusive by uninformed parties.

Animal care, handling, and training techniques are a matter of personal and professional ethics. Abuse is a multifaceted problem that hinges on personal integrity and responsibility. Such qualities cannot be legislated or enforced. Yet over-emotional and inexperienced individuals outside the animal professions often pass judgement on the activities of others to the extent of proposing regulations or violating animal facilities. In response to the recent increase in violent incidents directed at animal facilities by self-described "animal rights activists," the Farm Animal Facilities Protection Act of 1989 was introduced. Such legislation would make it a Federal crime to break into, vandalize, remove animals, trespass on, or disrupt a horse operation.

Defining the Terms

To get at the root of things, a distinction should be made between abuse and cruelty. Abuse primarily consists of physical mistreatment while cruelty includes mental mistreatment as well. Obviously it would be much more difficult to assess animal cruelty than abuse.

Animal abuse (and often cruelty) is generally a result of ignorance, willful neglect, or exploitation. People often perform abusive acts inadvertently when they lack adequate knowledge. A horse owned by an inexperienced person may not be given enough of the right kind of feed and may become emaciated; the same animal, if grossly overfed, could easily become fatally ill or crippled.

Both cases constitute abuse due to ignorance. So should we immediately begin legislation for feeding licenses? Absolutely not. Instead we must concentrate on education.

When learning to ride, the typical human reaction to the motion of the horse is holding on strongly with the legs (the horse's reflex response to this is to run) while at the same time pulling desperately on the reins (the horse's reflex response to this is to raise its head and possibly shake it back and forth while making the gait quicker and choppy). Carrying a novice rider can be a major trauma for a horse. When a person uses equipment or training techniques that give confusing or contradictory signals to an animal that the animal has no way of physically resolving, the person is technically being abusive. Should the novice rider be issued a citation? The conscientious enthusiast of any discipline recognizes the need to be informed about his or her pursuit. The "responsibility of knowing" is one of the personal obligations of animal use or ownership.

The type of abuse that is the most easily recognized and inexcusable is willful neglect. When horses no longer matter to some people, they no longer care for them properly, sometimes resulting in starvation. This is when the Humane Society steps in with legal action against the negligent horse owner; the emaciated animals are usually impounded by court order.

A type of abuse more difficult to define and deal with is the exploitation of animals at the expense of their welfare. Such abuse is often motivated by greed or need. A person with a voracious hunger for money or who is experiencing hard times might pay little heed to an animal's welfare. Some people exploit animals to gratify an insatiable ego. Such mistreatment not only hurts individual animals but lowers the image of the animal business as a whole.

Better Off Wild?

The horse has been domesticated only a tiny fraction (1/12,000) of the time since its species' origin, some 60 million years ago. Because of this, the modern horse still has the innate ability to revert to the feral state. Perhaps that is why even domestic horses are a symbol of a beautifully wild and free spirit. People who have seen only Hollywood's version of the horse or the soft and gentle creature depicted on cards and calendars don't have the



RICHARD KLIMESH

A partnership based on trust and mutual respect is what allows a rider to depend on her horse in adverse conditions. The author riding Sassy Eclipse on her northern Colorado ranch.

background to understand the realities involved in horse ownership and training. They may harbor idealistic philosophies that simply don't work on 1,200 pounds of horseflesh.

The feelings of animal rights activists are based largely on their belief that animals want to be and would be better off in a more natural or wild state than in a confined, domestic setting. While this may be partly true in some cases, when applied across the board, it is faulty thinking. A horse properly cared for in a domestic setting is healthier and lives longer than today's wild mustang.

Many non-animal people also get caught in the anthropomorphic trap. They view horses as having human characteristics and needs. This can be very dangerous. Treating a horse as if it had human understanding and motivations can lead to tragedy. Among horses, biting hard with the teeth is a socially acceptable ritual often denoting a playful attitude or affection. If a human kisses a horse on the mouth and the horse reciprocates with a bite, the anthropomorphic error has been demonstrated in a very graphic sense.

The cute little foal that weighs 90 pounds at

birth and is taught to put his front legs up on a person's shoulders for a hug continues the behavior as an adult even though the horse now weighs over a thousand pounds. Horses are horses. Humans are humans. This distinction is clear to the individual who has respect for the animals he works with as well as for himself.

The Professional Viewpoint

No one better regards and admires a horse than does a true horse person. The conscientious horse person understands a horse's needs and behavior patterns and is able to provide a domestic environment that involves minimal stress and results in maximum well-being.

The conscientious horse person knows many details about the senses, habits, rituals, and social interactions of horses. Horse people, over the years, have devised ways of aiding horses in making successful adaptations to the domesticated world of man.

Horses are potentially very dangerous animals. They have strong instincts, lightning quick reflex-

es, and tremendous strength. Therefore, they must be trained with well-designed techniques and equipment in order to make them safe for use in man's world. The training of any animal requires certain periods when the animal is taught the rules. To make a horse safer (for his own good and that of the handler) and therefore more useful, a horse must, at times, be made to do things he normally wouldn't choose to do.

Standing quietly in one spot while various activities are going on around him is something a horse wouldn't normally do on his own. His instincts would tell him to flee and perhaps inspect things from a distance. Teaching a horse to stand quietly in spite of the activities going on around him is an essential part of a horse's education. The lessons can be calm and uneventful or explosive and traumatic. When the techniques are fair and the rules are made clear, a horse becomes more confident, safe, and useful as a result of his lessons. He learns new parameters of behavior.

Yet an animal rights person might misinterpret the proper use of a whip as a signal to step forward or the use of a chain over a horse's nose to retard forward movement. Sometimes a sweeping generalization is made against all such items when one bona fide misuse of a whip or chain has been witnessed. There is a saying among horse people that a rider's hands are the single most important means of communication with a horse. It is not the mechanical devices, in themselves, that are inhumane; it is the way in which they are applied through a person's hands, and this is something that cannot be legislated.

The vast majority of horses are trained and handled with techniques considered to be normal operating procedures among horsemen. Unfortunately, there are unethical people who own and handle horses. Some highly profit-oriented people lose sight of the organic nature of horses. The horse merely comes to represent a means to make a living and is treated like an object. It is not just the well-being of the horse that is at stake here, but the integrity of the human spirit as well. It is ironic that horses, which offer people a means to escape the pressures and ills of society, often bear the brunt of these pressures from some of their human keepers. Unfortunately, it is not the story of the conscientious horse owner that makes the headlines, but that of the exploiter.

Media Attention

The fact that a little bad press can bring a disproportionate amount of attention to an activity makes it more difficult for the legitimate, conscientious animal owner to proceed without complications. Unsanctioned, unethical horse events can give a bad name to a sport and can detract from the image of horse activities overall.

For example, there was an unsanctioned endurance ride held in June 1987 near Catoosa, Oklahoma. Since a \$20,000 jackpot was offered, the race drew a considerable number of very competitive riders. But when it was announced that there were to be no veterinary checks in the shorter race and the races would be run in 94 degree heat and 70 percent humidity, the American Endurance Ride Conference (AERC) withdrew its sanction the night before the race. The race was still held independently, and, as a result, an estimated 13 horses died during the race or within hours of completion. Seven of them were buried along the trail. Endurance riding (and the AERC by association) got media attention when the equine graves were unearthed on national television.

The finger has also been pointed at the sport of rodeo as an inhumane activity. Although the Professional Rodeo Cowboy's Association (PRCA) sanctions only 30 percent of the rodeos held in this country, it has taken on the task of educating the public and addressing the Humane Society's concerns about rodeo livestock abuse.

In an illustrated 28-page booklet entitled "Humane Facts," dealing with the care and treatment of professional rodeo livestock, the PRCA discusses many facets of rodeo that may be misunderstood by the general public. There is a discussion of each event, and the stock and equipment involved, as well as a list of the rules enforced by the PRCA that ensure the humane treatment of livestock. Besides informing the public about rodeo, the booklet serves as a guide for the non-sanctioned rodeos that have not evolved to the level of having their own regulations for humane handling of stock.

In the last 20 to 30 years, the emphasis in horse show competitions has shifted toward events which offer large purses for young horses. This puts economic pressure on trainers to push young animals, often beyond their mental or physical

capacities. Historically, abuse in performance horses has centered around the horse's gait, energy level, or cosmetic appearance.

When show-ring photos became an important part of advertising and sales, a certain artificiality began to creep into the horse business. Many horses were forced to move mechanically and with unnatural gaits in order to maintain a consistent silhouette or frame. When horse shows were booming in the 1970s, exhibitors used the horse as a vehicle to display fancy tack and attire, in an attempt to attract a judge's attention in the large classes. Some classes evolved into beauty contests rather than horse contests. It was as if the superficial "cosmetic" appearance of the handler or rider on the horse vehicle had become considerably more important than the quality of the horse's conformation, training, or the use of humane practices.

Most sudden fads in the horse business are temporary exaggerations that do no long-term good for anyone. The more unnatural the qualities that are being sought, the more artificial the training techniques and equipment become, and the more chance there is for abuse or cruelty, inadvertent or purposeful.

When abuse is identified, what should be done about it? Should measures be taken to prevent abuse? Or must abuse first occur in order to be penalized? Exactly what should be done and who should do it?

Outside Intervention

Would it be appropriate for a Federal judge to declare it illegal for a rider to use spurs on his or her horse? Or to make it mandatory for all horses under five years of age to be ridden with rubber (rather than metal) bits? Or to require that every show horse undergo an expensive and time-consuming series of biological and mechanical tests before being admitted to the show grounds? These things may not be so farfetched.

Look, for example, at the ongoing lawsuit which the American Horse Protection Association filed in 1984 against the United States Department of Agriculture. AHPA claimed that the USDA was not adequately enforcing the 1970 Horse Protection Act and its most current rules (1979) which prohibited the *soring* (the use of chemical and mechanical means to create pain and/or open sores on the pastern/coronet area to affect the gait)

of show horses, particularly those of the (Tennessee) Walking Horse Association. (For many years the WHA has been accused of using inhumane training and showing practices. The WHA is a very specialized segment of the horse industry, comprising just a fraction of one percent in total horse numbers in the United States.)

The appeals dragged on until March 21, 1988, when U.S. District Court Judge Oliver Gasch invalidated the regulations and ordered the Secretary of Agriculture to institute new rules on pads, chains, and other action devices for horses. Four days later, the USDA advised the *entire* U.S. horse industry (by registered mail to all breed and performance organizations, not just the WHA) that, among other things, padded shoes were illegal on all show horses and no horseshoe could weigh over 16 ounces. It was unclear at the time just what breeds these regulations applied to, and for about a month shows were in a state of confusion, with at least two dozen being cancelled. A complete ban on hoof pads would complicate corrective and protective farriery. And limiting horseshoe weight to 16 ounces would make the standard shoe worn by large horses illegal.

During April 1988, three different revisions to the rules were published. It was very difficult to procure reliable information as to just what the interim regulations prohibited. By the end of April, however, most associations were made aware that, although there were restrictions on the thickness of hoof pads and their material, the customary use of normal flat pads on show horses was legal.

Beginning in April, representatives from the American Horse Protection Association, the American Horse Council, the American Farrier's Association, and various breed associations met in Washington and also exchanged letters and phone calls discussing the situation. What had started out as a problem isolated to the *gaited-horse* community, a very small and specialized segment of the horse industry, had now drawn in other breeds and resulted in copious red tape and confusion.

Additional changes to the Horse Protection Act rules were recorded in the *Federal Register* on May 2; for one thing, weight limits were dropped. On August 1, 1988, another set of USDA regulations went into effect, replacing the final April revision. Input continued to be received until the end of the comment period in October 1988.

On February 14, 1989, the USDA released its "final regulations." The regulations contained some unexpected modifications which the American Horse Protection Association considered an unacceptable compromise. So, after review, the AHPA filed a new lawsuit. How the outcome of this suit will affect horses outside of the Walking Horse Association remains to be seen.

It would, no doubt, have been more expedient and more appropriate for the Walking Horse Association to deal with their issues in-house. By educating their trainers and owners and enforcing a humane and reasonable set of rules, they could have avoided outside intervention.

Internal Regulations

Each national breed and performance organization has a list of approved judges to officiate sanctioned events. The judges follow the rules listed in the association handbooks. As a result of the AHPA/USDA ongoing legal battle, various equine associations have taken a closer look at their own potential abuse issues. The American Horse Shows Association and The American Quarter Horses Association, two large and long-established groups, often lead the way with rules changes and additions.

An unfortunate trend concerning the rate of travel and demeanor of western pleasure horses was carried to extremes throughout the stock horse industry in the 1970s and '80s. To make western pleasure horses look completely under control and supposedly relaxed, they were shown moving very slowly with an extremely low head carriage. Some unscrupulous exhibitors used drugs, starvation, or very intimidating training methods to get the horses to move this way. So in response to the outcry from conscientious horsemen, the American Quarter Horse Association began taking steps to discourage this poor use of horses.

In 1989, the AQHA added Item 0 to rule 455: "If a horse appears sullen, dull, lethargic, drawn, or overly tired, faults to be scored accordingly."

Another recent rule defines abuse as "that which a reasonable person informed and experienced in generally accepted equine training and exhibition procedures would determine to be cruel, abusive, and inhumane." Other associations have followed suit in adding these rules to their handbooks.

However, qualitative rules such as these leave generous room for interpretation. They involve concepts that are difficult to measure. Because judges are often the only officials at a horse event, they are expected to enforce the rules. Yet many judges resent being put in the role of policemen. A horse show judge is hired to rank the quality of animals and performances at a show. He or she has the expertise for evaluating quality; most judges feel they should not be expected to enforce laws while evaluating horses at a show.

A serious error can be committed if a person or group develops internal regulation of a problem solely to avoid outside intervention. The motivation should instead be based on a straightforward acknowledgment of the problem and a sincere desire to improve the situation. It should not be a matter of "them" against "us." Rather it should be a matter of each individual doing his or her part to make things better. Education is one of the important keys to the prevention of abuse.

Because the intense competition and the rigors of today's horse sports can make some individuals lose sight of their horse's welfare, the goals of horse competitions need to change. Rather than offering the biggest purses for young horses, classes should be designed to reward older horses who have stayed mentally and physically sound while still retaining a competitive edge. Horses last longer and stay fresher mentally if they are trained and exhibited with long-term use in mind.

Animal abuse is not a comfortable topic to talk or write about. However, the issues will not go away by ignoring them. Every animal owner should become better informed about the far-reaching effects of outside intervention. Personal responsibility is the logical guide in animal use and ownership. □

The Vermont Papers

by John Chamberlain

Franks Bryan and John McClaughry, two resident Vermonters, call their book *The Vermont Papers: Recreating Democracy on a Human Scale* (Chelsea Green Publishing Company, Chelsea, Vermont 05038, 308 pages, \$18.95). It is a many-faceted book that will repay several readings. The best of it is its Vermont history, which goes deeply into Vermont's Dark Age when demographic tides were depopulating the American Northeast by spreading emigrants over the Middle and Far West. The Mormon Church had its Vermont origins. Philosopher John Dewey was a Vermonter before he went to Chicago and New York. He gave us pragmatism, which explains much in the American character.

The Vermont Dark Ages came to an end around 1950. It was roughly at the mid-century that the big return to Vermont began. Homecoming Vermonters began picking up farms in the hill country, carrying new businesses northward with them. There was a whole cluster of entertainment industries connected with the ski business and summer tourism.

Bryan and McClaughry want to see Vermont made over into a federation of small to medium size geographical units practicing town-meeting or representative town-meeting democracy. What to call the federation? McClaughry in particular is enamoured of the word "shires." It comes out of English history (Devonshire, Nottinghamshire, etc.). McClaughry is very much the Anglophile, but in an entirely inoffensive way.

The theft of the word "shire" from English history to help create new American history is hardly a sin. But, since we don't have a federation of shires in Vermont just yet, Bryan and McClaughry are reduced to some confusing back-and-forth

writing. You don't know for certain whether the authors are talking about the present, the past, or the future at any given moment. All you can be certain of is that the authors will use a coming "shire" independence to create units that will make their own fish and wildlife decisions, run their own schools, or let education go to private academies. The authors can't tell you about transitions, but the authority of big state government is going to be pushed back, presumably after a constitutional convention.

What would a shire look like in the proposed new Vermont federation? The authors pick four units, beginning with "Lincolnshire," a westward-sloping "shire" that begins at the top of the Green Mountains and runs down to the shores of Lake Champlain. With its nine towns and one small city government (Vergennes), the Lincolnshire area town governments already use the town meeting as their legislature. There can be "walking distance" democracy in a shire whose largest town is Bristol (population 3,993) and whose smallest is Weybridge (population 667).

"Kingdomshire," in the rugged and fabled Northeast Kingdom on the border of Canada to the north and New Hampshire on the east, is a problem. The shire could have direct democracy, but "walking around" in it can mean walking past black bears in places unmarked by camp sites or trail markers.

"Burlingshire," in the west along Lake Champlain, contains the big city of Burlington, which poses the need for decentralized government. "Brattleshire," on the Connecticut River, impresses one as "typically Vermont in its topography," with the western part of the town of Brattleboro "dotted with hills, over ten of them above 1,500

feet, while the downtown on the Connecticut River is about 300 feet above sea level." Brattleboro has representative town meetings and an administrative town manager.

These are some of the shires that must be federated to satisfy Bryan and McClaughry. As a partisan of tradition myself I would be happy to see Bryan and McClaughry get some organizing disciples. But who is really calling for a federation?

Let me get personal. I have a daughter and son-in-law and two granddaughters who have lived in Vermont a long time, and they had to wait for me to acquaint them with the idea of the shires, or even the very word. They are busy people. My daughter does remedial work with disadvantaged students, my son-in-law teaches computer science in a Burlington college, one of my granddaughters is a first-rate ski instructor at Mad River Glen, and the other granddaughter has been a policewoman. They just aren't going to take the time to do organizing for Bryan and McClaughry. And they couldn't care less for the proposal to do away with the State Senate and create a "unicam" government of 200 members. "Unicam" government does not provide a possibly necessary braking system. As Isabel Paterson has put it, "a mechanism without a brake, a motor without a cut-off, is built for self-destruction." Both James Madison and John Calhoun have said as much. It could be a long time before Bryan and McClaughry get their federation of shires. □

TAXPAYERS IN REVOLT: TAX RESISTANCE DURING THE GREAT DEPRESSION

by David T. Beito

The University of North Carolina Press, P.O. Box 2288,
Chapel Hill, NC 27515-2288 • 1989 • 216 pages • \$29.95 cloth

Reviewed by Carl Helstrom

After the stock market crash of 1929, hard-pressed taxpayers in several major cities in the East and Midwest formed taxpayers' leagues to press for lower property taxes. This book chronicles their efforts, describes the opposition they met, and tells why they ultimately failed.

David Beito, a research fellow at the Institute for Humane Studies and an urban studies fellow

with the Pacific Research Institute for Public Policy, does a masterful job of relating this interesting story. He writes clearly, and his research is thorough and precise. Most important, he recognizes the far-reaching implications of the controversies of the '30s that continue to influence policy-making and popular opinion today. As he writes in the book's introduction:

The taxpayers' revolt of the 1930s gives the historian a window into a whole set of larger questions. Do political and economic classes play any role in tax crises and, if so, how do these classes arise and how are they constituted? How do governments maintain authority and legitimacy when their source of money is challenged? Lastly, a study of depression-era tax resistance challenges prevalent historiographical interpretations of the vitality and continuity of popular wariness of big government during the worst years of economic decline in American history.

The opposition to tax resistance was formidable on several fronts. Campaigns by government employees, interested in keeping their jobs, created tremendous peer and political pressures to maintain or increase financing for public works. New programs, especially at the Federal level, undermined the strength of some tax protesters' arguments by providing ways to circumvent accepted methods of financing. Some private institutions stood against tax resistance because of financial interests. Most notably, banks and other holders of municipal bonds formed their own campaigns or joined with government officials to quell the wave of protest.

The controversy became heated on the academic level, too. Experts in public finance and administration had become accepted players on the political scene in the first two decades of the 1900s, as universities established curricula for the study of public administration. These experts, specially trained in bureaucratic management, supposedly were essential for government to operate efficiently. The notion of a streamlined bureaucracy run by professional political scientists did much to blunt the popular call for economy in government.

The anti-tax, anti-big-government movement of the '30s also faced opposition in the courts. In Chicago, the tax resistance movement was led by the Association of Real Estate Taxpayers (ARET). However, Beito points out, "As depen-

dents on tax money, politicians and jurists alike shared much common interest in destroying ARET, and virtually none in protecting it." In the heyday of the tax revolt, ARET banked everything on a court battle over the legality of tax legislation. Their case petered out, hung up on technicalities.

The revolt against taxes and big government waned after 1933. Beito ascribes this loss of impetus to several factors, but mostly to the inability of the separate tax resistance groups to join together ideologically and organizationally. "In general," he writes, "the tax resisters of the 1930s and their later anti-New Deal incarnations lacked a focused ideological program." Locational and logistical problems, differences of opinion, infighting, and general uncertainty under poor economic conditions also contributed to their lack of focus. In addition to the forces of reaction that opposed the tax revolt—liberal intellectuals, government agencies, and private organizations with political incentives to perpetuate public programs—these internal problems dragged the tax protest movement into oblivion.

By the onset of World War II, the tax revolt as an organized campaign had virtually disappeared, but its fundamental ideas remained. As Beito concludes, ". . . many . . . who participated in the tax revolt and anti-New Deal causes looked on the issue of the individual versus the paternalistic state as timeless and relevant to any society. They saw these questions as worthy of consideration on their own terms and not merely as alternative strategies to carry out shared capitalist goals." The tax revolt did not succeed, but the concepts it embodied—limited, representative government, private property rights, individualism, and voluntarism—have endured. □

Mr. Helstrom is general manager of Libertarian Press, Spring Mills, Pennsylvania.



THE ENIGMA OF JAPANESE POWER

by Karel van Wolferen

Alfred A. Knopf, 400 Hahn Road, Westminster, MD 21157 • 1989
433 pages • \$24.95 cloth

Reviewed by Hal Gordon

The nub of this book is that Japan really is an unfair trade partner—but can't help it. The author, a Dutch journalist who has spent most of the last 25 years in Japan, confirms what most Americans already believe: The Japanese are in fact subsidizing their exports abroad, while restricting access to their own markets. The surprise is Karel van Wolferen's explanation for Japan's neo-mercantilism. According to him, "Japan Inc." is a myth. There is no master plan for world economic conquest conceived and directed from some inner sanctum at the Ministry of International Trade and Industry. There is no plan, no conspiracy at all. There is only the enigma of Japan itself.

Japan, says van Wolferen, cannot be understood in terms of the Western, free-market point of view, which assumes that individuals will always act in a rational, self-interested manner. In the West, individuals are free agents; in Japan, individuals are expected to subordinate their own interests to those of the group.

Behind the facade of a modern industrial democracy, Japan remains a semi-feudal kingdom where individuals owe their first allegiance to their corporation, department, profession, class, family, or other social unit. These groups, which van Wolferen refers to collectively as "the System," are the real rulers of Japan—just like the feudal lords of old.

In effect, the Japanese are not so much a nation as a tribe, bound together by an ethnic and cultural homogeneity. Traditional manners and customs carry greater weight than constitutional processes. Thus, prime ministers negotiate treaties, parliament passes laws, and bureaucrats issue regulations, but "the System overrules the state at every turn." But the System is not a shadow government. Indeed, it has no formal structure at all. The different groups which comprise the System pursue their own objectives and strike their own bargains with each other without regard for a coherent national policy. There is, as van Wolferen piquantly suggests, no Harry Truman to say the buck stops

with him. "In Japan, the buck keeps circulating."

It is this lack of accountability that makes dealing with Japan so exasperating for outsiders. For example, the Japanese government has in recent years made a great show of removing many official trade barriers. Foreigners—especially Americans—are now being told it is up to them if they want to sell in Japan. They must learn the Japanese language and Japanese customs; they must do more careful marketing research; they must discover what the Japanese consumer really wants; they must, in short, "try harder" if they expect to succeed. But a recent article in the *Washington Post* tells quite a different story.

The *Post* profiled a Japanese-American businessman who was born in Japan and had spent the first quarter-century of his life there. There was no question of his being thoroughly familiar with both the language and the customs of his former homeland. Nor was there any question that he was offering a useful, high-quality product at a competitive price. Yet he found no buyers. As he complained to the *Post*: "The Japanese like harmony. You say, 'Buy ours, it's cheaper,' and they won't. And you say, 'Why not?' And they say, 'Because we're happy. You're destroying our harmony. Everything was harmonious until you came along.'" This is the System at work.

Japanese consumers pay a stiff price for the "harmony" they prize so much. If Japanese corporations conquer American markets by subsidizing exports, they must recoup these subsidies somewhere else. Usually, it is by charging higher prices at home. Because consumers are conditioned by the System to "buy Japanese," they accept the price differential with equanimity. The upshot, as van Wolferen points out, is an economy skewed to exports at the expense of domestic consumption: "The Japanese economy is basically dependent on

one market—that of the United States, which absorbs roughly 40 percent of all Japanese exports. Agriculture, heavily protected, is in worse shape than almost anywhere else among the advanced industrial economies where this sector still plays an important role. Industries that serve only the domestic economy are highly inefficient."

A genuinely open market would give Japanese consumers more choices, and better quality goods at lower prices. But it would also undermine the existing social order. Accordingly, the System resists free trade.

This, then, is contemporary Japan—a runaway economic locomotive hurtling down the tracks at full speed with no one's hand on the throttle. For how long?

Certainly not for much longer. Despite much silly talk that Japan has displaced the United States as the world's leading economic power, the fact remains that Japanese "dominance" is exceedingly fragile. Japan's prosperity depends to a great extent on the continued willingness of the United States to shoulder the burden of that country's defense, and to accept Japanese penetration of American markets. Pushed too far, Congress might withdraw the American shield or enact retaliatory trade barriers—or both.

Is a showdown inevitable? Van Wolferen thinks it more likely that the System will grudgingly make whatever concessions it must to avoid an all-out trade war. But he sees a better alternative—"turning the System into a genuine modern constitutionalist state, and Japanese subjects into citizens." Such a transformation would not be easy to effect, but it would probably receive a significant boost from freer trade and more open markets. □

Mr. Gordon is a corporate speech writer.

THE FREEMAN

IDEAS ON LIBERTY

164 Private Property Rights: An Endangered Species

Paul D. Kamenar

Private property rights and economic development are rapidly succumbing to bureaucratic regulation in the name of the environment.

167 The Social Role of Private Property Rights

Gene Smiley

Ownership is the bond that brings peace and stability.

169 Saving a Forest: What Can We Do?

Michael Reed

Refrain from "neighborly" coercion and seek peaceful solutions.

172 Building a Barn

Hannah Lapp

An industrious family of 13 works together to expand their dairy farm.

176 Freeman Interview: Wan Runnan

Daniel R. Pruzin

An exiled Chinese entrepreneur speaks candidly of his work with the pro-democracy movement.

183 The Real Case Against Taxes

James L. Payne

Looking beyond the economic arguments against tax-and-spend programs.

185 Eastern Europe: The Economic Stakes Are High

Gary V. Small

The impact of the possible emergence of a capitalist Eastern Europe.

187 The Message from Eastern Europe

William H. Peterson

Countering the forces of soft socialism.

192 John Arbuckle: Entrepreneur, Trust Buster, Humanitarian

Clayton A. Coppin

Remembering an innovative and enterprising American.

196 Roger and Me and Free Enterprise

James L. Doti

A film review.

198 Book Reviews

John Chamberlain reviews *The Examined Life* by Robert Nozick. Also featured: *A Call to Civic Service: National Service for Country and Community* by Charles C. Moskos.

CONTENTS

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Toward Argentine Freedom

The complete re-establishment of the right to property and respect for contracts requires the elimination of the official organs of control of prices, exchanges, schedules, and rates of interest, the liquidation of the state banks, the annulment of taxes on profits and assets, the privatization of the subsoil, and removal of the regulations on the use of land. The market in all useful activities should be opened to competition without discrimination. Trade with monies from taxes should be prohibited. Government would then be limited to protecting the life and property of the country's inhabitants.

If legislative action were to take this form, the black markets would soon disappear, fugitive capital would return without fear of reprisals, institutionalized begging would cease to exist, fiscal privileges would automatically be extinguished, and national reconciliation would become a fact.

—MEIR ZYLBERBERG,
writing in *La Prensa* (Buenos Aires, Argentina),
September 11, 1989

The Banking Crisis

"The American financial system was fashioned by legislators and is regulated by regulators who together created a cartel that is crumbling under the weight of its own contradictions. The system rests on government force, rather than voluntary cooperation. Enmeshed in countless laws and regulations, it was unable to cope with the rampant inflation of the 1970s, and the globalization of capital markets during the 1980s. . . .

"Most policymakers are resisting the only rational conclusion that can be drawn: the time has come to dismantle the financial cartel of which the S&Ls are an integral part. It is an aberration and abomination. If a cartel structure, which restricts competition and divides the market, does not function satisfactorily, and inflicts painful losses on the underwriter, it is reasonable and just that it should be abolished. When all expedients of the cartel system have failed, we may try freedom."

—HANS F. SENNHOLZ,
"The Savings and Loan Bailout:
Valiant Rescue or Hysterical Reaction?"

American Science

I have seen science in operation in many countries. One strength of American science is the high level of independence given to young people, who have the freedom to join the system, cooperate, and compete with their fellow scientists, and be judged by their peers. On the other hand, in societies that have strong central planning of science, the positions of power are fewer and more important, and the incentives to act politically to advance one's career are very strong. As a consequence, people are corrupted by politicking and distracted from producing good science. Another enormous advantage in Western science, particularly in comparison to the socialist countries, is the flourishing of small companies that can rapidly provide the chemicals and the tools that are needed for the constantly changing interests of scientists.

—BRUCE N. AMES, Chairman
Department of Biochemistry
University of California at Berkeley

How to Sustain Agriculture

The only really sustainable agriculture is one based on private control of the means of production and prices set in the marketplace. Prices set in the political arena teach us farmers to think as indecisive dependents; prices set in the marketplace teach us to think and act as responsible and independent businessmen.

Farmer addiction to Federal handouts is dangerously high and even now may not be terminated without political disruption. The direction taken by U.S. agriculture must undergo dramatic change if we are not to completely lose private control of land use in this country.

—GERARD BOURGEOIS
a dairy farmer in Morris, New York

Decontrol in India

When Rajiv Gandhi began accelerating the liberalization of the economy in 1985, there was an outcry from the Indian "left" that he was selling the common man down the river to rapacious busi-

nessmen who needed to be held in check by a multitude of controls. Even moderate voices opined that liberalization would help economic growth, but skew the distribution of income in favor of the business class

Three and a half years down the road, it is possible to sit back and review the evidence. And the bottom line is that liberalization has aided the consumer greatly at the expense of inefficient businessmen. Indeed, many businessmen are now protesting about "excessive" liberalization and competition that has led the less efficient among them to the brink of bankruptcy.

The most spectacular change has come about in two-wheelers—scooters, mopeds, and motor cycles. For decades earlier, the consumer was obliged to buy substandard vehicles from companies like Scooters India for want of an alternative, and the waiting list for Bajaj scooters ran to over 10 years. The two-wheeler industry was liberalized in the early 1980s, and capacity has almost tripled since then. New units have come up in collaboration with all the best known names in the world—Honda, Vespa, Suzuki, Kawasaki, Peugeot, Yamaha, Zundapp, Garelli. The result has been an unprecedented choice of models for the consumer, the disappearance of waiting lists, and the offer of cheap installment finance by producers. Kenetic Honda and Lohia Machines, whose scooters once fetched a hefty open market premium, have slashed their prices in order to stay in the market. The waiting period for even a Bajaj scooter has shrunk dramatically.

While the consumer has gained, many producers are in dire straits. Scooters India, Chamundi Mopeds, Andhra Pradesh Scooters, and Kelvinator's Avanti model have already fallen by the wayside. Only those really meeting consumer needs—notably Bajaj and Maharashtra Scooters—have been able to maintain their profit margins.

Less dramatic but similar stories can be told of cars, TV sets, synthetic fibers, computers, and many other liberalized industries.

—SWAMINATHAN S. ANKLESARIA AIYAR,
"Who Gains by Liberalization?"
sponsored by The Project
for Economic Education, Bombay, India

Private Property Rights: An Endangered Species

by Paul D. Kamenar

Last July, John Pozsgai, a 58-year-old, self-employed truck mechanic, was sentenced to three years in jail by a Federal judge and fined \$202,000 for violating the Clean Water Act. This is the longest prison sentence ever meted out in the United States for an environmental crime. No, Mr. Pozsgai wasn't the captain of the *Exxon Valdez* that ran aground in Alaska spilling millions of gallons of oil, nor did he dump toxic or hazardous wastes into any river or stream.

His crime? Pozsgai was sentenced for placing topsoil and clean fill on his own property without permission of the Federal authorities from the Environmental Protection Agency and the U.S. Army Corps of Engineers. Sparing no expense to nab this "criminal," the EPA even staked out the property with secret surveillance cameras and took several aerial photographs to capture the "crime" on film.

Unless the decision is reversed by the United States Supreme Court, the Environmental Protection Agency will begin using the case of *United States v. Pozsgai* as a precedent to send property owners to jail for two to three years if they dare put topsoil on their own property without the federal government's permission. Already another Florida man and his son have been sent to prison for two years for putting a few truckloads of clean sand on their property without EPA approval.

In another case in New Jersey, a retired couple was prevented from developing a lot they purchased years ago for retirement because environmental officials recorded the sound of an owl on their property. The property owners' suggestion

that the owl could easily fly across the street to 16,000 acres of preserved wildlife refuge didn't faze the authorities.

The message the government wants to send by these cases is that private property rights and economic development are rapidly succumbing to bureaucratic regulation at the Federal, state, and local level, all in the name of the environment—regardless of the actual environmental impact. The clash between environmentalists and private property owners promises to be one of the major issues of the 1990s.

John Pozsgai, who immigrated from Hungary in 1956, works seven days a week out of a small garage behind his house fixing trucks to support himself, his ailing wife, and his two daughters. His home is located across the street from a 14-acre dump-site in an industrial area of Morrisville, Pennsylvania, near Trenton, New Jersey. The area has been used as a dumping ground and landfill for over 20 years. Pozsgai's property is bordered on the north and south by major roads, to the east by a tire dealership, and on the west by an automobile salvage yard. Mr. Pozsgai saw that property not as a dump, but as an opportunity to fulfill a lifelong dream of buying a piece of land on which he could build a garage to expand his small repair business.

Having saved enough money for a down payment, he bought the property in June 1987 and mortgaged his small wood-frame house to finance the purchase. He then began the Herculean task of cleaning up the property by removing over 7,000 used tires that had been dumped there over the years, along with other accumulated junk such as rusted auto parts, before placing clean fill and topsoil on five acres of the site.

Mr. Kamenar is Executive Legal Director of the Washington Legal Foundation.

Meanwhile, the Environmental Protection Agency and Corps of Engineers paid several visits to Mr. Pozsgai, claiming that the dump site contained some "wetlands," and therefore required a permit from the federal government before fill could be placed on the land. The site, however, isn't listed on the Department of Interior's National Wetland Inventory Map. In addition, Pozsgai claims that local officials who coordinate the permit program with the Corps of Engineers indicated that no permit was needed if clean fill (earth, sand, dirt) was placed on the property.

What Is a "Wetland"?

The EPA claims it had jurisdiction over this so-called "wetland" because the land is adjacent to a tiny stream which borders the property on the east. This "stream," which was dry most of the year, had a tendency to flood a portion of the site after heavy rains because of the damming effect of the old tires. Once the tires were removed, the flooding would cease. To the EPA and the Corps, however, the cause of the "wetland" conditions is irrelevant. It also is irrelevant that Pozsgai didn't put any fill into the stream. Indeed, he had installed a protective silt skirt fence along the stream after consulting county officials.

As far as the EPA and Corps are concerned, once they determine that a property is a wetland, Federal jurisdiction comes into play. Yet the familiar types of wetlands are estuaries, marshes, swamps, and bogs near open bodies of water that can serve as fish and wildlife habitats, or as filtering areas for pollutants that might harm water quality. Pozsgai's property is in an industrial area of town, far from any ocean, bay, or river. It isn't a marsh, swamp, bog, or anything close to it. Nor does it serve as a fish or wildlife habitat, unless you want to count the thousands of mosquitos that used to breed in the water standing in the old tires. Nevertheless, the Corps' soil sample of the site, as well as the presence of such "rare" vegetation as skunk cabbage, indicated that most of the dump site was technically a "wetland."

Indeed, the Corps has a regulation which authorizes placing fill on 10 acres or less of "wetlands" that are essentially isolated. If a citizen wishes to take advantage of this general permit, the regulation specifically states that no application for a permit is required. Yet the Corps was demanding that

Pozsgai fill one out! With the help of his daughter, he tried in vain to get several engineers to complete the confusing and complicated paperwork.

The Arrest and Trial

The EPA had enough of Pozsgai placing topsoil on his own land, so they set up secret surveillance video cameras to record some of the filling activity. Armed with this evidence and aerial photographs, the EPA had Pozsgai arrested and indicted in September 1988 for "discharging pollutants into waters of the United States." Keep in mind that the "pollutants" consisted of earth, topsoil, sand, and clean fill. (Under the Clean Water Act, a child at the beach dumping a bucket of sand into the ocean is technically "discharging a pollutant into waters of the United States" and can be arrested for doing so without an EPA permit!) The EPA readily admits that no toxic or hazardous wastes were involved in this case.

Keep also in mind that the "waters of the United States" in question wasn't the tiny stream on Pozsgai's property, but the adjacent dump site that had been determined to contain "wetlands." Mr. Pozsgai had removed dirty old tires from the stream, never placed any fill in it, but rather erected a protective silt skirt fence along the stream's edge to prevent erosion.

Pozsgai's arrest and indictment were trumpeted in a press release issued by the U.S. Attorney for the Eastern District of Pennsylvania in Philadelphia, who now heads the criminal division of the Justice Department. The government was going to spare no expense in criminally prosecuting Mr. Pozsgai, although there are ample administrative and civil remedies available to the EPA to handle such regulatory matters. Violent criminals would have to wait the prosecutor's attention.

The trial took place during the Christmas holidays, December 26-30, 1988. The lead prosecutor, Assistant U.S. Attorney Seth Weber, was so confused by the Clean Water Act's requirements himself that he mistakenly thought that Mr. Pozsgai needed a National Pollutant Discharge Elimination System permit from the EPA, which is required for factories discharging wastes into water, rather than a simple fill permit from the Corps of Engineers. If an educated prosecutor doesn't know which permit Pozsgai is required to have, certainly Pozsgai, a Hungarian immigrant

with little schooling, could be forgiven if he found the morass of regulations a little confusing. Nevertheless, the jury, obviously impressed with the videotapes and the government's expert witnesses, found Pozsgai guilty.

John Pozsgai was sentenced on July 13, 1989. At the urging of the prosecutor, U.S. District Court Judge Marvin Katz sentenced Pozsgai, who has no criminal history, to three years in jail, the maximum sentence under the Clean Water Act, fined him \$202,000, ordered him to be placed on probation for five years after he serves his three-year prison term, and to restore the property *not* to what it was, but to a pristine wetland according to plans by the Corps of Engineers. The judge and prosecutor ignored the probation report that this "crime" wasn't serious, that Pozsgai's wife, also a Hungarian immigrant, has a heart condition and that jailing her husband, her sole support, would likely kill her, and that the fines would impoverish Mr. Pozsgai who has a negative net worth and a meager income. Rarely do we see such examples made of the most violent criminals.

Pozsgai then asked the Washington Legal Foundation, a pro-free enterprise, public interest law and policy center, to represent him before the United States Court of Appeals for the Third Circuit. Incredibly, the court upheld his conviction on January 12, 1990, without holding oral arguments and without stating any reasons for its decision. If the Supreme Court doesn't reverse the case, the sentence imposed on Pozsgai would be the longest prison term ever served for violating the Clean Water Act or, for that matter, any other U.S. environmental law.

Research by the Washington Legal Foundation of all environmental crimes from fiscal years 1983-1989 shows that the usual disposition is a moderate fine and probation. In the rare case, a small jail term may be imposed for a dangerous polluter's dumping toxic or hazardous wastes.

Sending a "Message"

Why was Pozsgai targeted for the most serious penalty the law has to offer for simply putting clean fill on his own property? To quote the prosecutor, "a message must be sent to all land owners, the corporations, the developers of this country" that fines, probation, and short prison terms are a thing of the past for environmental offenses, especially

those involving wetlands, because of President Bush's "no net-loss of wetlands" policy.

The government means business, at least when it comes to prosecuting the little guy. For at the same time Federal prosecutors were going after John Pozsgai, they were prosecuting another "water polluter" in Florida. Ocie Mills, a 58-year-old retiree, and his son were convicted and sentenced to two years in jail for placing 19 loads of sand on his property without a permit, even though Florida officials told him that none was required. Mills, who defended himself, proved no match to the *three* Federal prosecutors assigned to the case. Unlike Mr. Pozsgai, who was luckily placed on bail pending appeal, Mr. Mills was ordered incarcerated while his appeal works its way through the courts. Mills already has served a year of his sentence in a Federal penitentiary.

In short, the government intends to use the Pozsgai case as a precedent to start imprisoning corporate officers and other businessmen for environmental offenses, even though heretofore wetland cases have been prosecuted only in civil proceedings.

As for explaining how a typical arsonist would receive a much more lenient sentence than that meted out against John Pozsgai, the Justice Department responds in its appeal brief that arson "is directed at a limited number of victims," whereas the victims of Mr. Pozsgai's so-called crime "include the public at large."

The government also takes great offense at the Washington Legal Foundation's other arguments on appeal. For example, we point out that the statutory definition of "pollutants" means a discharge of earth or sand into "water" not "wetlands." The word "wetlands" is nowhere defined in the Clean Water Act. Therefore, since Pozsgai didn't dump anything into water, no crime took place. The Justice Department characterizes our interpretation of the word "water" to mean "liquid water" as an "innovative reading of the Clean Water Act." Only to government bureaucrats at the EPA and Corps of Engineers, with an ever-increasing jurisdictional appetite, would the placing of earth on other earth constitute a discharge of pollutants into water.

As for failing to prove at the trial that the stream was a tributary of the Pennsylvania Canal, or that the canal was used in interstate commerce (both of which, in this case, are prerequisites to Federal

jurisdiction), the government blithely responds that the dictionary defines "canal" as a waterway used in navigation, and the jury can simply assume it was used in interstate commerce.

We also point out that by the Corps of Engineers' own estimate, over 97 percent of permit applications are granted. Indeed, John Pozsgai has had an application pending for what the Corps refers to as an after-the-fact permit. It certainly would be a gross miscarriage of justice if Mr. Pozsgai were to spend three years in jail and be liable for \$202,000 in fines when he is likely to get an after-the-fact permit that authorizes the fill already placed on five acres of the 14-acre site, especially

when the amount of fill is well below the 10-acre exemption for isolated wetlands.

Regardless of the outcome of the Pozsgai and Mills cases, the Justice Department, White House, and Congress need to take a hard look to determine whether overzealous prosecutors and EPA officials are invoking President Bush's concern for the environment while ignoring his pledge to have his Administration foster a kinder, gentler America. To most Americans, scarce prosecutorial resources would be better spent fighting major polluters and violent criminals than imprisoning citizens whose only crime was to place clean fill on their own property. □

The Social Role of Private Property Rights

by Gene Smiley

P rivate property rights are the rights of a person to use his property in whatever way he chooses providing that he doesn't use force or fraud on any other person. One of the first economists to emphasize the importance of property rights was the Austrian economist Carl Menger. Writing in 1871, Menger noted that for most goods the quantities available were insufficient to meet everyone's needs. Potentially every consumer's interest was opposed to that of every other consumer's in the struggle to obtain some of the scarce goods:

. . . with this opposition of interest, it becomes necessary for society to protect the various individuals in the possession of goods subject to this relationship against all possible acts of force. In this way, then, we arrive at the economic origin of our present legal order, and especially of the so-called protection of ownership, the basis of

property. . . . Property, therefore, like human economy, is not an arbitrary invention but rather the only practically possible solution of the problem that is, in the nature of things, imposed upon us by the disparity between requirements for, and available quantities of, all economic goods.¹

Private property rights, then, are a social institution which tends to bring about peace and harmony in a society of free people. In fact, they are one of the main foundations of a free society. There can be no personal or political freedom without freedom in the use of one's property. Limiting one type of freedom limits all freedoms.

But the social role of private property rights extends far beyond this. From the early 19th century to well past the middle of this century, Americans had the highest and fastest growing incomes in the world. The major factor behind this rising standard of living was their secure property rights.

Frequently it is suggested that the reason for this

Dr. Smiley is Associate Professor of Economics at Marquette University.

rapid growth was not Americans' property rights, but the fact that the United States was more technologically advanced than other nations. However, technological knowledge tends to flow easily between countries.

Consider, for example, Britain's failure to prevent the spread of the technical knowledge needed to mass produce cotton textiles. In 1789 Samuel Slater, a mechanic, immigrated to the United States with such knowledge, and with the capital of Moses Brown and William Almy began cotton textile production using British innovations. In 1810 a Boston merchant, Francis Lowell, observed British textile machinery on a trip through England. He memorized the designs and upon his return to the United States had a mechanic, Paul Moody, construct machinery from the plans he had put to memory. Moody improved upon these designs, and the Boston Manufacturing Company, the first of the great American textile producers, was established in 1813. By 1850 the United States had become a leading cotton textile producer.

Or consider the late 19th-century steel industry. The technology developed to produce steel was no secret from producers in other countries. But the United States came so to dominate steel production that it produced more steel than the rest of the world combined. Andrew Carnegie, a Scottish immigrant, willingly tore down old steel plants to build ones incorporating the latest technology because he was secure in the knowledge that they were his property. By the end of the 19th century the Carnegie Steel Company was the largest in the world.

The Impetus to Invest

The existence of secure property rights and laws of contract provided the impetus for these and other Americans to work, create, and invest. Jonathan Hughes has written, "People were willing to make extreme sacrifices to acquire property rights, to engage in undertakings with distant pay-offs—from clearing lands to building steel mills—in the hope of personal or family gain from property ownership."² As Hughes has noted, the framers of the Constitution considered private contracts so important that they were given precedence over the legislative powers of the states. (It should be noted that the Supreme Court reversed this in the 1930s when it abrogated all gold clauses in con-

tracts in order to allow the federal government to make it illegal for citizens to own gold coins and/or bullion.)

The American system of secure private property rights has given the United States greater social stability than that of most other countries. The one great struggle in the United States, the Civil War, was fundamentally due to the perception by Southerners that their "property rights" in black slaves were threatened. Of course, Southern slaveholders had these "rights" only because they used the power of government to crush the blacks' rights to self-ownership.

In many countries labor unions became vehicles to promote social changes either through the political process or through revolution. Though there were always a few such groups in the United States, such as the Associationists of the 1840s, the Marxian Socialists, Lassalleian Socialists, and Anarchists of the post-bellum era, and the Industrial Workers of the World after 1905, these were always minor or fringe groups.

The dominant labor unions of the late 19th and 20th centuries, the National Labor Union, the Knights of Labor, and the American Federation of Labor, generally rejected radicalism. They chose an economic agenda of improving the wages and working conditions of their members rather than becoming a political party with political objectives.

The basic reason for this was that the workers themselves were property owners with an interest in maintaining society and the existing rights to property. They had reasonable expectations of accumulating additional property. Political agendas which argued for the alteration or destruction of private property rights and contracts were correctly seen as being against the interests of most workers.

In a mobile, growing society, private property rights and laws of contract become what Hughes calls the "social bond" bringing peace and stability. Much of the unparalleled growth, prosperity, and freedom which the citizens of the United States have enjoyed for more than 200 years is due to the existence of secure private property rights and laws of contract. □

1. Carl Menger, *Principles of Economics*, translation of 1871 edition by James Dingwall and Bert F. Hoselitz (New York: New York University Press, 1981), p. 97.

2. Jonathan Hughes, *American Economic History*, 2nd edition (Glenview, IL: Scott, Foresman, and Co., 1987), pp. 577-78.

Saving a Forest: What Can We Do?

by Michael Reed

"... the freedom to use private property ends at the property line."

— BENJAMIN A. ROGGE

The noisy chatter of chain saws and the crack-thud of tall trees being felled had been going on for a full week and was getting nearer to my back property line every day. My neighbors lived across the road to the east and next-door to the south. To the north was an empty parcel of acreage owned by the water bureau. The back of my house (and all my next-door neighbors' houses) faced west, gazing contentedly at almost 100 acres of verdant whispering-pine forest.

The trees offered an early respite from the searing heat of the setting afternoon sun, and brought cool, peacefully quiet summer evenings. But now that someone was cutting down those trees, the seclusion and idyllic evenings were in danger of extinction.

This eventuality evoked a singular question from neighbors and friends: "What can we do?" I found it immensely intriguing that the unanimous solution they proposed was to forcefully stop the owner of the trees from cutting them down.

Phone calls buzzed back and forth. My next-door neighbor called, asking in frantic tones, "What can we do? Can't we call the Sierra Club or some government agency?" A visiting friend, sitting on the deck and looking out at what remained of the trees, shook his head and complained that this despoiler of the forest should be stopped.

Mr. Reed is a technical writer in Portland, Oregon.

All these reactions endorsed the use of some coercive means to stop the owner of the trees from doing as he wished with his own property. This caused me to ponder some of the motives behind these reactions and to seek a more creative answer—a peaceful, noncoercive solution.

The Cutting Continues

For some time, I could only hear the chain saws. Soon, however, the loggers could be seen right at the property line, felling huge trees that shook the ground as they hit.

That day, about mid-afternoon, I moseyed down to the fence line and caught the attention of one of the loggers. I asked him if the property had been sold. He replied that only the trees had been sold and they were being cut down for mill processing. He said that if they weren't cut down now they would be past their prime for use as lumber.

At this point, I should explain that the owner of this forest property had put it up for sale in ten-acre parcels about a year before the first chain saw whipcord was pulled. During that time, none of the property had been sold. I surmised that since the owner couldn't sell the property as he had originally intended, he either wanted, or needed, to at least get value out of the trees.

After pondering the reactions of my neighbors, it occurred to me that what they were complaining about was the loss of a perceived benefit they had been receiving from the tall, magnificent pines growing behind their houses. These trees provided them with shade, privacy, and the aesthetic pleasure of a verdant view. But the problem with their complaints, I concluded, was that they had been

receiving all these benefits for free. These benefits were the result of another property owner's decision to keep the trees on his property rather than build houses, turn the property into pasture, or put it to some other use.

It didn't occur to my neighbors that their own property had once been tree-covered—just like the property behind them—and that at some time, the decision had been made to cut the trees down and put it to another use. But now that they were using their own land just as they wished, they were (incomprehensibly, to me) proposing to tell another property owner that he couldn't do as he wished with *his* property.

As Bernard Siegan has observed, "Everyone wants to live under optimum conditions, and one means to that end is to control the use of other people's property."¹ It was readily apparent that "control" certainly was the issue here.

As I continued my research, I discovered and formulated a few noncoercive approaches these folks might have used to allow them to live under optimal conditions and still protect the perceived benefits of having the trees at their back doors.

An Initial Approach

As I mentioned before, the owner of the forest had placed the property up for sale earlier in the year. At that time, I read this as a signal that it might be prudent to place a bid on a piece of this property to ensure myself of a small remnant of privacy in the event that the entire area were sold for building lots.

Again, the original offer was for ten-acre parcels. However, I could afford to bid on only two acres. Decisively, I placed a counteroffer and, just as decisively, was turned down. I never determined whether the owner chose to sell in only ten-acre lots, or whether county zoning regulations forced him to sell in those quantities, but the bottom line was that this avenue was closed.

However, this was one way in which my neighbors could have protected their interests without interfering with anyone else's affairs. But, as far as I know, not one of them offered to buy any of this property when it was for sale. They wanted to keep the benefits of having the forest, but they weren't willing to pay for them. Their only solution was somehow to prevent the owner from taking away what didn't belong to them in the first place.



Creative Possibilities

Now, suppose that my neighbors were in the same situation that I was, and they couldn't afford to bid individually on the ten-acre parcels.

Another solution would have been the use of restrictive covenants. These covenants "... usually govern architectural requirements, cost of construction, aesthetics, and maintenance." However, to "... completely control an area by restrictive covenants where none exist requires an agreement by every owner, since only the properties of those who sign are bound."² But, as architect John Gillis points out, while it is true that restrictive covenants are most easily applied in new neighborhoods

where requirements can be agreed upon from the beginning of development, "... some measures can be taken in an existing area. A property association can be formed, and members can agree to abide by certain limits. . . ." Of course, he says, there may be a few holdouts, but "If the agreeing landowners feel strongly enough, they can offer to purchase the few holdouts, so that deed covenants can be added to those properties. Then they can resell the property to a new owner. Another option is to ignore the few holdouts for the time being, since most of the neighbors have agreed on a certain set of conditions.

Then as the few holdouts come up for sale over the years, the association can bid on them and slowly complete the process of protection."³ In this case, perhaps I, and my concerned neighbors, could have combined our assets and co-owned a ten-acre parcel of land with a mutual agreement to preserve the trees.

Finally, if none of these solutions to preserve the trees was satisfactory, the individual property owners could have planted a row of trees at the back of their property as a kind of "privacy curtain." This would directly put their money where their perceived benefits were.

While it is beyond the scope of this essay to compile an exhaustive catalog of solutions to the myriad issues that surround the concept of private property, the key to each of my proposed solutions is that they are consistent "... with the ideals of a free society in which people should be able to do as they please unless their acts clearly harm or interfere with the liberties of others."⁴

This statement can be further distilled into a Confucian maxim that Leonard Read frequently emphasized, a phrase that I consider to be the essence of the freedom philosophy: "Do not unto others that which you would not have them do unto you." When this philosophy is consistently applied, freedom expands as all individuals are free to act peacefully and creatively without "neighborly" coercion. And as this philosophy is consistently appropriate to other areas and actions in life, it is just as appropriate when it comes to private property and creating peaceful answers to the question, "What can we do?"

At last the day came when all the trees were gone. Where I once had shade for my deck begin-

ning in late afternoon, I now had the glaring solar heat beating down until well past eight in the evening.

O.K., I thought, so now what? Then, one day as I gazed out over the now clear-cut acreage, the wise words of Alexander Graham Bell came back to me from somewhere over the barren horizon. "When one door closes," I could almost hear him gently saying, "another opens, but we often look so long and so regretfully upon the closed door that we do not see the one which has opened for us."

In this moment of enlightenment, I created my own peaceful solution: I decided to purchase an awning. Soon it was installed in all its glory. In addition to being colorfully striped and enhancing the appearance of the house, the awning shaded the deck for the entire afternoon when the sun was fiercely blazing overhead. And when the sun finally dipped below the horizon, I discovered the secret that the tall trees had been keeping: swirling vermillion and neon-tangerine sunsets that were splashed, as if by some heavenly impressionist, across the canvas of the turquoise-fading-to-violet evening sky. Another door truly had opened.

Interestingly enough, after all the initial comments from my neighbors, no one actually did anything at all. As economists know, everything has a cost attached to it. This includes the time, money, and energy it takes to implement coercive proposals. I'm thankful that my neighbors, for whatever reason, found the costs too high.

Epilogue

A few weeks later, I glanced out my back window and saw about a dozen people walking on the clear-cut land in the distance. They would walk a few steps, bend down, walk another few steps, bend down, and repeat the process. Out came the binoculars. With their assistance, I could immediately see what these people were doing.

I smiled and wondered what my friend would say when he learned that his "despoiler of the forest" was planting new trees. □

1. Bernard H. Siegan, *Other People's Property* (Lexington, MA: Lexington Books, 1976), p. 11.

2. *Ibid.*, pp. 58, 59.

3. John Gillis, "The Impracticality of Zoning," *The Freeman*, October 1987, p. 374.

4. Siegan, p. 55.

Building a Barn

by Hannah Lapp

One day early in 1974, Dad said, “Let’s build a new barn and milk 80 cows!” And not one of us offered to knock down the suggestion. It was just as though we were all waiting for him to say it, so we could add to it our own hidden aspirations. Everyone, from Dad who worked nights at a canning factory, down to the littlest child, Nathan, who felt sure he needed more to do, was itching to embark on a project big enough to accommodate more of our energy.

Milking 20 cows didn’t come close to employing all of us at our home in Cassadaga, in western New York. My sisters Rebecca and Drusilla still worked night shifts at the ice cream factory, and kept wishing they could get away from it. Dad was an A.I. (artificial insemination) technician for American Breeders Service besides holding his factory job. The older girls still worked for produce farmers in the lake area off and on during most months of the year.

What we really wanted was work at home, and it had been only Dad’s reluctance to operate on borrowed money that held us back this long. If we were going to invest in a large barn and silo, and buy the cows and equipment to go with it, we were going to do some thorough planning first.

Our labor resources were not questioned, for there wasn’t one of us in our family of 13 who wasn’t anxiously waiting to fill his role in making the operation run. It couldn’t have mattered less to us that Dad said there would be no wages paid. We took for granted that we would share jointly in the rewards of an enterprise jointly run.

Money was a more complex matter. We had never done something like borrow \$20,000 for a

Hannah Lapp is a dairy farmer and writer in Cassadaga, New York. This article is excerpted from a book she is writing about her family and their experiences as farmers and farm workers.

barn, \$10,000 for a silo, and another \$20,000 for machinery and good cows.

“Why not just 50 cows?” suggested the more skeptical family members. But the voices of those who were determined to quit their off-farm jobs and work at home were louder. We debated and calculated hard and long. Finally a compromise was reached that set the herd size at 60 cows and silo at 70 feet high by 20 feet wide. The total investment would be \$50,000.

The design for the barn was developed step by step through studying the barns of other farmers and listening to their comments. Although Dad wasn’t an experienced architect, we determined to take advantage of our own family labor by building the whole thing ourselves. My brother Chris had a good head for calculations. We girls, down to the littlest ones, believed ourselves capable of becoming construction workers, and Dad expressed no reservations in the matter.

Above the southern rim of our valley stretches a 200-acre forest with dozens of different kinds of trees, some of which could be used for lumber. The previous owner of our place had taken out all the marketable timber, but had left the hemlocks. Dad took to the woods with chain saw, tractor, logging chains, and tape measure to cut the lumber trees we needed for our building project.

Logging Begins

Logging began that summer. Often Dad had only one of us younger children as an assistant. At nearly 9 years old, I thought myself just the right size to take this position, and somehow, perhaps because I was not yet bound to many farm duties, I got what I wanted. I followed Dad to the woods day after day, a serious, dedicated helper on the

one hand, and on the other hand an altogether frivolous youngster carried away by the charms of the deep forest. I carried tools and even the chain saw for him, and every time a tree was felled, I held the end of a rule in place as he marked out 20-foot lengths on its trunk.

Dad stripped the logs of all branches, hooked them to heavy chains, and dragged them out with the tractor. I followed the path of the logs until we reached the wood's edge, then stopped in the shade to rest while Dad dragged them on down over the fields and hills for home. He usually returned after about 15 minutes, leaving me just enough time to do a little exploring or carve letters into a tree trunk.

The "silo men," as we children called the five-man construction crew that erected our silo, came in late July. The excavating had been done for the barn, but the silo was the first to rise from the ground and let the world know that cows would live there.

The silo men raised their scaffold ever higher, and the soft concrete mix now had to be hoisted far up the silo wall before being dumped into forms to constitute more wall. We children observed their work day by day and wondered how they could tolerate the height as they pushed toward the top of the silo's 70 feet. Metal steps were one by one concreted into the silo wall, creating a ladder from bottom to top of the structure. One of the silo men used to shock us with his stunt of rapidly descending the silo with only his hands catching the ladder rungs while his feet slid down alongside.

By mid-August, the 70 feet of silo were up, and the figures of the men as they worked on top looked dwarfed and distant. Atop the rim of the silo, they erected a ten-foot dome roof in bold green and white stripes. The silo now waited to be fed with 550 tons of corn silage. Since chopping that much corn by hand wasn't feasible, we bought a mechanical chopper to do the job, and a brand-new, 70-horsepower tractor to pull it.

Laying the Foundation

The blueprint for our barn was shaped over many hours of time, hours spent by Dad, Chris, and my sister Lydia, crouched over big sheets of paper spread out on the living room floor. Dad may have been the head planner, but Lydia, who was a teacher, had to help with complicated fig-

ures, and 15-year-old Chris's natural ability with mathematics was invaluable. It was Chris, who under the occasional supervision of a contractor, laid most of the thousands of concrete blocks comprising our barn walls' 140-foot length and 40-foot width.

The older sisters picked tomatoes that fall, so Barbara, then 13, also learned the masonry trade. She and Rachel made the mortar by mixing sand and water with cement powder. They tried hard to get the mortar's consistency just right with the proper amounts of each ingredient. Sometimes the mix turned out too hard, or so soft that the block-layer rejected it. Sometimes they mixed too much at a time, forcing the crew to work overtime to use it up before it dried. When they succeeded in turning out a batch that pleased everyone, they called it a "jolly mix."

After the block wall was up, we were forced either to accustom ourselves to working at steadily increasing heights or be left out of the game. Since no able-bodied Lapp worker was going to accept being left out, we one by one timidly climbed up to try the eight-foot wall. "You'll learn," Dad assured us. "Here, hold this." He placed the end of a measuring tape into Nancy's hand as she hesitatingly tested her balance atop the wall. Dad strode off toward the far end of the barn, drawing out the length of the tape. And then he did not stop. "Follow me," he casually called over his shoulder as he went on, holding one end of the tape as Nancy held the other. Dad's pace seemed impossible to match, and Nancy at first tried to draw back. But pulling against him upset her balance so badly that she found it was best to just keep running after him, all the way to the end. After such an introduction, she had little trouble with working atop the barn wall.

Two ceiling beams, consisting of 2x8's nailed together four thick, were to be set up the length of the barn. "Now, how will this be done?" was always the question when we came to each new task, especially such a job as raising 140-foot-long beams to ceiling height and supporting them with posts. As with every other step in the barn-building process, the workers gathered to hear ideas exchanged and together improvised a plan. First, board racks were put on the bed of our old pickup truck, and the box stacked full of hay bales that reached almost to the barn ceiling height. The truck was parked inside the barn walls, and the 2x8's constituting the beam were nailed together in

Lapp family farm hands, left to right: Barbara with daughter Miriam; Lydia with daughter Melissa; Drusilla with son Abel; Rachel; Hannah; Dad (Jacob); Mom (Barbara); Nathan; Susan.



TODD GUICHARD

their proper position atop the load of hay. As more length was added to the giant beam, the truck crept slowly forward, and temporary supports were placed under the finished portions. Several workers carefully lifted the weight of the beam's free end each time the truck moved forward.

Permanent pillars were made for the beams using old six-inch metal pipe which we filled with cement. Each pipe was planted in a five-gallon bucketful of concrete and then sunk into a hole in the ground before it took the weight of the beam. Fifteen of these pillars, under each of the two beams, were to suffice to hold up some 100 tons of hay which we would some day store in the loft.

Snow fell on October 2nd that year, giving us qualms about completing our construction project before winter closed in. The work was not in professional hands and progressed but little by little. One late October day when the sun shone and work was frenzied, the noise of a honking horn grabbed our attention. It was Drusilla, Nancy, and Lavina arriving home from work and announcing with a good deal of ballyhoo that the tomato picking season was over. After that the barn took shape fast.

Raising the Roof

Each rafter for the gambrel roof was nailed together atop the barn ceiling, then painstakingly balanced by a team of seven workers as it was raised to its permanent upright position. The roof peak rose 20 feet from the ceiling, or loft floor, of the barn. The loft floor as yet was just a temporary network of boards strewn over the joists. The workers learned to move about with confidence over these boards. Actually, it was too easy for confidence to take the place of caution. Lavina once landed a foot too close to the end of a loose

board and it tipped, reared up, and whacked her forehead with the other end. She slipped down between the floor joists but caught herself at chest level and hauled herself back up so fast that only a good bruise on her ribs remained as evidence of her sudden descent.

Each family member had to make his own sacrifices in the rush to close up our barn before winter settled in. Off-time was reduced and even our usual Sunday and evening Bible study hours had to be compromised. At meal time and breaks, there were just a few minutes to relax before someone would get up to sound the action slogan "Barn ain't done yet!" sending a fresh surge of motivation exploding through our veins. With one accord, the group would be dashing for the construction site, the girls' skirts flying . . . and the chorus of a half-dozen hammers would sound again. Sometimes, the workers were served their snack of hot chocolate and popcorn while perched atop some board ten feet above ground level.

Barn rafters were done in a week, and laths were nailed across them, introducing the workers to steadily greater heights. By the time they reached the peak of the barn, they could monkey up and down the laths with skill and confidence. Rachel, next oldest to me, was the youngest Lapp to brave the barn roof.

When we started to nail on the tin, neighbor Howard Spinler and his son appeared unexpectedly to speed up the process. Although they were initially skeptical of the roof heights, their strength and carpentry abilities proved to be a boost that cut the roofing time in half. It was with great relief that we closed up the roof, for stormy weather was in the forecast.

December came before the gutters were all dug and forms nailed in place for concreting the floor

of our barn. Starting with the milk-house floor, we began pouring concrete on December 3rd and took until January 1st to finish. No one took a count of the wheelbarrows full of soft cement that were wheeled over plank tracks to be emptied into board forms. But the concreting days, known for their long hours of strenuous work, were counted one by one. The advance of truly cold weather was cause for alarm; even with portable heaters running inside the barn, it was difficult some days to keep the cement mixture from freezing before it hardened.

The feat of driving a wheelbarrow weighed down with 250 pounds of gently rolling cement mix while keeping it from tipping or sliding off the board track demanded such a level of combined strength and skill that at first some of the girls thought it impossible. To spill your load was just out of the question—but so was refusing to try. One by one the girls conquered the challenge until they found their uncertainty replaced by sheer anticipation over the daily arrival of the Dunkirk Ready Mix trucks. Since the truck driver charged for his waiting time, the cement forms had to be ready on schedule, as well as several wheelbarrows with their drivers.

"If there's one downright ugly task," Dad says now in looking back, "it's getting concrete forms just right, and on schedule for the cement truck. Boy, I remember how it was when they bulged, or shifted too! How did we figure we could do it?"

"Barn Ain't Done Yet!"

One of the ways we got it done was by working late into the night, lanterns overhead lighting the work area where Dad, Mom, Chris, and sometimes Drusilla, Nancy, and Lavina bent over trowels, hammers, boards, and levels, smoothing concrete and making forms for more. Ten o'clock at night was a very poor time to run into problems with your work, too. Lavina hated to hear Dad grumble, which he was apt to do at that hour, so she tried hard to keep things running right and not complain herself. If she did bother with talking about the length of her workday, one of her sisters would probably just quickly retort, "Barn ain't done yet!"

Except for electrical and plumbing jobs which required professional supervision, the barn building was completed January 1, 1975. That afternoon, a blizzard swept into Cassadaga, enveloping

us in fresh levels of cold and snow.

On January 9, we led our milk cows one by one down the road from the old barn and began, before a crowd of spectators and with some appropriate fanfare, to milk cows in the New Barn. Since our new bulk tank was not yet in operating condition, we had to lug all the milk back up to the old barn for a few days. We just couldn't wait longer to take our cows out of the crowded old quarters and see them in their new stalls. The last six months of labor had centered around getting them into a clean, spacious, and comfortable setting where they would kindly reward us with returns on our investment.

Beyond the teenage enthusiasm, aspirations, and innocence involved in the development of our 60-cow dairy, and beyond the sentiments of a family longing to share together in an honorable enterprise, there loomed some cold, hard facts. Cassalea Farms was now an \$80,000 business whose success depended on more than just good intentions and hard, honest labor. Each family member over 18 now worked under a \$10,000 debt.

It is such figures as these, and much bigger ones, that rob the simplicity from farming. In handling large sums of money, we make ourselves more than just common laborers. We become investors and businessmen, and the farmers who fail to acknowledge this and neglect the discretion of an investor are among those who eventually go down the drain hollering for society, the banks, and government to bail them out.

The investment per worker in our case was lower than in most other dairy operations we know, because we continued to rely on hand labor where most others used machines. But there also are farmers who have readily outdone us in keeping debt down. The frugal, debt-free, and therefore successful kind may be rare nowadays, but those that remain are farmer-businessmen as dedicated, tenacious, and shrewd as ever there have been.

There are also those farmers who consider their choice of occupation so important that they are willing to ask others to finance their efforts to keep going at a loss. This is where the rights of others enter the picture. Strong sentiments toward working the land and owning animals can be respected, but letting these sentiments rule the handling of large investments should be done at the risk of the operator, and not at the expense of American taxpayers. □

Freeman

Interview:

Wan Runnan

On June 4, 1989, Chinese troops stormed Tiananmen Square in Beijing and massacred hundreds of students and citizens, thus bringing to an end the peaceful protests which threatened to topple Communist rule. While Eastern Europe has seen the astonishing success of democratic forces, the images from the Beijing Spring—the Goddess of Democracy, student leader Wuer Kaixi lecturing Prime Minister Li Peng, and the lone protester standing in defiant anger before an advancing tank column—continue to inspire despite the government crackdown. What many do not know is that private entrepreneurs worked side by side with the student protesters in advancing the cause of liberty. Among them was China's best known businessman, Wan Runnan.

Born October 29, 1946, in Jiangsu province, Wan Runnan was in college studying engineering when he had his first taste of repression. With the fanaticism of the Cultural Revolution sweeping the country, Mr. Wan was forced to interrupt his studies by the authorities and sent, without reason, to labor as a railway worker in the countryside. He eventually graduated from Qinghua University and went on to a position with the National Academy of Natural Sciences.

Mr. Wan grew increasingly frustrated with the Communist system and began to look for ways to promote a free market in China. In 1984 he started Stone Corporation, which produces computer software and English-Chinese word processors. Starting out with a loan of 20,000 yuan, Stone Cor-

poration grew rapidly and reached sales of 8 million yuan in 1989. The company presently employs 2,000 workers and has branches in Hong Kong, Australia, France, and California's Silicon Valley. Stone is credited as being the largest privately owned business in China, which earned Wan Runnan the title of "China's leading businessman."

When the pro-democracy protests began in the spring of 1989, Mr. Wan provided material support for the demonstrators in Tiananmen Square and helped organize negotiations between the students and government. He became convinced that the Communists would crack down if the square wasn't evacuated, but his warnings to the students went unheeded and the massacre soon followed. Mr. Wan decided to flee after the June 4 crackdown and is now wanted by the Chinese authorities.

A month after the massacre Wan Runnan, along with prominent exiles such as Wuer Kaixi and Yan Jiaqi, met in Paris to call for the creation of the Federation for a Democratic China. At the FDC's inaugural conference last September, Mr. Wan was appointed Secretary-General of the organization. He was the main force behind the FDC's adoption of a resolution calling for a free market in China and has become the most vocal advocate for private enterprise.

On January 17, 1990, having just returned from a six-week trip abroad and a meeting with New York Congressman Stephen Solarz, Wan Runnan spoke with Paris-based journalist Daniel Pruzin at FDC headquarters in Paris. The Chinese-English translation was provided by Lan Dong, Secretary of Information for the FDC.

Q: I'd first like to ask what inspired you to start up Stone Corporation? Did you face many obstacles?

A: I would say that the main reason for starting up Stone Corporation was not to make money but to explore the ways and means of reforming China through free market means. And needless to say, there were a lot of initial obstacles from the government to overcome!

Q: What were the problems that needed reforming?

A: The main problem that came to my mind had to do with ownership. In China, the means of production are mostly state-owned. For example, in the countryside you have something called the

Daniel R. Pruzin, who conducted this interview, is a journalist based in Paris. He holds a Master of Science in International Relations from the London School of Economics.



Wan Runnan

self-contract responsibility system, in which land is owned by the state but individual farmers are responsible for how the land is used. They fill state quotas, but the farmers can choose what to grow and can keep what profits are made from the surplus.

The problem, though, is that the land is still state-owned. As long as private ownership is not established in China, it will be very hard to stimulate the economy and expand upon this initial development.

Q: Your involvement with Stone Corporation indicates that you lost faith in the Communist system. When did you become a believer in the free market?

A: To be frank, a long time ago. Before the Cultural Revolution I began to disbelieve in the Communist economic system.

Q: How did you first become involved with the pro-democracy movement?

A: Well, like many other common citizens I was initially just an observer who was sympathetic with the students' demands. I was inspired by their bravery. I then decided to get involved by supplying the demonstrators at Tiananmen Square with food and drink.

Q: But why did you get involved? After all, you had a successful company and served as a role model for Deng Xiaoping's modernization program. Why did you risk all of this?

A: To understand this you have to understand my background. As I said, the reason I started Stone Corporation wasn't to make money but to

explore the ways and means of reforming China politically and economically. I also established a research institute to study political and economic issues. My partner at this institute, Mr. Cao Siyuan, used to work with the economic reform commission of the state. He was the first to propose China's bankruptcy laws, the monitoring system, and the auditing system at the People's Congress [China's representative body]. Unfortunately, this very prestigious scholar was arrested after the June 4 crackdown.

Then you have to look at the demonstrations last spring. During the Tiananmen movement, private businesses were among the most active supporters of the students. The students had a genuine trust in us; when they had problems or difficulties they came to us for help.

So as you can see, my involvement in private enterprise hasn't been for personal gain but has always had political and economic purposes behind it.

Q: At one crucial point in the pro-democracy movement last spring you played a major role in arranging a secret meeting between the student demonstrators and then-Communist Party General Secretary Zhao Ziyang.¹ This was just before the arrival of Mikhail Gorbachev for a state visit, and the government wanted the students out of Tiananmen Square to avoid public embarrassment. Why did the government turn to you to arrange the meeting?

A: As a matter of fact, the government didn't ask me to arrange the meeting. I, along with others, took the initiative to arrange the meeting out of humanitarian concerns—we were afraid things were getting out of control and that violence would erupt.

I actually helped to arrange three secret meetings between the students and the government. The first one took place at the International Hotel, the second at Beijing Hotel, and the third at Stone Hotel.

I told the student leaders at the meeting that the square would have to be evacuated, and eventually they came to agree with me. But there was such confusion at the time! At the peak of the demonstrations there were students from about 75 different universities, which made it difficult to establish order. So even though the student leaders agreed with me to evacuate the square, they couldn't con-

trol the demonstrators and couldn't get them out of the square.

Q: It's sadly ironic then that everybody agreed to evacuate the square in order to calm things down but couldn't.

A: Yes, indeed. We had a slogan at that moment called "The Four Senses." The slogan was: "Students back to school! Troops back to their barracks! Repeal martial law! Restore order!" This was our position at the time and *not* the government's.

Q: Did you have a feeling that everything would end in tragedy, or did you still believe the pro-democracy movement would triumph?

A: I did believe that a tragedy would happen. I even told this to Mr. Wang Dan, one of the student leaders. I asked him to listen to me, to follow my advice, because I knew the Communists and was much, much more experienced in dealing with them. Unfortunately, he didn't believe me.²

Q: At what point did you feel that everything was lost? The student leader Shen Tong said in a recent interview that he knew it was all over by May 14, the day the students failed to evacuate the square before Gorbachev's arrival.

A: I thought that tragedy was inevitable the day martial law was declared, on May 19. Before martial law, there was still a balance between the two forces struggling against each other. At this stage it was still possible for either power to overcome the other. The declaration of martial law signaled the decline in influence of General Secretary Zhao, who was still an advocate of a peaceful resolution. After that, those who advocated force gained the upper hand and the balance tipped in favor of the government.

Q: You were in Beijing when the June 4 massacre took place. What was your initial reaction?

A: My first reaction was simply, "It's too tragic for China." I was at my office at the time, waiting by the telephone for information. Staff members of my company who were at the square ran back and reported everything to me instantly.

Q: Did you decide to flee China at that point?

A: No, not as early as that. After the massacre I first made some day-to-day arrangements at

Stone Corporation, then decided to get out of Beijing and stay in southern China for a while. I had already planned a business trip to Hong Kong to visit my company branch, and it was during my stay there that I decided to escape.

Q: You are currently wanted by the Beijing authorities. What are the official charges against you?

A: (laughing) Well, I think the official charges are something like "planner, organizer, and agitator of the counterrevolutionary movement." But all we did was to support the students' demands and call for an emergency session of the People's Congress. We wanted the students to withdraw from Tiananmen Square, but Deng Xiaoping wanted to settle the problem with tanks and machine guns. We advocated the settlement of the issue within a *legal* framework, that is, an emergency session of the People's Congress. We did nothing wrong!

Q: Let me turn to your involvement with the Federation for a Democratic China. You are recognized as the organization's leading advocate for a free market. How widely supported is the notion of a free market among Chinese people? There seemed to be few demonstrators in Tiananmen Square calling for such an idea.

A: I'd like to start off by saying that the advocacies of a political organization such as the FDC should be different from the advocacies of the masses. For example, at Tiananmen Square the people knew only what they were *against*, not what they were for. A political organization, however, has to go beyond that, to advocate what should be built, what should be established.

As far as whether a free market is supported by most Chinese people, I think you should take a look at the enthusiasm within China for the self-contract responsibility system. The level of support for this system is a sure indication that many Chinese want a free market.

Q: Is it difficult promoting economic reform in an organization primarily concerned with a political goal, i.e., democracy?

A: At the inaugural conference of the FDC last September, support for the free market was written into the organization's charter. It was written into the charter because a majority of our mem-

bers voted in favor of it. It's as much a goal of the FDC as democracy or respect for human rights.

Q: Let me pose a critical question. Some have complained that the FDC has failed to make an impact within China. It has also become apparent that rifts have developed between members, with some criticizing the student leadership in the FDC as being too immature. The FDC vice-president Wuer Kaixi decided to take a five-month leave because of complaints over his personal behavior.³ Has the FDC failed to live up to its potential?

A: Well, this sort of criticism signifies that people have very high expectations for the FDC, otherwise they wouldn't criticize us like that. I agree that the students are young and that they are still learning, but I'd like to point out that they *are* learning. The students were very brave in Tiananmen Square, and they enjoyed admiration from around the world. They are symbolic of the Tiananmen Square movement.

I'd also like to point out that Mr. Wuer Kaixi is outstanding among the student leaders who are now political exiles. He's been very cooperative and has worked very hard learning new things with our people.

Q: You recently returned from a six-week visit to the U.S., Japan, Australia, and Taiwan. What was the purpose of this trip?

A: I had two purposes for my visit to these countries. First of all I wanted to develop the overseas organizations related in some way to the FDC. The second purpose was to establish contacts between the FDC and the governments and people of these four nations. And I can go as far as to say that on both points my trip was very successful.

While I was in the U.S., I met a number of Congressmen, among them the leaders of both parties and the chairmen of the human rights committees in the House and the Senate. I also had the opportunity to visit San Francisco and Los Angeles to have discussions with overseas Chinese in both cities. I'm happy to say that I was given an enthusiastic reception.

Q: The Bush administration has maintained that positive gestures from the Chinese authorities would result from the Scowcroft mission [U.S. National Security Advisor Brent Scowcroft visited

Beijing on a secret mission in December 1989] and would prove that the decision to resume contacts was right. In light of such moves as the lifting of martial law, the release of some 500 pro-democracy demonstrators from prison, and the toning down of anti-U.S. rhetoric, has the Bush administration been proved right?

A: I think that all of what has happened recently in Beijing was actually designed by the Chinese authorities to prove that the Bush administration was right, to justify Scowcroft's visit to Beijing.

We have issued a number of statements saying that the lifting of martial law is false. It's only in name, not in substance. We have ample evidence to indicate that the army simply changed their uniforms with the government police, and that the government police have become plain-clothes agents. Nothing has really changed.

The machinery of crackdown continues to exist. The persecution of pro-democracy demonstrators goes unabated. There are still secret trials, executions, and the continued claim by the government that the June 4 movement was nothing more than an "anti-revolutionary rebellion." To the wise observer, it is clear that nothing has changed.

I believed that some of the pro-democracy demonstrators would be released. But what the Western democracies can't understand is that in order to appear better in the public eye the Communist regime will do almost anything. They'll build fake towns, they'll dress up a prison. I'll give you an example at how skillful they are at making false appearances. When President Nixon first visited Beijing he was invited to visit a store called the Dung Dang Grocery Market. The store was filled with happy customers, each carrying a chicken. A few reporters, however, noticed that the customers weren't paying for their goods. They followed the customers out the front door and saw that they were sneaking around and reentering the store through a back door. There they quietly rejoined the crowd of customers, chicken in hand. The "customers" turned out to be store employees dressed up for the occasion.

There's also the time when President Nixon was visiting the Great Wall. Upon arrival he "spontaneously" met a group of colorfully dressed young people playing cards, dancing, and so forth. They approached Mr. Nixon and treated him with great respect. But one of the reporters who came along was suspicious. After Nixon left, he stayed behind

and watched as the group took off their colorful clothes, lined up, and marched away.

And now the Communist authorities are playing another game with the Bush administration. It's tragic that the Bush administration is not aware of this.

The crux of the problem is not the partial release of those arrested. The problem is, will they release *all* the political prisoners, and will they re-evaluate the 1989 democratic movement? Will they try to put the butchers of Tiananmen Square on trial? That's the problem.

Q: Are you frustrated with the Bush administration's attitude toward the pro-democracy movement or do you feel your long-term interests are being looked after?

A: As an independent organization we must rely upon ourselves, on our own initiative, on our own strength. We cannot rely upon anyone else. The Bush administration has its own practical concerns. In a sense, we are prepared for this. Since we are prepared to rely upon ourselves, there's no point in feeling frustrated. We don't feel any sense of betrayal.

Q: I'd like to ask you about Chinese economic affairs. At this time China is undergoing its most serious economic crisis since the reforms of Deng Xiaoping were introduced in the early 1980s. Beijing authorities recently introduced an austerity plan which, among other things, prescribed controlled prices, strengthened state enterprises, and increased taxes on businesses. Is this austerity plan the answer to China's ills?

A: Even before the June massacre, during March in fact, the Chinese authorities were drawing up plans for austerity. At that time I expressed the opinion that the austerity policy was wrong for the Chinese economy. Not that the Chinese economy wasn't ill; I just thought that the medicine they wanted to use was wrong. It's not going to solve China's problems.

Q: It's been reported that a government crackdown on private businesses coupled with austerity has already forced 2.2 million of China's 14.5 million private enterprises to close.⁴ Is this true?

A: Yes.

Q: Has Stone Corporation been affected?

A: So far Stone Corporation has not been closed. That's because Stone doesn't need investment from the state. On the contrary, we can still provide income for the government, so for this reason we haven't been closed.

Q: Are you still in charge of Stone Corporation?

A: Personally I'd like to believe that I'm the boss, but at the moment it's hard to say. Because I'm wanted by the Chinese authorities, I can't come back to manage the company. I believe though that someday I'll come back to China.

Q: According to the government the reason for the crackdown against private businesses is that many of them have been evading taxes, smuggling, and profiteering.⁵

A: It's natural for such phenomena to occur in an economy that's not well-developed legally. That's understandable. For China especially it's natural to have some cheating going on when for the last 10 years we've been switching from an old economy to an emerging one. In China, however, the fundamental reason for such phenomena emerging is because there's no rule of law but the rule of power. Therefore, we shouldn't think only about invigorating the economy but also think about the demarcation of ownership, the development of rules for the market, and the rule of law instead of the rule of power.

Q: Could the austerity program provoke unrest?

A: Yes, without a doubt. About 40 million Chinese peasants are in the cities as migrant workers, and if the authorities succeed in implementing their program these peasants will be out of work. This would have a great impact on Chinese society.

Q: How far will the austerity program set back China's modernization?

A: It's hard to say. The problem is that the struggle is still going on between those who support austerity and those who support a continued opening of the market and reform. Although the central government wants to force the austerity measures on the rest of the country, there's a great deal of resistance from the provinces. In fact, the provinces have already succeeded by a large degree in overcoming Beijing's austerity plan.

One indication of how the struggle is going

between the two camps is that the governor of the state planning commission, Yao Yilin, has left his post and been replaced by Zhu Jiahua. Although Zhu Jiahua is a supporter of the austerity policy, he is not as conservative as Yao Yilin.

Q: On one hand the Beijing authorities seem to be reverting to orthodox Communism, as political repression increases along with state planning of the economy. On the other hand, the authorities call for a continuation of economic reform and increased economic ties with the outside world. They have even said they want China's special economic zones in the south to keep such privileges as lower taxes and reduced restraints on businesses.⁶ What do you make of these mixed signals?

A: My impression is that they have disordered themselves badly while giving only lip service to reform.

Let me give you an example. An American banker recently asked Yao Yilin what exactly he wanted to reform since he came out in favor of continued economic reform. Yao Yilin didn't know what to answer. An assistant of his whispered to him that the pricing system should be reformed. Suddenly Yao Yilin jumped up and shouted, "Yes, I will reform the pricing system!"

It's this sort of lip service which makes people believe that the government is insincere.

Q: As a businessman, would you advise foreign companies to invest in China at this time?

A: No. My advice for businessmen is this: Under political and economic uncertainties the investment environment should be dubbed as unfavorable. Thus, no investment should be made.

Q: What about economic sanctions? President Bush has lifted some of the sanctions he imposed after the Tiananmen massacre, which Prime Minister Li Peng admitted had hurt the Chinese economy.⁷

A: Of course I'm for continued economic sanctions because any difficulty that can be created for the current regime is a favor to China's democratic movement.

Q: But isn't it true that ultimately economic sanctions fail?

A: It's true that the usefulness of economic sanctions is limited, and I agree that in the long term they will fail. But before they fail sanctions

do some damage. Li Peng himself has felt the proof.

Q: Do you feel that free market reforms are still possible under the present regime, that they can return to the "good old days" of economic growth under Deng?

A: It will be very difficult. The reason is that the people have lost confidence in the present regime. Take me, for example. I used to believe that it would be possible to have economic reforms within the framework of the present political system. Needless to say, I don't believe this anymore.

The events in Eastern Europe have also frightened these leaders, especially the old-timers. They're going to be more cautious and more conservative.

Q: Chinese authorities have also switched to a hard line in respect to their relations with Hong Kong, which will be turned over to the Communists in 1997. Do you think the economic prosperity of Hong Kong as well as China could collapse under the present regime's hard line?

A: Definitely. Hong Kong's future is very much in danger. You might even say that today's Beijing will be tomorrow's Hong Kong. The best chance for Hong Kong is that the democratic movement succeeds before 1997. This is the fundamental solution to Hong Kong's problem.

Q: Let's turn to a future China under democratic rule. In order to achieve this, what has to be done? What priorities have you and the FDC set?

A: First of all, the press ban and the party ban should be lifted. After this the establishment of a multi-party system is our major goal. Only after this is achieved can we work on developing a free market with private ownership.

Q: Do you favor the total privatization of state enterprises?

A: Yes. However, it must be done step-by-step, especially in such areas as transportation and telecommunications.

Q: So you don't favor a rapid abandonment of Communism?

A: No, that's not what I mean. What I mean is that we should take into consideration what existed before. Too rapid a transition might cause social

instability. The best way to transform Chinese society, therefore, is through a gradual step-by-step approach in which the minimal social costs are incurred.

Q: I'd like to ask you about the attitude of the average Chinese person toward entrepreneurs and the free market. A *New York Times* correspondent in Beijing recently wrote that "most Chinese are reluctant to forsake their jobs and plunge into business, with its economic and political risks." Thus many of China's entrepreneurs are "social outcasts" who are unable to find work elsewhere.⁸

A: Well, this describes one aspect of Chinese society. Taking society as a whole, however, this is obviously one-sided.

It's true that some people don't want to take the personal risks and that they feel more secure within the present system, a system where everyone is eating from the big bowl of the state. However, you have to realize that two sides of the Chinese personality exist. There's a sense of security with the present system but there's also an awareness that prosperity is missing. These two wants cannot be both satisfied; one cannot have the security the state provides with a better standard of living. So what you have on the one hand are people who want to keep the security of the big bowl provided by the state but on the other hand these same people are cursing the big bowl because there's less rice in it!

I also don't think it's true that private businessmen are mostly social outcasts. Take me for example; I don't consider myself a social outcast! And there are a lot of people similar to me—people from the National Academy of Natural Sciences, returning students from overseas, and many peasants—all who have become successful businessmen.

Q: Won't you have some difficulties establishing a free market in the countryside, where egalitarianism has been backed up with generous policies from the Communist government?

A: I don't think that is true. The rural areas of China are the most deprived areas in the country. It's here that you will find the most dissatisfaction with Communist rule.

Q: What is China's economic potential? Could a democratic, free market China rival the U.S. or Japan one day?

A: Yes, certainly. Some people are already saying that the 21st century will be China's century. However, this will become a reality only if a democratic system is established in mainland China and good relations are developed between the two sides of Taiwan Strait. It's also dependent on properly settling the Hong Kong issue.

Look at Taiwan, for example. Taiwan is only a very small island, yet look at their economic strength, look at what they are capable of doing! Why can't a united China be even better?

Q: A final question. Recent events would seem to indicate that a democratic China is a distant goal. Beijing continues to hunt down and execute those involved with the pro-democracy movement while restrictions against the press and public demonstrations are strengthened. At the same time, recent events in Eastern Europe, especially Rumania—a close ally of Beijing under Ceausescu—show that anything is possible. Is a democratic government a long-term objective, or are you optimistic that Communism's days in China are numbered?

A: Personally, I think that democracy in China isn't far away on the horizon. And I hope that it can be achieved by peaceful means.

There's plenty to suggest that a democratic China is not a distant objective. For example, practical businessmen like me are involved in the democratic movement. As practical businessmen and entrepreneurs looking for a good investment, this in itself signifies that it's possible! □

1. From an interview with Shen Tong, *The Face*, December 1989.

2. Wan Dan was arrested by the authorities after the crackdown.

3. "Exiled Chinese Students Face Uncertainty and Guilt in the U.S.," *International Herald Tribune*, December 27, 1989.

4. "China Shuts or Limits Millions of Enterprises," *International Herald Tribune*, August 12, 1989.

5. *Ibid.*

6. "Austerity Plan a Blow to China's Booming Coast," *International Herald Tribune*, December 26, 1989.

7. "China Defends Austerity Campaign," *International Herald Tribune*, November 20, 1989.

8. "Entrepreneurs, the Wealthy Outcasts of Beijing," *International Herald Tribune*, November 17, 1989.

The Real Case Against Taxes

by James L. Payne

If we hate taxes so much, why do we keep on approving them? We've just had an episode in Sandpoint, Idaho, where I have lived for several years, that points up the paradox. Civic leaders proposed a 2 percent tax on restaurants, bars, and hotels, with the revenues to be used to beautify the city and attract tourists. Devising this new tax and urging citizens to vote for it were many of the town's business leaders—the same people who normally deplore government tax-and-spend programs!

What accounts for the inconsistency? The answer is that their opposition to taxes, like the opposition of most Americans to taxes, is shallow. Based on the wrong argument, it crumbles time and again. A century of this flawed debate has left us with the mammoth government we have today.

The argument that most people use against taxes is self-interest: taxes cost *us* money. This point is good enough in the abstract—who wants to be made poorer?—but it breaks down when it comes to specifics. On program after program, we discover that the tax money is to be spent on community services and improvements. These are improvements that we, too, approve of—like beautifying the town. Since most of us are at least somewhat public-spirited, we agree to the additional tax.

But the real case against taxes doesn't rest on self-interest. It rests on altruism, on a concern for the health and prosperity of the community. For in the long run, most taxing and spending programs turn out to be harmful in three important ways.

First, because tax monies flow in automatically,

government agencies face no day-to-day discipline of the market. The result is a consistent pattern of inefficiency. Studying this issue, economists James T. Bennett and Manuel H. Johnson have come up with the "bureaucratic rule of two": on average, anything a government agency tries to do costs twice as much as a private, market-controlled provider. Hence, tax-and-spend programs are a way of destroying wealth, a way of impoverishing the community. The scandals, corruption, and waste we read about in our daily newspapers are the fruit of this system that separates donors from their donations.

A tax system destroys wealth in a second way: in the collection process. In this highly legalistic day and age, tax systems involve forms and instructions, regulations and reporting requirements, enforcement systems, penalty procedures, appeals, and litigation. In addition, tax collection systems impose losses by discouraging work, savings, and investment, and by channeling effort into tax avoidance and evasion activities. My study of the Federal tax system shows that the overhead costs of operating this system amount to between 60 and 70 cents additional burden for each tax dollar collected. This monetary figure does not count emotional and moral costs, which include abuses of power by the bureaucracy, the frustration of dealing with red tape, and the fear of doing something "wrong" and being treated like a criminal.

Finally, perhaps the most important objection to a tax-and-spend program is that it undermines the spirit of helpfulness and community pride. To its promoters, a tax seems attractive because it guarantees automatic funding for a well-intended project. They don't have to go around urging people

James L. Payne is a Research Fellow at the Independent Institute in San Francisco. He is writing a book on the overhead cost of taxation, Hosting the Federal Banquet.



to be public-spirited, appealing to their generosity. The problem is turned over to government officials who presumably “fix” it, and the rest of us can go back to our personal pursuits.

The flaw in this approach is that social generosity is like a muscle: if you don’t use it, it weakens. The more functions you turn over to government, the weaker becomes the conviction that society depends on consideration for others. And that means we all suffer. When the spirit of helpfulness recedes in a society, our lives become more difficult in scores of ways: help is harder to find in an emergency, debtors can’t be trusted to pay their bills; businesses from auto repair to brokerage houses begin to cheat their clients; clerks are surly and uncooperative to customers; everybody spews out as much pollution as they can get away with, heed-

less of the effect on their neighbors; crime inches up; vandalism takes over. It’s no accident that in the welfare state, public morality goes down.

If you want to live in a caring, helpful society, you have to teach that caring, helpful people are needed to solve its problems. And that means turning away from government and its coercion-based tax system as the problem-solver.

This “real” case against taxes does have an implied obligation, however—one that critics of taxation often overlook. If you say government programs are harmful, consistency demands that you support the alternative: voluntary methods of addressing community problems. When fund-raisers for the local beautification campaign come to your door, don’t say, “Isn’t the government supposed to take care of that?” Pitch in and help. □

Eastern Europe: The Economic Stakes Are High

by Gary V. Small

History is being made with astounding speed in Eastern Europe, as one Communist regime after another seems to be capitulating to the will of the people. After 45 years of cold war, and with the apparent blessings of the Kremlin, several major Eastern European countries appear to be racing each other to embrace the benefits of democracy and capitalism.

If Eastern Europe's march toward capitalism continues at anything near its current pace, the world's economy could undergo major, even drastic, changes.

The first effects of the events within the Warsaw Pact already are being felt. Since the end of World War II, the economies of the United States and its NATO allies have been on a partial war footing, building armaments to protect Western Europe against a possible Soviet invasion. This sector of the U.S. economy is sure to contract in the wake of a more peaceful Europe. News stories already have appeared about Pentagon plans to cut back major programs, mothball naval vessels, and demobilize some military units.

We can expect to see layoffs in the defense industry as well as bankruptcies among companies that depend upon defense contracts. Given the speed of current events, defense contractors are going to have little time to diversify into other areas, making the impact of expected budget cuts even greater.

Beyond the relatively obvious effect on the defense industry, we must analyze the possible impact of a capitalist Eastern Europe on the

economies of the free world. If present trends continue, several powerful economies may suddenly be added to the world scene. Depending upon the results of the democratic movements in these countries, the impact on the world economy could range from trivial to dramatic.

If the movement toward capitalism succeeds, the countries of Eastern Europe could be the economic miracles of the next several decades, becoming the new Japan, Korea, and Taiwan of the early 21st century. In fact, they could build up their economies even faster. They have no devastating war to recover from, and an educated and skilled labor force is already in place. The motivation to work for profit and a better life certainly seems to be present. The current standard of living is low by Western standards, with frequent shortages of even the most basic products. Given these conditions, we can expect that, at least for a while, a low-cost pool of skilled labor will be available to fuel new economic development. Unshackled from socialism, Eastern Europe could become a major consumer and producer of manufactured goods on the world market.

As conditions now stand, however, it is unlikely that Eastern Europe will become a major consumer market, although many a Western European manufacturer already is looking east with a gleam in his eye. The economies of Eastern Europe are a mess, undoubtedly a major contributing factor to the current political upheaval. While we may see a short buying spree, particularly of personal consumer items, the supply of hard currency in these countries won't support a long-term flow of goods across the border. Many of these countries already are heavily indebted to

Western banks, and the relative trickle of goods across the new open border between East and West Germany already is having a detrimental effect on the value of the East German *mark* on the black market.

Although they may soon run out of money, the people of Eastern Europe do have a healthy appetite for Western goods. Their economies are a shambles, but a trained, low-cost work force with a desire to improve its standard of living is an excellent starting point for a massive economic expansion. Without a true capitalist society, however, very little can be accomplished.

Affirming Private Property

The advancement of capitalism in Eastern Europe depends upon the recognition of private property rights and contractual law by those in power. Investors must be allowed to own property, be able to have faith in the legal system, and be permitted to take profits out of the country. Opening up Eastern Europe to free enterprise will bring in much-needed capital from foreign investors, provide lessons in business and technology to the local work force, and create opportunities for local start-up companies that will be needed to support the factories built by foreign investors.

Foreign involvement is needed for several reasons. First, foreign investors have the capitalist know-how to set up productive businesses. They have access to, and detailed knowledge of, Western markets. And perhaps most important, they have access to the hard currency and financial resources of the West. Restricting investment to residents would result in a much slower and less efficient buildup of the economy, with far more failures due to the trial and error nature of such a buildup.

Once production and exports are increased, Eastern European economies will start to earn hard currency that can be reinvested in local businesses so as to bolster the country's ability to produce for its own needs; or the money can be used to buy consumer goods, raw materials, and capital goods from abroad.

Western Europe, because of its cultural ties and geographic proximity, will feel the major effects of any economic expansion in the East. If, for example, substantial new loans are made to Eastern Europe, it is likely that a large flow of goods will begin to move from West to East, and profits of

Western manufacturers will climb. In order to pay off the loans, however, productive enterprises will have to be developed quickly in the East. This period of development will provide another opportunity for Western companies in the form of low-cost production facilities close to major Western European markets. This, in turn, could lower the price of European products and make them more competitive with Asian products, in both European and American markets.

The down-side of this would be some loss of manufacturing jobs in Western Europe. In addition, Eastern Europe might become more attractive for investment than Latin America or Africa. This could result in a decline in new investment in those areas. In the longer term, however, Eastern Europe is likely to become integrated into the existing European economic system. When the standard of living and labor costs in Eastern Europe reach a par with the rest of Europe, the tide of investment will turn outward again. A larger pool of European industrial and business concerns will once again be looking at Third World countries for new investment opportunities.

On the opposite end of this spectrum of possibilities is the vision of an Eastern Europe reduced to a charity case and dependent upon handouts from the industrialized nations, much like many Third World nations that overdosed on socialist policies. The people of Eastern Europe have lived under a Big Brother socialist system for a long time, and may not be willing to give up the security blanket of a welfare state for a competitive system in which they sink or swim on their own merits. The laziness that is bred and nourished by government guarantees of job security, minimum wages, subsidized housing, and other such "benefits" is a powerful counter to the sow-what-you-reap philosophy of capitalism.

The costs of socialism are often hidden from the man on the street, who doesn't see the lost opportunities, the lost discoveries, and the lost standard of living that might have been achieved under a capitalist system. Socialism provides an illusion of something for nothing while the economic system feeds on itself. Without the growth stimulated by some degree of capitalism, socialism eventually collapses, as it is now collapsing in Eastern Europe.

The scenario of a democratic, but socialist and impoverished Eastern Europe also could have a

major economic impact on the industrialized West. In this case, we might see massive amounts of foreign aid poured into Eastern Europe. In this scenario, it wouldn't be Western companies investing in new production facilities, but rather Western governments pouring in tax money to prop up the new Eastern European governments. This would add enormous amounts of debt to the world's balance sheets. This money, like the loans to many other governments, would likely never be recovered. The resulting defaults and write-offs, combined with existing bad loans, could contribute to an economic calamity of global proportion.

The most likely scenario for Eastern Europe is

a mixed economy, retaining socialist qualities while adopting some capitalist attributes. The government control inherent in the socialist philosophy is something that appeals to politicians and bureaucrats of every persuasion. If, however, capitalism is adopted with the fervor of a religious conversion, the industrialized world and newly developed nations could see both profits and competition from Eastern Europe in the not-so-distant future. Capitalism adopted as a reluctant admission of the failure of Communism, however, will result in a relatively stagnant Eastern Europe, with the same problems that plague many other nations with controlled economies. □

The Message from Eastern Europe

by William H. Peterson

“Kommunismus ist kaput!” So one East Berliner declared to an American journalist. But is Communism really finished? If indeed the Cold War is over, has it been in fact “a famous victory,” as poet Robert Southey put it in his “Battle of Blenheim”? Or, has Communism simply passed into a phantasmagoria of deceptive guises, with the ghosts of Karl Marx and Friedrich Engels smiling at the passage and commenting “Leftward, ho!” on the scene?

Eastern Europe is sending us a message. No one

Dr. Peterson, Heritage Foundation adjunct scholar, is the Lundy Professor of Business Philosophy at Campbell University, Buies Creek, North Carolina. This article is abstracted from his remarks presented in Mexico City on December 6, 1989, at the invitation of El Centro de Estudios en Economía y Educación, A.C., and its president, J. Rolando Espinosa, of Monterrey, N.L., Mexico. The occasion was a press conference on the Center's publication of La Falacia de la Economía Mixta Mexicana (The Fallacy of the Mixed Mexican Economy) by J. Rolando Espinosa, Ludwig von Mises, and Oscar H. Vera.

questions the fact that Communism has proved for decades a bitter failure in the lives of East Europeans who at long last have revolted against the system. Still, apart from the people of the East, do the people of the West themselves read the situation correctly and understand just why Marxism failed?

And, equally important, do their respective governments so understand—Western governments which practice interventionism galore, which continue to control and control, inflate and inflate, tax and tax, spend and spend, and elect and elect, but with negative repercussions on economic growth and, more importantly, on individual freedom and national viability?

Clearly the problem of the West is no longer hard socialism—the outright socialism of Karl Marx involving the ownership of the tools of production à la Joseph Stalin and Leonid Brezhnev. Overt Marxism is dead. Eastern Europe testifies to that. Rather, I submit, the problem of the West and the Third World is covert Marxism, the *soft social-*

ism of the welfare state and market interventionism—government interference with prices and production, from rent control to import tariffs, from affirmative action to fuel-economy standards for auto manufacturers.

This half-way, middle-of-the-road soft socialism, popularly known as “the mixed economy,” is precisely of the tactical kind prescribed by Karl Marx and Friedrich Engels in 1848 in *The Communist Manifesto*. There, Marx and Engels state baldly: “The theory of the Communists can be summed up in a single sentence: Abolition of private property.” There, while espousing the violent overthrow of capitalism, they also deploy ten interventionist traps, including the progressive income tax and “free” public schools, to hasten that abolition and quite possibly, as they say, “win the battle of democracy.”

Their theme, their ploy, of initial interventionism, of state direction and mushrooming government controls—so as to prepare the way for an economic *coup d'état*—has been reiterated and reinforced a thousand-fold in the West since 1848. Mostly unwittingly. Consider, for example, the following statement by Senator Hubert Humphrey of Minnesota innocently espousing welfarism—what I call soft socialism—before a Harvard Law School Forum on March 24, 1950: “The greatest threat to the free enterprise system in America is not Social Security, minimum wage, aid to education, rural electrification programs, and the like. The greatest threat to free enterprise is growing monopoly in America.”

To validate his charge of monopoly, Senator Humphrey cited Anaconda Copper as controlling “almost half the capital assets of the whole industry [while] another quarter of the capital assets of the copper industry is controlled by Kennecott Copper Corporation.”

But I note that in the four decades since that statement, vigorous inter-modal competition has set back copper—the use of aluminum for long-distance electrical transmission, for example, or glass for fiber optic transmission of telephone messages and data. Too, Senator Humphrey ignored the impact of consumer sovereignty on his purely *domestic* copper monopoly scenario. Did he think that big copper consumers like GM and AT&T would simply roll over and play dead, when other major copper producers are readily available across the globe—in Canada, Mexico, Australia,

Africa, and South America, for example? In addition, both Anaconda and Kennecott have disappeared in takeovers. Some monopoly!

In any event, it is clear that American interventionism, including antitrust, has legions of well-meaning advocates along with millions of its supposed beneficiaries such as Social Security recipients. Parallel support can be seen throughout the West. Soft socialism is conventional wisdom.

The Fabians

But for many of interventionism's at-heart Marxist proponents here and abroad, it reflects a sly Fabian tactic. Recall Quintus Fabius Maximus Verrucosus, the shrewd Roman general who was known as the Cunctator—the Delayer. He opposed the renowned Hannibal of Carthage not by a head-on bloody confrontational battle but by long, drawn-out delaying tactics and occasional sharp lightning flank attacks.

Years and seeming procrastination and indecisiveness sapped Carthaginian morale and supply lines in the field and at home. Despite some victories, notably at Cannae in 216 B.C., Hannibal never was able to take Rome itself and was ultimately recalled by a weary Carthage. In the end, then, Fabius won through masterly wearing down his foe, even though he too was replaced with another general by a Rome similarly tired of lack of outright victory.

Fabius, in a way, inspired the formation of the Fabian Society, a group of British political activists who derived their name from the Cunctator and promoted evolutionary (read interventionistic) as opposed to revolutionary socialism in England. Founded in 1884 by Beatrice Potter, Sidney Webb, and others, the Society specifically rejected the Marxist call for a violent class struggle, attracted such literary luminaries as George Bernard Shaw and Lytton Strachey, and played a leading role in the creation of the Labour Party in the early 20th century. The rest, as the saying goes, is history.

So, not withstanding the breakup of Eastern Europe, what might yet prove to be the ultimate Fabian triumph of Marxism through expanding interventionism in the West may prove more immediately to be something of a rude awakening for some half-million East Germans fleeing out-and-out Marxism for West Germany.

There these refugees will not find, 45 years after

V-E Day, all the freedom and free enterprise they may have envisioned behind the Berlin Wall. Ludwig Erhard, founder and visionary of the postwar "German Economic Miracle," is no more. The social democrats and their philosophy of welfarism and what the French call *dirigisme* or indicative planning are in. And therein lies the danger. Marxism is anything but dead; it is breathing and suffused into Western public policy. As the ultra-liberal *Nation* put it in a lead editorial last fall: "The exodus of thousands of youthful East Germans across the Austro-Hungarian border cannot be interpreted, as some Western commentators would have it, as an abandonment of the teachings of Karl Marx. To be sure, the emigrants are hoping for a better life than they found under the East German regime. But the country to which they are . . . traveling is not Thatcher's Britain or *après* Reagan America. . . ."

"Both in the time of the Weimar Republic and under the present government, the Social Democrats altered the features of capitalism. By leaving East Germany the new emigrants have chosen capitalism with a human face. Its humanization was and is the work of the party that Marx founded. And so the newcomers have gone from Stalin back to Marx."

Nationalizing the Fruits of Production

Back to Marx? The Left toys with us. Still, I recall the American economist W. Allen Wallis saying that while today's neo-socialists in the West may not have succeeded in nationalizing the tools of production, they have certainly gone far in nationalizing the fruits—i.e., the income—of production. The welfare state seizes income via taxation and redistributes it like Robin Hood. Alas, the welfare state dominates the West.

For example, the U.S. Government dispenses some 38 million checks a month for Social Security alone, with massive political implications. And counting all its transfer payments—these are, by definition, payments for which Uncle Sam receives no goods or services in return—I find that more than half of the U.S. \$1.2 trillion budget, or \$620.5 billion, as of the second quarter of 1989, is expended on transfers.

Obviously the constituencies collecting these goodies are very powerful indeed. And obviously,

too, this is hardly capitalism in action but, as I say, soft socialism coexisting with, and serving as a drag on, our market economy.

So you can readily see that this soft socialism is marked by vast government spending growing throughout the West. Leading this dubious race is Sweden, which according to figures supplied by the Organization for Economic Cooperation and Development (OECD), spends some 60 percent of its Gross Domestic Product on government programs.

Average member-country government spending in the European Community rose from 36 percent of Gross Domestic Product in 1967 to 51 percent in 1987. Canadian government spending jumped from 32 percent in 1967 to 46 percent in 1987, while even Japanese public spending shot up from 18 percent to 33 percent. Comparable U.S. total government spending was 37 percent in 1987, a figure suggesting, in a sense, America is better than one-third socialized. In contrast, total U.S. government spending—Federal, state, and local—amounted to but around 10 percent in 1929. Thus does Fabian soft socialism march onward and upward.

Marching Toward Greater Soft Socialism

Why, then, this march toward greater and greater soft socialism? Why now when economist Ludwig von Mises demonstrated as far back as 1920 that socialism, hard or soft, cannot function without a viable price system, without, to use his phrase, "economic calculation"? Why now when Mises demonstrated—and experience shows—that every government intervention into peaceful private activity tends to make things worse rather than better? Why now when we witness the breakdown or outright failure of hard socialism in Eastern Europe?

Failure conceded, as East Europeans vote with their feet or bring down Communist parties that have ruled over them since the end of the Second World War. Failure further conceded, as witness the concession of economist Robert Heilbroner, longtime socialist sympathizer, author of the best-selling book *The Worldly Philosophers*, in *The New Yorker* in January 1989: "Less than 75 years after it officially began, the contest between capitalism and socialism is over: capitalism has won."

But victory receding? I say, "Yes," in light of the entrenchment of soft socialism in the West. Consider further the why of soft socialism's quiet victory. In modern democracies, conventional wisdom—the *Zeitgeist* of our age—is at base *anti-capitalism*; and, however modulated, however transmuted and sometimes jargonized into "democracy," it is this thinking which gives rise and growth to welfarism ("the social safety net") and its half-brother, interventionism. After all, how many world leaders come out four-square for capitalism? Especially in the Western democracies?

Here politics subtly transcends economics. For as economists James Buchanan and Gordon Tullock have long reminded us, logic and experience in winning intellectual battles are not enough. Public choices by voters, legislators, and bureaucrats tend to spring from self-interest to counter-productive ends. Look at what decades of intervention and inflation have done to Argentina, for example, indeed to all Latin America.

Thus do modern democracies inflict interventionism on themselves and bleed from resulting myriad interest groups seeking and frequently getting quasi-monopolistic "rents," to use the Buchanan-Tullock word. These rents arise from government dispensing all manner of special privileges and perquisites—the stock-in-trade of legislators and officials who dance a quid-pro-quo tango with voters organized into powerful lobbies.

Look more closely at this interventionist virus in our body politic. The essence of soft socialism is, as I say, interventionism. Interventionism is government interference in economic activity, certainly to augment political ends, but nominally to advance the public interest.

To many of its naive proponents it represents the third way, a middle way, a melding of the "best" of socialism with the "best" of capitalism into, again, soft socialism. The question is, however, who is to decide on what is the best of each system. And of course the answer is: Government knows best.

Childs' "Middle Way"

Syndicated newspaper columnist and self-described pragmatist Marquis Childs took that line in his book entitled *Sweden: The Middle Way* published in 1936. John Maynard Keynes and his paradigm-setting *The General Theory on Employment, Interest, and Money*, also published

in 1936, took that same line. Keynes argued that government should manage macro-demand through fiscal policy so as to achieve "full employment." Today the West and the Third World still pretty much take that line, though the stardom of Keynes as the premier economist of the 20th century has in recent decades lost its luster.

Back to Marquis Childs. In 1947, in introducing a paperback edition of *Sweden: The Middle Way*, he said: "Capitalism in [Scandinavia] was modified and controlled, its excesses curbed, by much more realistic methods than those of government regulation. In many fields the profit motive has been drastically restricted or even abolished. More nearly than in any other part of the world the test has been the greatest good for the greatest number."

Does interventionism involve the greatest good for the greatest number? Indeed, what does it involve? Said Mises in *Human Action* (1966): "The authority interferes with the operation of the market economy, but does not want to eliminate the market altogether. It wants production and consumption to develop along lines different from those prescribed by an unhampered market, and it wants to achieve its aim by injecting into the working of the market orders, commands, and prohibitions for whose enforcement the police power and its apparatus of violent compulsion and coercion stand ready."

The Mises point on compulsion and coercion is important in understanding the *modus operandi* of interventionism. He is saying that those who ask for more interference are asking for less freedom, less democracy, for more politicization of the social system.

Too, because corruption is a regular effect of interventionism, they are also asking for, however inadvertently, still more corruption. Corruption ensues because favoritism cannot be avoided. Under interventionism, marketplace democracy is foregone. Discrimination supersedes. The public authority must pick and choose, and political factors are virtually impossible to ignore.

Consider, for example, public pensions for the aged, with millions looking to the state for their monthly check, with parties and candidates courting their vote and frequently getting into a bidding competition to boost the pension so as better to "protect our senior citizens from the ravages of old age," adding, "and from the ravages of infla-

tion"—but not adding that inflation is itself a result of interventionism.

Or note, for another example, the issuance of import and export licenses. Such a license has a cash value. It is like a commodity in trade. Whether cash passes over or under the table is beside the point. The licensee is expected to do his part of what amounts to a quid pro quo. Most likely he is expected, at a minimum, to work for the party in power, i.e., the party issuing the license.

When the advocates of interventionism are reminded of practically inevitable corruption, they are often inclined to dismiss it with a shrug. Better, they say, that the "right" things be done publicly rather than the "wrong" things be done privately—which would occur, allegedly, if the happenstance and planlessness of the private market were involved.

Yet clearly when the standards of right and wrong are left to the government to decide, corruption and the politicization of standards follow; the democracy of the marketplace, i.e., of the sovereign consumers, of the people themselves, is denied. Interventionism is inherently undemocratic, inherently corrupt, inherently unstable, inherently inefficient.

Please note the use of the words "happenstance" and "planlessness" above. It relates to the charge that capitalism or the market system is planless, haphazard, mechanical, without direction. The pejorative term "laissez faire" of conventional wisdom about sums it up. Too, free market systems are similarly charged as being without, again, a "social safety net." Perish the thought that mindless, planless, helter-skelter forces should jeopardize the security of society and its individual members. In Britain interventionism in the form of welfare planning covers the cradle-to-the-grave.

But is the alternative: plan versus no plan? Is the issue between a dead mechanism and conscious planning? Is not the crucial question, asked Mises, just whose planning? He maintained the real issue is freedom versus government omnipotence—what his student, Nobel Laureate in Economics F. A. Hayek, calls the pretense of knowledge, the fatal conceit. As Mises put it in *Human Action* (1966): "Laissez faire does not mean: Let soulless mechanical forces operate. It means: Let each

individual choose how he wants to cooperate in the social division of labor; let the consumers determine what the entrepreneurs should produce. Planning means: Let the government alone choose and enforce its rulings by the apparatus of coercion and compulsion."

This is not to denigrate out of hand the government apparatus of coercion and compulsion. We the people are not angels. We grant to the state a monopoly of force so as to suppress predators within and without. We equip it with prisons, billy clubs, electric chairs, armed forces—in an word, power.

But, alas, power anywhere has a way of corrupting, as Montesquieu and Acton taught us; and wisely the American Founding Fathers attached a Bill of Rights to the U.S. Constitution, put limits on governmental power, on political democracy, and specified in the Ninth Amendment (today mostly mothballed) that those rights enumerated in the Constitution "shall not be construed to deny or disparage others retained by the people."

Clearly the Founding Fathers worried, rightly, about who guards the guardians. They said government functions best under, in the words of the Declaration of Independence, "the consent of the governed."

Ah, consent. That's the word. It signifies both economic and personal freedom. Alas, it's a word lost in the lexicon of modern democracy and public policy, so very much subject to what Tocqueville and Acton termed "the tyranny of the majority," which most often works out to be a coalition of minorities.

I say: We should restore that word "consent" and its spirit if we wish to get at the core of interventionism, of what I am calling soft socialism. We should see that if hard socialism is a failure, so is soft socialism. The mixed economy is the mixed-up economy. So to me the message from Eastern Europe is this:

Avoid Fabianism and interventionism—soft socialism in all its covers—like a plague. Reaffirm the rule of law, the integrity of contracts, and other private property rights. Return power to the people, to the individual. Return to limited government and market capitalism—i.e., to freedom and free enterprise. And lay Marxism to rest once and for all. □

John Arbuckle: Entrepreneur, Trust Buster, Humanitarian

by Clayton A. Coppin

The importance of the entrepreneur to the spectacular growth of the American economy in the late 19th and early 20th centuries is now widely understood. The contributions of John D. Rockefeller, Andrew Carnegie, and J. P. Morgan are well known.

There are other entrepreneurs, however, whose names and achievements are not so familiar. Among the forgotten is John Arbuckle, whose recognition as an outstanding entrepreneur and humanitarian is long overdue. He deserves equal recognition as one who fought against monopolistic practices, and who relied on his own business skills rather than government regulation to compete.

John Arbuckle was born in Allegheny City, Pennsylvania, near Pittsburgh, in 1838. His father, Thomas Arbuckle, immigrated to western Pennsylvania from Scotland as a young man and became the successful operator of a cotton mill and a small grocery and spice business. John attended public school in Allegheny and Pittsburgh, and he attended Washington and Jefferson College for a short time. But formal education held little appeal for him. He was more interested in business, so he dropped out of school to enter the grocery business with his brother Charles.

John and Charles Arbuckle soon expanded into the coffee roasting business. At the time, coffee

was roasted and stored in bulk. The grocer would scoop out the amount desired by the customer and place it in a smaller package. This method had disadvantages—coffee left open in the air after roasting deteriorated rapidly; high quality and low quality were mixed together; it was easy to adulterate; the grocer's scale wasn't always reliable. The Arbuckles found a way to avoid these problems. They roasted coffee and wrapped it in individual packages of uniform weight and quality. They could sell different grades of coffee at different prices, and guarantee the weight and quality of their brand-name product.

Their business grew quickly, and in 1871 they moved to New York City and formed the Arbuckle Brothers Company. Business continued to expand, and at one point they employed 50 women just to wrap the coffee. John felt that manual wrapping was inefficient and that operating costs were too high. He saw the packaging process as a bottleneck and sought a way to eliminate it. With the aid of a draftsman and a machinist, he invented a machine that would fill, weigh, seal, and label the bags in one continuous operation. Once installed, the machinery increased the production tenfold, doing the work of 500 wrappers.

With the increased production, the Arbuckle brothers expanded their distribution, improved their procurement system in coffee-producing countries, and began an aggressive advertising campaign. They quickly developed a national market and became the dominant coffee company in the United States. Particularly popular was their Ariosa brand, which was a coffee bean glazed with

Clayton A. Coppin is a Research Consultant at the Center for the Study of Market Processes, George Mason University, Fairfax, Virginia. An earlier version of this article, with full footnote citations, appeared in the spring 1989 issue of Market Process, published by the Center for the Study of Market Processes.

a sugar and egg coating. The egg was supposed to cause a quick settling of the grounds, and the sugar added sweetness to the already high quality of the coffee. Whatever the virtues of Ariosa, the product's reputation for consistency and quality led to further expansion of market share.

Seeking a New Market

Having won much of the coffee market, the brothers sought a new market for expansion. John Arbuckle developed and patented a machine that automatically filled and sealed sugar bags. They made an arrangement with Henry O. Havemeyer, who controlled the American Sugar Trust, to produce sugar in two-pound bags. Once again they found a ready market for their packaged goods, and made substantial inroads in the retail sugar market.

Charles Arbuckle's death in 1890 didn't slow the company's growth, but Henry Havemeyer was soon to try. Havemeyer had become the leading force in the American sugar refining industry, driving all but a few small companies out of business. Havemeyer realized that if profits were too high it would invite new entrants into the field. He attempted to avoid this by keeping prices reasonable, by making rebate agreements with the railroads, and by arranging for price maintenance with wholesale grocers.

Havemeyer kept ahead of the competition for several years until a conflict erupted with Arbuckle. What exactly led to the break isn't known. Perhaps Arbuckle wanted a lower price because of his volume buying, or, more likely, Havemeyer, seeing Arbuckle as a growing competitor, raised Arbuckle's price for refined sugar. Whatever the exact cause, Arbuckle announced his intention to build a sugar refinery. Havemeyer had no intention of allowing new competition in the sugar refining business. The resulting battle would become one of the legendary competitive struggles in American business history.

Arbuckle broke ground in Brooklyn in January 1897 for his sugar refinery, but it would be nearly two years before it was producing. Meanwhile Havemeyer decided to retaliate by entering the coffee business. He purchased controlling interest in the Woolson Spice Company in Toledo, Ohio, and immediately started lowering prices. Arbuckle responded and the price quickly dropped until

both companies were selling below costs.

The battle was not to be fought on the price front alone. Havemeyer advertised heavily, obtained rebates from railroads, and attempted to keep wholesalers from handling Arbuckle's product. International shipping was dragged into the battle when Havemeyer managed to obtain shipping rebates. Arbuckle responded by buying his own ships. Havemeyer made inroads into the coffee market, but at a very high cost.

Havemeyer was unable to stop Arbuckle from entering the sugar business and, when Arbuckle's refinery started producing in late 1898, the price war extended to sugar. Both companies were now losing money in sugar and coffee. Havemeyer was receiving rebates from the railroads for the sugar he shipped as well as on what Arbuckle shipped, and he attempted to control the wholesalers by threatening to break the price maintenance agreements with them if they carried Arbuckle's sugar.

Havemeyer would seem to have had the advantage in the sugar fight. However, although both companies were selling at a loss, Havemeyer's greater market share led to higher losses. In addition, since Arbuckle alone sold sugar in small packages, he was able to obtain a higher price per unit and suffered smaller losses. Arbuckle challenged Havemeyer's control of the wholesalers by selling directly to retailers, and eventually forced the wholesalers to cooperate to avoid being bypassed. Arbuckle gained another advantage by hiring Joseph Stillman, a former employee of Havemeyer and the leading expert on sugar refining in the country. Stillman designed and built Arbuckle's refinery using the latest technology, which produced a superior product at a lower cost.

The End of the War

The battle over sugar couldn't continue indefinitely with the size of the losses both companies were sustaining. No record has been found of a settlement, but sometime in 1901, after Havemeyer and Arbuckle held a private meeting, the price war in sugar ended. Havemeyer accepted Arbuckle's presence in the sugar refining business and made no further attempts to drive him out. To recover from the loss, however, both companies substantially increased their prices, which quickly led to additional entry, most notably by Claus Spreckels. Havemeyer's companies would continue to hold a

strong market share, but the days of his domination of the industry were over.

Arbuckle was more clearly the victor in the coffee battle. He had managed to obtain a few shares of the Woolson Spice Company and through a stockholders' suit forced the company to stop selling at a loss. Prior to this, however, an interesting episode emerged during the battle in Ohio. In early 1901, Edward Beverstock, a food and dairy inspector in Toledo, charged a retailer selling Arbuckle's Ariosa coffee with violating Ohio's pure food law. Arbuckle was charged with adulterating his coffee beans by adding the egg and sugar glaze for the purposes of increasing the weight and covering up inferiority. Arbuckle had attempted to meet all requirements of the law, carefully labeling his product and having it analyzed for purity. Who or what was behind the charges isn't known, but the timing and subsequent events suggest Havemeyer might have been involved.

The trial was held in Toledo, and in spite of expert testimony for the defense from scientific witnesses such as Harvey Washington Wiley, Chief Chemist for the U.S. Department of Agriculture and the nation's leading advocate of pure food, the jury found Arbuckle guilty. The appeals court reversed the conviction. They found that the jury had been improperly selected, that individuals closely associated with Inspector Beverstock and his son had been placed in the jury pool, and that the judge had erred in not allowing the defense to challenge the way the jury was selected. The Appellate Court also found that Ariosa coffee wasn't covered by the statutes under which the original complaint had been made. Arbuckle was cleared of all charges. The numerous irregularities in the trial would seem to indicate that more was involved than protecting the consumer in Ohio.

While Arbuckle clearly entered sugar refining for commercial reasons, he objected to organizations which were formed to obtain monopoly profits. He did not, however, believe that government interference was the solution. He preferred to call on his own abilities and finances to challenge monopoly control of a market. His entry into these markets resulted in the breakup of the monopolies without government interference.

The fight with the sugar trust was the most spectacular of Arbuckle's challenges to monopolies, but not the only one. Earlier he had challenged and successfully overthrown the towing monopoly

which controlled traffic on the Erie Canal. In 1901, as his fight with Havemeyer wound down, Arbuckle turned his attention to the tugboat monopoly on the Hudson River. Deciding that the rate of \$50 for a tow from New York to Albany was excessive, he entered the market. The price of towing quickly dropped, reaching a low of \$5. One barge owner reportedly said, "They'll be giving trading stamps next." Another barge owner claimed that he had been offered money to have his boat towed up the river. The final outcome was a permanent lowering of towing costs.

John Arbuckle's fights against trusts demonstrate the power of the entrepreneur to challenge those who would restrict entry into markets. He didn't seek government intervention and regulation of the market. There is a great difference between an entrepreneur who breaks up a trust by open competition, and a businessman who tries to hamper his competitors by complaining to the Department of Justice or the Federal Trade Commission. The entrepreneur provides a public service by improving a product or lowering prices. The complainer usually hampers the efficiency of those he cannot compete with in the open market. Today, over two-thirds of antitrust cases in the United States are initiated by competitors who cannot meet the superior efficiency of their rivals. Far better that they would follow the example of Arbuckle, who used his inventive, organizational, and commercial abilities to challenge those who wanted to limit competition.

Arbuckle as Philanthropist

However, there was more to John Arbuckle than just his business accomplishments. He also had a remarkable record as a humanitarian. For many years in Brooklyn he was a member of the congregation of the Plymouth Church headed by Henry Ward Beecher, the noted reformer and the brother of Harriet Beecher Stowe. He shared Beecher's concern for his fellowmen, and he brought to his humanitarian concerns the same genius he displayed in his commercial activities.

Arbuckle's inventiveness involved him in several efforts to help New York City's needy. Convinced that overcrowding, bad air, and the hustle and bustle of city life were bad for health, he financed several projects to help people escape from city life. The most fanciful of these was the

outfitting of several ships with rooms, recreational facilities, and dining rooms, then towing them out to sea at night. The plan was to give people who couldn't otherwise afford to escape from city life the benefits of fresh ocean breezes and a sound diet. The scheme was short lived, but the ships, tied to the docks, continued to be used for charitable purposes providing shelter, low-cost meals, and job training sites to the needy for many years. One boat was converted into the Riverside Home for Crippled Children.

On Lake Mohonk north of New York City he built a retirement colony for older citizens who needed assistance, and a hotel for those who needed fresh air and nutritious food. He also built hotels for workers who needed to be out in the open, and hotels for the handicapped to learn a trade. Arbuckle seldom gave to established charities, preferring to experiment with his own ideas.

As a result of the Ariosa coffee case, Arbuckle became a friend of Harvey W. Wiley and developed an interest in the pure food movement. His interest, however, was not to support regulation, but to try to establish a company to produce pure and nutritious food with Wiley as the company's head. Arbuckle several times made offers to Wiley to finance the business, but Wiley never took up the offer. On Wiley's suggestion, Arbuckle did establish an independent sugar testing laboratory to monitor the quality of sugar in the American market.

Arbuckle, even in his old age, was interested in new and inventive ideas and willing to take on new ventures. Following the end of his fight with Havemeyer, Arbuckle became interested in the ship salvage business. He was attracted to the work of two Canadians, R. O. King and William Wotherspoon, who developed a method for using compressed air to refloat ships. He contacted them and began salvaging ships that others had regarded as impossible to refloat. He offered to go to Havana Harbor and raise the battleship *Maine*, but his offer was refused. He wanted the government to establish a warning system so that a ship in distress could call for help and salvage vessels could rush to its aid, but the government wasn't interested. Arbuckle proceeded to establish his own system and rescued several ships.

Arbuckle later spoke out strongly against the

duties on sugar, arguing that the duties were only for the benefit of the sugar beet interests and at the expense of all other Americans. He pointed out that sugar was used by the rich and poor alike, and the added expense was felt most by the poor. To charge duties on sugar, Arbuckle argued, was a case of the government literally taking candy from babies. In 1911 he announced his intention to fight the duties as soon as his health improved. He had for many years suffered from malaria, which frequently incapacitated him. His condition deteriorated, and on March 27, 1912, he died. With better health, however, he might have left an even more remarkable record.

This article has explored some of the contributions John Arbuckle made to building the American economy. His innovations in packaging and marketing coffee and sugar marked a significant change in the retail food market. This was more than a simple technological improvement; it was a reordering of the market. It changed not only the production process, but also the way the product was distributed and sold.

Arbuckle's competitive struggles with the established market system also demonstrate how the entrepreneur can change the existing order. Henry O. Havemeyer, through his American Sugar Trust, was able to control competition in the older order, but he lost to Arbuckle because of the innovations Arbuckle brought to the competition. The career of John Arbuckle is more than the story of an entrepreneur; it is a demonstration of the process of change in the market caused by entrepreneurship.

Arbuckle's humanitarian endeavors contained the same type of innovative activity as his commercial enterprises. Little attention is paid to the importance of the entrepreneur in providing humanitarian services. It is assumed that the entrepreneur is motivated by personal gain, and, therefore, the entrepreneurial process is not important in providing humanitarian services. Arbuckle's efforts would suggest that improvements in humanitarian services can benefit from the entrepreneurial process. It may well be that improvements in humanitarian activities require the same type of innovativeness and new combinations for improved efficiency that economic growth requires. □

Roger and Me and Free Enterprise

by James L. Doti

Film-maker Michael Moore's very funny satire, *Roger and Me*, has opened to almost universal critical praise and audience approval. Unfortunately, the fact that audiences across the country are largely accepting Michael Moore's message hook, line, and sinker is sobering, especially when one considers the distorted view of free enterprise depicted in this cleverly constructed documentary.

Roger and Me documents the impact of General Motors' decision to relocate automobile production facilities from Flint, Michigan, to lower-cost operations in Mexico. The film's message is that relocating assembly plants outside the U.S. had a devastating socio-economic impact on the people of Flint. The film's villain is the free market system that allows G.M.'s supposedly callous CEO, Roger Smith, to undertake reprehensible acts while holding himself and his company above accepted norms of decent behavior.

It should not be surprising that Michael Moore takes a good deal of artistic license in documenting the facts. It isn't mentioned, for example, that while some jobs were lost in Flint, the majority of workers living there are still G.M. employees. Nor does Moore document the fact that G.M. has poured billions of dollars into building new and modernizing existing U.S. assembly plants. A more serious problem that calls into question Moore's ethical standards and reliability as a journalist is his scrambling the sequence of events depicted in the film to support a point of view rather than a sense of reality.

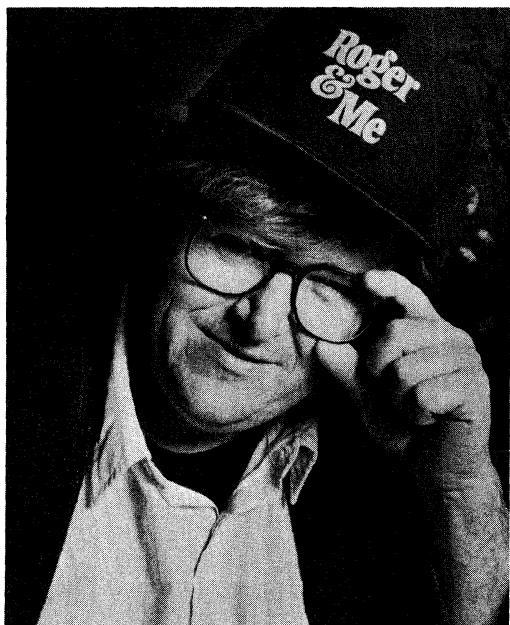
For the sake of argument, let us overlook these

problems and accept for the moment Moore's cinematic view—that the unbridled use of free market capitalism led to the demise of a once healthy and vibrant local economy. When such a view is taken, the logical follow-up question is what sort of policy Moore would propose as an alternative.

I suppose most morally conscious people would advocate the passage of laws that prevent G.M. or any other domestic automobile manufacturer from closing U.S. assembly plants, especially when the closures take place because auto-making facilities are being moved outside the country. But laws preventing plant closures would place G.M. and other domestic auto makers at a competitive disadvantage against foreign competitors who presumably can locate their auto-making facilities wherever production costs are lowest. Enlightened policy-makers are therefore likely to argue that protective trade barriers are necessary as a concomitant policy. Such barriers, so the argument goes, would prevent foreign auto makers who produce at a lower cost from having an "unfair" advantage over U.S. firms.

The implicit assumption here is that laws can be enacted to prevent the cruelties documented in *Roger and Me*. Many public crusaders undoubtedly believe that jobs as well as cities can be protected by legislation designed to serve national interests.

Before accepting this assumption, let's consider the cost of such well-intentioned public policy. First of all, the compassionate feelings of Michael Moore and other public crusaders evidently extend only to U.S. workers. The fact that G.M. created jobs for Mexican workers and improved their earnings potential is considered only in a negative light. G.M.'s recent decision to build an



Michael Moore

assembly plant in Hungary would probably also be attacked by these same humanitarians. It is ironic that compassion is often constrained by nationalistic fervor while the forces of free markets work against such discrimination.

But even if justice and morality extend only to the U.S. border, keeping Flint, Michigan, alive and well by means of laws and regulations will also work against our fellow citizens. Consider, for example, the higher prices that consumers will have to pay for automobiles as a result of steeper tariffs and quotas that are now necessary to keep domestic auto makers in business.

The higher prices represent a subsidy on the part of consumers to maintain inefficient produc-

tion facilities. While the jobs saved in Flint might bear witness to what a benevolent government can do, the true costs are spread thinly among many and are difficult to observe. In the aggregate the costs are significant but, at an individual level, the marginally higher price a person pays for automobiles is not the stuff upon which entertaining documentaries are born.

A diehard do-gooder might still argue that jobs were saved in Flint. Perhaps, but only for a while. Eventually, consumers get fed up with paying the bill for inefficiency. Case in point: the consumer revolution taking place in Eastern Europe and the Soviet Union. The lure of goods available in a global environment is seductive. When the disparity widens between what consumers get at home versus what is available in world markets, pressure is brought on governments to end their protectionist policies. And when governments end their protection, firms that barely survived in a regulated environment will suffer a slow and painful death when subject to the rigors of competition.

The visible impact of free market forces might not always be kind and gentle. In serving the needs and desires of consumers, the "invisible hand" of free enterprise forces producers to respond. When they do, they profit; when they don't, they fail. The process isn't necessarily pretty, but it works amazingly well as long as governments don't get in the way.

There is a scene in *Roger and Me* reminiscent of *The Grapes of Wrath*, where Ronald Reagan visits Flint and suggests to unemployed auto workers that jobs might be found in Texas. Reagan's inability to come up with a more palatable and action-oriented alternative strikes audiences as humorous. We should be thankful that he didn't go back to the White House and draft a jobs bill. ☐



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The Examined Life

by John Chamberlain

Here's a funny one. After carrying his readers to the very end of his book of meditations called *The Examined Life*, philosopher Robert Nozick asks that "no reader summarize this book's contents or present slogans or catchwords from it." He warns that the trickled-down philosophy "is not worth following."

But how in Heaven's name can a reviewer talk about a book of six-or-eight-sided summaries without doing some summarizing of his own? It is indeed part of a necessary summary to say that the book is published by Simon and Schuster in 303 pages for \$21.95. Nozick disobeys his own injunction in section after section. He takes on capitalists, Communists, Christians, and nationalists seriatim. He does this in a most even-handed way. No one can say that he is not fair. In a beautiful paragraph he sets forth the capitalist ideal of free and voluntary exchange. Then, back-peddling with skill, he comes in with a negative summary of the nastier items that are attributed to capitalism—items such as "international predation, companies bribing governments abroad or at home for special privileges which enable them to avoid competition." This, says Nozick, "is the underside of the capitalist ideal as it actually operates. It is not the whole of the story . . . but it is part of that story."

Similarly with the Communist, Christian, and nationalist ideals. There are undersides here, too. Ideally, Communism should be operating in a society without class distinctions. Christianity should stress loving one's enemy, with no violence permitted. But violence is nonetheless part of the story here, as it is in the case of nationalism. If Nozick wants to deny summarization rights to everyone save himself, that is his business. But he believes in

"the problem of evil," and he can't resist engaging in eloquent bull sessions about the nature of a God Who, though He is presumably omniscient and omni-competent, allows evil to be. The reader must think he is back in sophomore class when he hears Nozick say that free will is good because it provokes people to think about goodness.

Something perverse in bull session logic leads to asking crazy questions, such as "suppose God created beings with free will in order to make them unpredictable, so that He could follow their story with interest and surprise." This might be called "God's television serial." Query: could an omniscient Being be reduced to such a soap opera level of entertainment without risking the laughter of all the gods on a pagan Olympus or in a Christian Heaven?

Nozick's chapter on "love's bond" is a lovely bit of writing. It is about the making of new entities in the world consisting of romantic couples who form "we" attachments. A "we" happens when love means that two reflective persons can walk down the streets separately without thinking of "trading up" for better partners.

"Each person," says Nozick, "in a romantic *we* wants to possess the other completely yet each also needs the other to be an independent and nonsubservient person."

"Seeing the other with us and made happy through our love," says Nozick, "we become happier with ourselves."

The difference between common friendships and the making of a *we* is tenuous when "trading up" is a possibility, "but between lovers, it never becomes this complicated explicitly." Lovers should not be expected to solve paradoxes.

Nozick would view with disapproval any effort to undercut his bringing older books into the picture. Yet much of what he has to say about such topics as love, marriage, prayer, happiness, death, and crime and punishment was said by followers of St. Francis of Assisi years—and even centuries—ago.

Kahlil Gibran summarized the Franciscan points in his poetic *The Prophet* of the Twenties and Thirties. Gibran was a Lebanese who could be both poetic and succinct. *The Prophet* is still in print (I found a good copy at the Barnes and Noble bookstore on New York's Fifth Avenue, and was informed that the book had sold a total of four million copies).

I found much of Nozick's book to be blurry and vague. The invocation of a few great names (Rilke, Wallace Stevens, etc.), and the dependence on a many-sided matrix, didn't help. Nozick piles abstractions upon abstractions in long solid pages that seldom refer to anything concrete. For myself, reality, a favorite word with Nozick, demands a good deal more. □

A CALL TO CIVIC SERVICE: NATIONAL SERVICE FOR COUNTRY AND COMMUNITY

by Charles C. Moskos

The Free Press, Front & Brown Streets, Riverside, NJ 08375 • 1988
224 pages • \$22.95 cloth

Reviewed by Doug Bandow

One of the first bills introduced in the Senate when Congress reconvened in 1989 was the "Citizenship and National Service Act of 1989." This legislation, co-sponsored by Senators Sam Nunn and Charles Robb, among others, would create a Federal Citizens Corps to enlist 800,000 or more young people to spend a year or two doing good. President George Bush's largely private Youth Engaged in Service initiative pales in comparison.

The notion of national service has been around for a long time, at least since 1887 when Edward Bellamy proposed conscripting an "industrial army" for public projects. William James picked up the theme in 1910, urging that the nation's "gilded youth" be drafted in what he termed the "moral equivalent of war." Among the concept's most articulate proponents in recent years has been sociologist Charles Moskos, intellectual adviser to Senator Nunn and other members of the Demo-

cratic Leadership Council (DLC), which released its own book on the subject, and author of *A Call to Civic Service*.

Moskos, a long-time critic of the All-Volunteer Force's reliance on market incentives to fill its ranks, makes as good a case as is possible for national service. In his view America has been paying too much attention to individual freedom and entitlements and too little to corresponding social responsibilities; he argues that national service would promote a "spirit of civic mindedness" that is presently lacking.

Moskos, whose proposal closely resembles the Nunn/DLC proposal, wants to involve upwards of one million young people in fulfilling "tasks that neither the marketplace nor government can provide," including day care, tutoring, health care, and conservation work. He would establish a Corporation for National Youth Service, pay participants \$100 a week, cover room and board, and provide extensive educational assistance to people who finish the program. Existing student loans and other educational benefits would be terminated. This, indeed, is the key to his proposal: Federal tuition aid, like the post-World War II G.I. Bill, would be the "nation's way of expressing its gratitude for those" who enlisted for civilian as well as military service.

Moskos also promotes his plan as a means of improving the volunteer military, which, he believes, is incapable of delivering "a socially representative force." He would set up a two-track system involving "professional soldiers"—essentially today's volunteers—and "citizen soldiers," who would serve for shorter terms and be paid significantly lower wages but would receive expanded G.I. Bill benefits. This approach, he argues, would allow the armed services to "reach the largely untapped pool of talented and upwardly mobile youth who would find a temporary diversion from the world of work or school tolerable, and perhaps even welcome."

There are several problems with *A Call to Civic Service*, as well as the other dozen proposals for national service now circulating on Capitol Hill. The first is the issue of entitlements. Americans have developed an indefensible entitlement ethic—what justification is there for forcing lower-income taxpayers to pay for middle-class college graduates to attend law or business school? The solution, however, is not to create a new entitle-

ment, payable if you do a job that Uncle Sam happens to approve of, but simply to end the subsidies.

Of course, the proposal to end student financial aid never comes up in Washington, but what justification is there for this bit of middle-class welfare? On average, a college degree increases a graduate's lifetime earnings by \$640,000. Why shouldn't he devote part of that return to cover his school expenses?

Then there's the curious notion in this book—and, indeed, in virtually every advocacy piece on behalf of national service—that there are an enormous number of unmet needs to be filled through a national service program. Moskos, for instance, cites estimates of 3.5 million tasks presently left undone. But as long as human wants are unlimited, the real number of unfulfilled jobs is infinite. Since labor is not a free resource, most such "needs" are not worth meeting. We're all better off if we let the pre-med student graduate and go on to get his M.D. instead of making him (or paying him to) spend a year picking up cigarette butts in a local park.

And simply erroneous is Moskos' oft-repeated contention that the All-Volunteer Force is a poor man's military. In 1988, 95 percent of new recruits had high school degrees, compared to just 75 percent of civilian youth; enlistees also did far better on standardized tests than their non-service counterparts. Even volunteers in the army, which traditionally has had the most recruiting difficulties, are well above average and have been for years. Observes Sue Berryman in *Who Serves? The Persistent Myth of the Underclass Army*, a short but fact-filled book on the question of social representativeness in the armed services: "even in 1979 [one of the military's worst recruiting years] the younger members of the enlisted force by no means came from the most marginal families or from youth with the most marginal attainments, aspirations, or work attitudes."

Finally, why do we need a *national* service program to promote volunteerism? America would, in fact, benefit from a new "spirit of civic mindedness," in Moskos' words. But there is no lack of opportunities for people to serve today: private organizations like the Christ House medical facility for the homeless in Washington, the Our Daily Bread soup kitchen in Baltimore, the Community Service Network in San Diego, and any number of

libraries, nursing homes, hospitals, parks, and other institutions across America welcome volunteers. The Commission of the States has organized the Campus Compact, which promotes community service at 150 different educational institutions; the Campus Outreach Opportunity League was created by students in 1984 and coordinates activities in 450 colleges and 200 other organizations. Ninety-two million Americans now give time to some volunteer group, and the number has been growing steadily throughout the past decade.

Moskos and other supporters of national service have looked out across America and found it wanting: people, especially young people, are greedy, frivolous, selfish, lazy, irresponsible, and so on. Therefore, someone—namely the public-spirited proponents of national service—must make everyone else change their ways. In the "kinder, gentler" U.S. such a system might not be quite as odious as China's once widely admired program of youth service—recently reestablished in an attempt to stamp out "bourgeois liberal" ideas—but it would still do violence to a republican order based on individual liberty and limited government.

Moreover, service, to be meaningful, must be voluntary, stemming from genuine feelings of charity and concern for others. Compulsory compassion is an obvious oxymoron. But even Moskos' promise of financial reward for spending a year cleaning bed pans would corrupt the concept of service. High school graduates would then be more likely to sign up to collect the generous benefits, equivalent to more than \$17,500 after taxes, than out of a sense of moral obligation. "Service" would become just another job.

Moskos rightly criticizes a civic ethic grown selfish and cold. But we need to generate a renewed commitment to service from the ground up, from the family, churches, and community organizations, not impose it from the top down, especially from Capitol Hill. The notion of people voluntarily helping one another is far too important to entrust to government. We need more individual service, not a program of national service. □

Doug Bandow is a Senior Fellow at the Cato Institute and the author of The Politics of Plunder: Misgovernment in Washington, forthcoming from Transaction Books. While a Special Assistant to President Reagan, he worked with the President's Military Manpower Task Force.

THE FREEMAN

IDEAS ON LIBERTY

204 The Economic Wisdom of A Connecticut Yankee

Russell Shannon

Mark Twain's addition to the literature on the benefits of free markets.

206 Taking the Train to Metamora

William B. Irvine

Surveying an economic landscape.

209 The Theory of Due Reparations

Ridgway K. Foley, Jr.

How the doctrine of special treatment for special harms threatens liberty.

213 From Gangland to Corporate America

William Granville, Jr.

Grooming inner-city youngsters for a successful future.

219 Perestroika's Missing Ingredient

E. C. Pasour, Jr.

So long as the lesson from the socialist calculation debate goes unheeded, perestroika is doomed to failure.

222 Consumer Sovereignty

Bettina Bien Greaves

How Captain Consumer directs production.

224 Solidarity and Labor Law Reform in the 1990s

Charles W. Baird

The difference between Polish Solidarity and American unionism.

226 The Genesis of Industrial Policy

Thomas J. DiLorenzo

The philosophical and ideological roots of socialistic economic policy.

231 Wealth, Freedom, and Philanthropy

Peter Frumkin

Philanthropy needs both economic and cultural freedom for its survival.

233 "That's Already Been Settled"

Earl Zorbin

Or has it?

235 Book Reviews

John Chamberlain reviews *Religion, Wealth and Poverty* by Father James Vincent Schall. Other books: *Individuals and Their Rights* by Tibor R. Machan, *Economics: Work and Prosperity* by Russell Kirk, and *Federal Support of Higher Education: The Growing Challenge to Intellectual Freedom* edited by Roger E. Meiners and Ryan C. Amacher.

CONTENTS

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Copy Editor: Deane M. Brasfield

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Individual Rights

The term "human rights" is the semantic monstrosity of the day. There are no human rights, only individual rights. Clearly, humanity has no rights. The ultimate reality of existence imposes on everyone obligations to one's self and to those with whom one shares the existence. Individual members of the human species therefore enjoy rights in relation to other individuals, in both the collective and individual sense. But to suggest that one enjoys certain rights over and above these interrelational rights just by being born into the human race is to promote the kind of fuzzy semantic thinking that leads to indolence and the belief that "the world owes me a living." It just may be that it is this semantic confusion that has brought about the recent tendency away from holding each individual accountable for his behavior.

—MILLER UPTON
Delavan, Wisconsin

The Lure of Socialism

Socialism has always proved attractive, and it has been with us in one form or another since the dawn of civilization. When one notes the promise of socialism, it can be readily understood how it is so easily sold to the masses. For socialism promises a utopia, a sharing of goods produced, a "secure" existence, equality for all, full employment and adequate food, clothing, shelter, medical treatment, and old-age benefits. It should be noted that slaves were afforded the same sustenance. Humankind continues to overlook the fact that as we are provided "security" by the government, so also are we losing our freedom ever so gradually, and we become wards of the government.

—RAYNOLD J. THIBODEAUX
Nederland, Texas

Violating the Commandments

The laws of Judeo-Christian ethics still underlie most of our direct man-to-man relations. Acting individually, we practice, or at least seek to practice, the Commandments. In our social contacts we endeavor to live by the strictures of the Commandments. But most individuals act differently as

soon as they take part in the body politic. Acting in political concert, they behave in a way they would not dare to act in direct inter-human relations. They live by the motto: Thou shalt not steal—except by majority vote. Thou shalt not kill or coerce—except by majority decision. Thou shalt not bear false witness—except in politics.

—HANS F. SENNHOLZ, speaking at a February 6, 1990, chapel lecture, Grove City College

Soviet “Prices”

The idea that the Soviet Union has stable wholesale prices is a myth. At great pain to the economy, we maintain low prices for fuel and raw materials, while having long since lost control of prices in processing industries. Resentments among miners and other producers of raw materials have boiled to the surface, and our country has been hit by a wave of damaging strikes. The only way to move away from economic ruin is to rationalize our price structure, which means creating the first real prices in this country's history. And real prices mean that we finally admit that an item doesn't cost what a bureaucrat says it does but what a customer is willing to pay for it.

—VASILY SELYUNIN, a Soviet economist, writing in the January-March 1990 issue of *Glasnost*

The Benefits of Foreign Investment

Historically, foreign investment played an important role in helping to build the United States, and it is providing investment capital today. Foreign direct investment (FDI) builds plants, employs U.S. workers, and promotes the transfer of foreign technology and management practices to the United States. U.S. affiliates of foreign firms provide over 3 million jobs and have an annual payroll over \$90 billion; they account for about 8 percent of U.S. spending on plant and equipment and 21 percent of U.S. exports; and they spend \$6 billion a year on research and development and

pay \$9 billion in Federal income taxes annually.

Foreign direct investment increases the benefits from trade by facilitating trade in goods, services, and technology. FDI encourages the specialization of production, permitting firms to achieve a larger and more efficient scale of production. FDI also tends to increase competition to the benefit of the consumer.

Foreign direct investment is an important source of capital to the United States. If FDI were restricted, much of this capital would be lost, at least to the extent it is not redirected into portfolio investment. The loss of these funds would result in a fall in the value of the dollar and increases in U.S. interest rates. The former would make the United States poorer by increasing the price of imported goods and services. And increasing U.S. interest rates would harm U.S. competitiveness by restricting the funds necessary for expanding economic growth.

—SUSAN W. LIEBELER,
testifying before the House Ways and
Means Committee, January 25, 1990

The Civic Genius

The deadliest enemies of nations are not their foreign foes: they always dwell within their borders. And from these internal enemies civilization is always in need of being saved. The nation blest above all nations is she in whom the civic genius of the people does the saving day by day, by acts without external picturesqueness; by speaking, writing, voting reasonably; by smiting corruption swiftly; by good temper between parties; by the people knowing true men when they see them, and preferring them as leaders to rabid partisans or empty quacks. Such nations have no need of wars to save them. Their accounts with righteousness are always even; and God's judgments do not have to overtake them fitfully in bloody spasms and convulsions of the race.

—WILLIAM JAMES, from a lecture
commemorating Robert Gould Shaw and his
54th Regiment of black soldiers, May 31, 1897

The Economic Wisdom of *A Connecticut Yankee*

by Russell Shannon

While Mark Twain's fame rests largely on his tales of youths growing up in mid-19th century America, he also wrote an incisive demonstration of the superiority of free market economics over the regulated and hierarchical society of English manorialism. This fact may be less surprising when one recalls that, although Twain (born Samuel Clemens) grew up in Missouri, he spent much of his adult life writing at Nook Farm near Hartford, Connecticut, where he was a neighbor of Harriet Beecher Stowe.

Unlike *Tom Sawyer* and *Huckleberry Finn*, Twain's later work, *A Connecticut Yankee in King Arthur's Court*, is set in medieval England, where the protagonist of the story, Hank Morgan, suddenly finds himself in Camelot. Morgan sets about establishing such elements of Yankee ingenuity and enterprise as a telegraph, a soap factory, and advertising. In the end, of course, all these anachronisms are destroyed, but in the meantime Twain has been able to make some telling points about the superiority of laissez faire and individual initiative over regulation and rigidly customary procedures.

In Twain's Camelot, the rosy romantic hue in which modern presentations bathe Arthur's

regime is totally missing. We find that a person's position, power, and prestige depend solely on his parentage. All economic activity is carefully controlled, including wages, which are set by the local magistrate. Such policies are widely accepted as being in the best interest of society as a whole.

It is in the chapter entitled "Sixth-Century Political Economy" that Hank Morgan tries to persuade people of the faults in their thinking. He argues that restrictions give the impression of success because they have resulted in higher *nominal* wages for the protected workers. By contrast, in the area of Camelot where Morgan has developed his enterprises without such restrictions, free market forces have resulted in lower pay measured in dollar terms. But Morgan points out that, since freedom induces greater efficiency and productivity, his workers pay even lower prices for the goods they buy than workers in regulated industries must pay.

Finding his point hard to make, Morgan finally compares the number of hours it takes people in each situation to work in order to acquire certain necessities. At last, he is able to convince his listeners of the advantages that accrue to the unregulated workers in terms of lower costs of living and higher living standards. The extreme difficulty required to get this message across attests to the

Professor Shannon teaches in the Economics Department, Clemson University.



"Inherited ideas are a curious thing." Illustration (woodcut) to Mark Twain's A Connecticut Yankee.

BETTMANN ARCHIVE

persuasive power of the principle of regulation which still finds many adherents today.

Although Twain's book is far more readable, his argument is not as logically rigorous as David Ricardo's demonstration of the benefits of free trade based on comparative advantage which was published in 1817. Nor, despite his wit, does Twain surpass the devastating power of Frederic Bastiat's famous petition of the candlemakers who sought to protect their industry by shutting out the light of the sun.

Nonetheless, Twain's achievement is a notable

addition to the literature on the benefits of free markets. Although many details would differ, the Connecticut Yankee could just as well be set down in Stalin's Russia or Mao's China, for the criticism of medieval society could equally apply to modern totalitarian systems. Indeed, one suspects that the tenacity with which the old ideas are grasped in Twain's Camelot is matched in those countries and in Eastern Europe today. For shedding such insight on both the past and the present, Twain's work deserves more recognition than it so far seems to have achieved. □

Taking the Train to Metamora

by William B. Irvine

For a few dollars, one can ride a train from Connersville to Metamora, in eastern Indiana. The ride is worth taking not just because it is a chance to ride a train (which in America is now difficult to do), and not just because it is a chance to ride aboard a train pulled by a steam locomotive (which, as any train buff can tell you, is the ultimate experience in travel), but because of what the ride can teach you about economics, politics, and the way the two combine to shape the world around us.

Not long ago I took my family on the train to Metamora. Shortly after we pulled out of Connersville, I noticed the faint outline of the now-defunct Whitewater Valley Canal running parallel to the railroad track. There was no sign of water in this canal; there was only a ditch with slumping banks and with rather sizable trees growing from the bottom. (The presence of these trees made it almost impossible to visualize barges ever using the canal.) From time to time, we passed the crumbling remains of canal locks.

It was only when I looked out the other side of the train that I realized that besides taking a train trip, I was traveling over a particularly interesting piece of the economic landscape. For on the other side of the train was a modern highway, being used by a variety of vehicles, including cars that had stopped to watch the steam locomotive go by.

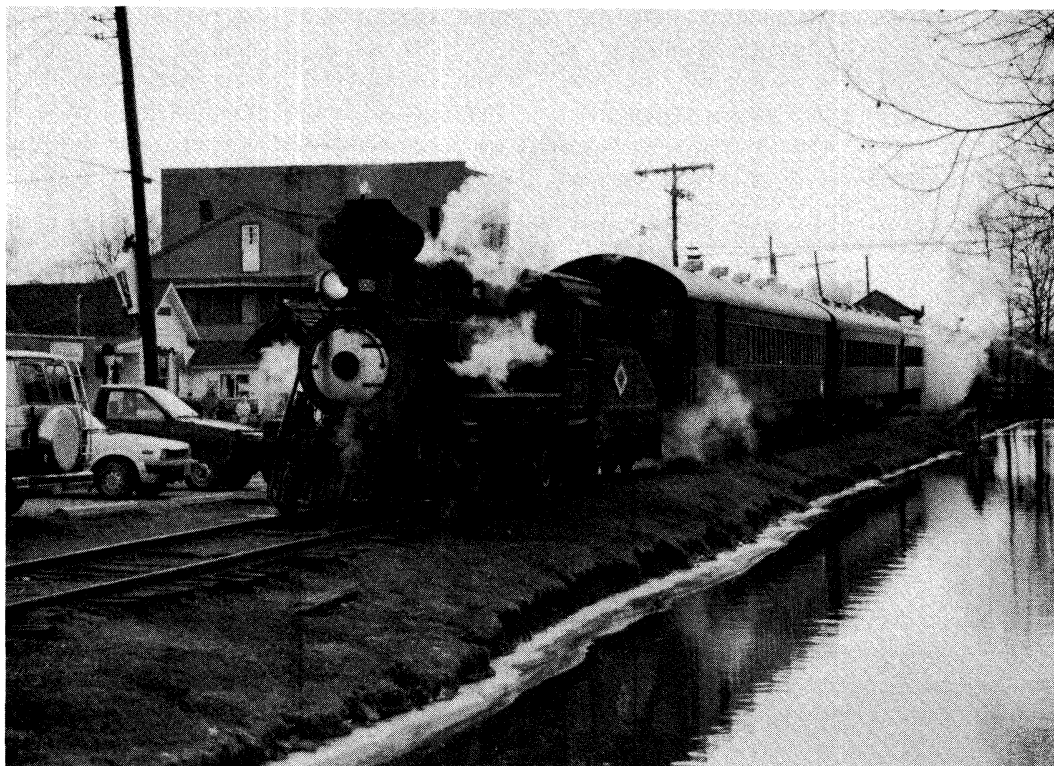
Professor Irvine teaches philosophy at Wright State University in Dayton, Ohio.

There, within the space of a few hundred feet, was a history of modern transportation: a canal, paralleled by a railway, which in turn was paralleled by a highway.

I examined the scene in much the same way as a geologist might examine a road cut (where engineers have cut through a hill in order to lay a road bed). To a geologist, a road cut offers valuable clues to the geological history of a region because it reveals the successive layers of sediment that were laid down by ancient oceans. Where the untrained eye sees a change in the color or texture of the strata, the geologist sees evidence of the rise of a new form of life, of changes in climate in years gone by, or of volcanic eruptions.

The canal, railroad track, and highway, lying side by side, were the economic equivalent of geological strata, but instead of revealing geological epochs, this economic landscape revealed successive revolutions in the technology of transportation, as well as revealing—to the trained eye—evidence of changes in the political climate in years gone by.

The juxtaposition of canal and rail and highway was also evidence of how dramatically the economic landscape can change. The people who built the canal probably didn't imagine that a technology would arise to make it obsolete, and the people who built the rails probably did so confident in the belief that theirs was the ultimate form of transportation.



JIM WEISMAN

Whitewater Valley Railroad today

By what, I wondered, will the highway be replaced? The obvious answer is that it will never be replaced, but this is what the canal- and railroad-builders thought. They were mistaken. Is there any reason to think that we are not likewise mistaken in thinking, as we often do, that we have reached the end-point in economic evolution?

Indeed, it is entirely conceivable that my children will tell their grandchildren about the old days when people used to ride around in cars. My great-grandchildren will listen wide-eyed and comment that things must have been difficult before they invented—I would like to be able to finish this sentence, but I don't know how to do so.

My great-grandchildren will most likely pity me for having to live without—again, I do not know what yet-to-be-invented something they will hold to be essential if one is to enjoy life. And why shouldn't they pity me? I pity my great-grandparents for having had to live without television and antibiotics and jet airplanes. Of course, I don't feel like a person worthy of pity; I don't feel like I'm

missing anything, and I don't suppose my great-grandparents did either.

Only Change Is Certain

When it comes to predicting the economic landscape decades hence, only one thing is sure: It will be radically different—almost unimaginably different—from that of today. Generally, if there were someone who could tell us the future, we would not believe him. We instead prefer to believe those who tell us, in reassuring tones, that tomorrow will be like today, even though such people are almost never right.

The juxtaposition of canal and rail and highway also raises a number of questions: How does a canal or railroad come into existence? How does it die? Did this particular canal and railroad die natural deaths, or were they, in effect, murdered? And if they were murdered, who was the murderer?

As it turns out, the history of the Whitewater Canal* is intertwined with the history of Indiana itself, and it is a history that demonstrates the extent to which politics can shape the economic landscape.

* In what follows, I am relying on William E. Wilson's history of the canal, as related in his *Indiana: A History* (Bloomington: Indiana University Press, 1966).

When Congress admitted Indiana to the Union, it allowed a certain portion of the funds from the sale of public lands to be used for developing transportation within Indiana. There were those, including Governor James Ray, who saw canals as a dying technology and favored instead construction of railroads. In the end, though, the state set off on a binge of canal and railroad construction, authorized by the Mammoth Internal Improvement Bill of 1836, and funded both by Federal money and by \$10 million borrowed by the state of Indiana. The Whitewater Canal was one of the projects thus financed.

The problem was that young Indiana was not ready to service the debt necessary to cover these appropriations: by 1839 the state was bankrupt. In the end, the state came up with a solution to the debt problem that was "just short of repudiation." The state got out of the canal-building business, and private enterprise finished the job that the State of Indiana had begun. By 1846, the Whitewater Canal connected Lawrenceburg with Cambridge City; the section of the canal between Connersville and Metamora is included in this stretch.

Once built, the Whitewater Canal's days of usefulness were numbered. By 1865 the Whitewater Valley Railroad had built the line that paralleled the canal (the line that the train to Metamora takes), and the canal was rendered superfluous. It wasn't long, however, before the Whitewater Valley Railroad itself fell on hard times. By 1877, it was bankrupt.

The Whitewater Valley Railroad recovered from this setback, but it ultimately suffered the fate of the canal: In this century, it ceased to be a commercially viable operation. What killed it? Again, this is a complex question. A case can be

made, though, that in the same way that the railroad killed the canal by paralleling it, the modern highway—more precisely, the system of modern highways—killed the railroad. Furthermore, a case can be made—and many have made it—that the railroads died not because they are technologically obsolete (one need only look at Europe or Japan to realize as much) but because the government decided to nourish their competitor, the highway system.

In the early 1970s, the not-for-profit Whitewater Valley Railroad Company revived the Connersville-to-Metamora route as a train for tourists, and in 1984 the company purchased from Penn Central the track between Connersville and Metamora. Thus it was that I found it possible to take the train to Metamora.

On arriving in Metamora I purchased some railroad paraphernalia and took my family for a snack. The restaurant that looked the most promising was located in the basement of an old bank building. The problem was that the place seemed full. We were about to leave when a waiter came up and asked whether we would mind sitting "in the vault." I wasn't sure what he meant, but we followed him and soon found ourselves inside a long and narrow concrete bank vault. The place was barely big enough for a table and had a bit of an echo, but was nevertheless a treat. (I did experience some anxiety about accidentally being locked in—who, after all these years, would know the combination?—but my fears were unfounded.) No doubt those who built the vault would be as surprised to learn of the ultimate fate of their works, as would those who built the canal, those who built the railroad, or as we will be, if we are lucky enough to be around decades hence. □

The Theory of Due Reparations

by Ridgway K. Foley, Jr.

There is a fashion in foolishness. Silly notions come and go; some are reborn a generation or more apart; others revive in an altered but similarly obnoxious form, parading as something new and wonderful, in reality something ancient and wicked.

One such goofy and dangerous concept which has gained increasing currency in this decade is the allegation that the state of today ought to order its creative citizens to grant favors and transfer wealth to less productive persons who suffered (or whose ancestors suffered) a supposed earlier injury at the hands of other people. Not unlike the reparations demanded of the Kaiser and his allies following World War I, this obnoxious social/political theory, currently augmented with equally thoughtless legal justification and seasoned with venal economic voodoo, threatens to become the order of the day. It appears in many guises, and it wears many masks, but at the essence the identical notion and proposed nostrum endures.

Consider some of the costumes worn by this theory of reparations due for past bad acts. The offspring of a late, talented black baseball player whose playing days terminated long prior to 1946 not only laments her father's inability to show his wares in the major leagues but also seeks monetary recompense for the ancestor's unfair deprivation. An outdoors enthusiast not only mourns the loss of pristine purity in the lakes and woods adjacent to the city of his residence but also demands sanctions against corporate "polluters" for long-past

acts perfectly legal and reasonable at the time of commission. Nisei interned in relocation compounds during World War II receive damage awards funded by taxpayers unconceived at the time of hostilities.

Many of those individuals who believe reparations are due to them or to others present a superficially appealing case. Divers baseball fans would have enjoyed the opportunity to see stars in the old Negro leagues such as Satchel Paige, Josh Gibson, and Cool Papa Bell matched against Babe Ruth, Ty Cobb, and Lefty Grove. Myriad sportsmen and campers feel pangs of grief when they happen upon a changed countryside pejoratively labeled "despoiled." Numberless men and women of goodwill wonder what possessed Franklin Delano Roosevelt and his henchmen to treat Japanese-Americans so cavalierly. (Incidentally, these same folks often regret Abraham Lincoln's suspension of the writ of habeas corpus and the concomitant lack of courage on the part of the Reconstruction Supreme Court when called upon to deal with such a salient subject in *Ex Parte Milligan*, 71 US [4 Wall] 2, 18 Led 281 [1866].)

Yet, as is so often the case, removal of the mask of rage and righteousness reveals the consummate evil inherent in the very act of compelling reparations in these or like instances.

Common Law

First, the common law—the most just system of jurisprudence ever crafted by a fallible mankind—requires fault and causality before granting an

Mr. Foley, a partner in Schwabe, Williamson and Wyatt, practices law in Portland, Oregon.

award of damages. Further, fault depends upon foreseeability, knowledge, and reasonable ability to avoid harm existent at the time of the act or omission, not upon some subsequently discovered cultural or scientific truth, supposition, or superstition. The actor must adhere only to the mythical standard of the "reasonable and prudent man, under the same or similar circumstances."

In other words, in order to employ the law to grant P a money judgment against D, P must prove that D acted in a faulty (careless or intentionally wicked) fashion, and that such conduct caused P harm in the amount sought in his complaint. And, the fault component of D's actions is measured against the standard of the reasonable man at that time: D need not possess the foresight to know what will be discovered next year, next decade, or next century, nor must he fathom decrees of future courts and legislators.

Thus, one might suggest that George Washington's doctor committed malpractice in bleeding his patient during the first President's fatal bout with pneumonia in the late 18th century; it would take a great deal of temerity to sculpture a legal system which would allow George Washington's heirs or representatives to sue the physician's heirs or representatives in the 20th century and to recover damages for wrongful death based upon the insight gained in the 19th century that bleeding ill patients tends to be counterproductive to recovery and good health. It is equally unseemly to assess damages against Corporation X in the 1980s for cutting timber or discharging waste a century before—particularly where the earlier workmen and officers followed common practice and broke no law. The theory of due reparations simply does not accord with the tried-and-true common law tradition.

Granting Men Their Due

Second, no acceptable theory of justice supports the claim of due reparations. Justice means to grant men their due and no more. It requires unbridled respect for free choice. Given the fundamental premises of justice, the government ought not be in the business of righting wrongs and correcting slights outside of the bounds of the traditional common law.

Indeed, given the changing rules, mores, and knowledge of mankind, and our inherent finity, no

entity or individual could come close to comprehending and rectifying any, let alone all, past misdeeds. Face it: few of us can understand past events and unravel their causes; it is doubtful very many could agree upon the propriety or impropriety of most past acts even if it were possible to comprehend all essential factors in the causal chain. And none of us are capable of discerning, securing, and distributing a perfect justice or restitution in these or like situations. Finally, even should a man or woman appear upon the scene, possessed of the ability and willingness to undertake this monumental task, it is an absolute certainty that he or she could never achieve political selection or election to exercise that talent. Thus, those who employ the theory of due reparations not only evade the common law tradition but also prescribe and seek to perform an act which no mere mortal could possibly achieve.

Furthermore, the calumny and calamity of this misguided nonsense doesn't end here. One cannot achieve justice by the commission of injustice. One does not better the world by stealing from A and transferring those stolen goods to B (less a handling charge, of course), even with the most laudable of motives.

If A carelessly struck B with his automobile, or punched him in the nose, or broke a contractual promise to B, and thereby caused B harm, the common law permits a judge or jury to render a judgment against A and in favor of B for the amount of the loss thus caused, but no more. But neither law nor justice should enable B to take money from a faultless A to compensate for some real or imagined past slight or harm caused by someone else. To do so penalizes A in a most vicious manner; it creates a second injustice in a vain attempt to rectify a presumed first injustice; and, it performs this nefarious activity under a subterfuge of high-sounding words and inspired causes designed to obscure the true nature of the deed.

I don't control organized baseball; how can I be charged for the misdeeds of men long dead? I couldn't vote in 1940 or in 1944, and had I possessed the franchise I most assuredly would not have cast a ballot for FDR (or probably for his Republican adversary); how can I be blamed and punished for placing Japanese-Americans in relocation camps? I wasn't around in 1850 or 1900, so I cut no trees and poured no waste into a pond, nor did I use any good or service supposedly resulting



from those activities; how can any person of sound morals assess me for these ancient acts?

The Nisei internment offers an illustration of the deeper wrong occasioned by the squalid theory of due reparations. The government instituted and carried out the relocation program; no private person or entity not linked to the state compelled individuals to leave their homes and property.¹ It is plainly unjust to shunt responsibility for 1940's individual mistakes unto the shoulders of 1990's individuals. It is even less commendable to mulct 1990's individuals for earlier state malevolence, misdeeds which most likely could not have been stemmed by dissenters during World War II given the fact of an oligopoly government directed by Caesars not accountable to any reasonable restraint or common moral code. It would make as much sense if in 1940 Dictator Dan, despite the adamant protests of John, executed Abel for refusing to pledge fealty, and Dictator Dan Junior in 1980 executed John after deciding that Dictator Dan had wronged Abel!

The Duty of Law

The unpleasant treatment of racial, religious, or cultural minorities certainly deserves condemnation, not applause, just as all destructive and ignoble acts should be censured by men and women of goodwill. But, one ought to differentiate between acts and omissions deserving of moral opprobrium and those subject to rectification by the law. The law should punish fraudulent and violent conduct; but no law can aptly prevent discourteous, unkind, and mean-spirited slights. Men and women are not perfect; they behave badly and boorishly, and they generally cannot even agree upon the content of proper behavior. The changing countenance of the law and of the standard code of behavior signify that fact. Even the common law cannot effectively redress grievances deriving from fraudulent or aggressive activities when all essential participants—particularly the aggressors—are dead and gone. *A fortiori*, one ought not employ normative rules and orders in an attempt to redress mere

shabby conduct, no matter how disgusting, particularly in the absence of all salient actors.

The credo of due reparations is both impermissible and impossible. Any taking from a faultless individual for any purpose other than deterrence of aggression and maintenance of a system of common justice necessarily involves an impermissible transfer of wealth and liberty. Any such transfer violates all principles of justice and good morals. Those who order the transfers, and those who accept their benefits, necessarily accept the axiom of "might makes right" and subscribe to the concept that their ideas and choices ought to count for more than the selections of other people—even if those other people created value which must be commandeered from them.² Furthermore, the theory of due reparations runs afoul of the positive law, specifically the jural principles undergirding statutes of limitation. An orderly society requires civil peace, harmony, and rectitude, and the common law has long recognized that justice and order demand that there be an end (no matter how imperfect) to claims and litigation. Also, it is patently unfair to compel a defendant to answer for an alleged wrong long after the fact, when his witnesses have died or strayed, and his defensive evidence has melted along with human memory and ordinary record-keeping.

For these reasons, the common law developed the doctrines of law of the case, *res judicata* and *stare decisis*, and its equity counterpart established rules of laches, all apart from the legislatively prescribed time limits embodied in statutes of limitation. Nonetheless, the theorists of due reparation push onward, unmindful that their late blooming claims upset the civil order and place the putative defendant at a great evidentiary disadvantage. Indeed, most proponents seem oblivious to the incongruity between opening all manner of old wounds whilst the ordinary legal proceeding is time-barred for late filing.

Some suggest that special harms require special treatment. Unfortunately, such exceptions tend to

swallow the rule, obliterating all of the age-old rationale for civil order and fair treatment of defendants with it. The very concept and label of "special harm" betrays the subjective value judgment inherent in the proponent: we all have our pet peeves and projects for which we wish "special" treatment. Yet, good sense and sound experience demonstrate that law and justice must be dispensed in an even-handed fashion, "on a fair field with no favor." It is only when such evenhandedness prevails that liberty reigns and its fruits also prevail and redound to the benefit of each of us.

Given these defects and deficiencies in the theory, what do the proponents of reparation seek to accomplish? Nothing less than a reorganization of society in their own image and a sating of their subjective desires at the expense of others whose creeds, ideals, and wants the proponents think should not count in this brave new world.

In sum, the theory of due reparations partakes of the same malady which afflicts all such social action transfers: someone conjures up a "need," seizes political office, and employs the state powers of taxation, police, and eminent domain to force upon the unwilling populace the conjurer's notions of "need" and "solution." Those who pay the freight have no say in the matter, and the politician reaps the benefits provided by the carrying charges necessarily attached to the proposed solution. □

1. The criminal-duty-imposing laws against assault, theft, extortion, and other misconduct ought to be sufficient to deter and punish private wrongdoers. And, if the state refuses to enforce criminal sanctions against such malefactors, the public officials should be subject to appropriate civil and criminal liability.

2. One certainly could advance additional arguments against the flawed theory of due reparations. For example, transfer payments which lack a sound legal and moral basis constitute an affront to several economic principles. As utilitarians and other pragmatists have long recognized, transfer payments inhibit the productive process and the creation of wealth by reducing the incentives of both transferor and transferee. The "end game," as Frederic Bastiat revealed, is the circle of pickpockets, each trying to steal from his neighbor. In addition, while beyond the scope of this paper, one could make the case that a severe psychological societal malaise flows from such beggar-my-neighbor policies. Hence, while I focus here upon common law and common justice, others could make the same point by virtue of alternative reasoning.

From Gangland to Corporate America

by William Granville, Jr.

In 1957 I was head of an inner-city gang in New Jersey called the “Whips East Trenton Trotters” that had a snake as its symbol. Once, I led my gang in a brawl with a rival gang which led to the closing of Trenton High School for a day, a school with 2,500 students. I almost ended up in jail for a long stay, but Mrs. Bessie Hill saved my neck.

In her work as a teacher and guidance counselor at Trenton High, she probably had many calls to rescue unruly boys who got themselves into as much trouble as I did; some of the times she must have said “no.” But she saw something in me, something even I didn’t know was there, and she stuck her neck out to save mine.

Trouble? If I had never learned the meaning of the word before, I knew it the next day. For most people in Trenton, 1957 was a year of fast cars, tail fins, and booming confidence in a better future. I had no confidence in any future beyond the gang. Now, a Mercer County Juvenile Court judge was looking balefully down from his bench, ruffling papers from a thick file of all the things I’d done to upset local authorities.

My mother, sitting next to me, was crying uncontrollably, but otherwise the chamber was deadly quiet. I was quiet, too, thinking about what it would mean if the judge sent me up. Mrs. Hill, who had come from school to appear with me, moved nervously in her seat every time the judge peered at me through his bifocals. As the judge related my past history and considered my most

recent offense, most charitably described as trashing the high school in a free-for-all rumble, I started to think of all the people who would be disappointed in me. How did I get to this point? I had let so many people down. All I could do now was stand there and shake while a stern, elderly man in black figured out what to do with me.

Mrs. Hill, who had taken her own time to accompany me to court and stand up for me, helped to stem the alienation my mother and I felt. Mrs. Hill saved my neck in court that day, and afterward educationally. And I needed a lot of saving. She had seen something in me, despite the dismal grades I had earned in my industrial arts courses. She spoke up firmly when the judge called on her, telling him I was a good boy who had fallen in with the wrong crowd. I had something to offer society, something better than it had seen from the leader of the Whips, if I could straighten out. She asked the judge to give me one more chance, and he must have sensed something too, because he gave it to me.

Thank God for Mrs. Hill. She challenged me, and as an 11th grader, I decided to give academic studies a try. I was scared to death. All my test grades read either “D” or “F,” and here I was enrolled in college preparatory classes because someone believed in me.

As it turned out, Mrs. Hill had been right. I had been wrongly placed in the industrial arts curriculum, and I took to the new course load like a duck to water. She was behind me all the way, and what she told my teachers caused many of them to take a fresh interest in me. That motivated me. When Mrs. Hill and others showed interest, I felt I was worth something. It was an amazing

Mr. Granville is an executive with Mobil Corporation. He is the author of Just Say Yes!, published by Career Communications Group, 729 E. Pratt St., Suite 504, Baltimore, MD 21202.

experience; I hadn't known such feelings before.

In recent years, I've felt it was my turn to give something back to Mrs. Hill and all those others who invested their time and energy in rescuing a confused young man who didn't know what to do with himself. I want to create some good feelings of my own for young people who might not have a chance to succeed otherwise. I want to take motivated minority high school students and get them grounded in the business world, so they can begin their climb and later reach back to help others. That is the primary mission of the Granville Academy (named to honor my parents), a non-profit organization designed for students ages 13 to 18. At the Academy, they can gain introductory knowledge of business and industry, including an understanding of the language, basic principles, and environment in which industry operates.

The Birth of an Idea

The idea for the Academy came to me during a long plane ride back from the Middle East in 1980. During the late 1970s and early 1980s, I was traveling 40 percent of the time. I was then manager of technology transfer, working with Mobil's multi-billion-dollar joint venture projects in the Middle East. These included a refinery, petrochemical plant, and pipeline, all constructed in Saudi Arabia.

At that time there were many skilled jobs in Saudi Arabia and not enough Saudis to fill them. The joint ventures were formed because Saudi Arabia wanted to industrialize. The Saudis intended that the oil flowing so plentifully from their lands would drive their country into a new modern age. The joint venture corporations wanted to recruit, develop, and retain as many Saudi nationals as possible. Quite a few foreign companies were working in Saudi Arabia, and they all were competing for young Saudis.

When you can't buy skilled employees on the labor market, you have to develop your own. The venture companies sought out young Saudi nationals from all the nonindustrial areas of the country.

Most of these young people couldn't speak English, let alone the technological and financial language of industrialized corporate America. They had to be taught these languages by the American companies involved in the projects. And through hard work and perseverance, the ventures succeeded in developing a new corps of

Saudi nationals, skilled and prepared for top jobs. We got the job done together, and the young Saudis became an integral part of our project.

Now many of these Saudis are senior engineers or high-level managers of the joint-venture corporations. That's starting from a dead stop, going to the top in seven or eight years. It made me think.

If American corporations can train and develop thousands of unskilled and inexperienced youngsters in foreign countries and enable them to hold significant positions in highly complex industrial projects, why can't we do the same for underprivileged youth in our own country? I concluded that we can, and that it starts with commitment. With hundreds of millions of investment dollars riding on each venture, our companies certainly had a heavy commitment in the Middle East. During that 13-hour plane ride, I had plenty of time to think. Wouldn't it be great to take the same commitment and concepts—designing learning plans, following up on them, checking at different stages—and apply them to help our inner-city youth, so that some day they could hold key positions in corporate America? At the time, I had no notion of an academy, but I thought about working with young people from the inner city in order to share some of the things I had experienced. Something inside told me that this Middle East discovery could be adapted to help disadvantaged youths in Trenton.

Helping inner-city youngsters had always been a dream of mine. Starting with that plane ride, and for the next three years, I planned and organized for the start of the Academy. In the initial program in 1983 my efforts were focused on students in the eighth through tenth grades, 13 to 16 years old. I wanted to start with youngsters at an early age, since I realized it would take a generation or two for blacks to truly arrive in corporate America.

The Granville Academy

The process and content I used in starting up the Academy have remained essentially the same. The Granville Academy, an intensive, after-school program, enrolls all beginning students in an Entry Group. The Entry Group is designed to complement the students' normal school schedule. One of the goals is to emphasize the importance of skills in accounting, writing, and speaking for success in corporate America.

There is a strong emphasis on creativity and development. Teamwork is an important part of the curriculum. Students are taught to plan and to follow systems and procedures. They learn the importance of setting high standards for themselves. This commitment to following schedules and producing a finished product teaches students to deal with routine detail and deadlines as they work to achieve quality performance. It encourages them to expect and seek rewards as a result of their work on this finished product.

Students are chosen based on their high motivation and interest as well as academic achievement. In the beginning, we looked for youngsters who had top grades. Later, however, we included those who displayed high motivation even if their grades were low. Typically, students should demonstrate above-average performance in school, possess leadership skills in non-academic activities, and show good judgment in personal decision-making. A thorough review is part of the selection process, including communication with school personnel, students, and parents, and a review of transcripts. The Entry Group meets at Princeton Theological Seminary. Its members are bussed from Trenton to the seminary by members of the Trenton Jerusalem Baptist Church.

At Academy sessions, we introduce teenagers to a whole new language:

- Principles of savings and investments;
- Finance and accounting;
- Effective business writing and oral communication skills;
- Interpersonal skills;
- Domestic and international commerce;
- Stocks, commodities, and other markets;
- Compensation and other "perks" in corporate America;
- Science, engineering, and technology's role in business;
- Annual reports, financial statements, and business media;
- Leadership skills.

The Granville Academy's theme is "Grooming Tomorrow's Capitalist—Our Investment in the Future." We want students to be successful, but we also want them to contribute something to their home community once they have succeeded.

That theme has been the flash point for many conversations. It came about when somebody

pointed out to me how often I was skirting the use of the word "capitalism," as if it were something to be ashamed of. I thought to myself, "He's right." You have Communists in China, the Soviet Union, and North Korea adopting capitalist concepts, why should it be less reasonable to do the same in America? Why can't the East Trentons and Harlems of the West do the same as Communists in the East?

Still, the reluctance to use the word "capitalism" needs to be explained. Black Americans have been buffeted by all kinds of "isms" since the 1960s, and the leftover rhetoric of "the system" and the evils of the status quo are still with us. Thus, you can imagine the reaction of inner-city community leaders when they first heard we were going to "groom tomorrow's capitalists."

A New Message

For most blacks in the inner city, "capitalists" were people who owned everything, surrendered nothing without a knockdown, drag-out fight, and were quick to deny credit or repossess cars, furnishings, or houses during bad times. People who had worked all their lives in factories and then watched them close and move away, or just close down altogether, thought "capitalism" was a dirty word. They had been told over and over that the reason these things happened was that capitalism ordained such ills.

And here I was, going around with the message, "Hey, take advantage of the capitalist system." Not only that, I wanted to groom their children to be tomorrow's capitalists.

Extensive travel outside the United States helps one to see that all countries buy and sell goods and services, that managed economies stagnate, and that entrepreneurship is the most efficient way to encourage development of the good things Americans take for granted. Most of the people I was talking to had never seen the hungry multitudes I saw in Third World cities, had never reflected on the long lines of people outside U.S. embassies and consulates waiting to apply for visas to come here.

They also had never been required, as I had, to look beneath the rhetoric of foreign leaders who denounced "materialistic, capitalist" values but demanded high prices for the resources their countries could sell and insisted on the best of luxuries for themselves, their families, and their friends.



William Granville, Jr. (standing), and Harold B. Vereen (right) overlooking some of the students at the Granville Academy.

It seems curious, in the heartland of capitalism, that systems of economic organization that everyone else is eager to learn would be hard to sell; but they were. People didn't want to hear what I had to say; but I kept it up. Sometimes I used different tactics. I would say to parents that I saw their sons and daughters someday as chairman of the board at General Motors, chief financial officer at IBM, president of Xerox, head of Mobil. Most people understand the language of ambition even if they rarely admit it in public, and blue-collar workers are no different. Everyone wants his or her children to go as high as possible, and so people began to open up to that message.

To deal with some of the initial misunderstanding about what I was trying to do, I got as many people involved in the project as I could. We sent announcements to churches, schools, fraternities, sororities, and community groups. I made sure the presidents and chief executive officers of traditional community groups were involved. I communicated with uplift organizations such as the Urban

League and N.A.A.C.P., and with many cultural and religious groups.

The secret to getting this project off the ground was credibility, a factor which can't be emphasized enough. I needed to prove to people that this wasn't just some wild idea I cooked up.

It takes success to win over skeptics. We started small, and the word began to spread: "Hey, they're teaching good stuff to these kids at the Academy. It's new, it's not like the things we've been told before." The Academy students went back to school with new motivation, and their teachers started to see them express themselves better. They, too, became believers. Families paid more attention to their youngsters' school work. And when the students started to talk about credit cards, mortgages, insurance, and automobile purchases, their parents listened. The youngsters knew what they were talking about, and the information was useful. Members of the business community saw black youngsters talking stocks and bonds, science, engineering, and technology in

business, and their ears perked up as well. Today, the Academy is a resounding success. Now we have people asking to volunteer, for we're on very solid ground.

I chose Princeton Theological Seminary, about 15 miles north of Trenton, as a site for the Academy. I knew I had to take the young men and women out of the inner-city environment. I wanted the students to feel inspired, in a place whose reputation is above question. Some of the people with whom I discussed sites thought perhaps I was trying to start a new Black Panther Party and didn't want to involve their institutions. "Thirty kids from the inner city? What?" The first year was catch-as-catch-can. Academy sessions weren't fully mapped out with syllabuses and lesson plans. The perspective that first year provided allowed us to get going on a more orderly schedule. Because of the large corps of volunteers, I now had a team and was able to examine the successes and failures of the first year and decide what to change.

For example, we moved the schedule up. Our after-school programs were running too late into the night. In the second year we started our meetings earlier in the evening so the students could be finished before 9 P.M. Also, we hadn't allowed for enough student participation. We had to add more group exercises. It became evident that it wasn't enough just to tell youngsters about the principles of accounting and finance; we had to get them actively to use those principles in discussion. So we gave them cardboard signs reading, "Owner's Equity," "Marketable Securities," "Leveraged Buyout," etc., to carry on the bus between Trenton and Princeton.

Parent involvement is the key to any new thrust in education, but we found that many parents weren't communicating with their children. That meant bringing in the families to get them more involved in the activities. And not every person who is a good role model knows how to talk to young people. Role models who spoke on important topics but failed to get across to the students were reassigned to other, more productive activities.

The Next Step

When students complete the Academy's Entry Program, we hold a formal graduation ceremony. Graduation activities provide rewards and recognition for high achievement and are a potent moti-

vator to the students. After graduation, participants receive immediate membership in the Granville Academy Advanced Group. They get information on how to qualify for programs such as Inroads' Corporate Interns Program. Graduates also get subscriptions to *The Wall Street Journal*, *Fortune*, *Business Week*, *US Black Engineer*, and *Black Enterprise* magazines, as well as two shares of stock in a major corporation. The stock is purchased and the students are enrolled in a dividend reinvestment program through the National Association of Investors Corporation.

By 1988, the Granville Academy had garnered enough support to expand. It still starts at the eighth grade level, but now instead of stopping at grade 10, it goes right up through grade 12. Rider College, several miles from my home in Lawrenceville, outside Trenton, N.J., agreed to help sponsor the Advanced Group Program, which has two subgroups in science, engineering, and technology (SET) and finance, accounting, and economic disciplines (FED).

The first of these Advanced Group programs was launched at Rider in September 1988. The idea came when we surveyed the Entry Group graduates to find out their career interests. Most chose something related to finance, economics, science, or engineering. We decided to divide the advanced students into the two groups, SET and FED.

If America is to compete effectively with Europeans and Asians, especially the Japanese, more young people must be active in these disciplines. Students in the Advanced Program attend joint sessions as well as those in their specific areas of concentration. We do this because it is important for future accountants to know something about the functioning of computers, just as it is important that researchers understand the power of economics.

The president and CEO of the Academy is Harold B. Vereen, who has 14 years' experience in corporate America and now runs a successful marketing and advertising consulting firm, Vereen Enterprises of Levittown, Pennsylvania. His clients include Pepsico, Amerada Hess, and Unimark, Inc. He brings to the Academy outstanding leadership skills.

A total of 130 students attended the three sections of this year's program. The Academy is readily adaptable to being established in other cities.

Plans for the future include starting academies in a number of other major cities such as Cleveland, Camden, Los Angeles, and New Orleans.

One of the Granville Academy's most significant features is the price. Tuition is free. When you're working with inner-city youths, financial obstacles can be significant barriers to participation.

That's not to say the Academy runs by magic; it still needs money, roughly \$45,000 a year to operate its programs. When it first started, there was only one program, and the expenses came mostly out of my pocket, as needed. Now its list of supporters has grown. I contribute only what isn't raised from the community and from corporate supporters. That support has been easier and easier to get, for once corporation personnel began to understand what we were doing, they were quick to come on board.

My employer, Mobil, is very high on employee voluntarism for worthwhile causes. Mobil has supported the Academy and my efforts, financially and in other ways. The Academy also has received financial or other assistance from Career Communications, publisher of *US Black Engineer* and *Hispanic Engineer* magazines; Rider College; the National Action Council for Minorities in Engineering; the Princeton Theological Seminary; and Inroads Inc., to name but a few organizations.

I have always had the goal, however, to get the Academy on a financial base of which 65 percent comes from community support and only 35 percent from outside. Blacks won't achieve economic integration unless most of the financing comes from within our community. The money is there, but so far it hasn't been used in ways that enhance the community's ability to provide for its own future.

The Church's Role

I believe inner-city black churches represent major sources of funds. The black churches are the

most organized and respected groups in any inner-city black community and have the best track record of raising funds for important causes.

I would like to build on this potential support base. Church members, for example, could set aside small portions of their regular contributions for mini-academies to be established within their own buildings. That wouldn't take any huge donations from individuals, but many small contributions. It's the difference saved by forgoing an extra basketball game, or choosing not to have another soft drink. I believe people will be willing to contribute if they know the Academy is successful and that their money is used wisely.

This is only the beginning of what I see as steps to address a major need in this country. We must have more Mrs. Hills in this nation who believe in young people. They need to translate their beliefs into action as Mrs. Hill did. It is also my fervent hope that the Academy's alumni will develop into a network of graduates helping each other and providing motivation to make it through college and to find good jobs.

The Granville Academy concept is a method of helping young people as I was helped. It works because we have kept the concepts simple and basic, and because we request only minimal time from people who volunteer their service as staff and role models. It is in tune with the needs of corporate America to help meet this nation's human-capital and educational crises. It fosters a team spirit among students, parents, and staffers who have a clear understanding of the mission, objectives, and goals of the Academy. Finally, the Academy succeeds because it's relatively inexpensive with its all-volunteer staff.

If academies were in place wherever young minority students live and go to school, they would go a long way toward resolving this nation's need for fresh, talented, highly motivated human capital in science, engineering, and high technology. □

Perestroika's Missing Ingredient

by E. C. Pasour, Jr.

Perestroika, Mikhail Gorbachev's widely discussed restructuring of the Soviet economy, has done little to improve Soviet living standards. Are the heralded perestroika reforms consistent with the increased use of market forces to organize production? Is the proposed restructuring of the Soviet economy ever likely to raise living standards for the Russian people? Unfortunately, a necessary ingredient for economic coordination in a productive economy is missing in Gorbachev's perestroika. In fact, so long as the restructuring of the economy fails to heed the lesson from the socialist calculation debate that occurred more than 50 years ago, perestroika is doomed to failure.

The Socialist Calculation Debate

In the 1920s and 1930s, Ludwig von Mises and F. A. Hayek demonstrated that successful economic planning is impossible in a centrally directed socialist economy in which market prices are necessarily absent.¹ Without market prices there is no possibility of calculating costs, no meaningful profit and loss signals, and no way to determine the goods and services most highly valued by consumers.

Decentralized markets bring about economic coordination in two ways. First, market prices coordinate and transmit information to various participants in the competitive entrepreneurial market process more completely and accurately than can be done through central direction. Indeed, Hayek showed that a great deal of economic information is highly specialized to time

and place and that these data cannot be conveyed in statistical form to central planners.

Consider the land market. A tract of land may have a number of alternative uses, including housing, industry, recreation, and agricultural production. The land market is unique in its ability to channel land to different uses, taking into account the supply of land and the demands for its various uses. For example, when the demand for corn rises, producers tend to bid up the price of land that is suitable for growing corn and increase the amount of land used in corn production. Furthermore, producers need not know *why* the demand for corn has risen in order to take the action that is socially beneficial. The correct action occurs as profit-seeking entrepreneurs respond to price signals. No method of central direction in allocating resources can match market prices in effectively using the data held by present and prospective market participants to achieve the pattern of production most consistent with consumer preferences.

The second way that decentralized markets bring about economic coordination is through the entrepreneurial discovery process. Expected profits provide the inducement for alert entrepreneurs to become aware of profit opportunities and to search for more profitable production methods, including the development of new products.² A major shortcoming of all alternatives to extensive use of free markets is in the area of economic change and innovation. The lesson of the economic calculation debate is that there is no alternative to decentralized markets as a means of discovering and achieving the most productive pattern of resource use. Stated differently, a socialist economy is necessarily inefficient as a means of organizing production.

Dr. Pasour is professor of economics at North Carolina State University at Raleigh.

Market Socialism and the Missing Ingredient in Perestroika

Despite the cogency of their argument that socialism is less productive than a market system, Mises and Hayek failed to convert the proponents of socialist planning during the 1920s and 1930s. Indeed, the issues discussed in the economic calculation debate at that time were largely forgotten as government control of the economy increased following the Great Depression and Keynesian revolution of the 1930s.

In convincing their critics of the importance of prices, Mises and Hayek inspired attempts through "market socialism" to simulate or duplicate the end results of the operation of a free market economy and to use those results to run the economy. The oxymoron "market socialism" refers to mathematical procedures developed by Oskar Lange and other economists to refute the finding by Mises and Hayek that socialism is necessarily inefficient. Using mathematical optimization techniques, it was demonstrated that a central planner, if *given* data on available resources, production alternatives, and consumer preferences, can determine the pattern of resource use that most fully accommodates consumer preferences for goods and services.³

Hayek, however, showed that this mathematical exercise has little significance for economic planning under real world conditions. In assuming that the planner is *given* information which can be revealed only through the operation of the market process, the market socialism approach *assumes away* the most important economic problem—the efficient utilization of knowledge. The required information to determine the most productive pattern of resource use is not given to planners. Furthermore, there is no way that much of the highly specialized information relevant to economic decisions can be assembled, coordinated, and transmitted through central direction. The result is that while "market socialism" may not be logically contradictory, it is practically impossible because of information problems.

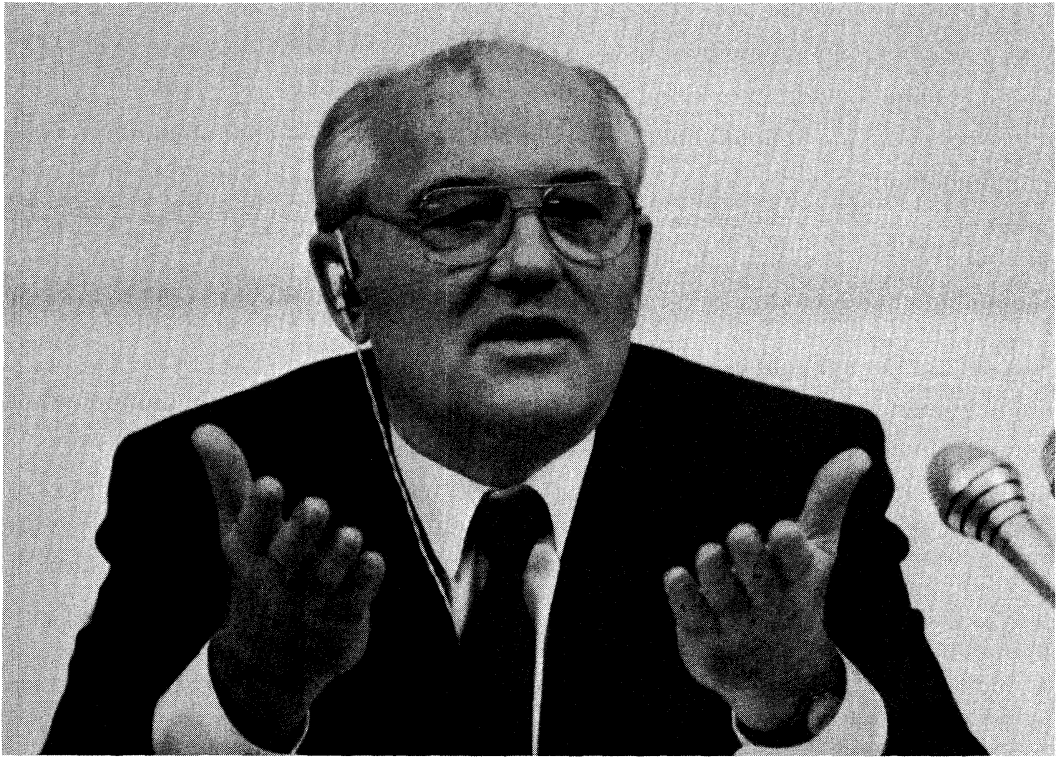
The lesson of the socialist calculation debate is that there is no way efficiently to "reform prices" in a socialist system. However, the Soviet planners appear to have learned nothing from it. In an attempt to deal with the economic crisis, Soviet Prime Minister Nikolai Ryzhkov outlined the gov-

ernment's new perestroika plans in December 1989. He pledged to "reform prices" and to boost output of consumer goods, but indicated no plans to make fundamental changes in the system of government ownership and control of the economy. Consequently, it is predictable that the new perestroika plan, consisting merely of cosmetic reforms of the Soviet central planning system, will have little effect on the lagging economy.

The missing ingredient of perestroika is private property with decentralized markets. Mises and Hayek demonstrated that the "market socialism" goal of maintaining socialism while determining market prices through mathematical procedures is a vain hope. A socialist system cannot be organized through the market because markets without divisible and transferable property rights are a "sheer illusion."⁴ Therefore, meaningful economic reforms are ruled out so long as Gorbachev remains adamant in his resolve to search for answers to the economic crisis *within socialism*, as he wrote in his 1987 book *Perestroika*: "To put an end to all the rumors and speculations that abound in the West about this, I would like to point out once again that we are conducting all our reforms in accordance with the socialist choice. We are looking within socialism, rather than outside it, for the answers to all the questions that arise. . . . Every part of our program of perestroika . . . is fully based on the principle of more socialism. . . ."⁵

Perestroika will not bring about a significant improvement in living standards without reforms that are incompatible with socialism. Gorbachev wants the material productivity associated with a market economy, but he is unwilling to forgo socialism. Yet, the "socialist choice" is incompatible with market prices that provide the correct signals to producers and consumers in the entrepreneurial market discovery process. Consequently, little improvement will be forthcoming without the institution of private property and the associated sweeping reduction in powers of central planners that are required to overcome the current inefficient system.

Perestroika isn't working because it is merely a reworking of the old five-year planning methods that have culminated in the current Soviet economic crisis. Gorbachev's concept of perestroika within socialism was brilliantly satirized by Soviet economist G. K. Popov in the Soviet Congress when the new perestroika plans were announced



WIDE WORLD PHOTOS

Mikhail Gorbachev

last December. Using an example of the precise, hyperbolic predictions of seven decades of central planning, Popov memorably contrasted the Gosplan technique of ordering production to meet national goals with the decentralized approach: "This hen will produce 180 eggs this year, 183 eggs the next, then 185. Why don't we finally leave this hen alone and let her live with her rooster? Thanking us for her independence, this hen will provide us with enough eggs."⁶

Popov, at least implicitly, accepts the lesson from the economic calculation debate—central planning is no substitute for economic freedom as a means of determining the mix of production and of organizing production to achieve this result. The unplanned nature of the decentralized free market economy also is highly significant from an ethical standpoint. However, consideration of the moral implications of the planned economy is beyond the purview of this essay.⁷

Conclusions

Private property is the most important missing ingredient in perestroika. There is no satisfactory

alternative to a widespread use of the free market, but this is incompatible with government ownership of resources. The lesson of the socialist calculation debate suggests that the attempt to solve the Soviet economic crisis by "looking within socialism, rather than outside it" will fail. Gorbachev's perestroika plan, which holds that prices can perform their role in productively allocating resources in a collectivist economic system, is a grand illusion. □

1. See F. A. Hayek, ed., *Collectivist Economic Planning* (Clifton, N.J.: Augustus M. Kelley, 1974 reprint of 1938 edition); F. A. Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948); and Ludwig von Mises, *Socialism* (London: Jonathan Cape, 1951).

2. Israel M. Kirzner, "The Economic Calculation Debate: Lessons for Austrians," *The Review of Austrian Economics*, Vol. 2 (1988), pp. 1-18.

3. Oskar Lange and F. M. Taylor, *On the Economic Theory of Socialism*, Benjamin E. Lippincott, ed. (Minneapolis: University of Minnesota Press, 1938).

4. G. Warren Nutter, "Markets Without Property: A Grand Illusion," ch. 15 in *The Economics of Property Rights*, ed. by Eirik Furubotn and Svetozar Pejovich (Cambridge, Mass.: Ballinger, 1974).

5. Mikhail Gorbachev, *Perestroika* (New York: Harper and Row, 1987), p. 22.

6. Francis X. Clines, "Soviets Try Shift to Ease Economic Ills," *Raleigh News and Observer*, December 14, 1989.

7. For a discussion of these issues see E. C. Pasour, Jr., "Benevolence and the Market," *Modern Age* 24 (Spring 1980), pp. 168-78.

Consumer Sovereignty

by Bettina Bien Greaves

From time to time, insightful economists have *described* the operations of a market economy. Many have noted that no central planner is needed to tell producers what to produce, when to produce, how much to produce, and what quality to produce. Adam Smith, often called the “first economist,” pointed out in 1776 that the butcher, the baker, and the brewer are guided as if by “an invisible hand.” Frederic Bastiat remarked in 1845 that Parisians need not fear starving the next day, but could sleep peacefully in their beds, confident that the city would be provisioned during the night.

However, it was only with the development of the subjective, marginal utility theory of value by the Austrian school that economists *explained* why the market needed no central planner, why no one needed to direct the butcher, the baker, the brewer, or to plan the provisioning of Paris. It was Ludwig von Mises (1881-1973), leading spokesman for decades of the Austrian school, who clearly demonstrated the consumer’s crucial role in production.

Every one of us has personal, subjective values, the Austrian economists point out. Each of us acts in response to our respective values. When as consumers we buy, or refuse to buy, we send a message to the entrepreneurs who guide production. Entrepreneurs “are at the helm and steer the ship,” Professor Mises noted. “But they are not free to shape its course. They are not supreme,

they are steersmen only, bound to obey unconditionally the captain’s orders. The captain is the consumer.” Let’s see how Captain Consumer directs production.

Recent accounts of economic conditions in the U.S.S.R. tell of serious shortages—of soap, for instance. Why? It is said there are bottlenecks in the production of paraffin needed for producing sulphanol, an ingredient used in making soap; hence the production of soap is held up. It is charged that the responsibility for soap-making is dispersed among several governmental departments, each with other more urgent responsibilities; hence soap production is neglected. But the real reason for the shortage of soap is the lack of opportunity for entrepreneurs to respond to the wants and wishes of consumers.

A widespread shortage of soap would never exist in a country with freedom of opportunity and respect for private property. At the first sign of demand for soap over and above available supplies, some entrepreneur, hoping for profit, would try to fill the gap, by starting a small soap-making operation of his own, or by shipping soap from where it was more abundant. The demands of consumers would guide him.

Given the lack of soap in Russian stores, why doesn’t someone there start to make soap at home? Soap isn’t very difficult to make and the ingredients aren’t expensive. Many of our grandmothers and great-grandmothers used to make soap. Old cookbooks give recipes. It can be made from readily available raw materials: wood ashes, fat, lye, and salt.

Let’s assume for a moment that an enterprising Russian housewife and her children weren’t

Mrs. Greaves is a member of the senior staff of The Foundation for Economic Education. From 1951 to 1969 she was a regular participant in Ludwig von Mises’ graduate seminar in economic theory at New York University.



Ludwig von Mises

DAVID L. JARRETT

deterred by the threat of government regulation and decided to make soap on their own. Wood ashes they would have aplenty. Also fats left over from cooking. By pouring water over the ashes and letting it stand, they could leach out a form of lye. This they would then mix with the fats, add salt, and heat until a crude kind of soap began to form. Not a very fancy soap, to be sure, but a usable soap, which in view of the shortage in Russia, consumers would undoubtedly welcome.

Each Russian consumer who chose to spend money for this new soap, instead of something else such as cigarettes, would vote his personal values, transferring rubles to these enterprising soap-makers while, at the same time, sending fewer rubles to the producers of cigarettes. As consumers purchased soap in preference to cigarettes, they would be giving the venturesome soap-makers more and more rubles, providing them with a profit, and encouraging them to continue production.

Freedom to Choose

Consumer sovereignty is consumers making choices one by one, consumers buying one thing

and not another, consumers transferring their money to some producers and not to others. The process isn't invisible; it isn't miraculous; it only seems miraculous in that it directs production without a central authority having to plan or give orders.

If consumers still clamored for more soap after the first batch was gone, the enterprising soap-makers would expand production, in response to consumer sovereignty. As more and more consumers bought their soap, the soap-makers would profit. And their success would induce others to start producing soap, perhaps an improved variety, this too in response to consumer sovereignty. As sales grew, the soap-makers would have to look farther afield for supplies of wood ashes and left-over cooking fats. Consumer sovereignty would soon impact on suppliers of these raw materials too, affecting the prices they asked and could receive for raw materials, persuading them to sell to the soap-makers, and perhaps even to expand their production. In short order, as consumers assumed control, the production of soap in Russia would rise and the shortage would disappear.

Consumer sovereignty is manifested by consumer purchases and refusals to purchase. As long as customers continued to buy soap, they would keep on transferring money from other segments of the market to pay for their purchases. In the process, they would help to make those soap-producers who responded to their wishes richer. In the final analysis, it is the consumers, as Mises has written, who "make poor people rich and rich people poor. They determine precisely what should be produced, in what quality, and in what quantities."

Russian consumers lack soap and many other goods because potential entrepreneurs have little freedom to go into business, to invest, to experiment, and to try to respond to the wishes of consumers. In Russia, there is a shortage of soap because consumers aren't free to make some entrepreneurs richer by buying their products and others poorer by refusing to buy theirs. In Russia, there is a shortage of soap because the consumer is prevented from expressing his sovereignty on the market. In Russia, central planners, not consumers, are sovereign. □

Solidarity and Labor Law Reform in the 1990s

by Charles W. Baird

At its 18th biennial convention, held in Washington, D.C., last November, the A.F.L.-C.I.O. again called for major reform of U.S. labor law along the lines of the failed labor law reform bill of 1978. That bill would have made it much more difficult for employers to compete with unions during certification election campaigns and would have greatly increased the penalties imposed on employers found to be in violation of the pro-union rules. It would have made it much more difficult for nonunion workers to remain union free.

Lech Walesa, the leader of Poland's Solidarity union, was the guest of honor at the November convention. He gave a speech in which he thanked the A.F.L.-C.I.O. for its assistance in Solidarity's struggle against Communist oppression in Poland. He even taped a "union yes" television ad for his hosts. Lane Kirkland, the newly re-elected A.F.L.-C.I.O. president, also gave a speech. He accused the Bush Administration of hypocrisy in its simultaneous support of Solidarity and its resistance to the political agenda of the A.F.L.-C.I.O., and he promised a "renaissance" for the union movement in the 1990s.

With less than 13 percent of the American private sector work force in unions, a number that has been falling each year for 30 years, the A.F.L.-C.I.O. has even less political clout than it did in 1978. The prospects for pro-union labor law reform are bleak. However, Mr. Walesa's participation in the convention and his taping of the commercial are a boon for the A.F.L.-C.I.O. Ameri-

cans appropriately have enormous respect and admiration for Mr. Walesa and Solidarity. His endorsement could make the A.F.L.-C.I.O.'s political agenda more salable.

Solidarity and American unionism are very different things. Mr. Kirkland and the A.F.L.-C.I.O. are inappropriately attempting to free ride on Mr. Walesa and Solidarity. Solidarity is a union all right, but it is not an American-style union. It is primarily a pro-democracy movement made up of workers who voluntarily came together to resist, and later overthrow, one-party dictatorship in Poland. It stands for pluralistic, multi-party democracy with regularly scheduled elections.

American unionism, in contrast, is structured by existing labor law as one-party monopoly rule. It is anti-democratic insofar as it stands for one-man, one-vote, once.

The National Labor Relations Act is based on the principle of exclusive representation. Once a union wins a certification election, it represents all workers on the job. No other union may represent any of the workers, even if some workers want it to do so.

Winner-Take-All

Unionists justify exclusive representation by analogy with winner-take-all elections of members of the House of Representatives. Each member is a monopoly representative of his or her district; so, by analogy, it is proper for a winning union to be a monopoly representative of workers for collective bargaining purposes.

The analogy is inapt. First, the sale of one's own

labor services is in the private sphere of human action. Mandatory submission to the will of a majority is necessary in governmental matters, but individual free choice is the usual decision rule in private affairs. Second, a labor union is more like a political party (indeed, that is what Solidarity has become) than like an individual member of Congress. We have more than one party in Congress, and workers ought to have access to more than one union at the workplace.

In most political democracies—e.g., Japan, Britain, and West Germany—unionism also is democratic. That is, unionism is based on proportional representation wherein each union bargains only for its voluntary members. Bargaining committees are made up of multiple unions, each with representation in proportion to its membership. Workers are free, on an individual basis, to decide whether to be represented by a union, and if so, by which one. Moreover, they are free to switch their allegiances among unions. This is pluralistic, voluntary, multi-party unionism. It is the form of unionism President Roosevelt endorsed in his 1934 automobile strike-threat settlement. Since it is common in Western Europe, it is the kind of unionism most likely to emerge in liberated Poland.

In America, once a union is elected as exclusive bargaining agent, it does not have to worry about regularly scheduled re-elections. A certified bargaining agent is presumed to continue to have majority support until the contrary is proven through a cumbersome process that must be initiated by disaffected workers willing to bear the expenses—and risks—of attempting to collect signatures on a petition for a de-certification election. Thus in addition to one-party rule, American

unionism has no regular elections to determine which party shall rule.

We need reform of American labor law in the 1990s all right, but not the sort Mr. Kirkland has in mind. We ought to substitute proportional representation for the one-party rule of exclusive representation. Failing that, we ought at least to amend the National Labor Relations Act to provide for regularly scheduled re-certification elections. The President and members of the House and Senate must face regularly scheduled re-elections. Why should exclusive bargaining agents be immune from the same democratic requirement?

If unionists defend winner-take-all exclusive representation over proportional representation by analogy with winner-take-all elections of members of Congress, consistency demands that they continue with it to its logical end—regularly scheduled re-certification elections.

The most common objection that American unionists voice against proportional representation is that it is too difficult for employers and unions to handle. With exclusive representation, things are much more orderly. Employers have to deal with only one union rather than many. I suspect that unionists will voice a similar objection to a requirement of regularly scheduled re-certification elections. It is just messy to have to go through another election every two or four years. It is more efficient to assume continued majority support.

This argument from efficiency and order is also used by Communist hard-liners in Eastern Europe and the Soviet Union against multi-party democracy. Mr. Walesa didn't buy it in Poland. Notwithstanding his "union yes" ad, I doubt he would buy it here. □

IDEAS
ON
LIBERTY



Tyranny

Every wanton and causeless restraint of the will of the subject, whether practised by a monarch, a nobility, or a popular assembly, is a degree of tyranny.

—SIR WILLIAM BLACKSTONE

The Genesis of Industrial Policy

by Thomas J. DiLorenzo

Milton Friedman recently proposed the following syllogism which he believes characterizes much contemporary thinking about economic policy and institutions: Socialism has failed miserably wherever it has been attempted. The entire world knows this. Therefore, the world needs more socialism! This bizarre chain of “reasoning” is nowhere more prevalent than in contemporary proposals for a national industrial policy—governmental economic planning by a “tripartite” commission of politicians, businessmen, and union leaders.

So-called industrial policy was roundly criticized by nearly all mainstream economists—liberals and conservatives alike—during the early and mid-1980s. There is wide agreement that this “halfway house” between central planning and a free market economy, as Friedrich Hayek described it, is fundamentally flawed: Governmental planners cannot possibly possess the knowledge required for efficient resource allocation. Only the market and price system can efficiently distill the massive information required. The idea that a group of government planners can imitate market resource allocation is what Hayek calls “the fatal conceit.”¹

Moreover, in a democracy, governmental economic planning schemes are bound to be influenced more by political than by economic criteria. A national industrial policy would subsidize only politically powerful businesses, industries, and

unions at the expense of diminishing overall economic growth.

Despite the avalanche of criticism, and the well-known failures of all socialistic economic planning schemes, the philosophical and ideological roots of industrial policy run deep. Like the character “Jason” in the *Friday the Thirteenth* horror films, the idea just never dies. Logic, reasoning, and evidence don’t seem to phase its adherents. They persistently relabel and repackage the same hoary notions, hoping they will catch on if only they are repeated often enough. Consider the recent history of the crusade for an interventionist industrial policy.

In the mid-1970s economist Wassily Leontief convened an “Initiative Committee for National Economic Planning” which, fortunately, never got off the ground. The phrase “national economic planning” was just too reminiscent of the spectacle of “planned” economies in Eastern Europe, the Soviet Union, and elsewhere, and the American public wanted no part of it.

The industrial policy proponents went right back to the drawing board and focused on a series of new marketing strategies. As Ira Magaziner, a strong proponent of industrial policy, candidly revealed: “Some of us started raising concerns about the decline of America’s industrial base back in 1977; the solutions were labeled industrial policy, which became dirty words. Well, the problem didn’t go away, so the concept re-emerged as “industrial strategy.” Then we talked about “competitiveness policies” and, most recently, “industry-led strategies.” We’ve had four different names for what we should be doing without doing anything.”²

Thomas J. DiLorenzo is the Scott L. Probasco, Jr. Professor of Free Enterprise at The University of Tennessee at Chattanooga. This article is adapted from his book, *Paved With Good Intentions: Economic Nationalism and American Industrial Policy* (Cato Institute, 1990).

What's in a Name?

There are other euphemisms for industrial policy, such as "economic democracy," "investment economics," and Michael Dukakis's "strategy for industrial America," which he tried to sell to the electorate in 1988.

More imaginative euphemisms for national economic planning are sure to be invented in the future. Magaziner and Harvard's Robert Reich, among others, have recently published new books promoting the same industrial policy potions they began peddling over a decade ago, and there is strong support for some kind of industrial policy in the business community and the union movement. Despite the wishes of free-market economists, this issue is not likely to fade any time soon.

Why the stubborn support for such a thoroughly discredited idea? One reason, I will argue, is that industrial policy proponents are largely oblivious to both economics and history. But if they had a better understanding of the doctrinal history of industrial policy, they might not be so enthusiastic about it. The origins of industrial policy are in an economic system that industrial policy proponents themselves would abhor—Fascism.

Contemporary proponents of industrial policy advocate many of the same *economic* policies that prevailed in Italy and Germany in the 1920s and '30s. They do *not* condone the abolition of civil and political liberties, the fanatical hero worship, the anti-Semitism, the violence, and the many other evils associated with Fascism. They are simply unaware that: 1) Fascism was an economic as well as a political and social debacle; and 2) Fascist economics was almost identical to so-called industrial policy.

Perilous Parallels

The "partnership" approach to national economic planning is one of the hallmarks of industrial policy. A 1989 United Automobile Workers publication outlines the familiar proposal for "development of a National Strategic Planning Board, made up of representatives of government, labor, businesses, and others to set goals for American industrial development, as well as specific committees on which labor, government, and business representatives would formulate plans for America's auto, steel, and other industries." This

plan would supposedly "get labor, management, and government together to bargain a direction for our economy and specific industries."³

Business support for industrial policy is typified by a report by the Center for National Policy entitled, "Rebuilding American Competitiveness." The report was written by academicians, government officials, and, businessmen such as Felix Rohatyn of Lazard Freres & Co., former Du Pont Chairman Irving Shapiro, and representatives of the Chrysler and Burroughs corporations, among others. It calls for a "new approach to industrial policy" that is "based on *cooperation* of government with business and labor [emphasis in original]." Such cooperation would be institutionalized by "an Industrial Development Board, composed of government, labor, and business leaders" who would "develop cooperative strategies to promote industrial growth."⁴

Then of course there are the intellectual supporters of industrial policy, such as Robert Reich, Robert Solow, Lester Thurow, and Bennett Harrison of M.I.T., Barry Bluestone of Boston University, and various others. These individuals are among a number of academicians associated with a Washington, D.C.-based organization called "Rebuild America" which advocates "public-private partnerships among government, business and academia."⁵

But the idea of government/business partnerships is anything but new. It was in fact the heart of German and Italian economic policy during the 1920s and '30s. As the Italian Fascist Fausto Pitigliani wrote in 1934, Italian Fascism grouped businesses and unions into "legally recognized syndicates," the purpose of which was "to secure collaboration between the various categories of producers [i.e., employers and workers] in each particular trade. . . ."

The vehicle through which government, business, and unions would "coordinate" their plans was a network of government economic planning agencies, which the Italian Fascists called "corporations." The corporations were organized industry-wide and were intended to "secure permanent collaboration between employers and workers." These corporations were Mussolini's version of the tripartite commissions that contemporary industrial policy proponents advocate.

In Fascist Italy there was one National Council, which Fascist author Gaetano Salvemini claimed

was established "to exercise very considerable influence upon the development of the means of production in the national economic life of Italy."⁶ Another Fascist apologist, Luigi Villari, wrote in 1932 that such business/government partnerships promoted "a spirit of national collaboration which would not be possible under any other system."⁷ The Italian National Council sounds nearly identical to the U.A.W.'s "National Strategic Planning Boards."

The National Socialist (Nazi) government in Germany established its own economic planning scheme that was very similar to the Italian system (and to contemporary industrial policy proposals). As described by historian Franz Neuman, there was a "National Economic Chamber," the duty of which was "to co-ordinate the territorial and the functional setup" of industry. This National Economic Chamber was a federal overseer of numerous local chambers, similar to the Italian Fascist system.

In a statement that could have been written by one of the contemporary American proponents of industrial policy, the German newspaper *Deutsche Volkswirt* explained in 1933 that the purpose of these institutions was to "give private industry possibilities and tasks for far-reaching collaboration."⁸ According to the Nazi National Economic Minister, "Our task is the limited one of coordinating with the present idea of national government the organization of the enormous field of German business administration."⁹ As in the industrial policy literature, the words "cooperation" and "collaboration" were used repeatedly by German and Italian Fascists.

The "Unity of Aim" Argument

One of the most persistent arguments made by proponents of a national industrial policy goes something like this: We've already got industrial policies—regulation, direct subsidies, protectionism, credit subsidies, selective tax breaks for certain industries—but they are too *ad hoc*, overlapping, piecemeal, and sometimes contradictory. What's needed is a more centralized or *national* industrial plan with clearly defined and fixed objectives.

As Lester Thurow has written: "We already have industrial policies. . . . The only real question is whether America has effective front-door

industrial policies in which we consciously attempt to design a strategy to give America a viable world class economy or whether we fail to recognize what we are doing and have back-door industrial policies with a case-by-case adoption."¹⁰

Former Carter domestic policy adviser Stuart Eizenstat claimed that a national industrial policy would "be a more effective organization of what every President since George Washington has been doing in a piecemeal, uncoordinated way."¹¹ And the Center for National Policy claims that "to argue that government should not have industrial policies is to ignore the fact that it does." What is lacking, says the Center, "are efforts to coordinate . . . all these different policies."¹² Similar statements are repeated over and over again in the industrial policy literature.

Again, such thinking is nearly identical to what was being said in Italy and Germany in the 1920s and '30s. Mussolini himself stated in 1934 that existing government intervention into the Italian economy was "too diverse, varied, contrasting. There has been disorganic intervention, case by case, as the need arises." Fascism would supposedly "remedy" this, wrote Mussolini, because it promised to "introduce order in the economic field" and direct the economy toward "certain fixed objectives."¹³

The whole purpose of the Italian economic planning apparatus, according to Pitigliani, was to give industry "unity of aim" and to "bring together under a single administration the productive forces of the nation."¹⁴ Admiration for central planning, in other words, is one thing the industrial policy proponents have in common with early 20th-century Fascists.

The Inherent Failures of Industrial Policy

The essence of early 20th-century German and Italian industrial policy (and of contemporary industrial policy proposals) was for government, business, and unions to attempt to "collaborate to coordinate" the economy in the public interest. Individual consumers, businesses, investors, and workers supposedly couldn't be relied upon to serve national rather than individual interests. "The function of private enterprise," wrote Pitigliani, "is assessed from the standpoint of public interest, and hence an owner or director of a busi-



WIDE WORLD PHOTOS

Mussolini speaking in Central Italy, September 1934.

ness undertaking is responsible before the State for his production policy.”¹⁵ Fifty years later, the Center for National Policy similarly advocated an “Industrial Development Board” that would “identify sectors of the economy crucial to the national interest” and provide “public [i.e., taxpayer] support as part of an overall development strategy.”¹⁶ The theme of economic nationalism pervades both the industrial policy literature and the literature of Fascism.

Despite the public interest rhetoric, business/government collaboration in Germany and Italy constituted a mammoth conspiracy against the public. Business and government collaborated to milk the taxpayers for subsidies to big business and to establish a vast system of government-sanctioned cartels. As a disenchanted Gaetano Salvemini wrote in 1936, although the Fascist “Charter of Labor says that private enterprise is responsible to the state . . . it is the state, i.e., the taxpayer, who has become responsible to private enterprise. In Fascist Italy the state pays for the blunders of private enterprise.”

As long as business was good, wrote Salvemini, “profit remained to private initiative.” Loss, however, “is public and social.” Mussolini boasted in 1934 that “three-quarters of the Italian economic

system, both industrial and agricultural, had been subsidized by government.”¹⁷ By subsidizing business failure on such a grand scale, Italian Fascism guaranteed a failing economy.

Such business/government collaboration also created a system of monopolies through massive regulation that could forbid the creation of new factories or the development of existing plants. As reported in *The Economist* on July 27, 1935, the Italian “Corporative State only amounts to the establishment of a new and costly bureaucracy from which those industrialists who can spend the necessary amount, can obtain almost anything, they want, and put into practice the worst kind of monopolistic practices. . . .”¹⁸

There was also a “revolving door” between government and industry—the familiar practice of government bureaucrats dishing out subsidies to industry, and then retiring from government to take well-paying jobs in the industries they had previously been “regulating.”

German industrial policy also glorified the notion of business/government collaboration, but it too was nothing but the most ordinary protectionism. Regulations prohibited price cutting and established a system of government-sponsored monopolies, described by Hayek as “a sort of syn-

dicalist or 'corporative' organization of industry, in which competition is more or less suppressed but planning is left in the hands of the independent monopolies of the separate industries."¹⁹ Government/business collaboration, admitted a Nazi economist, "gives a cartel a power which it could not obtain on a voluntary basis."²⁰

Lessons of History

One doesn't need to go as far back in history as Mussolini's Italy or Nazi Germany to observe how collaboration between government, business, and unions breeds corruption and monopolization. The recent HUD and savings and loan scandals are typical examples of the inherent failures of government/industry collaboration. In each instance, businesses and government officials collaborated to benefit personally at great expense to the general taxpaying public.

In 1978 the Carter Administration implemented a textbook example of the partnership approach to industrial policy. It "cooperated" with the United Steelworkers union and several steel companies to grant \$265 million in loan guarantees to the companies through the federal government's Economic Development Administration (EDA). The objective was supposedly to save 50,000 jobs in four companies. By 1987 all four loans had defaulted, two of the companies had gone bankrupt, and the two others had filed for bankruptcy. The taxpayers were out \$265 million and not a single job was "saved" in the steel industry.

As of April 1989, 55 percent of the EDA's loan portfolio was delinquent, with hundreds of millions of dollars in bad loans. The EDA's own staff admitted that its loan programs "would have to be considered a failure" and are "an excellent example of the folly inherent in industrial policy programs."²¹

Trucking regulation by the Interstate Commerce Commission, which cartelized the trucking industry, is another example of what one can expect from an interventionist industrial policy. Trucking firms, the Teamsters, and government collaborated to construct barriers to entry in the trucking business at great expense to consumers and potential competitors. Airline regulation by the Civil Aeronautics Board was another example of an industrial policy cartel.

Protectionism is an example of business/

union/government collaboration for the purpose of organizing a price-fixing conspiracy against the public. As Adam Smith wrote in *The Wealth of Nations*, businessmen seldom meet, even for fun and entertainment, when the conversation does not turn to some kind of conspiracy against the public.

Private cartels are notoriously unstable. Consequently, monopolists have always favored "cooperation" between business, government, and unions: Only the coercive powers of the state can guarantee the survival of a privately organized cartel. Thus, monopoly is all too often the result of government/industry partnerships.

As the historical record of interventionist industrial policies becomes clearer, I predict the following syllogism will describe the attitudes of industrial policy proponents: Interventionist industrial policies have bred monopoly, corruption, and economic stagnation wherever they have been tried. Everyone knows this. Therefore, we need more industrial policy! Santayana's dictum that those who fail to learn the lessons of history may relive its mistakes is particularly relevant to the ongoing industrial policy debate. □

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Wealth, Freedom, and Philanthropy

by Peter Frumkin

Egalitarians have long argued that the rich serve no real purpose in society, and that vast accumulations of wealth ought to be curtailed. These advocates of "social justice" maintain that the only way to achieve an equitable society is to alter the distribution of wealth substantially. Very often, they call for higher rates of marginal taxation, greater inheritance taxes, and even caps on personal wealth.

What egalitarians seem to forget is that a massive accumulation of personal wealth often leads to increased charity and assistance to those who are needy. In fact, most large philanthropic institutions in the United States were founded on the wealth of one individual who was free to amass a great personal fortune.

Philanthropy's Unique Mission

In 1988, charitable giving in the U.S. to all fields, including religion, human services, health, and education, totaled more than \$106 billion. By any measure, this is an impressive number. It is more than the total amount of money U.S. corporations distributed to their shareholders. It exceeds total Federal spending on non-defense goods and services. Over the past decade, as giving has increased, philanthropy has grown to play a critical, though often unrecognized, role in society.

Private giving is a powerful vehicle for change, one which often differs radically in approach from government. In fact, the private nature of philanthropy has long been viewed as one of its great

virtues. It enables philanthropy to stand outside the pressures of public opinion and to engage in projects that government either will not or cannot undertake. Because of its often experimental and innovative nature, private philanthropy adds variety and competition to civic life.

In some cases, this competition can lead to the re-examination of government policy—especially in education where government's track record in designing effective programs has been less than stellar. After philanthropist Eugene Lang "adopted" an entire class of inner-city school children in New York City and promised to pay for their college education if they kept their grades up and finished high school, New York State started its own program of scholarships, "Liberty Partnerships," which were rather imperfectly modeled after Lang's design. Other examples of privately funded programs which government later tried to emulate include care for the elderly, shelter for the needy, and drug treatment.

And yet, while government has learned a great deal about "what works" from philanthropy, the private agendas of foundations and philanthropists have long evoked suspicion. The proposal to create the Rockefeller Foundation, for example, was greeted with unmitigated contempt. President William Taft's Attorney General viewed the plan to devote one of the world's largest fortunes to promoting "the well-being of mankind throughout the world" as a dangerous conspiracy—what he called "an indefinite scheme for perpetuating vast wealth."

To this day, vast wealth engenders a climate of envy and distrust: Why, many wonder, should private citizens be entrusted with distributing large

Peter Frumkin has written on philanthropy for National Review, The NonProfit Times, The Chronicle of Philanthropy, and other publications.

sums of money? How can we be sure that philanthropists will give generously? To understand what drives private philanthropy and why it is crucial to a vibrant and diverse society, it is important to consider the way in which philanthropy and freedom are intertwined.

Freedom and Wealth Accumulation

In discussing what it means to be free, philosophers often differentiate between positive and negative freedom. To experience negative freedom, an individual needs only to be free from restraint, free from interference, or free from unwanted government meddling. Negative freedom is termed "negative" because it is defined by saying what an individual is "free from."

The definition of positive freedom is more complex and elusive because it is built on a different and in some ways richer conception of freedom. Positive freedom is connected to an individual's need to live a meaningful and fulfilled life. An individual experiences positive freedom when he is free to do what is right, to live the good life, or to be virtuous. Positive freedom is termed "positive" because it is defined in terms of what an individual is "free to do or be." For people to have the chance to accumulate wealth and for philanthropy to flourish, negative and positive freedom must both be present.

Entrepreneurs and businessmen, who represent philanthropy's future, need an economic environment free of barriers and constraints, one in which private property is protected and regulation is limited. Wealth accumulation is also tied to an equitable system of personal and corporate taxation. It should come as no surprise that philanthropy is far less developed in Europe and the Soviet Bloc than it is in the United States. Indeed, in Communist nations there is little or no independent philanthropy because large accumulations of personal wealth aren't tolerated. That Americans are far and away the most charitable of all people bears witness to the fact that negative freedom, the freedom from unwarranted government interference which our Constitution comes closest to providing, is crucial to putting in place the conditions which make philanthropic giving possible.

But a free marketplace and limited regulation of business aren't enough. Without a culture that recognizes and values benevolence, philanthropy's moral roots cannot take hold. Charitable giving is thus intimately tied to a special kind of positive freedom, the freedom to be benevolent. This freedom rests, of course, on a whole series of other moral and religious freedoms. Philanthropy involves more than just wealth accumulation. It depends on an appreciation of the needs of others and an enlightened sense of self-interest. To be charitable implies that one is free to look beyond narrow self-interest in order to find a richer and fuller sense of the good.

A century ago, Andrew Carnegie explained the rationality behind benevolence, and his thoughts remain relevant to this day. Carnegie argued in *The Gospel of Wealth* that by giving away "surplus" wealth, the rich can do what is at once morally right and prudent. By investing their fortune rather than hoarding it, wealthy people, Carnegie believed, could defuse criticism of the economic system which made their success possible, as well as meet some pressing social concerns. Philanthropic investment not only would strengthen capitalism, but, if properly done, would also give others the opportunity to compete and succeed.

Since Carnegie's day, philanthropy has grown by leaps and bounds. Not only have new and important foundations sprung up, but numerous wealthy individuals have also given generously to charity. The reason, as Carnegie pointed out, is that philanthropy enables the wealthy person to win the approval and admiration of others. "To die rich," Carnegie warned, "is to die in disgrace." As a result, the desire for respect which most successful people possess will continue to lead the wealthy toward philanthropy.

Without the economic freedom to garner wealth and the moral freedom to act benevolently, philanthropy cannot survive. And without a vibrant philanthropic sector, a powerful force for social innovation and change will be compromised. To those who worry about the dangers of wealth accumulation, these two facts should give cause to ponder. With its stringent economic and moral requirements, philanthropy lends crucial support to the values and principles which have made this nation prosperous and free for so many years. □

“That’s Already Been Settled”

by Earl Zarbin

Solicitations through the mail for one cause or another are endless. Most I ignore, pitching them aside unopened. My wife, however, looks at all the mail. She reads everything, including all requests for money. Lately, there was an appeal to which she wanted to contribute some cash. This was a lobby in Washington, D.C., trying to get Congress to amend a law so that funds it appropriated for the arts would not go to pornographers or other purveyors of disgustment.

When my wife said we should make a contribution, my reaction was: “No, it’s a waste of money. The people behind that are fighting the wrong thing. If they were fighting to repeal all Federal aid to the arts, I probably would contribute something.”

“That’s already been settled,” my wife retorted.

“What’s already been settled?”

“Congressional funding of the arts.”

She maintained the issue now was to make certain the funds were not used for vulgar purposes such as displaying as art someone’s bottled urine or photographs of homosexuality. Certainly I could agree tax money should not be used for those purposes any more than they should be used to support three-cushion billiard parlors. But the need was not lobbying to ban the use of Federal funds to support pornography or disgustments: rather, the need was to ban stealing from billiard players (and everyone else) to support the arts.

On the surface, it appears the question of social welfare programs has been settled. Along with theft-supported giveaways to the arts, we have Social Security, Medicare, Medicaid, aid to educa-

tion, *ad nauseam*. However, there is no assurance these programs will last forever. A late example of this was Congress’ repeal of the law requiring Medicare recipients with qualifying incomes to pay higher taxes for the financing of catastrophic illness. Congress reacted after hundreds of thousands of Social Security recipients made known their displeasure. What if hundreds of thousands—or millions—of Americans under age 62, or 60, or 50, made known their displeasure with the entire thieving system of Social Security? Would Congress sit still? Or would it repeal the social stealing approved by Congress in 1935?

Similarly, if millions of Americans rallied against subsidies for irrigation water, electrical production, and all other Federal theft programs, would not Congress respond? You bet. If the people made known they would vote out of office anyone who failed to repeal stealing as Congress’ favorite pastime, the entire transfer payment system could come tumbling down.

Indeed, ask individual citizens if they support theft. I think most would say they do not—even for so-called good causes. They prefer to decide for themselves whether something is worthy of their personal financial aid. What I suspect many of them do not perceive is the connection between committing theft themselves and Congress (or state legislatures or city councils) doing the same thing through the enactment of laws and their enforcement with the power of the police.

Many citizens might agree there is a need to help others pay rent, buy food, receive medical care, and become educated, but they would rebel and stiffen their backs if approached directly by a man with gun in hand to demand they turn over

Earl Zarbin, a retired newspaperman, does historical research and writing in Phoenix, Arizona.

cash in their pockets for these purposes. Yet the majority of them tolerate the same conduct if the theft is enacted into law and the stealing is accomplished by government agencies.

Clearly, the masses of people have been deceived in their understanding of what government should be and what it has become. It should restrict itself to protecting life, liberty, and property; instead, it is the main agency for intrusion into virtually every aspect of living, threatening the well-being of the people by spending too much, and by inflation.

If my wife is correct—the triumph of the social

welfare state in these United States has “already been settled”—then I might as well contribute to such narrow and unproductive causes as combating the use of federally collected tax money to finance the public display of bottles of urine as art. But I think she is wrong—the only thing that has been settled is that the masses of people have been temporarily blinded and deceived by the siren song of those who pretend the world is better off when subjected to an elite in control of coercive forces. To me, nothing has been settled. If this puts me out of step, I at least know that I still tramp to my own beat. ☐

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A REVIEWER'S
NOTEBOOK

Religion, Wealth and Poverty

by John Chamberlain

Gilbert Chesterton, who is the mentor of Jesuit Father James Vincent Schall, the author of *Religion, Wealth and Poverty* (Vancouver, B. C.: Fraser Institute, 202 pages), was a distributist. But this doesn't mean that he wanted to divide the wealth into equal shares. He wanted everybody to own property, to have land, a home, and tools. He was willing to let people who had brains, take it from there.

The Chesterton commitment was to free will. If you believe in it, you come out in your attitude toward poverty in one place. It is not a static resting point. You have powers of imitation, and you don't have to accept poverty for yourself. But if ideology rears its ugly head Chesterton won't save you. Let us say the ideology is socialism. In asking the simple question of why are the poor poor, socialism implies that it is because the rich have the money. In a non-free will world this means that poverty must be eternal.

But we know this can't be true. A century ago practically everybody was poor. Today this isn't so. The world's stack of wealth is increasing all the time, even in the midst of debilitating wars.

Father Schall wonders how once-fertile countries can fall into poverty. Tanzania in tropical Africa perplexes him. It could be as prosperous as Kenya next door. But ideology interferes. "The best way to discover why Tanzania . . . remains poor," he says, "is not to examine its soil or its rainfall, but to read the collected speeches of Mr. Julius Nyerere. He may be a very good man, but he chose the wrong theoretical ideology to explain his country's poverty to itself. He gave some of these speeches to religious groups which have spread the doctrine widely. And this has promoted

coercion—with poverty as the inevitable result." Tanzanian farmers are compelled to raise crops collectively. There is no individual incentive. The practical result is that there is nothing in the storehouse.

Father Schall doesn't like the idea of sharing. It implies that there is common ownership of the wealth. He wants to promote giving. As to sharing, he writes, "I have always held the unorthodox view that it is more difficult to receive than to give." He quotes Chesterton as saying that "if I were a poet writing a Utopia . . . if I were a God making a Planet, I would deliberately make it a world of give and take, rather than a world of sharing. . . . I want Jones by one mystical and godlike act to give a cigar to Brown, and Brown by another mystical and godlike act to give a cigar to Jones."

The world, so Father Schall sums up, "is made up of givers and receivers, while those who merely share, I suspect, remain locked up in a very little world in which everything belongs to everyone else and nothing to each."

Father Schall thinks there is plenty in the world for everybody. He quotes Norman Macrae in *The Economist* as saying that we could easily produce a glut on the international food market "so great it would dwarf all other issues. The Ganges Valley in India, the Yangtze in China, the Mississippi Valley in the Midwest, and even the smaller San Joaquin Valley in California can by themselves come fairly close to supplying the world's basic food needs if farmed with the intensity and skill of the Dutch or Japanese. What causes insufficient food production are fundamentally the theories, values, and ideologies that interfere with or fail to foster those

means of achieving the planet's capacity in this area. Some seem even to welcome starvation in order to prove their theories."

Schall asks rhetorically "What is taught in many religious circles today?" He gives as his answer "mostly this: the poor are poor because the rich are rich. The poor are getting poorer because the percentage gap between the rich and the poor is slightly increasing. The rich are rich because they exploit the poor. The only way to change this is to alter the consciousness of the exploited people to be 'aware' of their condition, to become angry or even violent. A new order based on political, socialist-oriented principles must be instituted soon to redistribute worldly power and wealth. This process is called 'justice' and has practically co-opted any other meaning of the word." As Westbrook Pegler might have said, "'T ain't right."

By carefully following all this "religious pedagogy," says Schall, "the net result would be that the poor remain forever poor." What we ought to be doing, says Schall, is not sending "our easily manipulated nuns, college students, and seminarians to slums and barrios" to have them routinely return reciting "canned ideology in the name of faith without a clue about the difference."

Instead of heavily laden socialist theological texts, our "young ought at least to have a look at . . . Norman Macrae, Irving Kristol . . . Paul Johnson, P. T. Bauer, and *The Economist*. For an early reflection on faith and justice, instead of *Marx and the Bible*, they might try Barrington Moore's *Reflections on the Causes of Human Misery and Certain Proposals to Alleviate It* or Jacques Ellul's *Betrayal of the West* . . ."

There ought, says Schall, to be ways of making the widening of state power palatable. The Christian distinction between the things of God and Caesar suggests the idea of the limited state in which Caesar does not control everything, "especially the most important things." But the interpretation of the Constitution's general welfare clause is taken to mean that the state has a moral duty to provide and guarantee just about everything. It is a totalitarian view of modern natural rights theory, and it just won't work, as Schall notes.

"No doubt the state need not be our enemy," he says, "but who is to save us when even the clergy seems to suggest it is our salvation?" □

INDIVIDUALS AND THEIR RIGHTS

by Tibor R. Machan

Open Court, 315 Fifth Street, Peru, IL 61354 • 1989 • 250 pages
\$32.95 cloth, \$16.95 paper

Reviewed by David M. Brown

In his new and very readable book on our natural rights, philosopher Tibor R. Machan has accepted a task that too many contemporary advocates of liberty regard as almost beside the point.

What he has done is ground our rights to life, liberty, and the pursuit of happiness in a broad philosophical framework of ethics, epistemology, and metaphysics—that is to say, in a theory of what reality is fundamentally like (metaphysics), how we can know anything about it (epistemology), and what choices we should make given what we know about ourselves and the outside world (ethics or morality). Once Machan has given us answers in those realms, he can then go on to apply his answers to political questions.

The more fundamental levels of philosophy do matter for questions of public policy. To see this, let us suppose that everybody agrees to follow what has been called the "nonaggression axiom," a principle which some libertarians insist would be sufficient, all by itself, to secure and sustain a politically just society. The nonaggression axiom says: Nobody has the right to initiate the use of force. Simple reference to this principle, it is said, enables us to recognize where the justice lies in any political conflict or in social conflicts involving violence or coercion.

But this approach founders if we ask, for example, what in fact constitutes aggression? What is the realm which may not be aggressed against? How do we determine it? If you punch somebody in the nose out of the blue, is that the only thing that counts as aggression? What about menacing gestures? What about taking property whose ownership is in doubt? But maybe we're being too ambitious here. Maybe we can't really *know* anything anyway. Heck, maybe we don't even exist—or at least not our rights.

My own attention to such questions has been informed by writers like Ayn Rand, Robert James Bidinotto, Dimitri Rotov, David Kelley, and now Tibor Machan. This book is a full-fledged discussion of human nature, how we can know it, and what the implications are for politi-

cal and social relations. The author confronts opposing philosophical positions with eminent fairness, and successfully shows why they lead to different, and morally wrong, policy prescriptions. His own argument clearly demonstrates that political principles require a more fundamental philosophical foundation for their intelligible defense and that the specific politics one espouses will be intimately affected by variations in those basic positions.

Rights are a kind of moral claim, based on the objective requirements of life in a social context, although they have been treated by many writers, including Thomas Jefferson, as a kind of endowment. By contrast, Machan defines rights as "*social conditions that ought to be maintained*, moral principles pertaining to aspects of social life." He favorably quotes Ayn Rand's statement that rights are "conditions of existence required by man's *nature* for his *proper* survival." Although I would say that rights are actually justified moral claims or entitlements to those conditions rather than, as appears to be asserted here, the conditions themselves (one can have a right without its being respected), the relationship of the rights issue to the wider philosophical realm is evident.

If, for instance, man's nature is fluid, unknowable, or the opposite of what we think it is, then what we can logically say about the requirements of sustaining man's life—of achieving his "proper" survival—will be consequently altered. To wit, if man is a predetermined, fate-driven automaton with no genuine capacity for choice, then to declare that he "ought" to do something is meaningless. And if man does not, after all, possess the capacity to reason, then to declare that force is evil because it thwarts his reasoning is meaningless as well.

This book is refreshing not because it aspires to be definitive or exhaustive on these issues, but because it treats them as necessarily interrelated, and profoundly illuminates the connections. Of course, not all readers, even those already in agreement with the broad premise of the book, will accept Machan's arguments entirely. I had trouble with aspects of his discussion of "consent," for instance. But certainly those who seek to improve their understanding of the requirements of a free society will be well rewarded by a scrupulous study of this work.

Here, for example, is just one of Machan's

insights that caught my attention. It is an examination of the "tragedy of the commons" that builds on the usual economic treatment:

One way of interpreting the famous doctrine of "the tragedy of the commons" is to realize that when common ownership *and* authority attach to some valuable option, individuals who are responsible for making morally right choices cannot make them. They are unable to determine what they *should* do because they lack jurisdiction over the various alternatives that face them. As a result, one of their alternatives is to not consider externalities [external costs] their use of the property imposes on others. Indeed, it is not even possible to know what are externalities and what are not. "External" and "internal" presuppose borders spelled out by property rights and property law. . . . What is ultimately tragic in the "tragedy of the commons" is that even if one were determined not to neglect any of one's responsibilities *it cannot be clear what one's responsibilities are*.

Here the economic truth of common ownership is related to the essential requirements of moral responsibility to others. Moreover, this insight relies on Machan's general discussion of man's nature that spells out in what ways man is a social creature, in what ways he is a purely private and individual creature, and how to properly specify both realms so as to protect all individuals and their rights.

Machan defends his thesis ably against several contending theories, and is generally effective in doing so. He pays careful attention to what his colleagues are arguing and gives their theories their due before exposing their fallacies. My one gripe with his approach and with the entire book is his tendency to garnish perfectly plain and defensible contentions with unnecessary qualifications, including words like "seems" and "appears to be" when the implied uncertainty of these locutions is uncalled for. I don't believe that Machan is a crypto-skeptic, so perhaps instead he is struggling to be diplomatic with his philosophical adversaries. This tactic seems to be epistemologically wrong, however, with statements that are regarded as certain rather than tentative, especially when issues of life and death are at stake.

Be that as it may, this is not a book to be missed if you are interested in the philosophical defense

of individual rights. You'll be enriched by it, and will want to return to its arguments many times. □

David M. Brown is the managing editor of the Laissez Faire Books catalog and a free-lance writer. For a copy of the Laissez Faire catalog, write Laissez Faire Books, 942 Howard Street, San Francisco, CA 94103.

ECONOMICS: WORK AND PROSPERITY

by Russell Kirk

A Beka Book Publications, P.O. Box 18000, Pensacola, FL 32523-9160 • 1989 • 398 pages • \$12.10 paperback

Reviewed by E. Calvin Beisner

The old adage goes, "Those who can't, teach." And many a student can testify that those who can't teach, write textbooks.

The typical elementary- and secondary-school textbook tests the patience and fortitude of every student. Not, of course, because it is challenging, but because it is dull. It is written as if by a machine rather than by a warm, flesh-and-blood human being; and usually that is half true, for most such textbooks are written by committees, in which all the signs of personality die the death of a thousand qualifications.

The substance of most textbooks is no better than their form, and often is worse. Publishers typically find people only half-educated in the fields, and select them because they have shown some ability to get along in committee work as co-authors. As a result, we have American history texts that utterly ignore the role of religion in shaping this nation's political, social, and economic institutions, civics textbooks that anachronistically saddle the framers of the Constitution with the views of today's liberal Federal judiciary, and textbooks in all fields that are filled with the most elementary errors.

It is, therefore, a refreshing shock to find an excellent high school economics textbook written by one of America's finest writers, political philosophers, and historians of ideas, Dr. Russell Kirk. In *Economics: Work and Prosperity*, Kirk combines his great literary skills with his unparalleled knowledge of history and the ideas that have shaped it to give students a textbook that will challenge them, inspire them, even (sometimes) entertain them. And those who read it attentively will, upon completing it, understand considerably more about economics, I daresay, than do most students

who have just completed an undergraduate degree in the field. (Indeed, I first read the book in manuscript form while working on my own master's thesis in economic ethics. I quickly recognized that it taught more solid substance in clearer ways than any other book I'd read in the field.)

Kirk begins, in the first five chapters, by introducing students to some of the first principles of economics: work, the nature of economic value, types of goods, the elements of capital, labor, and resources, supply and demand, marginal utility, price, how the market economy processes information, profits and productivity, and the important fact that poverty, not prosperity, is the natural condition of mankind. From the start he alerts readers to the important difference between controlled and free economies and how the former are doomed to failure because they try to function as if there were no economic laws.

Kirk does this not by means of a theoretical discussion but by telling the story of the Pilgrims at Plymouth, who began their venture in the New World as communists, quickly found that this "kind of slavery" bred nothing but poverty and discontent, and then abandoned the "common course and condition" in favor of a free market based on private property, finding in that the secret of abundant productivity. Indeed, part of the genius of Kirk's book is his frequent resort to stories that clearly illustrate the concepts he seeks to communicate. The stories have their origins in American history, great fictional literature, the Bible, and frequently enough Kirk's own fertile imagination.

In the sixth through ninth chapters, Kirk explains how competition contributes to economic well-being and monopoly harms it; how division of labor, comparative advantage, and scale of production contribute to efficiency of production; the importance, forms, and effects of saving; and the nature and functions of money and banking in the economy.

The 10th through 13th chapters focus on the relationships between civil government and the economy, showing why a very limited role for government better contributes to a productive, just economy than does a broad role. The 11th chapter chronicles the successes and weaknesses of the market economy, answering, along the way, allegations that it falls short of justice, while the 12th explains the inherent weaknesses of command

economies, and the 13th addresses various challenges facing all economies: pollution, waste, and especially inflation, with its distorting effects on production and distribution.

Kirk concludes with a chapter on the economic future of the world. He castigates the "prophets of doom and gloom" for ignoring obvious signs that the world is getting richer, not poorer, and for advocating "remedies" for the world's economic ills that by their very nature cannot fail to exacerbate the problems. At the end of the chapter he has a section on "The Moral Foundation of Economics," reviving a theme that plays throughout the book. Here Kirk drives home the lesson that "material prosperity depends upon moral convictions and moral dealings." He explains several virtues on which economic welfare depends: honesty, industry, charity, fortitude, and generosity, and shows how and why Marxism undercuts all such values.

"So long as many people work intelligently, with good moral habits, for their own advantage and for the prosperity of a nation, an economy will remain healthy," Kirk writes. "But hard work and sound habits may be undone by foolish public policies or by the violent entry of totalist states. There is a strong need for watchfulness on behalf of the economy."

As one expects from an admirer of Samuel Johnson, Kirk includes a glossary with clear, helpful definitions for all the chief terms in the book. Like Johnson, he doesn't hesitate to let definitions communicate perspective. Compare, for instance, *liberal* ("in politics a person who favors change and experiment, as opposed to a conservative") with *conservative* ("one who prefers old and tested institutions to new and untried ways; one who believes that there are basic values that need to be conserved"). He equips students to see through the popular distortions of economic facts by giving them straight definitions of often twisted words. *Inflation*, for instance, which many now equate with rising prices (no thanks to the news media's unvarying misuse of the word), he defines as "an economic condition in which too much money is in circulation, causing prices to rise rapidly."

A thorough and helpful index completes the volume, putting useful information at the student's fingertips whenever he needs it.

Interestingly enough, *Economics: Work and Prosperity* was rejected by several major publish-

ers, in some cases after they had first shown considerable interest in it. Why? Because they judged that it was not sufficiently "value neutral," that it made too much use of moral and even religious concepts, to be used in public schools. So much the worse for the public schools. *Economics: Work and Prosperity* has been published instead by A Beka Book Publications, one of the nation's largest suppliers of textbooks for home and private schools. No doubt it will contribute mightily to the quality of education in those markets, not only in economics but also in moral and political philosophy, and even in students' understanding of history. I can think of no better textbook by which to introduce students to economics. □

E. Calvin Beisner holds an M.A. in economic ethics and is the author of Prosperity and Poverty: The Compassionate Use of Resources in a World of Scarcity (Westchester, IL: Crossway Books, 1988) and Prospects for Growth: A Biblical View of Population, Resources, and the Future (Crossway Books).

FEDERAL SUPPORT OF HIGHER EDUCATION: THE GROWING CHALLENGE TO INTELLECTUAL FREEDOM

Edited by Roger E. Meiners and Ryan C. Amacher

Professors World Peace Academy, distributed by Paragon House Publishers, 90 Fifth Avenue, New York, NY 10011 • 1989 393 pages • \$15.95 paperback

Reviewed by Julio H. Cole

Higher education the world over is dominated by government. In the United States, most colleges and universities are government institutions, or rely heavily on government support even if they are private. Since it is an article of common sense that "whoever pays the piper calls the tune," the question naturally arises as to the effects which government funding has had upon the direction and quality of university teaching and research.

Surprisingly, however, as the editors note in their foreword, "understanding of the impact of governmental domination of the academy by scholars is not very good." Of course, there is no shortage of academic literature seeking to justify ever larger public support for higher education, but studies that examine government's role in a detached and impartial manner are quite rare. The

papers collected in this volume are an attempt to redress this imbalance, at least as far as the situation in the U.S. is concerned.

Overall, the contributing authors tend to conclude that the effects of government intervention in the market for higher education have been negative, although the first chapter by the late Sidney Hook does not find, in principle, any conflict between government support and academic freedom. The following chapters are less sanguine, and point to more subtle and less obvious influences. "The Growth of Government Control of American Higher Education" is chronicled in the chapter by Leonard Liggio and Roger Meiners, and the effects of this growth do not appear to have been wholly salutary. The chapter by Donald Erickson, for instance, shows that in the academic field of "education," research is devoted almost entirely to justifying government policies, while more controversial issues tend to be ignored. Similar situations are encountered in accounting (Ross Watts and Jerold Zimmerman) and agricultural economics (E. C. Pasour). These are all fields in which government not only finances research, but also has a direct impact on practice through policy and regulation.

The chapter by Peter Aranson suggests that these effects are not so much a question of ideology as one of simply "not biting the hands that feed them." To be sure, academics as a group are more left-of-center than the general population. However, within academia the natural scientists, who

receive a larger share of government research funds, tend to be more politically conservative, while political science, where government research support is trivial by comparison, has the largest proportion of left-leaning professors. (In this regard, the case of the "hard" scientists seems comparable to that of other special interest groups, such as defense contractors and farmers, who also tend to be "conservative" while at the same time favoring government intervention in their own sectors.)

Other papers in this collection deal with the National Science Foundation (John Sommer), how college accreditation is allowing for additional Federal control (Robert Staaf), "Intellectual Attitudes and Regulatory Change" (Fred McChesney), by-products of government-funded research (Michael Ghiselin), a critical analysis of the arguments for government intervention in education (E. G. West), and a highly learned discussion of the basic conflict between a free market in ideas and attempts to "organize" higher education (William Bartley). A final chapter by Gordon Tullock offers some provocative remarks on "What is Higher Education?" and some innovative suggestions for restructuring it.

These are all important papers on an important topic, and this volume should help stimulate further discussion and debate on these issues. □

Professor Cole teaches economics at the Universidad Francisco Marroquin in Guatemala.

THE FREEMAN

IDEAS ON LIBERTY

244 The Military's Secret War Against Racism

Lee Nichols

Reporting the story of the successful racial integration of the armed forces.

247 The Right Kind of Social Activism

Edward Walter

Project Choice exemplifies private sector initiatives to aid minority students.

249 Capitalism and the Environment

Tibor R. Machan

How the free market system addresses the problems of pollution.

258 Employee Ownership: A Rapidly Growing Threat to a Free Market

Dwight D. Murphey

The proliferation of Employee Stock Ownership Plans.

262 The Ongoing Struggle for Liberty: Reasons for Optimism

Dwight R. Lee and Richard B. McKenzie

Has the threat of government reached its zenith?

268 Fostering the System

Ann Rogers and Michael Rogers

A foster family and their foster son become victims of the state's social welfare systems.

271 Low Life

Al Garner

A look at those who think life owes them a living.

273 A University with a Future

Leonard P. Liggio

Guatemala's Francisco Marroquín University helps students to appreciate the freedom philosophy.

274 Readers' Forum

276 Book Reviews

John Chamberlain reviews *Israel's Dilemma: Why Israel is Falling Apart and How to Put it Back Together* by Ezra Sohar. Other books: *The Diary of H.L. Mencken* edited by Charles A. Fecher, *The Holocaust Conspiracy: An International Policy of Genocide* by William R. Perl.

CONTENTS

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Vice-President: Robert G. Anderson
Senior Editors: Beth A. Hoffman
Brian Summers
Contributing Editors: Bettina Bien Greaves
Edmund A. Opitz
Paul L. Poirot
Copy Editor: Deane M. Brasfield

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PERSPECTIVE

Living Within Our Means

Here is a simple rule with a wealth of stress-reducing benefits.

Think of all the advantages to individuals and families of practicing the rule of "living within your means."

Previous generations in this country expected each person to live within his or her means as a requirement of good citizenship.

How else can one enjoy freedom? Certainly not when choices are limited by debt or when one has no personal resources. There can be no peace of mind when one is subject to the will of creditors. The same is true when one has no personal resources. Like slaves of old, debtors live at the command of others—their creditors. And for all the attempts to place the blame for public debt on someone else, as politicians often do, there is no escaping the fact that each of us is responsible for our own actions.

We are the problem! When we take our hard-won heritage of freedom and treat it so casually as to avoid taking care of our own affairs, we diminish our strength for self-government and allow the government to control more and more of our lives.

Consider how many problems would be lessened if it became popular again to live within our means. We don't need surveys, statistics, or psychological theories to show the stress in individuals and families due to financial problems. We see it all around us.

Actually, living within our means requires living below our means. Saving something regularly from our earnings strengthens our security and peace of mind, while at the same time it expands our choices and opportunities for the future.

I remember the advice given me when I got married: "Live below your income or you will never know contentment." I have heard and read a lot of financial ideas in the 40 years since receiving this advice. But I have never heard anything better. It works! If enough people returned to this simple rule and experienced its profound worth, they would then have the key to correcting many of their personal and financial problems. Once people know this rule to be reality, they have a clear understanding of how to correct the financial problems in local, state, and national affairs. It all

starts with the individual!

Unforeseen catastrophes can happen to individuals and nations, and can take away their material security despite their having prudently lived within their means. However, if the worst happens, experience shows a strength of character both in individuals and nations as a result of practicing this simple formula.

When you think about it, isn't this morally what we should be doing with our freedom?

—RICHARD W. HOLDEN
Avon, Connecticut

The Return to Freedom

The most precious gift to man is freedom.

What makes man human is reason. Without the freedom to reason, man is not *human*!

In order to think, to reason, man needs not only to live in a setting free of fear. He also must be stimulated by scientific debate, various political and philosophical opinions, by freedom of the press, of work, of conscience, of association, of criticism. None of this is possible in countries where there is only official truth, where there is only one official philosophy, where there is only one party, the party in power, only one paper, that published by the government's party, only state-owned property, and only one economic plan, that imposed by the central planning office. In such an environment, there can be no scientific progress, no technological development, no economic prosperity, as even the officials in some of those countries are now coming to recognize.

To return to freedom is to return to the market economy, to freedom of inquiry, to private enterprise, to a true multi-party system, to respect for the political and economic freedom of individuals. That is the basis of Western democracy, of human progress and social equality.

—TITO LIVIO CALDAS,
writing in *Ciencia Politica* (First Quarter, 1989), a quarterly review for Latin America and Spain published by Tierra Firme Editores, Bogota, Colombia. Translated from the Spanish by Bettina Bien Greaves.

Sweatshops

Journalists and political sorts deem sweatshops to be evil, and evil is to be directly eradicated. We are to pass strict laws, strictly enforced, to abolish low pay, long hours, unpleasant working conditions, unpleasant working hours (including work at home), and use of children.

But is that really the end of the story, the end of analysis of the problem, the end of policy prescription? We simply outlaw the scourge of sweatshops and walk away in prim satisfaction?

What is to happen to the erstwhile workers—commonly uneducated, poorly trained, illegally in a land foreign to them, with little experience and marketplace sophistication—who have had their livelihoods abolished? They had been surviving—even if meanly by civilized standards—in market competition by selling their limited services of low value at meager wages. Taking away those miserable jobs, pricing them out of what had been their best option, does not magically provide them with better alternative employment. Reducing their already poor power to compete, leaving them more handicapped than before, is a strange way to help them.

—WILLIAM R. ALLEN
The Midnight Economist

Sticky Fingers

During my lifetime, I can recall endless examples of sticky fingers in the public till. And I can also recall the endless legislation, myriad investigating committees, and cries of the outraged public. But when all is said and done, we still have government scandals.

We will never completely erase public greed and corruption. We are imperfect creatures at best. But there is a way to give the citizen better odds. Drastically reduce the size of government. Wipe out big chunks of entrenched bureaucracies. We can't eliminate sticky fingers, but we can reduce the size of the cookie jar.

—EUGENE L. GOTZ
Arlington, Massachusetts

The Military's Secret War Against Racism

by Lee Nichols

Editors' Note: *The following is an account, condensed from the author's unpublished memoirs, of how he broke through the armed forces' curtain of silence on its racial integration drive in the late 1940s and early 1950s.*

* * * * *

I was working as a rewrite man on the United Press night desk in Washington, D.C., in 1952 when I got wind that something was going on about the military establishment's racially segregated forces. I thought that there was racial progress in the U.S. in general that had not been fully reported and that might make a magazine article. The head of *Collier's* magazine's Washington bureau expressed interest in the military aspect of that picture and asked me to submit an outline of an article.

At that point I didn't have enough information to write even an outline, let alone an article. But I was encouraged to begin digging by James C. Evans, the civilian assistant for racial affairs to the Secretary of Defense. Evans, a black man, was deeply involved in what was taking place within the military in regard to race but his mouth was sealed. All he could do was give me a "wink and a nod" to goad me into searching.

With the assistance of the Army's chief of public relations, who apparently thought the story had to come out sooner or later and that I seemed to be a responsible reporter, I began seeking information at the Pentagon but I was getting nowhere fast. Finally a major in the Army personnel division

suggested that I visit the Army's training base at Fort Jackson, South Carolina. He refused to tell me why I should visit Fort Jackson or what I would find there.

My interest was piqued. Having nothing to lose, I took a week off from my job and drove to Fort Jackson, on the outskirts of Columbia, the South Carolina capital. I was welcomed by the public affairs officer at the base, who had been notified of my coming, and immediately learned that Fort Jackson had been racially integrated for the past two years!

Few people reading this today can realize what that piece of information meant to me at that time, in the summer of 1952. As far as the public knew, the Army—and Navy and Air Force—was still racially segregated as it had been for over a century. No hints of any moves toward ending this segregation had filtered into the public's awareness. Yet here, adjacent to a major Southern city in full view of anybody who looked, was a fully integrated training base, functioning efficiently without fuss or fanfare.

At Fort Jackson I learned how this racial integration had come about. The base had been beefed up as a major infantry training center shortly before America's entry into the Korean War and had received a substantial influx of black soldiers. It would have required two complete training organizations to handle what would have amounted to two separate Army groups. The commander of Fort Jackson, Brigadier General Frank McConnell, told me he had requested permission

Mr. Nichols is a retired Voice of America broadcaster.

to put the black and white soldiers together. His request was bucked up to a certain level from whence the word came saying, in effect, "Don't ask." McConnell took this to mean, "Go ahead but don't say anything."

McConnell, realizing the possibility of a public outcry if his move made headlines in the local press, told me he had met with the editors of Columbia's two daily newspapers. He explained what he planned to do and asked them, as a patriotic service, not to publicize the action unless they were forced to. The editors agreed. Their newspapers maintained silence. Fort Jackson was integrated quietly, smoothly, with a minimum of trouble. I was told this, and saw with my own eyes the black and white soldiers eating, sleeping, and training side by side. There had been and were continuing problems with on-base social clubs and off-base activities—problems that reflected longstanding social mores and that continued for years after basic integration had occurred.

From Fort Jackson I drove to Fort Bragg, in North Carolina, another Army training base where I found much the same racially integrated situation; the same at the Marine Corps training school at Quantico, Virginia; and, to my growing excitement, a major degree of racial integration in the Navy. The latter was pointed out to me at the huge Norfolk, Virginia, naval base by a young Southern-born white Navy public relations officer who was obviously proud of what the Navy was doing.

The Freeman Breaks the Story

Returning to Washington, I wrote an outline for an article and submitted it to *Collier's* Washington office. To the chagrin of the man who had encouraged me, *Collier's* New York headquarters turned down the proposed article. I succeeded in placing the article with *The Freeman* (April 6, 1953); it was later reprinted by *Reader's Digest*.

Next came my book. Jim Evans at the Pentagon and Neil MacNeil, a colleague at United Press, urged me to expand my article into a book. I felt overwhelmed at the prospect, unable to contemplate it. MacNeil took me to visit his father, Neil MacNeil Sr., a retired editor of *The New York Times*, at their home in Southampton, Long Island.

I told the father what I had discovered. The elder MacNeil, a man of Scottish ancestry born in Nova Scotia, told me I *must* write a book about it;

I *owed* it to the American people. He recalled to me his being in the South and seeing a group of black school children waiting for a bus to their all-black school, then watching a bus filled with white children passing swiftly by. With tears in his eyes, he told me this incident had filled him with shame for America; the story I had to tell would purge some of that shame.

MacNeil Sr. found me a literary agent who, after a couple of tries, persuaded Random House to publish my book, as yet unwritten. The agent sold it by virtue of an outline and three sample chapters. He also showed Random House a reprint of my *Freeman* article which had been placed in the *Congressional Record* by Senator Hubert Humphrey.

I shudder to remember what it cost me to write that book. Random House had given me a contract calling for a finished manuscript in slightly under three months. I hadn't finished my research and took time to visit Air Force bases in Illinois, Mississippi, and Texas. I visited the Pentagon several times to check facts. And I was working full-time on the UP night desk, so I had to write late at night into the early morning and on weekends, at a frantic pace.

I didn't make the deadline but Random House scheduled the book for publication on February 15, 1954. It was entitled *Breakthrough on the Color Front*, a title I had put at the top of my paper when I started writing, assuming we would work out a more suitable name later. There was no later. When I finally raised the question, a senior editor at Random House looked surprised. "What's wrong with the title?" he asked. It stayed.

The book didn't sell many copies but it was a "critical success." *The New York Times* gave the whole of page three of its Sunday book review section to a highly favorable review by the noted military historian S. L. A. Marshall. The New York *Herald-Tribune* carried an equally laudatory review by Roy Wilkins, then administrator and later head of the NAACP, the day before publication. It was widely reviewed by newspapers and magazines all over the country, South as well as North. *Time* magazine gave it a full page, with pictures, in its news pages. A friend in *Time's* Washington bureau told me it had not been placed in the book review section because it was a major piece of news of which *Time* had been ignorant.

Senator Humphrey gave Random House a

quote for the cover saying the book recorded “the first truly effective step that has been made in implementing the Emancipation Proclamation.” Jim Evans at the Pentagon offered a comment for the cover that the book was “a contribution to national defense through solidarity.”

The Brown Decision

Evans told me that the previous year, 1953, two justices of the Supreme Court had requested and received from him copies of the manuscript of the book, still incomplete, while the Court was considering the school desegregation issue (*Brown vs. Board of Education*). He told me one of the requesters was Chief Justice Vinson, who died before the Court reached its verdict. He would not tell me the name of the other justice.

I have no way of knowing whether the book had any influence on the Court’s May 1954 ruling that public school segregation was unconstitutional. I assume the Court, in pondering the issue, was concerned, among other things, about the impact such a ruling might have on America’s social structure; and my book recorded, in explicit detail, the lack of adverse effects resulting from the military’s integration program.

In 1955, the Supreme Court issued a second ruling implementing its 1954 decision. In its “friend of the court” brief to the high court, the U.S. Department of Justice cited my book by name as evidence that public school desegregation would be acceptable to the American public.

In gathering material for my book, I had found that the military establishment had wrapped a tight curtain of secrecy around its program of racial integration. Why was such a bold human rights initiative hidden from public view? The reasoning was explained to me by officials involved, and confirmed by key Southern members of Congress: if the integration program had become known while it was in progress, Southerners in Congress would have been virtually forced to publicly denounce it, which could have had a devastating effect on the whole effort.

On the other hand the military, to a general, defended the integration program in secret meetings with key Congressmen as being done solely on

the basis of military efficiency. There was little doubt that this was the case: history had shown that all-black troops on the whole, with notable exceptions, had been unreliable—largely due to the existence of segregation which made them, and made them feel like, second-class citizens, usually relegated to labor tasks and jobs as Navy stewards, under the often-prejudiced command of white officers.

Although military efficiency was given as the official reason for the military’s push to integration, as I dug deeper I found more profound motives among many officers and civilian defense officials. Probably the first move toward racial integration in the Navy was sparked during World War II by a young Navy lieutenant, Christopher Smith Sargent, son of an Episcopal minister, assigned to Navy headquarters in Washington. Sargent prodded the Navy into setting up its first wholly integrated seagoing vessels in this century—a destroyer escort and a submarine chaser. The year before this historic step successfully took place, young Sargent delivered a sermon at All Souls’ Memorial Church in Washington in which he said: “Few can be heroes, doing deeds of great import. . . . Each Christian act we do, each high-minded thought we go by, will add a bit to the Christian way.”

Presiding over the Air Force’s racial integration program were two men: the nation’s first Air Force Secretary, Stuart Symington, son of an Amherst College professor who grew up in a home free from racial bias where help for blacks was stressed; and Symington’s personnel chief, Lieutenant General Idwal S. Edwards, son of a Baptist minister and born in a town called Freedom, New York.

President Truman’s executive order of 1948, calling for “equality of treatment and opportunity” in the armed forces, played a major role in pushing to completion the already-begun integration effort. It was well known that Truman took the Bible and the Constitution literally in his belief in the equality of races. In the summer of 1953, when I was working on my book, I asked him in a personal interview what he thought of the successful military integration.

Truman replied, “It’s the greatest thing that ever happened to America.” □

The Right Kind of Social Activism

by Edward Walter

Today's gravest social problems—the use of hallucinogenic drugs and the dissolution of minority communities—feed upon each other: Blacks and Hispanics form a major part of an economic and educational underclass that, being isolated from mainstream society, doesn't share mainstream values and goals. Drug use becomes an expression of alienated minorities, and drug abuse leads to violent crime.

Education, if it is no more than a publicity campaign, won't cure the drug problem. Educational campaigns against alcohol abuse and smoking haven't substantially reduced use of these substances in black and Hispanic communities, although they have affected behavior in middle class communities. The same findings turn up regarding health and nutrition education. A consistent correlation exists between educational and economic levels and responsiveness to behavioral propaganda. It can be predicted, therefore, that anti-drug propaganda will barely touch the minority underclass.¹

Unfortunately, the American public education system has failed blacks and Hispanics. The politicizing of public education, which is a natural outcome of Federal funding, is a primary cause of the system's failure. Educational policy is molded to achieve politically inspired social goals, rather than to impart knowledge and skills. For example, bilingual education, black and Hispanic study programs, and simplified testing, which are implemented to appease minority activists, palliate the failures of minority students, but don't prepare them to enter the work force.

Furthermore, such programs fortify the value differences of minority and white communities, thereby making racial harmony more difficult to achieve. Placing blacks, Hispanics, and whites in the same classroom will improve race relations only when students generally share common educational and career goals. Governmental affirmative action aims at physical integration, but it ignores value integration.

Project Choice

Now, however, a new program called Project Choice, started by Marion Laboratories (now Marion Merrill Dow, Inc.) in Kansas City, shows great promise for raising the educational performance of minorities. Project Choice inculcates productive values, teaches intellectual and vocational skills to those who usually are bypassed by the educational system—and doesn't expand the governmental bureaucracy. It can add skilled workers to the labor force while reducing drug abuse and crime.

Project Choice was begun in 1988 by Ewing M. Kauffman, founder of Marion Laboratories and principal owner of the Kansas City Royals baseball team. The program aims to improve inner-city communities by elevating the values of their youths and preparing young people to take their place in the business community—goals that have eluded public education thus far. Project Choice employs principles that Kauffman used to build Marion Laboratories into one of America's most successful pharmaceutical companies. Kauffman's life exemplifies the best American business tradition—a modern Horatio Alger story. He began his

Professor Walter teaches in the Department of Philosophy, University of Missouri-Kansas City.

business career as a salesman for a pharmaceutical company in the 1940s. Within two years, he was so successful that his commissions totaled more than the salary of the company's president. In retaliation, his commissions were cut and his territory was reduced, so Kauffman left to start his own business. With \$4,000, he set up shop in his basement. In the first year of business, his one-man operation netted \$36,000 in gross sales and a \$1,000 profit.

With Kauffman as chairman, Marion Laboratories grew to over 3,000 employees, with \$752 million in gross sales and a net profit of \$150 million in 1988. A year later, Dow Chemical Company bought Marion. Today, Kauffman is a billionaire.

In the autumn of his career, Kauffman, through Project Choice, seeks to revive personal initiative and hard work as educational values.

Project Choice, which is administrated by educator Thomas Rhone, targets inner-city youths, who are mostly black and Hispanic. Students who participate in the program are selected solely on the basis of financial need.

Contracts are drawn between the selected students and the Ewing M. Kauffman Foundation requiring students to attend classes regularly, participate in specially devised educational assistance programs, and to avoid alcohol, drugs, and parenthood. Students also must agree to submit to random drug testing. Parents co-sign the agreements.

The Foundation grants scholarships to colleges, universities, or technical schools to students who satisfy the prescribed conditions and graduate from high school. Tuition, fees, the cost of books and supplies, and reasonable room and board expenses are paid by the Foundation. Students are expected to attend schools in their resident states, but may choose schools outside the region with the Foundation's approval.

Kauffman is eager to have students select technical schools, as well as colleges and universities. He hopes to develop data processors, secretaries, and other skilled workers to shore up a work force that hasn't met the demands of an increasingly innovative technology. U.S. research hasn't lagged behind its foreign competitors; rather, the inability to implement innovations has placed U.S. businesses at a disadvantage with foreign competitors.

The program was launched in April 1988 with a

group of eighth graders. This year, approximately 700 secondary school pupils in Kansas City, Missouri, and Kansas City, Kansas, took part in the program. Students are encouraged to participate in tutorial programs developed at area colleges. These programs seek to improve mathematical and reading skills in a student body that, prior to entering the program, had high absentee records and low test scores. To facilitate the change in student attitudes, parents are encouraged to attend monthly meetings where student progress and problems are discussed.

Thus far, the student-participants' progress has been very encouraging. In the first two random drug tests, students tested 98 percent drug free, which is far below what is usually found in inner-city schools. Surprisingly, students who weren't tested complained about not being given a chance to prove they were fulfilling their contractual obligations. Project Choice students have the best attendance records at targeted schools. Students who previously failed course work are making significantly better grades. A strong sign that student attitudes are improving is that a number of eighth-grade contractors attended summer school to raise their grades so that they would qualify for entry into high school.

A promising feature of this program is its pragmatic character: As findings are obtained and scrutinized, practices are altered. For example, students initially were paid stipends for regularly attending classes. This practice was stopped, however, because it gave students the wrong message. Students should attend classes voluntarily because learning benefits them.

Project Choice is a long-range investment in business and society. It and similar programs should serve as models for inner-city communities.² □

1. Let this reasoning be understood: Blacks and Hispanics are not likely to respond in significant numbers to anti-drug propaganda because they are part of an underclass, not because they are black or Hispanic. Poor and undereducated whites are equally unlikely to respond to anti-drug propaganda.

2. The "I Have a Dream Program" instituted in New York City by Eugene M. Lang is similar to Project Choice. Of the 52 primary school students who initially participated in Lang's program, 44 received high school diplomas in a school that has a 75 percent dropout rate by graduation time. Thirty of these students are now enrolled in college, including Swarthmore and Barnard.

Capitalism and the Environment

by Tibor R. Machan

Although capitalism is mostly discussed in economic terms, especially when it comes to environmental or ecological questions, advocates of capitalism have usually tied its features to political and legal principles. In particular, capitalism is best described by reference to those of its features that have emerged from the tradition of political philosophy associated with the thought of John Locke.

Essentially, the normative capitalism that gained its classic statement in Locke's works derives the system of justice for human community life from the political principles of natural rights. Specifically, these are the rights of every person to life, liberty, and property. Such a system rests on (and, within certain limits, seeks to promote) the ideals of the independence and the freedom of individual persons in their existence, actions, and productivity. No one may be forced to advance the goals of others. Relatedly, no one may be interfered with unless prior permission is secured, nor may one's labor and produce be used, destroyed, or otherwise controlled by others without permission by the owner, regardless of the importance or nobility of the purpose at hand. These would be the basic political and legal principles of a just society, holds the capitalist, and the proper function of government is to protect the rights of the individual citizen, not to advance the "general welfare" (beyond making it possible for citizens to do so on their own and with each other's voluntary help).

*Tibor Machan teaches philosophy at Auburn University in Alabama. This article is based on a longer treatment forthcoming in his book, *Private Rights, Public Illusions*, soon to be published by the Independent Institute of San Francisco.*

Capitalism—or as some prefer to call it, the free market system—is the socio-economic arrangement of communities which aims to preserve, enhance, and protect the ideals mentioned above, primarily, its proponents believe, because only with such a system in force is it possible for human beings both to live in dignity and fully pursue their happiness.

This approach to understanding and defending capitalism is different from the utilitarian defense of capitalism. The utilitarian defense emphasizes the practical value of capitalism—the system's supposed utility as an effective means for achieving the goals of those partaking in it, regardless of what those goals are. Like the Lockean defense, the utilitarian support involves certain values—even though most of those who advance it like to de-emphasize the fact and insist that they are advancing a "value-free" defense. But, unlike the Lockean approach, the utilitarian locates the standard of right and wrong in the value of the consequences rather than in respect for the individual and his or her rights.

In the Lockean view, the autonomy and independence of individual human beings should be affirmed and protected in a community, something that requires recognition of private property rights. If there is a legally protected sphere of personal authority, specifiable by reference to the limits of each individual's legitimate autonomy or independence—in Harvard philosopher Robert Nozick's words, moral space—then individuals will be at liberty to make choices concerning their lives within those limits, enjoying the benefits and shouldering the liabilities of their free choices.

For example, if John's life is his to govern, and a

certain sphere of authority is acknowledged and protected for him, then, were John to choose to be a bum, which leads to his poverty, others should not interfere "for his own good," or for the good of others (for example, John's wife) who have chosen to associate with him. On the other hand, if John chooses to be a productive person, thereby acquiring various valuable items through his productivity and prudence, he is to be protected from any interference with his use and disposal of these items, provided only that he doesn't violate the rights of others in the process. In a capitalist system, if a person neglects his health and shelter, then he and no one else is to blame, while if he takes care of his health and shelter, then he and no one else (unless there is mutual agreement to the contrary) deserves to have the benefits of his labor.

Some people argue that by its own tenets the capitalist system must make room for quite a large public sector, since in advanced industrial states people have rights to being provided with numerous goods and services, at least when they cannot provide for themselves. So-called positive rights (e.g., to health care, welfare, education, employment) would, if they exist, require governments to do much more than capitalism might appear to allow. One reason suggested for this is that destitute people wouldn't benefit much from just having their right to liberty protected and preserved. It would be meaningless, we are told, for the abject poor to be free from others' intrusion if they couldn't advance on their own; so they must be provided with some initial help by society.

While some destitute people no doubt exist in any society, the fundamental issue is whether this is a political matter at all. People need not be destitute because of any interference by others, so to make it obligatory for others to help them—that is, to regard others' help as a right—would be to impose an unearned punishment on others. And though not obligatory, basic human decency and charity probably would cause people to reach out to the abject poor anyway. If people failed to help, there is no reason to suppose that governments would do any better at the task of securing for the needy what other people refuse to provide.

But the bottom line is that there is no basic right to welfare, since lack of well-being is not a uniquely social problem but rather a problem of living itself. Poverty requires solutions from individuals, by themselves or in voluntary cooperation

with others. The only basic rights that make clear sense are ones specifying limits of social interaction, that is, ones that specify what people in society may not do to each other.

Capitalism and Pollution

How does capitalism address the problem of environmental pollution? To answer this, we need first to know what pollution is. The concept of pollution is problematic from the start. Dictionaries differ as to what it means. One says pollution is "the act of defiling or rendering impure, as pollution of drinking water."¹ Another states that it "occurs when materials are accumulated where they are not wanted."² A third says that to pollute is "to corrupt or defile" and identifies pollution with "contamination of soil, air, and water by noxious substances and noises."³

In the end, a sensible definition of pollution will have to cover air and water pollution from materials, nuclear particles, noise, light, and anything else that is the result of human activity and can be shown to intrude on another person or violate someone's right to property. Such a definition would preclude anything like "natural" pollution. Nature may render things impure, but only human beings can pollute.

The central problem associated with pollution, as far as the general public is concerned, has to do with the difficulty—perhaps even the impossibility—of confining harms to particular people and places. For example, air pollution occurs when people dump materials into the air which others don't want there and which harm others or put them at risk of harm. Were it possible to confine these materials in some definite location, the agent doing the dumping could release them without inflicting the pollution on others. But as things are now in many familiar circumstances, pollution is not controllable—or, at any rate, deemed too expensive to contain—in this way. The airborne contaminates from Birmingham's smokestacks can end in New England's lakes.

So what would a consistently administered capitalist political economy mean for the problem of environmental pollution? In plain terms, capitalism requires that pollution be punishable as a legal offense that violates individual rights.

This may appear to be a rather peculiar thing to say if one regards the United States and other

Western democracies as capitalist societies. In fact, however, none of these countries is capitalist in the strict sense of the term, but only in the sense that, more than ever in previous times and places, individual rights, including the right to private property, have gained substantial, though sporadic, legal recognition in them. (Of course, neither is, for example, the Soviet Union a fully socialist society—plenty of low-key capitalist endeavors prevail there and are, indeed, not only legally tolerated but encouraged.)

Still, a fledgling capitalist nation like the United States provides some clues as to how a purely capitalist political and economic system would enforce the legal proscription against polluting. For example, in the United States polluters are often sued, under what are called tort or nuisance laws, for harm done to others.⁴ And the Supreme Court has held that when pollution occurs, merely considering the overall public cost of preventing it cannot be construed as an adequate determinant of whether to allow that pollution to continue.

Regrettably, however, at least viewed from the perspective of pure (i.e., private property-rights respecting) capitalism, most Western democracies treat pollution on an overall cost-benefit basis. For example, whether factories and power plants surrounding Buffalo and Cleveland will be allowed to pollute Lake Erie is determined by some alleged cost-benefit calculation pertaining to the overall well-being of the region's population (including, perhaps, members of future generations).⁵

Inviolate Property Rights

There is evidence that individual property rights are sometimes treated by the courts as inviolate, as they should be, given capitalist theory. Dumping—the act of deliberately or negligently causing the intrusion of harmful wastes upon another's domain—is generally regarded to be a crime in the United States. Pollution, in turn, is a type of dumping, namely, one that occurs in connection with the public realm, as when a chemical firm pours harmful wastes into a public lake or the atmosphere.

Under capitalism any pollution which most likely would lead to harm being done to people who have not consented to being put at risk would have to be legally prohibited. As with people who have a contagious disease, so with processes of produc-

tion which involve pollution—so long as the harmful imposition upon others occurs without the consent of the victims, the process may not be carried out. This may lead to an increase in the cost of production or to the elimination of some production process and, in either case, to increased unemployment and related hardship. Still, that would be the consistent way to apply the capitalist principles in the legal system. The intentional or negligent violation of individual rights, including the rights of life, liberty, and property, must be legally prohibited. To allow the polluting course of production to continue on grounds that this will sustain employment would be exactly like permitting the continuation of other crimes on grounds that allowing them creates jobs for others.

More generally, pure capitalism rejects, in principle, the use of social (risk-) cost-benefit analysis as a basis legally to justify the redistribution of pollution. Even if some region of the country would experience an extensive economic downturn as a result of the prohibition of air or water pollution, for example, that is no reason to allow the pollution to continue. No one has a right to benefit from acts or practices that violate the rights of others.

An analogy might be that of a person with a serious contagious disease who wishes to carry on his daily activities in public. Such a person would not be permitted to go about his activities, according to capitalist thought, although it would be the responsibility of the officials of the legal system to prove that his activities cause the violation of others' rights. (The onus of proving a criminal wrongdoing is on the prosecution, since without such proof untoward and restrictive actions by the authorities would easily violate individual rights.)

Unlike someone who intentionally assaults others to satisfy his needs or desires, the person with a contagious disease may not intend any harmful results to befall members of the public. However, the activities of this person would harm others, or put them at grave risk of serious harm, without their consent. We need not be able to tell who will contract the disease before we can justify limiting the carrier's liberty. The fact that exposure to someone with the disease would harm some indeterminate number of the public, or place them at risk of significant harm, without their consent, suffices to invoke a quarantine against this person.

In a similar fashion, although the polluter may

not intend to harm anyone, and even granting that we are unable to say which people will be harmed, the fact that someone's activities lead to pollution suffices to justify prohibition of those activities, unless the activities can be carried out without the polluting side effect.

The Moral Superiority of Capitalism

If the natural rights theory which underlies the capitalist political economy has solid foundations in moral theory, and if the moral theory supporting it is rationally superior to its competitors, then the capitalist system is clearly superior to its alternatives.

Natural rights theory rests, essentially, on the idea that it is possible for us to understand human nature and to derive from this understanding, together with our knowledge of the world around us, what would be the proper conditions for social life. Although much controversy surrounds these matters, the crux of the capitalist claim—or at least one line of reasoning advanced by defenders of capitalism about these matters—is that knowledge of human nature is no more difficult in principle than knowledge about the nature of other things we encounter. That knowledge includes the recognition that people are the sort of beings that have a moral dimension to their existence, a moral worth or dignity, which, then, must be taken into account in the formulation of social institutions, including legal systems.

Whether this is ultimately a successful philosophical endeavor cannot be fully explored here. But at least this theory avoids the most glaring deficiencies endemic to other systems. Unlike fascism, capitalism doesn't allocate special powers to an "inspired" leader and, unlike pure democracy or democratic socialism, pure capitalism won't allow the interests of the majority to override the rights of the individual. Moreover, while centrally planned socialism rests on a very dubious metaphysical theory about the gradual but revolutionary development of the human species, with little guidance as to what we should do at present, libertarianism involves a theory about the dignity and worth of people here and now and, as we shall see shortly, offers specific guidance regarding current problems calling for public action. The welfare state, one might say, is of two minds about the val-

ues it aims to advance, what with liberty and welfare always in potential conflict and with no clear way to resolve that conflict.

Capitalism, by contrast, proclaims the ultimate moral significance of the lives of individuals, and it proposes a social order in which the negative rights of individuals are the primary guidelines for public policy. It does not concern itself with some widely touted values, such as, for example, universal equality, absolute fairness, and unbreachable moral duty to lend help where it is needed. It does not reject anyone's efforts, alone or in concert with others, to pursue such values, but it rejects making the general welfare a basis for setting public policy, since that can, and likely will, lead to violations of individual rights. Capitalism assures that neither the tyranny of a hero leader nor of a majority will threaten individual rights.

Within the confines of a capitalist system each person would be completely free of others' unwanted intrusions or could count on legal sanctions when such intrusions occur. But the rest is up to individuals acting in voluntary groups, establishing noncoercive institutions, or doing whatever is necessary to secure what they value. This may not hold out the promise of some environmental utopia, where full ecological rationality is guaranteed by government. Nor does this approach pretend to guarantee something less ambitious, "reasonable" environmentally sound living conditions for all. The capitalist system succeeds in comparison with alternative systems, not in comparison with some fantastic ideal the attainment of which is impossible.

Problems of Implementation

How could the pure capitalist apply his theory in practice? This is the crux of the matter. If capitalism is to make good its claim to being the most suitable political theory (and granting that not everything will be fully satisfactory in it), it must be applicable in the real world, and then in difficult, not only in easy, cases. To show a theory's application to the problem of pollution is by no means easy. Thus the problem of pollution provides an interesting, important test case for assessing capitalism's theoretical mettle. How could the capitalist position regarding pollution find expression in a system of law? The following observations are meant to explain, at least partially, how the ideal of

a capitalist political economy might find a home in the real world of law and public policy as regards environmental management.

1. We may treat as pollution any form of objectively unwanted harmful by-product of human action that is not confined to an area or location but is disbursed so it may intrude on unidentifiable other persons. (Toxic waste, for example, is not yet pollution without harming someone who did not choose to be harmed.) Economists call such substances uninternalizable negative externalities, although the term "uninternalizable" is somewhat of a hyperbole, since in many cases these substances are in fact simply very expensive to internalize—i.e., keep from spreading throughout some occupied region.

2. Stationary sources of pollution contained within the boundaries of the polluter's own property present no insurmountable problem to capitalism. Toxic as well as nuclear wastes, for example, can be identified as polluting, and if owners of firms dealing with these would act in a proper fashion, they would have to confine their operations to areas where others are left unharmed. Any breach of this requirement could meet extremely severe penalties—the punishment would have to fit the crime.

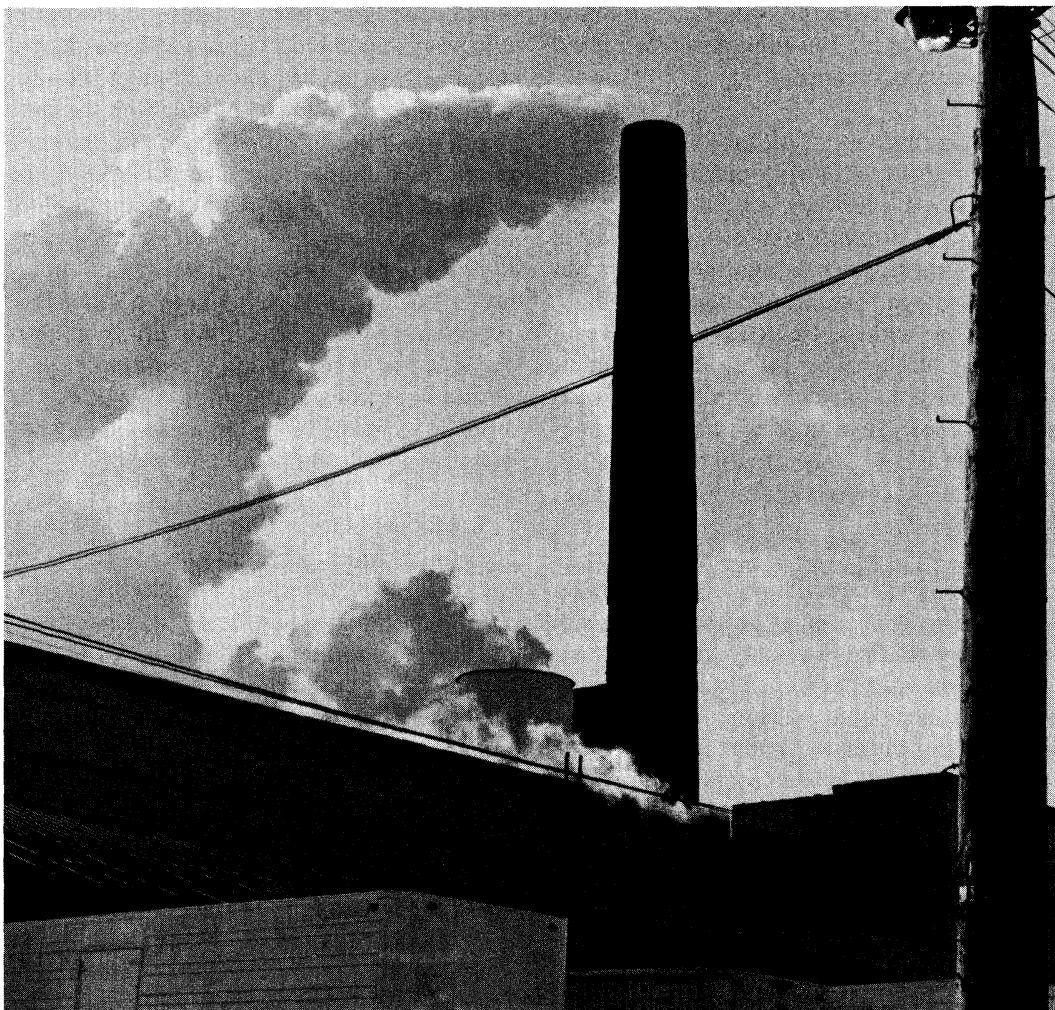
If operations of such firms would be impossible without pollution—that is, without causing emissions that are harmful to others who have not consented to suffer such harm—the operations would have to be shut down. Thus if people are harmed, they would be the ones who contractually would have given their informed consent to run the risks associated with pollution. Workplace pollution would raise the issue of workers' rights, but in a capitalist framework these, too, would be recognized and protected by contract law, including laws regarding fraud and "assumption of risk." Essentially, then, any stationary source of pollution would be dealt with in the way familiar to us in connection with the operations of the free market system of economic and legal affairs—that is, the system of individual private property rights would guide the conduct of members of the society.

Aside from the problematic nature of "rights" of nonexistent (future) persons—which would not be invoked in the capitalist framework since a mere potential, nonexistent person cannot have

actual, existing, and binding rights—future owners of private property could manage the problems of contained "pollution" under contract law—for example, deed covenants running with the land. There would be some problems with abandoned property, which no one consents to take over, and with bankruptcies, where the owner is incapable of meeting liabilities. (Such a society wouldn't carry the ridiculously lenient policies on bankruptcy now afoot virtually everywhere, policies that engender wholesale irresponsibility in business and industry.) In such cases one could rely, in part, on insurance provisions which on occasion may be legally mandated, given the reasonably anticipated problems with the property in question.

3. Stationary sources placed on (or non-stationary sources which move to) another's property *with the consent of the owner* (whether private person or public entity) seem to present the same contractual considerations and difficulties as were mentioned above. For instance, automobiles are non-stationary sources which often move from private property to private property, but which may do so only if the owners of the properties have granted their permission (perhaps for consideration, perhaps gratis). Without that permission, however, and barring the availability of space within the atmosphere so that no threshold has been reached, automobile exhaust fumes would constitute pollution and should be internalized or prohibited. Chemical wastes dumped on stationary sources might seep out and contaminate other places than those on which they had been dumped, so once again arrangements with owners would have to be made to gain permission. If that is unfeasible—for example, the seepage leads to the contamination of the commons (i.e., public spheres)—internalization or prohibition are the only legitimate capitalist alternatives.

It can be argued that during the last several decades the governments of existing societies have given their implicit (and often quite explicit) permission to have the public's property—lakes, parks, forests, the atmosphere—polluted. To correct this would require some drastic measures, including, first and foremost, the privatization of public properties, where that is possible, and total prohibition where no privatization is possible (recalling the quarantine analogy). To the objection that it may be too late, the capitalist would



JOHN ENGLISH

have to reply that indeed it is better late than never, because to allow current practices to continue is to exacerbate the existing pollution problems. As to seepage and similar movements, the development of the law of trespass and strictures against dumping could again handle these problems. But these fall into our category of difficulties.

4. Stationary sources placed on (or non-stationary sources which move to) another's property *without* the consent of the owner is the most difficult category. For example, air traffic, factory waste emission, automobile emission on (so-called) public property, and so on, are examples of these kinds of harmful emissions others would suffer without their consent (explicit or implicit—that is, by agreeing to suffer them or by acting in ways which imply such agreement). This sort of pollu-

tion might be handled, first of all, through what we might call preventive market measures—for example, insurance premiums against the possibility of court suits for liability, or liability bonds. Here there is ample room for reflection but it seems that the earlier mentioned policy of quarantine could be employed to handle the most troublesome cases.

Wherever activities resulting in pollution cannot be carried out without injury to third (non-consenting) parties, such activities have to be prohibited as inherently in violation of the rights of members of the community. (This would not include trade in pesticide-treated fruits, for example, where the risk of harm from eating such fruit is lower than or equal to normal risks encountered in everyday life.)

When pollution occurs along lines of thresholds,

such that only once so much emission has occurred could the emission be actually polluting (i.e., harmful to people) rather than simply defiling, a system of first come, first served might be instituted, so that those who start the production first would be permitted to continue, while others, who would raise the threshold to a harmful level, would not. This might appear arbitrary, but in fact numerous areas of life, including especially commerce, make good use of this system, and human ingenuity could well be expended toward making sure that one's firm is not a latecomer.

A word about thresholds. The earth—as well as any part of the universe where life support is reasonably imaginable—can often absorb some measure of potentially injurious waste. (This can be expected, since life itself produces waste!) Most toxic substances can dissipate up to a point. Arguably this is no different from the simple observation that within a given territory only so much life can be supported, after which the quantity and quality of life is lowered.

Barring the privatization of such spheres, where they can be kept apart and separated from others, a judicially efficient management of toxic substance disposal must take into account how far disposal can continue before the vital point is reached. Technical measurements would need to be employed and correlated with information about the levels of human tolerance for the toxic substance in question. Risk analysis would need to be performed so as to learn whether the risk of falling victim to toxic substance disposal corresponds with or exceeds expected risks not produced by human pollution.

Standards of Tolerance

It is important to state that the natural rights capitalist standard of tolerance might very well be far lower than even those who support it would imagine. Many free market advocates favor a social cost-benefit approach here, based on the utilitarian idea that what ultimately matters is the achievement of some state of collective satisfaction. This is not the approach that flows from the idea that individuals have natural negative rights to life, liberty, and property.

Assuming the soundness of the natural rights stance, it may be necessary to prepare for some drastic lifestyle changes, so that some past abuses

can be rectified. For example, whereas automobile wastes have been poured into the atmosphere with an understanding that from a utilitarian perspective it is worth doing so (based on social cost-benefit analysis), from the natural rights capitalist viewpoint it would be necessary to insist on the full initial cost being borne by automobile drivers/owners, thereby at least temporarily prompting a considerable rise in the prices of vehicles.

Certainly a capitalist political economy's government wouldn't have the authority to rely on the utilitarian notion, used by many courts today in their refusal to enforce "public nuisance laws," that those harmed by pollution have to "pay" since the benefits of industrial growth outweigh such costs in health and property damage as are caused by pollution. Instead the principle of full liability would apply: The polluter or others who are bound by contract with the polluter, such as nuclear utilities which may have a pact to share insurance premiums and liability resulting from an accident at one member's plant, would be held liable. Benefits not solicited cannot be charged for, if one respects the individual's right to choose, as the capitalist system is committed to do.⁶

Of course, there are environmental problems for which solutions are difficult even to imagine. Even if one country has managed to institute the legal/constitutional measures that would best handle environmental problems—a system of strictly observed and enforced basic private property rights—the international arena will still remain unmanaged. Various problems of judicial inefficiency, the tragedy of the commons, public-choice-based deadlocks, and the like will continue to permeate the international public realm.

The destruction of the ozone layer is a threat to virtually everyone, yet it is at present uncertain whether human beings are responsible for it—the main cause appears to be volcanic eruption. If it should turn out that certain kinds of human activities cause this damage and if harm to people will be the result, those activities may be curtailed or even prohibited. After all, no one may place poison in the atmosphere with impunity, and the problem with the ozone layer is not unlike that—the destruction of something that is not anyone's property and thus no one's to destroy at will, while the destruction, nonetheless, does harm to individuals.

Another type of problem to which it is difficult

to construct a solution without plenty of scientific evidence is illustrated by the destruction of the Amazon rain forest, in this case by people who own it. (We leave it aside for now whether ownership was come by in a fashion consistent with individual rights.) Here, too, the only point that can be made is that if it is demonstrated that this destruction will produce a result that is injurious to others who have not consented to be so treated, the process must be legally stopped. The reason, once again, is that if one even unintentionally but knowingly violates the rights of others by depriving them of life, liberty, or property—i.e., one doesn't set out to do this but one's actions can be known to result in this deprivation—the action can be a kind of negligent assault or even negligent homicide.

A more accessible model might be one's building a very tall but weak structure near another's home in a high wind region. Since the structure is very likely to invade the other's sphere of jurisdiction—private property—there is reason to forbid its building. The strong probability of causing such invasion is a justification for prohibition. If, then, cutting down the trees in the Amazon can be shown to result in the destruction of the lives and properties of others, this can be cause for legally prohibiting it.

Quid Pro Quo

Of course, when there are no proper institutional instruments—i.e., a constitution of natural human individual rights—to guard against such actions, it is difficult to suggest where one should turn. The most effective approach in these cases would be to tie various diplomatic negotiations—including military cooperation, bank credit, cultural exchanges—to terms that would effectively express the principles of private property rights. The *quid pro quo* approach might be utilized on numerous fronts—including in the drafting of treaties—and once the principles and terms have become firmly entrenched, even military action might be justified when environmental destruction occurs on a massive enough scale.

Consider that if Brazil wishes to maintain friendly relations with the United States or some other country, and this other country's legal system firmly acknowledges the environmental implications of the private property rights system, such friendly relations would have to be manifested in

part by Brazil's complying with the international implications of such a system. This would apply even if Brazil itself doesn't adhere to such legal measures within its borders.

This is no different from other international agreements in which countries commit themselves to legal measures *vis-à-vis* citizens and organizations of other countries that they don't observe within their own borders. Trade agreements, contract laws, and numerous economic regulations bind foreign nationals in their interaction with a given country's population, even if within the foreign national's country these do not apply. The same kind of restrictions could be achieved on the environmental front.

We may now return to the more general implications of the private property rights approach to managing environmental problems. For one, we must acknowledge that in some cases protecting the rights of individuals in this strict manner may lead to their not enjoying certain benefits they might have regarded to be even greater than the benefit of not suffering the harms of pollution.

But this is irrelevant. The just treatment of individuals must respect their autonomy and their choice in judging what they think is best for themselves, even when they are mistaken, so long as this does not involve violating others' rights. Paternalism and consistent capitalism are incompatible political ideals! The system of rights which grounds the legal framework that supports consistent capitalism is sound precisely because as a system of laws it is the one that is most respectful of *individual* rights—it rests on the acknowledgment of the sovereignty of individual human beings.

This general virtue shows equal respect for every person who embarks on social life, and it is this equal respect for all that justifies the establishment of government for all, even if such a system doesn't guarantee that everyone will make the most of its provisions. Nor does it guarantee that all values sought by members of human communities would be best secured via such a system—for example, technological progress in outer space travel might be enhanced by not paying heed to the strict liability provisions of the natural rights capitalist legal system.

In short, the ultimate objective of such a system is a form of justice—not welfare, not progress, not equality of condition, not artistic advancement. The justice at hand pertains to respecting every

person's status as a being with dignity, as a being with the freedom and the responsibility to achieve a morally excellent life.

What Is Done Is Done

One must be careful not to expect something impossible of a certain field of inquiry. For too long demands placed on the fields of morality and politics have been unjustly severe: Final, irrefutable, timeless answers were sought, and in response to the inevitable failure to produce these, a cynicism about the prospects of any workable answers has gained a foothold throughout the intellectual community, as well as among members of the general public.

As a result, it is now part of the received opinion that no solid intellectual solution to any of the value-oriented areas of human problems can be reached. The best we can expect is some kind of consensus which vaguely represents the tastes and preferences of a significant number of the concerned population. Yet this "consensus" is a house of cards. Tastes and preferences are unstable, flexible, and so indeterminable that the only thing to emerge is some kind of arbitrary public policy concocted either by bureaucrats or by dictators, official or unofficial.

In morality and politics, and thus in public policy as well, there can be some very general answers that are stable enough, ones that apply to human life, so long as there is such an identifiably stable phenomenon as human life. Human life and human community involve certain lasting considerations. And innumerable changing problems that emerge in them can be approached fruitfully by taking into account some of these considerations.

Our discussion of capitalism and the environment appeals to such basic factors with a view to dealing with one of the more thorny problems of the present epoch of human community life—pollution. Pollution proves to be an important, diffi-

cult test for any political system including fascism, the welfare state, and capitalism.

Capitalism stresses the ultimate importance of the rights and value of the individual, gauging the acceptability of public policies by their success in protecting individual human rights, even where other values, such as progress in science and technology, might have to be set aside.

This discussion by no means exhausts the treatment of the pollution problem, nor does it enter into great technical detail concerning this topic. And we don't pretend to be able to handle everything smoothly. Nevertheless, it has been argued that the capitalist approach to pollution accords most fully with that prime objective of community life—justice. Ironically, it appears that this approach to the environment and ecology often yields stricter measures than those championed by most environmentalists.

In any case, the arguments and theories advanced here should serve as a useful starting point in considering some of the problems of the environment as they emerge in the actual, day-to-day affairs of individuals living in communities and around the world.⁷ □

1. *Blakiston's Gould Medical Dictionary*, 4th ed. (New York: McGraw-Hill Book Company, 1979), p. 1073.

2. Richard B. Steward and James E. Krier, *Environmental Law and Policy*, 2nd ed. (New York: Bobbs-Merrill, 1978), p. 3.

3. *Black's Law Dictionary*, 5th ed. (St. Paul, Minn.: West Publishing Company, 1979), p. 1043.

4. See Robert K. Best and James I. Collins, "Legal Issues in Pollution-Engendered Torts," *Cato Journal*, Spring 1982, pp. 101-36.

5. See Joseph P. Martino, "Inheriting the Earth," *Reason*, November 1982, pp. 30-36, 46.

6. For a discussion of the pervasiveness of the violation of individual rights on grounds that people should not benefit without paying, see Tibor R. Machan, "Some Philosophical Aspects of National Labor Policy," *Harvard Journal of Law and Public Policy*, Vol. 4 (Summer 1981), pp. 67-160.

7. A version of this essay, "Pollution and Political Theory," appeared in Tom Regan (ed.), *Earthbound* (New York: Random House, 1984).

Employee Ownership: A Rapidly Growing Threat to a Free Market

by Dwight D. Murphey

In the first nine months of 1989, nearly 80 of the "Fortune 500" companies established Employee Stock Ownership Plans (ESOPs) involving shares worth more than \$15 billion. Prompted by a decision of the Delaware Supreme Court that ESOPs can be used to forestall hostile takeovers, the massive growth of employee ownership in 1989 accelerated what already had been a rapid rate of growth.¹ In one of the fastest structural changes that has ever occurred in the American economy, the move toward employee ownership had by 1987 resulted in between 7,000 and 8,000 ESOP companies, involving between 11 and 13 million workers.² There were virtually no ESOPs before the push for employee ownership began in 1974.

With such a start, employee ownership will soon become a major economic constituency in the United States—and, as we shall see, an ideological and political constituency as well. Each ESOP is an institutionalized framework for a continuing increase in the amount of employee ownership. If the trend continues, the near future will see the creation of ESOPs at tens of thousands of companies. Each will lead to a growing presence of employee ownership.

The mechanics of an ESOP are simple. It begins with a business firm's creating a trust. The firm transfers stock in itself to the trust, with the com-

pany's own employees as the beneficiaries. In a "leveraged" ESOP, the trust obtains the shares by borrowing from a bank and using the money to pay the company for the stock. The company serves as guarantor on the bank loan. As an important part of all this, Federal law gives major tax breaks both to the company and to the bank.

What has caused this phenomenon? Three related factors: massive government intervention to prefer ESOPs with billions of dollars in tax breaks; the desire of the business community to emulate the Japanese through greater employee participation and company loyalty, as well as to use ESOPs for their tax advantages and as a way to fight takeovers; and a good deal of feverish effort by the media, the academic community and the American Left to popularize employee ownership at a time when there has been virtually no awareness of danger among free market proponents.

Sixteen major pieces of Federal legislation since 1974 have created tax breaks and other preferential treatment for employee ownership. State legislatures have joined in by declaring public policies in favor of employee ownership and creating other preferences and tax incentives.

The rush toward employee ownership is part of a worldwide phenomenon. The world Left pushes it as part of its renewed interest in "workers' control" as the centerpiece of democratic socialism. Employee ownership is important to socialist policies both in Western Europe and in the countries emerging from the Soviet cocoon.

Dwight D. Murphey is an associate professor of business law at Wichita State University and author of several books on social and political philosophy.

At the same time, ironically, many leaders of American conservatism have spoken up for employee ownership. Unaware of the dangers, they see it as a way to “involve employees in capitalism” and also to “privatize” governmentally owned enterprises both inside and outside the United States.

The purpose of this article is to sound an alarm. Employee ownership poses a serious and expanding threat to a free market.

“Workers’ Control”

Since the danger emanates from the Left, it cannot be fully appreciated without understanding the role that “workers’ control” has played in a century and a half of socialist thought.

The various forms of “decentralized socialism” proposed by 19th-century socialist thinkers are relevant today because the decline of Soviet prestige in the world intellectual community since World War II has resulted in a renewal of those earlier socialist models. During the period between the Bolshevik Revolution in 1917 and approximately 1947, those earlier models were eclipsed in the imaginations of most socialists by a highly idealized perception of the Soviet example, which involved a centralized state socialism under the dictatorship of the Communist party.

The inspiration for most models of “decentralized” socialism came from the French socialist Pierre Joseph Proudhon (1809-1865). Proudhon, famous for his statement that “property is theft,” advocated organizing the economy around “mutualist associations.” The associations were to be funded by low-interest government loans (“social credit”).

Among the followers of Proudhon was the Russian socialist N. G. Chernyshevsky (1828-1889). In his famous novel *What Is to Be Done?* (a title later copied by Lenin), Chernyshevsky idealized the image of a workshop that its owner had turned over to its employees. Again, “social credit” was to provide the funds.

In France prior to the revolutionary tumult in 1848, Louis Blanc called for worker-owned producers’ cooperatives called “social workshops.” He, too, wanted them financed by the state through social credit. Later in France, Georges Sorel, a syndicalist, wanted French society run by a confederation of trade union associations.

Perhaps most important, certainly so far as its impact on socialist and liberal thought in the United States was concerned, was the British Guild Socialist movement early in the 20th century. Foremost among its popularizers was G. D. H. Cole. Guild Socialists wanted each industry organized into a “guild.” These in turn would form a confederation of industries. There would be two parliaments—one representing people in their capacity as producers, the other as consumers.

We should note that each of these types of “decentralized” socialism isn’t really decentralized at all—but is rather a blueprint for centralized power. While calling for local collectives under one name or another, proponents want the collectives brought together into industry-wide, and then national, networks. Mussolini did precisely that with his “Corporazioni.” The network then provides what is, in essence even if not in name, a state. The “rational planning” that socialists crave is done through the confederation.

It was Guild Socialism that led to the great “Industrial Democracy” vogue within American “liberalism” between 1910 and approximately 1925. The journal *The New Republic* was established in late 1914 and for several years was the principal sounding board for Guild Socialism. Although *The Nation* focused mostly on international issues, it, too, promoted Guild Socialism after Oswald Garrison Villard became its owner and editor in 1918.

The Soviet example absorbed the attention of the world Left after 1917, although it took until about 1925 for Guild Socialism to go fully out of fashion. Since World War II, however, there has been a major socialist literature both in Western Europe and the United States making workers’ control a principal element.

One socialist author wrote in 1968 that “for socialists and radicals who mean business, workers’ control has already become the central strategic axis. . . .”³ In 1973, another spoke of “the growing worldwide movement for workers’ control” and called it “the central issue of class struggle in our generation.”⁴ A book by Christopher Gunn in 1984 treats “workers’ self-management” as a way “of linking ideological, grass-roots, and spontaneous resistance to capitalism.” He expressed the hope that “it may offer the potential for creation of a new socialist politics. . . .”⁵

Distinctions Without a Difference

Confusion often arises between "employee ownership," "workers' control," and "workers' self-management." Though related, these aren't identical. What should be emphasized, however, is that it is largely a matter of "distinctions without a difference."

Conceptually, it is possible for employees to own a company while not controlling it. Here, they would acquiesce in continuing control by, perhaps, the prior management. Although it is often assumed that employee ownership won't displace existing management, there are compelling reasons to think that the employees eventually will assert control. The very existence of majority ownership creates a moral, as well as a legal, right to control. There is an articulate pressure from the Left for employees to exercise that right. "Workers' control" will no doubt become a major factor in the American economy once the thousands of ESOP firms reach the "tipping point" at which the employees own a majority interest.

Whether the employees will then delegate management functions to directors of their own choosing or will undertake to manage themselves by committee or by some other form of "participatory democracy" depends upon the choices the employees make after they have control.

Oddly enough, employee ownership and the workers' control that results are compatible, at least in theory, with all three economic models: a market economy, state interventionism, and socialism.

The theoretical model of a free market certainly doesn't bar firms that are owned and run by the same people. Sole proprietorships, partnerships, and many small corporations already meet that description.

This compatibility assumes, however, that certain distorting factors won't be present. It assumes that the worker-owned firms will have come about freely through market choices and freedom of contract, not through massive state intervention.

It presupposes also that the worker-owned firms won't harbor an ideological virus that will make them a transitional vehicle to socialism or to further interventionism. It would not be compatible with a free market for them ideologically to invoke "labor solidarity" and to demand the abolition of the type of firms where owners hire employees. Socialists

have long attacked such businesses, which involve the much-hated "wage relation," "absentee ownership," and "making of 'surplus value'" (the socialist name for an employer's profit).

But the question of purely theoretical compatibility isn't the major issue to pose about workers' control today. The more important query is: What are the realistic prospects, given the world we live in today? Is there any reasonable expectation that employee ownership, leading to workers' control, will really serve free market purposes?

The answer, unfortunately, must be that, "no, there is none." This is true both outside and inside the United States.

1. Outside the United States. Workers' control isn't a feasible transition to a market economy in Eastern Europe or the Third World. It merely substitutes one form of socialism—the misnamed "decentralized socialist" models we have just examined—for another. Given the predominance of the Left in much of the world, workers' control will take its place as a form of "democratic socialism."

If under present circumstances it proves to be a more humane type of socialism—one that actually has "a human face"—that is to be desired, so far as it goes. But it is a tragedy for the peoples of the Third World or those emerging from Soviet domination to become enmeshed in yet another round of the economic wastefulness and inefficiency that long and painful experience shows typify every sort of socialism.

Workers' control is inefficient to the extent that it is socialist. If "privatization" occurs through a movement into workers' control, entrepreneurs will continue to be victims of ideological hostility and state blockage if they go outside the "workers' control" model. And the "rational planning" that even a democratic socialism will employ will interpose all sorts of obstacles to free market activity.

How much better it will be if "privatization" can be of a sort that will move Eastern Europe and the Third World into a true free market system! It will avoid millions of people's having to go through yet another painful cycle during which the lessons of economics—hammered home forcefully to the world recently by the utter failure of the Soviet economy—have to be learned all over again.

2. In the United States. It is unlikely that the rush into employee ownership will actually lead to socialism in this country. Despite everything that

the American Left will foreseeably do to bring that about, the inefficiencies of workers' control almost certainly will prevent it from displacing the customary forms of enterprise.

Disappointment comes when workers have reached majority ownership but then delegate management functions to others. They have found in the past that "we haven't really gained anything, since one boss is pretty much like another."

Inefficiency comes when workers seek to self-manage the company "by committee" or through the chaos of "democratic participation." Factionalism, the tedium of decision-through-infinite-discussion, and in-house politics have been found to destroy the viability of many such enterprises in the past.⁶

Danger Ahead

If a socialist victory doesn't threaten us, what, then, is the danger? The answer is twofold:

Even though the Left won't be able to use workers' control to displace other forms of enterprise, it will be able to work constantly to mold employee ownership into an ideologized constituency. The past half-century has seen the secular decline of labor unions as a hostile institution within a free market. Now, however, we are threatened with a movement for "industrial democracy" that will be potentially even more hostile. Do we really want to see that happen?

To the extent that the Left imbues employee ownership with its ideology, an extra dimension will have been added to a movement that already will have become, for other reasons, a powerful economic and political constituency in the interventionist system we have today.

Even without ideological content, ESOPs are quickly creating one of our larger interest groups. When tens of millions of people come to be encompassed within "employee ownership," the movement will possess vast political power.

The intervention that is most immediately foreseeable is one that is utterly incompatible with a free market: that the government will no longer be able to allow any of the thousands of employee-owned firms to fail (or will have to compensate the employees in each firm for the enterprise's

failure). Why? Because by subsidizing and encouraging a type of employee "fringe benefit" that lacks diversification, the government has since 1974 caused millions of people to rely upon a precarious form of asset for their ultimate security in retirement. An irresistible moral claim will be made that the government cannot then allow the failure of an employee-owned firm to cause the employees to lose the value of the assets they've been relying upon. The government will have to either guarantee the viability of thousands of firms or provide transfer payments to make up each individual's loss.

The intervention can hardly be counted upon to stop there. Such a constituency, when organized as all interest groups are today, will predictably call for interventions that we can only speculate about now. Employee ownership may well become the constituency that the American Left has long yearned for, one that will undergird the Left's entire welfare-state program.

Conclusion

The time for response is short. Underwritten by billions of dollars of tax-preferences, and thus far having faced no opposition from market advocates, ESOPs are ushering in a new age for the American economy in which employee ownership will be a dominant factor. Thus, just when we least expect it, we find we are in a time of crisis for a free market economy. □

1. Sylvia Nasar, "The Foolish Rush to ESOPs," *Fortune*, September 25, 1989, pp. 141-50.

2. Joseph Raphael Blasi, *Employee Ownership Through ESOPs: Implications for the Public Corporation* (New York: Pergamon Press, 1987), p. 13.

3. Ken Coates, ed., *Can the Workers Run Industry?* (London: Sphere Books Ltd., 1968), p. 12.

4. Gerry Hunnius, G. David Garson, and John Case, eds., *Workers' Control: A Reader on Labor and Social Change* (New York: Random House, 1973), p. 469.

5. Christopher Eaton Gunn, *Workers' Self-Management in the United States* (Ithaca: Cornell University Press, 1984), p. 201.

6. See the case studies of chaotic inefficiency cited in Daniel Zwerdling's *Workplace Democracy: A Guide to Workplace Ownership, Participation, and Self-Management Experiments in the United States and Europe* (New York: Harper Colophon Books, 1978), pp. 91, 117, 127, 128.

The Ongoing Struggle for Liberty: Reasons for Optimism

by Dwight R. Lee and Richard B. McKenzie

The struggle to protect our liberty against the abuses of government is long-standing, and certainly one over which the defenders of liberty can declare no permanent victories. Yet, in recent times there seems to have been a shift in favor of liberty in the struggle between government suppression and individual liberation. The most dramatic evidence of this shift comes from Eastern Europe where the yoke of Communism has loosened with the fall of several totalitarian regimes.

But even in those countries based on democratic capitalism, in which the power of government has been limited, at least in a relative sense, the evidence justifies cautious optimism for believing that the threat of government has reached its zenith and has begun to recede. Marginal tax rates have been lowered, regulation has been reduced, privatization proposals are being implemented, and governments are finding it increasingly difficult to initiate new programs and controls. While the existing controls and intrusions of government certainly have not become irrelevant, there seems little doubt that they have become less relevant to the choices people make and the freedoms they exercise.

But why? Is the current retrenchment in gov-

ernment power an aberration, nothing more than a temporary fluctuation in the long-run trend of increasing state control? Or can we point to fundamental forces at work which are systematically shifting power from governments to individuals? In our view, it is the latter.

Changes taking place in the global economy, changes rooted in continuing technological progress, are reducing the threat governments pose not only to our liberty, but to our prosperity as well. The explanation of why technology is increasing the freedom of the individual, rather than the power of the state, requires an understanding of the importance of information and its coordination to a free and prosperous social order.

Freedom and Economic Prosperity

As Friedrich Hayek pointed out in 1945, economic prosperity depends on the ability of each of us to respond appropriately to an enormous amount of information, most of which no one person can possess directly.¹ Economic progress requires the use of information that exists only as widely dispersed knowledge which each of us has about our own condition, circumstances, and preferences. Without the proper utilization of such seemingly trivial bits of information as the personal idiosyncrasies of those with whom we work, the peculiarities of a machine we operate, a shortcut on a delivery route, and our willingness to sacrifice

Dwight R. Lee is the Ramsey Professor of Economics at the University of Georgia, Athens. Richard B. McKenzie is the Hearin/Hess Professor of Economics at the University of Mississippi, Oxford. Both authors are adjunct scholars at the Center for Study of American Business, Washington University, St. Louis.

a promotion for locational amenities, our ability to produce wealth would be greatly reduced.

This information is typically tacit; it is impossible even for those who possess it to communicate it in any meaningful way to others. The only way to make use of such locationally specific knowledge is by giving those who have it the freedom to act on it. Without freedom, the information that is essential for prosperity is rendered largely useless. Freedom is necessary for economic progress.

Yet, freedom is not sufficient for economic progress. For the localized information possessed by an individual to be utilized to best advantage, it has to be used in a way that is compatible with the use others are making of the localized information that they alone possess. No matter how appropriate individual decisions may appear when judged against the particular information each individual has, unless these decisions are somehow melded together into a coordinated pattern of consumption and production, the performance of the economy will frustrate the pursuits of all.

Economic Coordination

The seriousness of the problem of economic coordination cannot be overemphasized. The need to coordinate economic decisions if economic progress is to be realized is an undeniable fact, and has provided much of the rationale for those who favor restrictions on individual freedom in the name of "rational" economic planning by the state. Supposedly government planners with a broad social perspective, and the ability to gather economy-wide economic data, are necessary to coordinate the otherwise conflicting pursuits of individuals acting on only local information.

A crucial problem with central economic planning is that, by restricting the freedom of individuals with government commands and controls, much of the local knowledge so essential to economic progress is effectively destroyed. This is a problem that advocates of central planning have either: 1) ignored, 2) assumed could be overcome by advances in technology that would allow the collection of local information, or 3) seen as a necessary cost of solving what is perceived as the more important problem of economic coordination.

If it were the case that economic activity could be coordinated only through central direction, then the justification for central economic plan-

ning for the purpose of coordination would have merit. There would be a trade-off between the use of localized knowledge and the coordination of that knowledge. The individual freedom that increased the former would reduce the latter, and freedom would be insufficient for economic progress.

The fatal flaw in the case for central economic planning is the failure to recognize that the best way to coordinate economic activity is by giving individuals the freedom to act on the knowledge that only they have within the institutional setting of a free market. In a free market, characterized by private property and voluntary exchange, prices emerge which convey far more information and coordinate economic decisions far better than can the most diligent and dedicated team of central planners. Market prices convey to each individual the value that others place on the marginal units of those goods and services that are exchanged in the marketplace. Therefore, whether making a decision on how much of a product to consume or how much of a productive input to employ, each decision-maker, because of the market prices he faces, has both the information and the motivation to acquire additional economic resources only as long as these resources are worth as much or more to him than they are to others.

The result is a coordinated pattern of economic activity that directs resources and efforts into their highest value uses by giving individuals the freedom to utilize their dispersed and localized knowledge. When individual freedom is subject to the accountability of the marketplace there is no trade-off between the freedom and coordination upon which economic progress depends. Individual freedom, exercised within the constraints imposed by the private market, is a powerful and essential force for economic progress.

Yet for the very reason that individual freedom can be so productive, it is also vulnerable to suppression. The advantages we realize from individual freedom derive from the fact that it will be exercised in a wide variety of unpredictable ways. As Hayek has pointed out, "If we knew how freedom would be used, the case for it would largely disappear," and "the benefits I derive from freedom are thus largely the result of the uses of freedom by others, and mostly of those uses of freedom that I could never avail myself of."² There is a tendency in all of us, however, to view with sus-

picion the decisions of others when those decisions deviate from those that we would make. Suspicion quickly turns into intolerance when the freedom of others results in decisions which conflict with our own pursuits. The only hope for maintaining the tolerance required for freedom to flourish is a market setting in which the freedom exercised by each in pursuit of his objectives takes account of, and facilitates, the pursuits of others.

Tolerance for freedom requires that people be accountable for their actions, and in the absence of accountability through the general rules of the market, one can be sure that more detailed rules will be imposed on individual behavior. It should come as no surprise that in those countries in which reliance on private property and exchange is officially frowned upon, one finds not only the poorest economic performance, but also the most blatant violations of basic human rights and freedom.

Government as Protector and Pirate

Ironically, the market setting that allows for freedom is one that cannot long remain viable without coercion. The productive accountability and coordination of the marketplace depends upon people obeying the general rules of private property and exchange. These rules are not self-enforcing. The benefits of economic productivity and tolerance for freedom that result from respect for the rules of the market are general benefits. When respect for property rights is widespread, the general advantages of the marketplace that result accrue to all in the country, including those who transgress against the property rights of others. Therefore, those who promote the general advantage by exercising restraint find themselves victimized by those who do not. It is this which justifies granting to government the coercive power to enforce the rules of the market. Without such enforcement the market order, and the freedom and productivity it allows, cannot long remain viable.

Unfortunately for the very reason government is needed to enforce the general rules which are the foundation of a social order based on freedom and responsibility, a persistent tendency exists for government to expand, and then undermine both freedom and responsibility. The existence of gov-

ernment power creates the opportunity for people to benefit legally at the expense of others in ways that are analogous to the illegal practices that it is the primary purpose of government to prevent.

The accountability imposed by the market, although providing general benefits, is seen as an inconvenience from the perspective of each individual. Being held accountable to the whims of consumer preferences creates problems for producers that from their perspective are best resolved by having government interfere with the social coordination of the marketplace. When government uses its coercive power to give a particular firm and its employees exemption from the rules of the marketplace, the general benefits of market coordination are diminished. Like the thief who violates rules of private property and voluntary exchange, those who benefit from government infringements of those rules live, as a consequence, in a less productive and free society.

This cost does little, however, to dampen enthusiasm for government action that reduces the accountability of the private market. As with the thief, those who gain advantages from preferential governmental treatment receive all the benefits while the costs (in terms of diminished freedom and productivity) are spread over the entire population.

Government can become the means by which everyone is engaged in the activity of "political piracy," or in the words of Frederic Bastiat, "the State is the great fiction through which everybody endeavors to live at the expense of everybody."³ Obviously this situation is collectively destructive. Piracy can be a profitable activity when the pirates are few and the victims are many. But when everyone is a pirate, everyone is also a victim, making it possible for all to gain by a reduction in piracy.

Pessimism comes easy when considering the relentless pressures for governments to expand and, by so doing, destroy the general benefits it is government's duty to protect. Aided by single-issue dedication, organizational advantage, and a rationally ignorant public, special interests are able to dominate the general interest in the competition for political influence.

The intellectual force of classical liberalism that guided the drafters of the United States Constitution was undeniably a major factor in the establishment of a government that was largely limited to maintaining an environment conducive to free-

dom and economic progress. But while this intellectual force hasn't been destroyed, it has been overwhelmed by the relentless and increasingly entrenched political influence of special interests.

Technology and the Power of the State

While not denying the power of special interests and the strong and unrelenting pressure for government expansion that is destructive of our freedom and prosperity, pessimism is premature. The world is changing in ways that are imposing constraints on government power that reinforce (or supersede) those of written constitutions, and providing unmistakable evidence that the classical liberal model of limited government and decentralized markets allows far more freedom and prosperity than state dominance and centralized economic direction. There are reasons for optimism that these two forces are in the process of interacting in a virtuous cycle of reinforcement that will expand the scope of human liberty and economic progress around the globe. The force initiating this cycle of freedom and prosperity is technology.

In the past it was widely believed that technological advances would expand the control of the state, with some being appalled by this prospect and others welcoming it. Whether one feared the Big Brother of George Orwell's *1984*, or looked forward to the day when government could gather the information necessary to calculate efficient socialist prices, the expectation was that technology would shift control from the level of individuals to that of central authorities.

This expectation was not completely unfounded. Certainly technological advances have increased the ability of government to monitor private activities, to gather information on the economy, and to solve the huge systems of simultaneous equations called for by the schemes of the rational socialist "calculators." Moreover, this new technology might be used to destroy the economic freedom that is incompatible with the directives of central planners.

The initial effect of the technology that ushered in the Industrial Revolution was to increase the power of government. This technology created tremendous advantages resulting from the exploitation of economies of scale. Economies

became characterized, and landscapes dotted, by huge plants and factories. Efficiency was increased by building yet more massive units of physical capital and by bringing yet larger numbers of workers in close physical proximity in order to coordinate their use of that capital. Such large concentrations of productive wealth create tempting targets of opportunity for political exploitation through regulation, taxation, and central direction. Also, the large productive facilities called for by economies of scale created the illusion that large sections of the economy could be efficiently concentrated and controlled by central planners.

Certainly governments have used technology to increase control over their populations. It is possible to point to many cases in which this control has seemed almost complete. And the experience with increased state control is far better characterized by Orwell's Big Brother than by the socialist fantasy of the calculator of efficient socialist prices. The primary accomplishment of totalitarian governments has been to snuff out both individual freedom and economic prosperity.

Technology continues to progress, however; and as it does there are reasons for believing that it is becoming more a force for liberation than for suppression. The atrocities of state power that have characterized so much of the 20th century are likely to be the darkness before the dawn.

Technology as a Force for Freedom

Recent technological progress has altered the production of wealth in fundamental ways, and by so doing has reduced the ability of government to control and exploit the productive process. The most cost-effective plant is no longer the largest plant. Small machines are now able to produce a host of products more efficiently than formerly was the case with large machines. Just-in-time delivery systems based on more rapid communication and transportation are reducing the warehousing space needed for inventorying productive inputs. The productive activity of a large number of people can be supervised and coordinated without having them in close physical proximity to each other. And increasingly it is knowledge and creativity embodied in human, rather than physical, capital which is the decisive factor in the creation of wealth.

The result is not only productive units that are far smaller than in the past, but far more mobile as well. Increasingly the tax base that governments were able to treat as captive have become fugitive. The governments of countries are now finding themselves facing the same type of competition that governments of local jurisdictions have always faced.

No claim is being made that this competition will ever rival that faced by grocery stores or pizza parlors. But the gap that can exist between the attractiveness of the tax and service packages of different governments without adversely affecting the tax base of the least attractive is diminishing. As measured by the discretion governments have to tax, regulate, and exploit the productive process for political ends, technological advance is reducing the control of governments.

Of course governments have always recognized a threat in the emigration of productive resources, and those governments pursuing the least "competitive" policies have never hesitated to employ brutality in order to limit that emigration. But technological advance is making government attempts forcefully to prevent capital flight less likely to be successful, and increasingly futile even if successful. The increasing mobility of capital goes a long way in explaining the difficulty of preventing capital flight. The changing nature of capital explains the futility of attempts to overcome this difficulty, even if successful.

Productive capital has become increasingly dependent upon intellect and creativity. As George Gilder has expressed it, "innovation tends to devalue the materials of the established system and create a new means of production with a higher content of intellect and ideas. The displacement of materials with ideas is the essence of all real economic progress."⁴

How Governments Undermine Creativity

Attempts by central authorities to confine, control, and manipulate creativity are sure to destroy creativity. Those governments that have been most successful at imposing internal controls over their populations in order to prevent the exodus of capital (both human and physical) have succeeded only in destroying the creative process upon which a productive capital base ultimately depends.

Technology is shifting the advantage even more than in the past to decentralized economies based on the coordination of the marketplace. For reasons discussed earlier, the market has always dominated central planning in the utilization of localized information and in coordinating that use into an overall pattern of efficient production and consumption choices. But it is important to recognize that, by accelerating change and further fragmenting the distribution of knowledge, technological advances are rapidly increasing the dominance of market-based economies.

In an economic setting characterized by completely static production processes and preferences, and a few huge production units, central economic planning might work tolerably well.⁵ In such a setting there would be fewer units to coordinate, and maybe some semblance of coordination could be realized by repeated iterations toward a stationary target. It is not surprising that those who dream of economic progress through industrial policy controls find comfort in the thought of mega-sized corporations (see, for example, John Kenneth Galbraith, *The New Industrial State*) and see disruption rather than progress in the spontaneous changes that are leading to a dynamic global economy (e.g., Robert Reich, *The Next American Frontier*).

But the thought of central economic control becomes a complete absurdity in a world in which large corporations are losing ground to creative entrepreneurs, who, armed with the latest technology and a relatively few employees, outperform their rival Goliaths at innovating, manufacturing, and marketing. Smaller organizational units whose productive power has been enhanced by technological advances possess far greater agility in responding to the rapid changes brought on by those technological advances.

The greater productive power of smaller organizations comes from superior use of localized knowledge and increased specialization, and depends completely upon the information flows that can be collected and distributed only through markets. The information that pulses through the market in the form of prices, profits, and losses is information that is being utilized to ever greater advantage in decentralized economies and which is being neutralized and destroyed in centralized economies.

The same technology that is driving the produc-

tion and rapid distribution of goods, services, and information in those countries that are plugged into the global market is ensuring that those who live in economically stagnant and politically repressive regimes are becoming increasingly aware of their plight. All regimes based on central economic and political control are being undermined by "the three most powerful political factors at work in the world today: democracy, market economies, and the microchip."⁶

When the theory and experience of democratic capitalism is presented to those whose political and economic lives are subject to the detailed control of unelected authorities, those authorities soon begin losing their grip. When people couple improved knowledge of alternative systems of political economy with greater ability to vote for these systems both with their feet and their capital, the power of governments over their citizens is further weakened. By quickening the flow of information and increasing the mobility of capital and populations, recent technological advances are ushering in a new era in which the prospects for individual liberty and accelerating economic progress are greatly improved.

Summary and Conclusion

Genuine economic progress isn't possible without the freedom of individuals to use the localized knowledge that only they can possess. Yet individual freedom is a force for economic progress only when subject to the accountability imposed by the market institutions of private property and voluntary exchange. Somewhat ironically, the freedom of the marketplace depends upon the coercion of government. In the absence of government enforcement of the rules of private property and exchange, temptations exist that convert individually rational behavior into collectively destructive outcomes.

Unfortunately, the power to protect freedom is also the power to destroy freedom by undermining the accountability of the marketplace. And the use of government power to undermine market accountability is exactly what numerous special interest groups see as individually rational. Each such group realizes private advantage at public expense by being exempted from the discipline of the marketplace.

Yet, there is cause for optimism. Technology seems to have entered the struggle between government power and individual freedom on the side of freedom.

The concern has long been that the power of government is undermining the freedom and productivity of the market. This remains a concern. But there is reason to believe that the threat is turning, and we are now observing the freedom and productivity of the global market in the process of undermining the power of governments around the world. □

1. Friedrich A. Hayek, "The Use of Knowledge in Society," *American Economic Review*, 1945, pp. 519-30.

2. Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), pp. 31-32.

3. Frederic Bastiat, "The State," reprinted in *Ideas on Liberty* (Irvington-on-Hudson, New York: Foundation for Economic Education, 1955).

4. George Gilder, *Microcosm: The Quantum Revolution in Economics and Technology* (New York: Simon & Schuster, 1989), p. 63.

5. Even in a static economic setting with only a few production units, localized information would remain important and market coordination still would be superior to bureaucratic coordination. Also, it is unrealistic to assume that central authorities are motivated to take the task of economic coordination seriously. The reality of central economic planning is that it requires concentrations of coercive power that always are exploited for private advantages which generally conflict with public-interest objectives such as economic coordination.

6. See the editorial "China Globalized" in *The Wall Street Journal*, May 22, 1989.

Fostering the System

by Ann Rogers and Michael Rogers

The problem with foster child Alan is that he isn't a statistic. His mother was a drug addict, but she didn't beat him. If Alan had been beaten, then he might be more willing to allow the state to help him.

When John and Lois applied to become foster parents with the state of California, they didn't plan on getting Alan. Unlike most applicants, they didn't want an infant, but they already had a particular foster child in mind. They were doing a favor for friends who were having difficulty with their own foster family. These friends, Tom and Carol, had taken in a foster child, Joann, who had fallen in love with their natural son. Tom and Carol thought John and Lois would be perfect for Joann, and that began their relationship with, what Lois now bitterly calls, "the system."

To be precise, what Lois says is, "The system stinks." It's the system she blames, not Alan, for how badly things worked out. But what makes her particularly angry is that it's Alan who is suffering.

Alan never wanted to be in the system. It was his teenaged half-sister who reported their mother to the state, which then came and took Alan and his sister away. His mother, a drug addict, could have faced the charges and tried to get her children back, but she chose instead to vanish. So, at 9 years old, Alan became part of the state foster child care system.

A year had gone by and he had been through two other foster families when John and Lois got him. (His half-sister had been placed separately from him, though they had scheduled, monthly, supervised meetings.) John and Lois were fore-

warned that he was a problem child. He didn't make friends and he didn't interact with other children except to fight with them. They were also told he wet his bed.

John and Lois had meanwhile been through their own bureaucratic ordeal in becoming Alan's foster parents. The lengthy process began in December when John and Lois attended the Foster Parent Training Program given at their neighborhood community college. In March, their home was inspected by the licensing division of the county's Public Social Services Agency. Completing the paperwork required that they both be fingerprinted for a criminal records clearance, have a Child Abuse Index Check, be tested for tuberculosis and have a Health Screening Report filled out by a physician. Since, before these requirements could be concluded, Tom and Carol had made other arrangements for Joann, John and Lois were free to accept any foster child. On the first of April, they accepted Alan.

Like many foster families, John and Lois wanted to provide Alan with the family life of which they felt he had been deprived. But Alan was resentful from the start. Tom and Carol had encountered similarly resentful children and, if the child's attitude didn't improve, they would return him to the agency. But Lois was determined to make it work with Alan. After all, wasn't he just a child who really needed help? She fully planned to raise him to adulthood along with her own two children. And she continued to talk this way even after learning the extent of his problems.

John and Lois had been warned that he wet his bed at night. But they hadn't been told that he also wet his pants in the daytime or that he habitually

Ann Rogers, an attorney, and Michael Rogers, a physics professor, live in Ormond Beach, Florida.

defecated in his pants. John characterized him as not being toilet trained.

To keep tabs on their progress as well as to assist them, a state psychologist, Howard, was assigned to visit them weekly. He would come to the house, talking first privately to Lois, and then taking Alan aside (or sometimes out for a Coke) to talk to him. There were also regular monthly visits from a state social worker. Howard's advice on toilet training Alan was to have him hand scrub all his soiled underpants.

Thus began a wearying, daily ordeal. Lois would set aside Alan's soiled underpants. She'd wait until after supper and after Alan had relaxed a little before telling him it was time to wash them. But he was never ready or willing to do it. He whined. He didn't want to wash them and why was she always picking on him. It was because he was a foster child, wasn't it? He screamed. He wouldn't do it. Lois always stood there, persisting, patiently and calmly, until Alan finally relented and washed his underwear.

Sometimes Alan tossed out his dirty underpants and told Lois he didn't wear any. Then Lois had to rummage through the garbage to find them. It seemed as though Alan tried everything he could to get out of the washing, except to use the toilet.

Yet Alan's failure to use the toilet was just the more conspicuous aspect of a bigger, more general behavior problem. From what he had told Lois and from what they could surmise about him, he had been a neglected child. He pointed out a hotel to Lois that he said his mother had left him in for three days. He was totally undisciplined. He didn't know how to behave in a house or with a family. He'd open the front door and not shut it. He'd turn the water faucet on and not turn it off. He never washed his hands. And when he was told to shut the door or turn the water off or wash his hands, he would argue and fight. "Why do I have to?" Or, "I don't want to." And whenever John wasn't home, Alan would throw fits with Lois. He'd scream at her, right in her face.

Life with Alan

Family life with Alan became something quite different from what family life had been before. John and Lois planned a family night out to see the new *Star Trek* movie at a drive-in. Though Alan seemed excited too, when they were ready to

leave, he wet his pants. Then instead of giving Lois the wet underwear, he told her he hadn't worn any. Lois found them in a waste basket. And as though his pre-movie antics weren't enough, Alan spent the movie telling them how much better his previous foster family had been.

Another weekend they drove to Las Vegas to visit friends who had just moved there from Kentucky. Lois was particularly excited since she hadn't seen these friends in over a year. While staying there, though, Alan threw a terrifying fit, screaming at the top of his lungs, ranting and raving. Their friends were horrified. John and Lois were upset. They had ideas about how they should be raising Alan, about things they could be doing that might help him, but they were obligated to follow Howard's suggestions.

Howard had told them that when Alan misbehaved, Lois (who was doing all the disciplining) could do one of several things. She could put him in his bedroom; she could ban him from playing the computer, which he loved; or she could put him in a corner with his nose touching the wall. These were "constructive alternative methods of discipline," which John and Lois were required, by the Foster Parent Agreement they had signed, to exercise. They were prohibited by the agreement from using "corporal punishment, punishment in the presence of others, deprivation of meals, monetary allowances, visits from parents, home visits, threat of removal or any type of degrading or humiliating punishment." But despite Lois rigorously using these constructive alternatives, Alan's behavior was going downhill. They were losing control over him, and it was getting closer to the point where Alan would simply refuse to listen to them. If he wouldn't stand in the corner, or wouldn't go to his bedroom, then what could they do?

Meanwhile, Tom and Carol were giving them different advice. They had been foster parents for over ten years and they had raised their foster children much as they had raised their own children, spanking included. They reassured John and Lois that once Alan felt some attachment to them, they would be able to spank him too. But John and Lois were hesitant. They were sure Alan would report them.

Nonetheless, one day John did spank Alan. He took him into the bedroom, told him what he had done wrong (defecating in his pants and talking back to Lois), and then spanked him half a dozen

times. Alan had already been warned the previous day that John—not Lois—would be disciplining him the next time he committed either of those two infractions. John said Alan seemed bewildered by the spanking, as though it had been a new experience for him, and, for two months afterwards, he did not soil his underwear once.

A Warning

Alan did eventually tell Howard about his spanking, however, and Howard warned John not to do it again. And when Alan's good behavior declined after two months, John didn't spank him again, though he was certain a spanking was what Alan needed. There was too much to lose to risk an entanglement with the state. John and Lois owned real estate; they had their two children. Foster parents might have child abuse charges filed against them as well, and then their own children could become foster children.

Alan, though, just kept getting worse. He plugged a toilet at school and screamed at a bus driver who was threatening not to let him on the bus again. Perhaps Alan was angry because Lois had started working full-time and now had less time for him. Lois had gotten a full-time office job, because John was thinking about leaving his ranch job, which meant losing their rent-free, company-owned, three-bedroom house. In southern California, that was no small economic loss, certainly not compensated by the \$360 they got monthly for Alan. But whatever his reason, Alan was now out of their control.

In late October, seven months after they had gotten him, John and Lois returned Alan to State Social Services. He cried when he got in the car, and John and Lois were upset too. But they felt they had no other choice. Alan was now 11 years old, and he would be going to live in a group home with other hard-to-place children.

This real-life example isn't clear-cut or uncontroversial. Alan's home life with his drug-addict mother was hardly ideal. On the other hand, he wasn't being physically abused. He was neglected. He wasn't fed regularly or taught anything. Yet, he had survived under his mother's care, through infancy and early childhood, until he was 9 years old. And his mother never had abandoned him. Though she left him in seedy hotels, she always came back. Further, Alan never wanted to leave

his mother. Lois expressed the fear that if they encountered his mother somewhere, he would take off after her.

Lois also worried about Alan's constant use of the "f" word. As far as Alan viewed it, he never got a fair shake on anything because he was a "foster" child. With his own mother, he hadn't been one. His mother also had never rejected him. Under the California foster child care system, though, whole families have rejected him. He had experienced stability with his mother; he is being shuttled from family to family with the state foster care system. Under the state system, he is being labeled a problem child. Under the state, he is living in a group home, which has disturbed children and other juvenile misfits in it. Has the state, in fact, made Alan's situation worse?

What Is the Proper Role of the State?

The pragmatic argument for state intervention is that the state is doing good for Alan. Here's a child who, without state intervention, would grow up to be a drug addict like his mother, or perhaps worse. The state believes its care of Alan does less harm than his mother's care does. But it requires omniscience to know that Alan would benefit more in the state's foster system than in his mother's care. First, it requires that the state know how Alan would have turned out under his mother's care. Second, it requires that the state know how Alan will turn out under its system. Finally, it requires knowing which outcome is morally superior. No one, not even the state, has this wisdom.

Assuming that Alan is, in fact, worse off now than before, state officials would then like to believe, or perhaps do believe, that Alan is an exception—that, on the average, the state still does more good than harm. Tom and Carol certainly met children who adjusted to their new family life. Most children will manage to adjust, but it doesn't mean that they are happier with or benefit more from their foster families than they would have with their own families.

The belief that the foster family, which is a state-controlled relationship, is going to benefit foster children is a dangerous assumption. Look at what happened to Alan, who was taken in by good people with the best intentions. Every foster child is unique, yet the state allows only one rigid, limited

approach to raising these children. Instead of allowing all actions to be legal with the exclusion of criminal acts (for example, assault, killing, or fraud), the state specifies only certain acts as legal, thereby making illegal every other (unmentioned) act. This controlling, restrictive nature of the state impedes individual initiative and progress.

John, for example, may have been wrong that spanking Alan would have been beneficial. Alan might have responded the same way to being spanked as he had to Howard's constructive alternative methods. With Alan, it may have had nothing to do with how he was being raised, but who was raising him. Nonetheless, the state, by forbidding spanking, by making only one narrow approach to child rearing legal and everything else illegal, inhibits creativity. The process of raising children becomes stagnant rather than dynamic; it remains one-dimensional rather than innovative. So, while spanking may not be productive in a specific case, the freedom to spank, in general, is productive.

The financial cost to the taxpayers of Alan's taking is also considerable. The government hires psychologists, social workers, custodians, and a network of foster families. In addition, it purchases real estate. In Alan's case, three foster families received

payment, a state psychologist and social worker are employed, and a group home and staff are financed. All these people are employed to benefit Alan more, or harm him less, than his mother. Yet, no matter how much money is spent, the state cannot know for sure what will benefit Alan.

Not knowing who or what will benefit Alan constitutes the problem of child-rearing. The state can't know and, therefore, it has no right to take a child from its mother unless it has met the burden of proving the child is being physically injured. Although it may be true that Alan was being emotionally, not physically, injured at home with his mother, the state wasn't able to stop the emotional injury. The state's actions, in fact, very likely increased the emotional injury and made Alan's childhood more miserable than it was.

Several weeks after relinquishing Alan, Lois received a phone call from a social worker about taking in another foster child. The social worker assured Lois that not all foster children are as bad as Alan. That's when Lois realized that Alan was being blamed for being bad, not the system. The state, evidently, assumes it is right. So, while the state, most likely, wrongfully took Alan from his mother, harmed him by doing it, and wasted loads of money, it can blame its failure on the victim. □

Low Life

by Al Garner

Any discussion of crime and other anti-social behavior should take a close look at what some people call "low life"—bums and criminals. After years of social work I thought I knew something about this element, but it took renting rooms in my house to find out.

Most of the tenants were working class guys. Some were sloppy or crude, but problems could be worked out. They were okay.

Mr. Garner is a retired social worker in Midway City, California.

There were others, however, who were "low life" and problems could *not* be worked out with them. They lacked empathy and wanted lots of favors—stamps, envelopes, change, jump starts, or tools. They wanted attention and wanted to talk about themselves at their convenience, not mine. They were overly sensitive, defensive, and wouldn't sit down and discuss problems. They got buddy-buddy too fast, and expected their messes to be forgotten because we were "friends." They thought they could find a job and a woman far

beyond their reach. They were impulsive in eating, drinking, entertainment, and spending. They ignored the house rules or tested them: if you gave an inch, they took a mile.

Some had terrible manners, needed haircuts, locked themselves out of the house a lot, left shopping carts out front, slammed doors or didn't close them, broke things and denied it, wasted my utilities and their food, clothing, and tools to an amazing extent, and seemed to either yell or mumble. They got behind with their rent, which brought lots of stories, moving out in the middle of the night, and bouncing checks.

Some put off small repairs on their cars, costing them twice as much. Some told adult stories around youngsters. One hid a motorcycle in his room to work on, getting grease all over.

They resented banks, bosses, cops, girls—life owed them a living. They wouldn't manage their weight, diet, health, belongings, or money and drifted from job to job. They drove uninsured cars with no spare or jack, and they ate out—always broke, but always ate out. (Show me a roomer who's always broke and I will *guarantee* he eats out.) Some stole, gambled, drank, and smoked pot. They had companions, not friends.

Many counselors would say their problem was mental, educational, intelligence, discrimination, alcohol, or "deprivation." Nonsense; it was immaturity.

Take Pete. He was 40, had nothing, and promised he would be a good tenant. He had a new job. Save his money and get ahead? No, he gambled and drank it away. His room smelled terrible, he had a bad attitude, and he made a lot of messes in the kitchen and bathroom. He loaned his uninsured car for months at a time. He got terribly drunk on a work night, and he fell behind on his rent. I asked him to leave. He did—sleeping in his car in front of the house. The police picked him up on outstanding warrants and put him in prison.

Enter Bob, a divorced 36-year-old escapee from

a Communist country, father of two, with a high-paying, skilled job. He was happy, fun, big-hearted, and very likable. He had a strong body odor. He knew it, but did nothing about it, and even went on job interviews that way. He was in and out of love every other week with barmaids, one of whom took his money. He went through a number of jobs and ran out of money. He worked around the house for minimum wage, but still ate out. Once when totally out of money during an emergency, he worked for me four days, was paid each day, and at the end of the fourth day was broke. He needed a loan for a big date who stood him up to go to bed with someone for \$50. The next day he was down in the dumps, called his kids, cried, and swore off his night life. Then what? He went out again that night! Eventually he moved out, leaving a big mess and the police on his trail.

If these types didn't respect themselves or their property, why should they respect me or mine? There were thefts, property damage, and near fights. I had to ease them out gently, taking a loss so they wouldn't retaliate. They knew where I lived; I wouldn't know where they lived.

The stories go on; you can read, hear, and discuss them, but you won't understand until it happens to your property, your time, your peace of mind.

Most middle-class people are unaware of such people, but working-class people and the police are, as they have more contact with them. They call them "riffraff, rabble, bums," and worse. They know what they are talking about. Many counselors, however, are middle class, have gotten their ideas from books, and excuse such behavior.

"Low life" have *chosen* to remain immature and irresponsible. Any rehabilitation should meet them only half way and include lots of discipline and hard-nosed counseling. They have the slow, painful job of growing up. Cold-blooded realism is needed, not hearts and flowers. Strangely enough, most of them would agree. □

A University with a Future

by Leonard P. Liggio

During recent months, the freedom philosophy has been vindicated in Central and Eastern Europe. However, the coming years will show whether the people in those countries understand how to achieve the benefits of a free and responsible society. Having had the most oppressive of governments, they have been led as much by instinct as by reason and knowledge. They have few institutions in their countries around which to expand the islands of freedom.

The importance of building institutions was demonstrated during the recent Western Hemisphere meeting of the Mont Pelerin Society in Guatemala. Part of the program was held at Francisco Marroquín University. Founded in 1972, this institution is a monument to the intellectual contributions of Ludwig von Mises and to the organizational contributions of the founding rector, Manuel Ayau.

Dr. Ayau was influenced by the lectures and writings of Mises, and through him by the ideas of Leonard Read and F. A. Harper. Thanks to Mises' teachings, Ayau and Ulysses Dent recognized that higher education is the most important contested area for shaping social change—and the area in which the socialists have seized most of the ground. Thus, Ayau and Dent founded a new university, and through much hard work and with the inspiration of Mises, Read, W. H. Hutt, Henry Hazlitt, Henry Manne and others, the university has become a great success.

I have given courses at Francisco Marroquín on two occasions, and can attest to the very high qual-

ity of the students. They are bright, attentive, courteous young ladies and gentlemen with a strong interest in the freedom philosophy. Francisco Marroquín must compete for students with the national university. At the national university, students can study at almost no cost—the university is guaranteed 4 percent of the central government's budget by Guatemala's constitution, which was written by the university's faculty. Its campus looks like a military encampment after it was overrun by the enemy—in this case, by the students from various militant socialist groups.

In contrast, like a medieval monastery, Francisco Marroquín University was built brick by brick by dedicated devotees of the freedom philosophy. Some of these people formed the early faculty of unpaid instructors. Over time, Dr. Ayau was able to add teachers who had been trained in free market economics at New York University with Mises, at the University of Rochester, UCLA, and other leading U.S. colleges. Francisco Marroquín's programs have expanded to include economics, business, accounting, computer science, architecture, dentistry, medicine, theology, teacher training, social sciences, and law. However, all students are required to complete two semesters in Austrian economics, a semester on the social thought of Ludwig von Mises, and a semester on the social thought of F. A. Hayek. One of the most widely attended courses is "The Logic of Social Cooperation" taught by Juan F. Bendfeldt.

The core curriculum reflects the strength of the economics faculty that is headed by Fritz Thomas and includes Julio Cole, Joseph Keckeissen, and Pablo Schneider. Two outstanding scholars, Eduardo Mayora and Armando de la Torre, are

Professor Liggio is Distinguished Senior Scholar at the Institute for Humane Studies, George Mason University, Fairfax, Virginia.

heads, respectively, of the law program and the social science program. The greatest limitation on the educational potential of the Francisco Marroquín University is the current lack of Spanish-language books on the freedom philosophy. The university's newly built campus is an attractive and efficient site for educational activities. Built against the walls of a canyon, the main building encloses a natural central area with a descending stream and greenery. The Ludwig von Mises Library is being built; a student activities center is planned.

The university is a monument to the Guatemalan business leaders who saw that the true foundation for a free society is built not on short-term political activities, but is based on investment in permanent change. Because of this investment in education, thousands of people will be lifetime advocates of the freedom philosophy. One may need to be more patient for the dividends, but they will be real and permanent.

Manuel Ayau is now rector emeritus, and the

current rector is Fernando Monterroso. Rigoberto Juarez-Paz is the vice-rector, and Juan F. Bendfeldt is the university's executive secretary. The trustees and faculty have a broad, international range of contacts, so the curricula are enriched by a continuous stream of lecturers. In addition, there are visiting professors such as Alberto Benegas Lynch Jr. and Eduardo Marty of Argentina, Roger Meiners and Robert McCormick of Clemson University, James Huffman of Lewis and Clark Law School, and Randy Barnett of Chicago-Kent Law School. Thus, the students enjoy some of the best educational programs in the world. These programs receive supplementary support from the Foundation Francisco Marroquín in Stuart, Florida.

Francisco Marroquín students attend the summer seminars of The Foundation for Economic Education, Institute for Humane Studies, and other organizations. They inspire the other students they meet, and return to their unique university with an even deeper understanding of the freedom philosophy. □

Readers' Forum

To the Editors:

Lee Ownby's detached depiction of the misuse of the government's eminent domain power ("Beyond Eminent Domain," March 1990 *Freeman*) to serve private interests tends to obscure the important moral values at issue. The forced taking of private property avowedly to promote the business of another private individual is a pervasive scandal in American law. That it has gone on for over a century, and that it happens all the time—not merely in the case described by Mr. Ownby, or in the Poletown taking in Detroit to subsidize General Motors—is all the more reason to oppose it forthrightly and vigorously. There are two sets of villains in this drama, working hand in

hand. They are the business people willing to sell their birthright and their society's freedom for a mess of profits, and judges who have, for all practical purposes, read the "public use" limitation on takings out of the Constitution, so that it retains no pragmatic meaning whatever. These people need to be confronted with the profound immorality of their deeds.

Thus, Mr. Ownby's equivocal if not actually sympathetic depiction of the Knoxville businessman benefitting from such misuse of eminent domain is unfortunate. Justice Brandeis cautioned that the greatest threat to liberty comes from well-meaning but misguided people who erode our freedoms by

degrees. Such concerns surely apply to the misuse of eminent domain to fatten the purses of business people who are unable or unwilling to compete effectively in the private market to obtain the property they want, and who instead turn to the government to get it for them by force.

The ultimate scandal inherent in this process is that the courts proclaim themselves all but powerless to enforce the "public use" Constitutional limitation, then go on in the name of "just compensation" to deny compensation to the condemnees for a variety of economic and personal losses actually suffered, but judicially declared to be "non-compensable."

GIDEON KANNER
Professor of Law
Loyola Law School
Los Angeles, California

Lee Ownby replies:

I concur with Professor Kanner in his assertion that important moral values are at issue when private business interests enlist state power to forcibly obtain another's private property. As he indicated, this legal plunder is widespread and continues unabated on many fronts. While I don't believe that I was as sympathetic to this misuse of power as he suggests, I do admit to not being as forceful as my convictions would demand.

Much of the public has been anesthetized to government's steady encroachment onto private property rights. My approach was to subtly challenge those who may have nascent seeds of doubt about the private sector's role in the state's wrongdoing. Defenders of private property rights have no difficulty understanding what is being lost. It is the multitudes that have not been given the tools of analysis by which they can conclude that such actions are improper. I acknowledged some of the positive contributions of Whittle, even if tainted in Professor Kanner's view, in hopes that the property rights position might receive a more earnest hearing.

I welcome Professor Kanner's forceful and persuasive arguments in the defense of private prop-

erty. I regret that I did not have the benefit of his viewpoint during my law school career. If I had, perhaps, my own awakening to the important link between private property and freedom could have been hastened.

LEE OWNBY
Knoxville, Tennessee

To the Editors:

In his "Academic Freedom at a Public University" (March 1990 *Freeman*), John Lott tells of what he thinks "are not unusual events at public universities." The happenings he describes are certainly not unique. In an uncanny fashion, they parallel occurrences in Ohio during a 1983 income tax repeal initiative. I and a colleague supported such an initiative. We were assailed in the public press by the state's Governor. A trustee of another state-supported university wrote to say that if he had anything to say about it, we would be fired. There were phone calls from the Governor's office to the president of our university urging him to "shut us up." At times, we were accused of "ruining" the university. An academic campaign to discredit us was organized. Rumors were circulated questioning our personal motives and integrity. And, elsewhere in the state, academics who might have supported us were threatened with zero salary raises for years to come. John Lott's story is quite familiar. To quote Yogi Berra's malapropism, for me, it was "*deja vu* all over again."

LOWELL GALLAWAY
Distinguished Professor of Economics
Ohio University, Athens, Ohio.

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Israel's Dilemma

by John Chamberlain

Israel's *Dilemma: Why Israel is Falling Apart and How to Put it Back Together* by Ezra Sohar (Shapolsky Publishers, 136 W. 22nd Street, New York, NY 10011, 263 pages, \$15.95) tells the same sort of story about the strangulation of industry in Israel by socialist monopolies that made Alvin Rabushka's and Steve Hanke's *Toward Growth: A Blueprint for Economic Rebirth in Israel* one of the notable books of 1988. The lesson of the two books is what any believer in the free market might expect: you can't get competition, with its attendant plenty, in a system that offers nothing but subsidies and jobs on the State payroll.

Sohar makes his points dramatically by comparing Israel to Taiwan. Both countries were established in the late 1940s. "Both," says Sohar, "were founded by immigrants who put ashore at a small, resource-poor new home. Both have to bear onerous defense burdens." But Taiwan cut loose at an early date from dependence on government grants from abroad. It made landholding easy for accomplished farmers, and it learned much about the ins and outs of international trade. Israel followed a different course: it socialized practically everything.

The result is apparent to even the most casual observer. The Israeli government now owns the country's railroad, the El Al airline, the telephone company, the radio networks, two TV channels, several oil refineries, and the largest department store chain. It controls access to the land through regulation of the water supply, and it drives even the sons of landowners into *kibbutzim*.

Sohar doesn't feel comfortable with the fact that the average Israeli, to pay his incredible taxes and

the bill for monopolized goods, has to cheat in various ways. His tone differs from that of Sam Lehman-Wilzig of Bar-Ilan University, who contributed a remarkable article on "Israel's Grass-roots Libertarian Revolution" to the April 1990 issue of *The Freeman*. Lehman-Wilzig accepts the Israeli black market as a fortunate thing. It may be evidence of what he calls "quasi-criminal behavior," but there seems no way of avoiding it.

Where Sohar's book does some "tut-tutting," Lehman-Wilzig glories in the ingenuity used by Israelis to engage in "pirate" cable television, to find doctors willing to take on patients out of hours, to hire teachers for afternoon "enrichment" education. Socialism is being "dismantled" in Israel according to Lehman-Wilzig, and "there is all the chance in the world that the new system taking its place will be successful and stable, once the not-inconsiderable transitional difficulties are overcome."

I could wish that our various authors—Rabushka, Hanke, Sohar, Lehman-Wilzig—had done a more specific study of the role played in Israel by the organization called the Histadrut. This seems to be a state within a state. Says Sohar: "The Histadrut became the de facto government of Palestine's Jewish workers, embracing a wide variety of functions in its bearhug. Such a complex task required it to assemble a massive bureaucracy." We could stand more information about the workings of this bureaucracy. It sounds truly formidable.

The complaint voiced by Norbert Yasharoff in the quarterly magazine *Lincoln Review* is that there is an "Israel We Rarely Read About." Yasharoff was surprised by accounts of growing

grassroots cooperation between Jews and Arabs within the pre-1967 boundaries of Israel. He made visits to two of the better known cooperative projects.

There was the Friendship's Way Center in Jaffa, with its all-volunteer staff of 50 that includes Israeli university students, Arab and Jewish high school pupils, as well as young students from the United States, England, and West Germany. Friendship's Way was the brainchild of Motti Golan, a Jewish public accountant who decided six years ago that "somebody's got to do something to improve the miserable lot of the Arab residents of Jaffa, especially their children."

The second project visited by Yasharoff was the Neve Shalom, or Oasis of Peace, founded by Father Bruno Hussar of the Dominican Order in Israel. Neve Shalom has evolved into a cooperative village of some 60 Arabs and Jews.

The Western press and TV coverage of Israeli affairs impresses Yasharoff as "one-dimensional" and "all-negative." "What," he asks, "can be done to correct the lopsided reporting. . . . The obvious remedy would be for American newspaper editors to encourage, and demand, the kind of coverage that goes beyond depiction and analysis of violent or other negative events. . . ."

The next best thing, of course, would be to depend less on the big press and more on the little magazines such as *Lincoln Review* and, yes, *The Freeman*. □

THE DIARY OF H. L. MENCKEN

Edited by Charles A. Fecher

Alfred A. Knopf, 400 Hahn Road, Westminster, MD 21157 • 1989
476 pages • \$30.00 cloth

Reviewed by David M. Brown

H. L. Mencken was an American phenomenon.

His was a gaudy and gorgeous career, propelled by a divine afflatus. Born Henry Louis Mencken in 1880, he began his literary life as a workaday journalist in turn-of-the-century Baltimore. In 1914, having conquered the world of newspapers, he joined theater critic and fellow booboisie-slayer George Jean Nathan as co-editor of *The Smart Set*. From this makeshift perch Mencken alternately terrorized and bemused the culture as the most daring social critic of his time;

he was to reach the zenith of his influence in the 1920s as editor of *The American Mercury*.

In addition to being a prolific essayist, reporter, and book reviewer, he found the time to publish books on literary and political matters, and in his later years became known as a formidable scholar of the "American" language, a field of study he pioneered. He also prepared two bulky, as yet unavailable accounts of his experiences in the newspaper and magazine business, and wrote a 2,100-page diary, a third of which has now been selected for public consumption. And all this without a word processor!

Mencken, ever the beleaguered champion of civilization fending off the invading hordes, was an archenemy of all things banal, mediocre, and hypocritical. His forte was a devastating (albeit usually venomless) satirical wit that blended a stupefying erudition with a kind of disingenuous barnyard raillery. The style that was the product of these attributes was, and remains, utterly unique.

Though he certainly favored being on the attack, Mencken's work is more fundamentally preoccupied with the promotion of positive values than with the demolition of bad ones. He was a tireless defender of men of ability and originality, as well as of the individualist creed and political freedom that made the achievements of such men possible. As the premier literary arbiter of his day, Mencken prodded and promoted the careers of many writers whose work is now regarded as classic. He was, as Murray Rothbard calls him, the "joyous libertarian"; and, in his total independence and indifference to opposition, the spiritual archetype of the "free man."

With his myriad critical judgments Mencken conveyed a fortitude that was tough and inspiring. But whatever his lambasting of "morons" and "mountebanks" in public, in his personal life he was not at all the ogre that his boisterous ferocity in print might suggest. Typically, he was genial, polite, and civil to a fault.

This is no contradiction. As a polemicist, Mencken was brilliant and unsparing, but this needn't imply a zealot bereft of courtesy, or blind to all perspectives save his own. There are plenty of examples of such dogmatism in any age, and they are always disheartening. Instead, what we have in Mencken's case is a man who saw with both eyes, was ruthlessly honest about what he saw, but who could also be compassionate. In the often

affecting entries of *The Diary of H. L. Mencken*, we see personal sympathy intermingled with an often harsh realism; but the judgments rarely seem unfair.

This observation leads us, however, to the media hubbub that greeted the publication of this journal, which was sealed, by Mencken's request, from public view for 25 years after his death in 1956, and which for several years past has been available only to scholars and the rumor mill.

No one who reads H. L. Mencken closely can doubt his individualism, his Jeffersonian belief in an "aristocracy of talent," and his sweeping rejection of egalitarian and collectivist notions. Yet, it is precisely Mencken's individualist social and political views which led to his popular downfall with the advent of Franklin Delano Roosevelt and the New Deal, as social planning along with its philosophical underpinnings began to spread with an ever-increasing virulence. Today, we are beset with an egalitarian ethos that often transmogrifies observation of plain facts into a mortal sin. (As witness the attacks on Thomas Sowell for his analyses of differences among racial and ethnic groups in defiance of collectivist presumptions, for instance.) This kind of blind egalitarianism seems to have infected much of the public reaction to the *Diary*.

At issue are Mencken's occasional dubious references to friends and acquaintances by their ethnic or religious background, which in the minds of many commentators demonstrate his "racism." Throw in Mencken's antagonism to the welfare programs of the New Deal, his hostility to U.S. entry into World War II, and his failure to explicitly condemn Hitler as evil in the pages of this journal, and no further proof of his Nazi sympathizing is required. (To his credit, the diary's editor, Charles Fecher, does not himself jump to this last conclusion; he merely supplies the requisite premises and evaluations.)

But racism, if the concept has any meaning at all, does not mean mere *reference* to a person's race, even in an inappropriate context, but rather judging and treating an individual based on his race as opposed to "the content of his character." Perhaps Mencken may be justly accused of a mild racial prejudice or stereotyping, but there is ample evidence even in this journal that he was hardly a racist per se in his attitudes and behavior—for example, his praise of black journalist George



H. L. Mencken

A. AUBREY BODINE

Schuyler, or his general support as editor and critic of the so-called Harlem Renaissance, documented by Charles Scruggs in *The Sage in Harlem*. As for the charge of anti-Semitism, Sheldon Richman reminds us that Mencken expressed private concern for the situation of German Jews as early as 1922, and in early 1939 attacked U.S. policy makers for failing to admit German refugees into the country. "[The initiative] should be taken by the political mountebanks who fill the air with hollow denunciations of Hitler, and yet never lift a hand to help an actual Jew," he wrote in the *Sun*.

Editor Fecher and his uncritical media parrots, however, grab at a few offhand characterizations in Mencken's private journal in order to brand him as a bigot at the expense of the example of his whole life. Even the "Communist presidium" of the Progressive Party's 1948 Presidential convention (attended by "all the worst idiots in the United States") refused to entertain a Maryland resolution "denouncing me as anti-Semitic and anti-Negro," as Mencken ironically notes in his entry of July 26, 1948, one of the last.

The Sage of Baltimore would no doubt have chuckled over the current uproar, given the serene

amusement with which he tolerated even the most vituperative abuse in his own day (he even anthologized some of it just for fun, in a little book called *Menckeniana: A Schimpflexikon*). In any case, the controversy cannot obscure the tremendous value of his journal, valuable especially for the light it sheds on how Mencken dealt with the adversity of his later years.

Mencken began his diary in 1930, at the age of 50, and as his influence was beginning to wane. Discussed in it are his brief marriage with his beloved Sara, her death from meningitis in 1935, the physical and sometimes mental decline of many of his friends and associates, his own ailments and physical deterioration, and the wartime censorship that prevented him from airing his political views in print. But despite many opportunities for bitterness, Mencken possessed a genuine equanimity and peace of mind that sustained him through the worst of times and the saddest memories.

Writing a decade after Sara's death, he notes that "I shall not forget her. My days with her made a beautiful episode in my life, perhaps the only one that deserves to be called romantic. It seems to me to be vain and even a bit silly to resist the irremediable, but I think of her with tenderness and a kind of longing." There is a wistfulness here, but also acceptance, and dignity. In other entries, Mencken weighs the good and the bad in his life and concludes that despite his problems, the scale is tipped in his favor, with reasonable prospects for achievement in the years remaining to him. His public skepticism and cynicism notwithstanding, he was not only a realist but an optimist as well.

The journal is also of interest for Mencken's political gripes, mostly familiar; for its account of the author's work habits; and for his pungent assessments of everyone from his next-door neighbor (a "complete moron" who led a life of "utter vacuity") to Sinclair Lewis and other literary notables, to his publisher Alfred Knopf, his colleagues at the *Sunpapers*, and his cohorts of the Saturday Night Club, where the sine qua non was music, beer, and conviviality.

The Diary of H. L. Mencken is not the first Mencken book to read—his *Mencken Chrestomathy* is probably that—but it is an important supplement to his other work, revealing intriguing facets of his personality not manifested elsewhere. Last but not least, and certainly not to be missed, is his perspicacious endorsement of "the

Chinese maxim that it is foolish to do anything standing up that can be done sitting, or anything sitting that can be done stretched out." How true.

The *Diary's* final entry is dated November 15, 1948, eight days before the stroke that ended Mencken's productive career, though not his life. That end would not come until seven weary years later. Mencken's legacy, of course, is timeless. □

David M. Brown is the managing editor of the Laissez Faire Books catalog and a free-lance writer.

THE HOLOCAUST CONSPIRACY: AN INTERNATIONAL POLICY OF GENOCIDE

by William R. Perl

Shapolsky Publishers, 136 W. 22nd Street, New York, NY 10011
1989 • 261 pages • \$19.95 cloth

Reviewed by Jorge Amador

One morning last December, Hong Kong police entered a camp for Vietnamese exiles and herded 51 of them onto a chartered flight to Hanoi. The nations of the world protested this treatment, but none has offered to take in the exiles, and so the British government pledges to continue the deportation program in order to "deter" more people from leaving Vietnam.

The story is nothing new. Half a century ago, as Jews clamored to escape Nazi persecution and Hitler threw open the gates for their exodus, the West lamented the fate of the Jews—and shut its doors tighter.

It is well known that the Nazis corralled Jews into concentration camps, where unspeakable suffering awaited them. But the "civilized" world's role in keeping them there has been overlooked. History is written by the winners, but a history that consists of half-truths enables us to avoid repeating only half the mistakes of the past. Here then is a most unusual work: a book by one of the winners exposing the whole, ugly truth.

Perl, himself a Jewish refugee and a lieutenant colonel in the U.S. Army Intelligence Service during World War II, examines the immigration policies of dozens of nations, tracing their history up to and during the war. While previous studies have focused on the policies of this or that country, Perl's is the first to put the facts on each all in one volume and to show how together they precipitated the Holocaust.

Be ready for some shocks. Contrary to popular belief, the National Socialists did not—at least initially—intend to exterminate the Jews: They would have been perfectly happy to see them all emigrate from Germany. However, “Except for the very last years of the Nazi regime,” notes Perl, “the question was not at all how to get out, but rather where to go.”

As late as April 1944, SS leader Heinrich Himmler offered to empty the concentration camps in exchange for increasingly scarce basic goods. He proposed to barter one million Jews for two million bars of soap, 800 tons of coffee, 200 tons of tea, and 10,000 trucks which, he pledged, would not be used against the Western Allies.

The Allies rejected the offer out of hand. British authorities arrested the Jewish agent who served as go-between. “Save one million Jews?” fussily demanded the United Kingdom’s colonial secretary. “What shall we do with them? Where shall we put them?”

Canadian authorities admitted an average of 385 Jews per year from 1933 to 1945. “None is too many,” quipped one official. Lest we think that they simply didn’t want the burden of refugees, even Jews with capital to invest were rejected. As one businessman complained, “Canada should have sent trade missionaries to beg such people to come and not to wait for them to seek and beg us.”

Certainly many nations simultaneously displayed a practical indifference, even hostility, to

the worst victims of National Socialism. At the Evian Conference on refugees in 1938, diplomats took turns at bemoaning the Jews’ predicament, but only the Dominican Republic offered to let more immigrate. However, did all this amount to a “conspiracy,” as Perl charges?

We don’t need conspiracy theory to explain what happened. Domestic political dynamics suffice to explain the Western nations’ prewar and wartime immigration policies. For instance, Americans’ opposition during that period to immigration generally, and to Jews specifically, has been amply documented. In an Opinion Research survey in March 1938, 75 percent of Americans interviewed opposed admitting “a larger number of Jewish exiles from Germany.” Given the overwhelming public sentiment against immigration, it isn’t surprising that most politicians were reluctant to liberalize admission quotas, or that the efforts of those who tried went nowhere.

Despite poor editing and proofreading, *The Holocaust Conspiracy* is an important volume. It shows in the starkest terms what can happen when nations curtail the freedom to migrate. The answer to Perl’s anxious question, “Could it happen again?” is that it is happening now. The lesson has yet to be learned. It barely has been heard. □

Jorge Amador is a free-lance columnist and editor of The Pragmatist, a current-affairs bimonthly (Box 387, Forest Grove, PA 18922-0387).

THE FREEMAN

IDEAS ON LIBERTY

284 Io Leggo e Scrivo

James L. Doti

Meet Giuseppe Doti, a reader and writer who keenly appreciated the freedom in his adopted land.

288 Freedom and Democracy Are Different

John T. Wenders

The value of keeping the public sector out of private economic activity.

290 The Growth of Government in the United States

Robert Higgs

The growth in government has meant the sacrifice of liberty.

296 The Last Wild Children of Capitalism

William B. Irvine

In defense of futures markets.

300 Patience and Property: Corporate vs. Union Management

Dwight R. Lee and Robert L. Sexton

Private property ownership is critical to efficient, future-oriented business decisions.

303 A Tale of Two Estates

Andrew E. Barniskis

Things owned by everyone are cared for by no one.

305 Municipal Services: Unfair Competition from Local Governments

Bill Tomlinson

Fighting hometown collectivism.

306 Misdirected Compassion

Douglas Mataconis

Government intervention often worsens the lot of the poor.

308 The Social Security Trust Fund: "Savings" vs. Saving

Richard W. Fulmer

Producing more than we consume is the key to providing for the future.

310 U.S. Trade Deficits Aren't a Problem

Roger Nils Folsom and Rodolfo Alejo Gonzalez

Voluntary market transactions benefit both trading parties.

316 Readers' Forum

317 Book Reviews

John Chamberlain reviews *The Quest for Community* by Robert Nisbet. Also reviewed: *Discovery*, *Capitalism*, and *Distributive Justice* by Israel M. Kirzner.

CONTENTS

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Is the Post Office Efficient?

Whether or not mail should cost more to deliver depends on whether there are cheaper or better ways to deliver it. That's not something to be settled by talk because both sides can argue forever. The way to find out if the job can be done cheaper and better is to let other people try.

We have already found out from experience that the United Parcel Service can deliver packages better than the post office. A number of private overnight delivery companies are thriving in competition with the post office. In neither of these cases do we have to waste our time listening to rhetoric or looking at statistics to make a decision. Each of us can make his own decisions as to how we want to send packages or overnight mail.

Unfortunately, when it comes to the basic mail services—the letters and postcards—we are forbidden by law from having a choice. Even when you buy your own mail box, the federal government forbids anybody except the post office from putting anything in it.

It is only because the Postal Service is a legal monopoly that decisions about it have to be made through a process of political hot air instead of a process of competition in the marketplace.

—THOMAS SOWELL
writing in the

March 16, 1990, *Houston Chronicle*

Social Security

In contrast to nurtured common misconception, Social Security is *not* a program of personally funded pensions. It is *not* a process of individuals accumulating their own retirement accounts.

Rather than a saving process of building retirement funds, the operation is inevitably consume-as-you-produce for the community as a whole and pay-as-you-go in financing retirement benefits. Indeed, since Social Security tax payments now are much greater than benefits dispersed, it is a *pay-more-than-you-go* scheme. Today's workers are *not* accumulating money which will be returned to them years later; instead, today's workers are paying taxes to finance benefits for today's retirees—and to finance other government spending, as well. . . .

No bookkeeping “trust fund” accumulated *today* will take care of *tomorrow’s* retirees. The community and its government will have to provide and pay for *tomorrow’s* benefits out of *tomorrow’s* production and income.

—WILLIAM R. ALLEN
The Midnight Economist

Drugs, Values, and Self-Control

The popular notion of drug addiction to such hard drugs as heroin and cocaine says that those who take such drugs will inevitably increase their intake until they reach a point where the craving for the drug high and the fear of withdrawal causes them to lose control. The loss of control is evidenced by the willingness to sacrifice all—to the point of self-destruction—to ingest the drug. This popular belief in addiction is buttressed by animal research that allegedly shows that monkeys will press a lever to get more cocaine until they kill themselves. The monkeys cannot help themselves because the addictive power of cocaine is so great.

Critics dispute the “monkey model” of addiction. Other research suggests that animals will not choose drugs when they have a choice and when studied in a natural environment. Furthermore, the view that addiction is the automatic result of a biological process is contradicted by millions of “controlled” users of such drugs as alcohol, marijuana, amphetamines, and even cocaine and heroin. The controlled users regulate their intake of drugs because their self-image, value system, and self-discipline keep them from descending to the “depths of addiction” as it is commonly perceived. The controlled users simply decide to limit their intake of drugs.

Thousands of American soldiers in Vietnam became “addicted” to hard drugs, but only 14 percent remained “addicted” upon their return to the United States. The 86 percent who quit simply decided that they did not want to get involved in the American drug culture. Their value system and self-discipline helped them to “Say No.”

Don’t misunderstand me. I do not favor experimentation with drugs. I do not use drugs, and I do not approve of or associate with those who use drugs. But the focus on the overpowering and addictive nature of drugs has led us to

ignore the issues of values and self-discipline.

It seems to me that the worst thing we can do is tell those who are greatly tempted to continue the use of drugs that they will reach a point where they will lose control and can’t help themselves. That message erodes their effort toward self-control. Those who study the psychology of control tell us that a belief in the ability to control is needed to ensure maximum effort toward self-control. The message that one has lost control may contribute to “learned helplessness” and greatly erode the ability to exercise self-control.

—WILLIAM LEE WILBANKS
Professor of Criminal Justice
Florida International University

Developing a Market Economy in Eastern Europe

A market economy must be built from the market up—from the very arena in which the day-to-day decisions of buyers and sellers methodically and objectively allocate the available resources to the most efficient producers. To assume that a market economy can be dropped into place by the orders and edicts of central planning agencies is to make mockery of the term “free market.”

A free market is built on the foundation of voluntary exchange between economic actors. There is nothing at all voluntary about government edicts. A government, especially a government still committed to socialist principles, cannot legislate a market economy into being. One might just as well claim that a few adjustments on a worn-out engine will fill the tank with gasoline. It’s the gas that fuels the engine, not the other way around! Likewise, it’s the commitment to free markets that dictates the principles of government that will be exhibited in any society.

A free market can be based only on the foundation of individual liberty, which includes the freedom to own property. Belief in the ability of government to “create” free markets by legislative fiat belies a lingering faith in the efficiency of socialism—whatever form it may take. And if there is one lesson to be learned in Eastern Europe, it is that socialist economies are unworthy of such a faith.

—JOHN S. VIEHWEG
Mesa, Arizona

Io Leggo e Scrivo

by James L. Doti

Giuseppe Doti was a reader and writer. He had other jobs that paid money, but when asked what he did for a living, he would say, "Io leggo e scrivo."

After emigrating to America, he found his ability to read and write a rare talent in the Chicago community known as Little Italy. Illiterate immigrants needed a sympathetic soul-mate to read and write letters passing to and from the old country. His letters arranged marriages, kept waiting wives and lovers content and, in general, soothed the ravaged nerves and aching anxieties of disconnected people.

In reading and writing letters, Giuseppe grew to understand the very soul of a person. His ability in conveying a person's passions and petty pretensions with dignity and spirit made him a reader and writer of the first rank. Giuseppe was conscious of his high calling and devoted following, and he dressed the part.

Upon returning home in the evening after work, Giuseppe had his dinner and then his toilet. After meticulously grooming himself and spending an inordinate amount of time trimming a Hitleresque mustache instead of the hair he no longer had, he would put on a freshly laundered white shirt and starched collar. Giuseppe always sported a maroon tie that he felt complemented his piercing blue eyes. The double-breasted tweed suit he generally wore made him appear even shorter and stouter than he actually was. And although he had

a noticeable limp from a stroke he had suffered several years earlier when he was 63, Giuseppe forsook the use of a cane, which he felt to be more suitable for a person much older than he.

Every evening he listened to the phonograph that invariably played a Puccini or Verdi opera between 7:30 and 8:00, but at 8:00 sharp, he retired to a back room of his humble flat to receive his clients.

They would come and sit expectantly in the kitchen, clutching their letters, anxiously awaiting the reading that would relieve or justify their heaviest anxieties. Upon entering the back room, they would clasp Giuseppe's hand in both of theirs and then silently present a non-monetary offering. Feigning surprise, Giuseppe would refuse acceptance of the offering until the giver's insistence reached the appropriate level of intensity. At that point, the charade would end by Giuseppe humbly tilting his head and bowing in acceptance.

The abundant quantities of homemade wines, basement-cured salami, prosciutto, and mortadella, dried pepperulo, canned giardiniera, and aged provolone cheese amassed by Giuseppe were ceremoniously doled out by his wife Irena to their children and grandchildren. Irena drew the line once when she refused to admit into their flat a recent immigrant who brought a live chicken as a token of appreciation. When word of this spread through Little Italy, it reinforced the neighbors' opinion that Irena's noble lineage made her too proud to dress a chicken.

Giuseppe already had taken care of three clients when he got up to greet Bruno Pucci, a recent



Giuseppe Doti

immigrant, bearing a crumpled letter and bottle of homemade Chianti. For once, Giuseppe was greatly pleased to receive an offering. It was well known that Bruno Pucci's family made the finest wine in Little Italy.

Bruno sat and looked at the room around him. Unlike most Italian-decorated rooms that were thick with heavy furniture and religious ornamentation, this room was sparsely furnished with a card table and two chairs. The room was illuminated by a single light bulb dangling at the end of a three-foot cord. Two yellowed etchings, one of Marcus Aurelius and the other of Dante Alighieri, ornamented the heavily cracked walls.

Handing the letter to Giuseppe, Bruno said, "I'm-a worry about Italia, Signore Doti. Dey vote-a for Mussolini, and who know what dat-a jackass gonna do."

After carefully unfolding the letter and slowly putting on his wire-rimmed reading glasses, Giuseppe read the letter to himself. If there were deaths or other tragedies to report, Giuseppe wanted to be prepared. This was a practice he learned

several months earlier after reporting the death of a woman's 98-year-old aunt. Upon hearing of her aunt's untimely demise, the lady fell to the floor and began a rhythmic wailing that continued even as her relatives dragged her out of the flat.

To Giuseppe's relief, the letter from Bruno Pucci's father had no deaths to report. He poured Bruno a glass of wine and pushed a platter of freshly baked biscotti toward him. Giuseppe then read in Italian:

March 13, 1936

My dear son,

Italia is changing. We don't have to put up with King Victor Emmanuel and his national assembly. We voted for Il Duce Mussolini and his party and hope things will change for the better. He made the trains run on time, won the war in Abyssinia and now that his party controls the national assembly, we think he will make our country work. You should return to your homeland and family and be part of a new Italia.

Giuseppe recognized the work of another reader and writer, Vito Abboduto, a competent writer to be sure, but one whose maudlin style injected into the letters a more depressing mood than even the dour Italian peasants were inclined to exhibit. Giuseppe continued reading to Bruno.

Mussolini's party bosses came to our town last week and told us we can increase our wine production by everyone working together. The party bosses promised us that the government will buy all the wine our town makes at top dollar if we turn over all our equipment to the state. A workers' representative will be in charge of making the wine, but each family will have one vote to re-elect him or throw him out at the end of the year.

I have been told to work on the grape-crushing unit. I will miss making our family wine, but we will make more money by working with the government.

Your mother misses you and cannot understand why you left us. She is worried you are not eating enough, and it is too cold in Chicago. You are too young at 34 years old to be away from home. The women here in Italia make bet-

ter wives and are not so independent as in America. We heard of a woman in America who left her husband because she would not shine his shoes. What kind of world is that?

Come home, my son. Our cousin, Tito Cimino, the local constable, promised me he can get you an easy job that pays well on the grape-picking unit. Your mother and father need you, my son. We are sending you a large photograph of us so you don't forget us.

Your loving father

When Giuseppe stopped reading, he looked and saw in Bruno Pucci's catatonic stare the burden of guilt that seemed to smother the lives of so many recent immigrants. Giuseppe said nothing and waited for Bruno to speak. When he did, he spoke slowly and softly with his tear-filled eyes pointed toward the floor.

"Signore Doti, I look at that-a picture they send-a me and my father looks-a me like I kill-a somebody and my mother looks-a sad like she gonna die. But I can't-a go back. Please write a letter for me."

Giuseppe picked up his Schaeffer fountain pen and began to write the words Bruno spoke in Italian.

April 23, 1936

My dear Mama and Papa,

I eat well. Uncle Rocco and Aunt Maria take good care of me. It is good to be with family here. I help Uncle Rocco make wine at night and work at his grocery store during the day.

Yesterday we threw out a batch of wine when we found dead rats that fell in the fermenting vat and drowned. I told Uncle Rocco that no one would know any difference when they taste the wine, but Uncle Rocco said our family honor is at stake.

Bruno caught Giuseppe suspiciously eyeing the bottle of wine he had brought and said, "No Signore Doti, don't-a worry, I brought-a you good-a wine. We dump-a the bad wine down da sewer."

Giuseppe raised his hands deferentially to indicate no concern on his part but at the same time decided to tell Irena to give the gift bottle of wine to his newest son-in-law, Fiore.

Bruno took out a folded money order from his

wallet and sliding it over to Giuseppe continued his letter.

Because we lost so much wine with the rats, I can only send you a little money this time. Next time I send you more.

Your loving son,
Bruno

Another Letter

Giuseppe had almost forgotten about wine, Mussolini, and rats when Bruno returned, letter in hand, more than half a year later. This time Bruno did not bring wine, but two tickets to the Friday night fights that he inserted in the palm of Giuseppe's hand. Giuseppe, who hated violence of any kind, including boxing, was thinking of what son-in-law to pass the tickets onto as he led Bruno to the back room.

Giuseppe silently accepted the letter that Bruno had shakily handed to him. The fact that there were no stamps on the envelope was an indication that the letter had been smuggled out of Italy. This was a common practice ever since Mussolini's secret police started routinely censoring letters mailed out of the country.

As he read the letter to himself, Giuseppe decided to prepare Bruno for the unhappy contents by sighing audibly and shaking his head several times in disbelief. Giuseppe was not being inconsiderate. He long ago had discovered that people are much happier receiving news that was not as bad as they had imagined after observing his exaggerated lamentations. He then began to read:

October 2, 1936

My dear son,

Things are terrible here. Food and coal are scarce. Thank God our cousin Tito Cimino gives us extra rations or else I don't know how we would survive.

We increased wine production this year, but the government did not pay us much for it. I don't blame them. It is terrible wine. We picked the grapes too early when they were still watery. We told the workers' representative that this would make terrible wine with no character. But we make more wine that way, and he has a production quota to fill.

Now we can't get rid of the workers' representative. We all vote for him even though he is an idiot. He controls all the jobs, wages, and favors. So what can we do? Nobody can travel anywhere even to find work in other cities without his approval. We can't even make our own wine anymore since we gave our press, grinder, and fermentation vats to the government. So nothing is ours any more. That is why we bow and scrape to all the party officials so our meager existence does not become even worse than it already is.

Poor Italia is going to the dogs. And we keep voting to give that jackass Il Duce more and more power. To get anything nowadays, you have to know people in the government, and then when they do you a favor, you belong to them and they have your vote.

Since the secret police censor all the letters now, I had to wait for a friend who was returning to America to bring this letter to you. The government also owns all the newspapers now. That is how they control everything that is written. The big crowds that cheer "Duce" are there because the party bosses force the owners to let their workers attend the rallies. But things keep getting worse and worse.

Cousin Tito can still use his pull to get you a job if you want to come back. Your mother does the wash for the local party official, so we can also get favors from him. Mother worries about you being away from us. But as bad as things are here, maybe it is better that you stay in America.

Our love to your Zio Rocco and Zia Maria. I don't know what your mother would do if she didn't know you were being taken care of by family.

Your loving father

When Giuseppe had finished reading the letter, he stepped out of the room to leave Bruno with his private thoughts. He returned with a bowl of chestnuts that Irena had just roasted.

After grabbing several chestnuts, Bruno said, "Our families make-a da best-a wine in Italia. Now whadda dey gonna do?"

Realizing that Bruno did not want his questions answered, Giuseppe asked if he wanted to send a letter.

"Si, Signore Doti. But please you write-a da letter. Tell-a dem dat you have opportunity in Amerega. Tell-a dem that I love Amerega and cannot-a go back."

He gave Giuseppe a money order to enclose with the letter, and then he left the flat after placing a handful of chestnuts in his pocket.

Giuseppe would be able to write the letter for Bruno. For like Bruno, he had left his own parents to make a new home in America. He knew the pain and guilt one felt in leaving one's parents and homeland. He knew the fear and isolation one felt in arriving in a new land where an unknown language was spoken and an unknown people lived. And he knew both the exhilaration and intimidation one felt in experiencing a new-found freedom that made it possible to succeed or fail on a grand scale. So he knew what Bruno was feeling and he wrote.

December 2, 1936

My dear Mama and Papa,

I cry when I hear of your struggle. Sometimes I dream how good it would be if you were here to share our lives together in my new country, America. I dream you are here to taste the freedom I have tasted and see the opportunities I have seen.

America is a nation of justice. Like Italia, there are crooked politicians and government bureaucrats with their palms out asking for favors. But we have rights that protect us from their injustice.

America is a nation of hope. Like Italia, there are people who look down on others because of their family background and education. But we have opportunities that make it possible to improve ourselves so we can live better lives.

Life is not easy here. I have a job, go to school, help Uncle Rocco make wine, and take extra work when I can get it. But for the first time in my life I don't feel the system holding me back. So while you say Tito Cimino can get me a job, he cannot give me the hope and dreams I have for a better life. A job in Italia is a way to put food on the table, but a job in America is a way to get a better job.

When Mussolini came to power, you had dreams for a better Italia, an Italia where the government would help the people lead better

lives. I too remember the rising expectations of people every time we had a new national assembly under King Victor Emmanuel. But I grew frustrated when each government took more from the people than it gave.

In America, we rely on ourselves, not a government, to improve ourselves. We are in control of our destiny. And while this freedom places additional responsibility on us for what we do with our lives, it is better than placing false hopes in others.

Many people say America is great because everyone has the right to vote. But I remember we voted in Italy and things always got worse instead of better. What makes America great is not our right to vote but the rights we have that protect us from those for whom we vote.

I hope and pray you will understand why I

will not return to our beloved homeland. Please always know that my love and thoughts are with you.

Your loving son,
Bruno

Giuseppe lit his pipe and began reading the letter to himself. As he read, distant memories of his parents and homeland were reawakened. Giuseppe found it strange that though his parents had died long ago, he still felt a heavy burden of guilt for having left them.

It was late. The rest of the flat was dark and quiet. Giuseppe wearily got up and turned down the space heater before joining Irena in bed. As he fell asleep, his last waking thoughts were his hope that Vito Abboduto would read the letter to Bruno's mother and father with the same intensity and emotion with which it was written. □

Freedom and Democracy Are Different

by John T. Wenders

The earthshaking events of the past few months in Eastern Europe have generated surprise, shock, hope, and applause throughout the world. The most important consequence of these events, however, is not the demise of authoritarian socialist governments, but the impetus given to an examination of the relationship between the private and public sectors in all nations.

Contrary to the media hoopla that equates democracy with freedom, the mere replacement of a Communist socialist government with a democratic socialist one, while an improvement, does

John T. Wenders is Professor of Economics at the University of Idaho.

not alone advance the cause of freedom very much.

Freedom and democracy are different. Democracy addresses how affairs in the public sector will be conducted. Democracy is greater when individuals vote on those matters assigned to the public sector. On the other hand, freedom is concerned with the relationships among people in the private sector. Freedom means individuals may choose how to interact on a voluntary basis outside the purview of the state.

In short, democracy means you get to vote in the public sector; freedom means you get to determine the terms of your interactions with others in the private sector.

The popular news and debates over reform in Eastern Europe have focused on the developments toward democracy in the public sector to the neglect of the more important question of how human activities are divided between the public and private sectors. One can envision a country with an authoritarian, but very small, public sector in which freedom is much greater than in a country with a democratic, but very large, public sector.

The key is a constitution that draws the line between the public and private sectors, and between democracy and freedom. More important, the role of the constitution is to protect freedom from democracy and the individual from the majority.

Some freedoms are civil, like free speech, religion, and association. The First Amendment takes the regulation of speech, including the press, out of the public sector. Left to a democratic political process, free speech would be severely restricted by lawmakers—invasions of free speech are repeatedly being struck down by the courts, and many more are prevented by these precedents. The Constitution protects free speech from democracy.

In the economic sphere, freedom means that individuals have a right to own, buy, and sell property as they choose in free markets. In the past century, there has everywhere been a steady invasion of market activity by the political process. Even in capitalist countries such as the United States, the public sector has continually expanded. Once economic activity is addressed by the political process, it immediately becomes subject to capture by those—often a tiny minority—who can effectively manipulate it to their own ends. In many ways this political invasion of the marketplace throttles free speech as well, as witnessed by the successful efforts of newspaper trade groups, normally staunch defenders of free speech, to prevent competition from telephone companies who wish to enter into electronic publishing.

The economic collapse of Communist socialism is largely responsible for the upheavals of the past year. Yet the popular notion is that this economic collapse can be repaired by a democratic reform of the political process. On the contrary, economic reform can be achieved only by removing economic matters from the political process. Unless the size and scope of the public sectors in Eastern Europe, now all-pervasive, are shrunk consider-

ably, little will have changed. The only difference will be that people acquire the right to vote on how the public sector constrains their freedoms.

The lessons of the past are clear, if Eastern Europe chooses to look. Wherever economies are heavily regulated (as in Eastern Europe, China, North Korea, India, most of Africa and South America), socialist or not, they have been outstripped by their market-oriented counterparts—Western Europe, Japan, South Korea, Taiwan, Hong Kong, Singapore, Chile, the United States, and the Commonwealth nations.

The constitutional bases for a market economy are very simple: property rights must be vested in individuals or voluntary associations of individuals. These rights, like our freedoms of speech and religion, must be well defined and tenaciously defended (as is free speech) against encroachment from the public sector. Titles to property and services must be freely transferable.

The objection to keeping the public sector out of private economic activity is that markets don't always work ideally. Yet the same people who condemn the marketplace for not working ideally want to scrap it for a politically directed system that is demonstrably worse. Rational choices can be made only by weighing the benefits and costs of alternatives. Only individuals can know their alternatives, and only individuals who directly bear the consequences of their choices will weigh these properly. Filtering choices through complex political and bureaucratic processes assures that the alternatives will be neither known nor weighed. Markets are certainly not perfect, but they are much better than the alternatives, as events in Eastern Europe have shown.

There is a difference between democracy and freedom. Freedom must be protected from democracy. A good constitution will do that. Only when the countries of Eastern Europe and elsewhere adopt and enforce such constitutions will the economic progress that inevitably follows be realized.

In our own economy the dangers of public encroachments on the private sector are usually encountered more subtly. Here, we have produced a massive public sector by tolerating incremental encroachment without addressing the larger issue. If nothing else, the recent events in Eastern Europe should stimulate us to rethink the drift of piecemeal democratic encroachments on our own freedoms. □

The Growth of Government in the United States

by Robert Higgs

Big government—we heard a lot about it when Ronald Reagan was first seeking the Presidency. Lately the topic has attracted less attention from politicians, commentators, and scholars. But the thing itself has not disappeared. Over the past decade, as over the past century, American government has continued to grow.

Our nation was founded by men who believed in limited government, especially limited central government. They were not anarchists; nor did they espouse *laissez faire*. But they did believe that rulers ought to be restrained and accountable to the people they govern. If the founders could see what has happened to the relation between the citizens and the government in the United States during the past two centuries, they would be appalled.

The size and scope of government are important for many reasons. By virtue of their taxing, spending, and regulating, governments affect the allocation of economic resources, the distribution of wealth, and the rate of economic growth. Governments determine the very nature of our political economy, the character of the social organization within which we may lawfully conduct our affairs and pursue our goals. The size and scope of government determine—they are, so to speak, the opposite side of—our freedoms.

All but the few anarchists among us recognize that effective liberty requires *some* government, if

only to define and protect rights to life and property. Beyond a point, however, bigger government begins to cut into our liberties; then the growth of government becomes synonymous with the sacrifice of liberty. In the United States, we entered this stage a long time ago.

Charting Government's Growth

When we say that government has grown, what do we mean? Government is not a single thing, measurable along a scale like inches of height or pounds of weight. The size of government can change in different dimensions, many of them incommensurable.

One dimension of government is the burden of taxation. In the early years of the 20th century, federal, state, and local governments took in revenues equal to 6 to 7 percent of the gross national product (GNP). By 1950, revenues had risen to 24 percent of GNP. Over the past 40 years the tax proportion has drifted irregularly upward, and now stands at about 32 percent of GNP.

Many people seem to think that taxes were cut in the 1980s, perhaps because certain politicians worked hard to create the impression and to take credit for it. The truth, however, is that overall—that is, considering all taxes together—taxes as a percentage of GNP were slightly higher at the end of the 1980s than they were at the beginning of the decade. The tax laws were changed repeatedly, and some tax rates were reduced, most notably the top rate of the Federal individual income tax. But other taxes were increased, most notably the payroll tax rate and the base earnings on which it is levied. Altogether, there has been no tax cut.

Robert Higgs is the Thomas F. Gleed Professor of Business Administration in the Albers School of Business, Seattle University, and the author of Crisis and Leviathan: Critical Episodes in the Growth of American Government (Oxford University Press, 1987). He presented these observations as the Fathauer Lecture at the University of Arizona on April 2, 1990.

Another dimension of government—and an even more appropriate index of its fiscal burden than tax revenues—is government spending. In the early years of the 20th century, federal, state, and local governments spent an amount equal to 6 to 7 percent of the gross national product. By 1950, government outlays, net of intergovernmental grants, had risen to 21 percent of GNP. Over the past 40 years the spending proportion has drifted irregularly upward, and now stands at about 34 percent of GNP.

Many people seem to think that a so-called Reagan Revolution cut government spending in the 1980s. In fact, nothing of the kind happened. Government spending continued to grow rapidly, and relative to GNP it was slightly greater at the end of the 1980s than at the beginning of the decade. Of course, some forms of spending grew relatively slowly, some relatively rapidly, but overall government spending grew faster than the private economy.

Still another index of the size of government is government employment. Early in the 20th century, federal, state, and local governments employed about 4 percent of the civilian labor force. By 1950, government employment had risen to about 10 percent. During the past 40 years, government employment rose and fell: it reached a peak in the mid-1970s at nearly 16 percent, then fell to its present level of roughly 14 percent—that is, one worker in every seven. (This figure doesn't include the two million members of the armed forces.)

Although the employment ratio seems at first glance to indicate a recent decline in the government's size, one should not jump to that conclusion. Many people who are classified as members of the private labor force actually work for governments as contractors (or employees or subcontractors of contractors). Between 1980 and 1987, for example, about a million additional workers found jobs in the defense industries—virtually all of them, obviously, working on projects set in motion and financed by the government. Similar changes have occurred elsewhere as governments have “privatized” more functions by contracting out the performance of tasks previously performed by workers on the regular government payroll. It would be a mistake to suppose that government has shrunk just because regular government employment hasn't kept pace with the growth of the labor force.

Increased Regulation

Indexes of government taxing, spending, and employing tell us something about the growth of government, but what they tell us is far from the whole story. Even if government had grown in none of these dimensions, it might have become a bigger factor in determining the allocation of economic resources, the distribution of wealth, and the rate of economic growth. It could have done so—and in fact it has done so—by means of increased regulation.

I refer to regulation in its broadest sense, including the legal requirements expressed in statutes, executive orders, and judicial decisions as well as the directives of regulatory agencies such as the Environmental Protection Agency and the Securities and Exchange Commission. The shelves are sagging under the growing weight of such authoritative commands—just skim through the *Federal Register* some time if you are willing to risk becoming deeply depressed, or, for an even more profoundly depressing experience, attempt to read any recent regulatory statute, say, a consumer protection law. Tax laws also are de facto regulatory statutes, and perhaps the most incomprehensible of all legislation.

In regulation we come face to face with the visible hand of government at work imposing largely hidden costs. The costs are hidden in part because they are borne by private parties in the process of compliance—meeting prescribed standards, avoiding prohibited actions, and so forth—and spread across the consuming public in the form of higher prices for goods and services.

But that cost, great as it is, is not the whole. In large part the costs of an economy extensively controlled by government requirements and prohibitions take a form no one can compute: these costs arise when governments distort the price structure so that mutually beneficial exchanges are never made, so that new products never reach the market, so that new competitors never gain entrance into an industry, so that innovations of countless different sorts are never made, there being no prospect of profit to stimulate their development in the first place.

Americans, despite much habitual grumbling, are proud of their economy, which continues to rank among the world's most productive. What we have done, we can see and appreciate. But what we

might have done, the miracles we might have wrought had we been free to do so, we shall never know. In this sense, the costs of an ever more regulated economy are truly incalculable.

But what of the recent deregulation we have heard so much about? Yes, something did happen along those lines. In energy, communications, transportation, and certain financial services, the heavy hand of government lightened somewhat in the late 1970s and early 1980s. By the mid-1980s, however, the steam had gone out of the deregulation movement, and little significant progress has occurred during the past five years.

Meanwhile, offsetting increases of regulation were taking place in other areas, including international trade and finance, environment, safety, agriculture, aerospace, insurance, and health services. The multi-billion-dollar bailout of the farm credit system might have deserved prominent mention had it not been completely overshadowed by the gargantuan bailout of bankrupt savings and loan institutions. In view of the mind-boggling magnitude, it is remarkable how little political debate surrounded this transfer of—who knows? \$300 billion? \$400 billion?—from the taxpayers to a select group of hard-lobbying beneficiaries.

Standing back and surveying all the regulatory changes, plus as well as minus, during the past decade, what can we conclude? I defer to the judgments of William Niskanen and Murray Weidenbaum, two of the best informed students of the subject. Niskanen concludes that “the net amount of regulations and trade restraints has increased” since 1980, and Weidenbaum says that “the federal government, objectively measured, is a bigger presence in the American economy today than when Jimmy Carter left office.” So much for deregulation.

The Reasons for the Growth

So, government is still big, and government is still growing in the United States. Why? To answer this question, we need to understand some history. To start with, we need to find out whether American government was ever really small and, if it was, what made it get bigger.

You may recall from your school history text that the United States government in the mid- and late-19th century adhered to the doctrine of *laissez faire*—the doctrine of hands off. Well, that lesson

conceals more than it reveals. In fact, in important respects the label of *laissez faire* shouldn't be applied at all. At no time did the United States fully achieve the condition denoted by the term *laissez faire*.

From about the 1840s to the 1890s, however, the United States approximated perhaps as closely as any large society ever did a condition we might call the minimal state. Certainly, governments didn't spend or tax on anything like the modern scale—5 percent of GNP would probably overstate the ratio. (We must rely on imprecise estimates, so we can't say for sure.) Not many people worked either directly or indirectly for governments, certainly no more than a few percent of the labor force even at the end of the 19th century. By these familiar indexes of the size of government, the 19th-century government appears to qualify as a minimal state.

And yet, to say that government was much smaller in these dimensions is not to say that the governments of the 19th century were unimportant or that Americans were reluctant to politicize essential economic questions.

Most important, governments established the legal framework of property rights within which the price system could operate to allocate resources. As economic conditions changed, governments molded the law to new conditions and allowed economic growth to continue relatively unimpeded by obsolete legal restraints. Innovation of the doctrine of eminent domain, for example, played a crucial role in permitting construction of the canals and railroads that did so much to facilitate economic development.

In addition, the central government episodically committed the nation to war—at times to wars of conquest such as the Mexican War that added vast territories to the country's expanse. Governments disposed of the public domain, transferring the bulk of it, by sale and giveaway, into private ownership. Governments collected various taxes, including the tariff that was employed to carry out what nowadays would be called an “industrial policy.” Governments invested in and regulated banks and transport systems; they supplied education; and at the local level they conducted the countless interventions subsumed under the heading of “the police powers,” many of which would be found intolerable in our time. Before the Civil War, governments sustained the institution of slav-

ery, a matter of momentous economic consequence as well as an arrangement so violently incompatible with higher American ideals that today no one would defend it. In sum, governments in the 19th century, though in most respects far more limited than governments today, were hardly insignificant.

In certain respects, 19th-century conditions made it possible for governments to be much smaller than they are today and still wield great power over the economy. Nineteenth-century governments didn't spend a lot of money to enrich politically influential parties. But they enforced slavery, a momentous matter all by itself; they disposed of the public domain (Federal railroad subsidies alone transferred an area roughly twice the size of Colorado); and they managed property rights in fundamentally important ways. One reason modern governments do so much more by means of taxes, subsidies, and pecuniary transfers is that they lack some of the powerful means available to their predecessors—millions of workers to hold in thrall, a continent to give away.

Having acknowledged that *laissez faire* never was the case, and that even at its smallest, American government engaged in extremely important activities, we must recognize that governments still might have been much bigger than they were during the 19th century. One way to confirm this potential is to notice that, occasionally, government did get much bigger. During the Civil War the U.S. government not only increased its taxing and spending hugely; it also printed and spent fiat paper money, overrode a variety of civil rights, including the writ of habeas corpus, and conscripted men to serve in the army. After the war, however, the government shrank—not quite to its pre-war dimensions, but back to a more traditional scope nonetheless.

At the end of the 19th century, James Bryce, a perspicacious British commentator, noted that America's poor, long invested with political rights, might easily have turned on the rich and "thrown the whole burden of taxation upon them, and disregarded in the supposed interest of the masses what are called the rights of property." But, Bryce went on to say, "not only has this not been attempted—it has been scarcely even suggested . . . and it excites no serious apprehension." There was, he observed, "nothing in the machinery of government that could do more than delay it for a time, did the mass-

es desire it." What prevented such sweeping redistribution was, in Bryce's judgment (and mine), the prevailing ideology. In Bryce's words, "equality, open competition, a fair field to everybody, every stimulus to industry, and every security for its fruits, these [the Americans] hold to be the self-evident principles of national prosperity."

A Revolution in Ideology

Obviously, somewhere along the line, the dominant ideology of the United States has undergone a complete revolution. I exaggerate only a little if I say that now most Americans believe that governments may legitimately give to people or take away from them virtually anything, any time, any place—checked only by the license conveyed by government officials' having been elected in the Constitutionally sanctioned manner. Where once Americans viewed the powers of government as properly limited and the rights of individuals as primary and natural, Americans now view the powers of government as properly unlimited and the rights of individuals as subordinate to the pursuit of any declared "public policy." How did so many activities once viewed as "not the proper business of government" come to be undertaken by governments and accepted as legitimate?

I have no short, definitive answer. The process by which the dominant ideology of the American people changed over the past century is surely complex, and no one understands it fully. It is possible, however, to identify certain critical aspects of the process.

Ideologies are, to a large degree, the product of people's social experience. Although polemicists and propagandists are always at work, they don't work in a vacuum. Ideas appeal to the public more or less, depending on how they seem to fit the broad contours of reality. When great events happen, ideologues always stand ready to interpret in a preconceived way what has happened, but again they are constrained by undeniable facts. It just wasn't possible, for example, to interpret the Great Depression as a triumph of capitalism.

With the economic transformation of the United States in the late 19th century, a process that witnessed rapid urbanization and the growth of big business as well as many other striking developments, collectivist views began to gain adherents here, as they did throughout the Western world.

The ideological shift became quite striking during the Progressive Era at the beginning of the 20th century. It was not unconnected with such consequential institutional changes as the Income Tax Amendment to the Constitution and the creation of the Federal Reserve System. So, clearly a tendency existed, rooted in the changing character of American society and economy and related developments abroad, moving American opinion leaders away from support for individualism and private property rights and toward support for collectivism and more active government involvement in economic affairs. By itself this tendency would have helped to promote the growth of government. But the secular tendency of ideology was hardly the only aspect of ideological change to affect our political economy in the 20th century.

National Crises Contribute to Shifting Views

Even more important, in my view, was the succession of national emergencies that struck the country between 1914 and 1945, and to a lesser degree during the postwar era as well. Clearly the world wars and the Great Depression had the greatest impact, although the period from the mid-1960s to the mid-1970s also witnessed many significant events. How did these crises contribute to shifting American views about the proper role of government in economic life?

In brief, the process worked as follows. First, each crisis gave rise to public clamor that the government "do something." In the post-Progressive era, no government wished, nor could rulers expect to prosper politically if they chose, to keep their hands off the economy when a problem of overriding public concern had arisen. So, whether to prosecute a war or to alleviate a depression or to suppress a great labor upheaval, the government adopted interventionist policies to deal with the crisis.

Any government policy entails costs. The greater the costs, the less willing the public is to support the policy. Hence governments face a hard choice: on the one hand they cannot just stand by, because the public demands that they act; on the other hand, any policy they adopt is subject to the law of demand, which means that, in the extreme, the public will reject a government that imposes unbearably large sacrifices on the

citizenry. How can the government get off the horns of this dilemma?

The short answer is: adopt policies that obscure the costs as much as possible. One way to do so is to avoid policies that entail pecuniary (and therefore easily counted, aggregated, and publicized) costs; instead, adopt command-and-control policies whose costs tend to be hidden or extremely difficult to compute and aggregate.

For example, if an outright gift of public funds is made to farmers, everyone can see how much the government is taking from taxpayers in order to give to farmers. But if the government adopts crop restriction programs, the costs are spread across all those, including foreigners, who purchase the farm products whose supplies have been restricted. Who can say how great the transfer is? Indeed, many people will never appreciate the redistributive aspect of the program, as they would if an explicit farmer-benefit tax had been enacted and added, say, as a separate item on the income tax return.

Other prominent examples include the conscription of men into the armed forces, the suppression or restriction of certain industries or products during wartime, the establishment of priorities for the supply of selected goods and services, the rationing of consumer goods, and a whole array of price, wage, and rent controls that distort the structure of prices and alter the allocation of resources, benefiting some while placing burdens on others. The common aspect of all such policies is that their costs are more or less hidden, and hence the political reaction to them is muted.

When the government adopted cost-obscuring policies during the great national emergencies, officials also undertook massive propaganda efforts to justify their actions. No doubt many citizens believed what their leaders told them about the virtues of the policies. In addition, during each crisis the administrators of the controls finessed them to eliminate some of their most objectionable aspects, and people more readily swallowed the medicine when its bitterness was diminished. All the while, people tried to make the best of a bad situation, and many discovered that even a controlled economy offers certain avenues to personal success, either within the government itself or within the favored sectors of the remaining "private" economy. People adapt.

But here is the crux: they adapt not just their

actions but eventually their thinking, too. In William Graham Sumner's telling phrase, "it is not possible to experiment with a society and just drop the experiment whenever we choose. The experiment enters into the life of the society and never can be got out again." People who had experienced the abruptly enlarged government programs of the national emergency periods came away from those experiences with an altered view of the benefits and costs, virtues and vices, of an expanded government presence in American economic life. Further, in each case, committed collectivists took advantage of the event to hammer home the point that what the government had done, apparently with success, during the crisis demonstrated the great potential for good that lay in expanded government action even during normal times. To many people, the argument seemed to make sense. After all, we had won the war, we had got out of the depression.

In retrospect and with careful study, one can see that people were committing the fallacy of *post hoc, ergo propter hoc*. In many cases, if not in all, the genuine benefits accruing to the nation as a whole—escape from the depression, defeat of the Nazis—came forth in spite of, not because of, the government's imposition of sweeping controls. But, again, people in general didn't reach this conclusion. Rather, they tended to accept the collectivist claims or, more cynically, to appreciate that even if the country at large might suffer, they themselves now had a grip on a personally rewarding piece of the statist program.

By the end of World War II the United States had altered its effective Constitution radically from the regime in place at the beginning of the 20th century. Now virtually any government action whatever in relation to the economy could be taken, so long as an electoral majority could be obtained by its initiators. In a political economy so corrupted by interest-group politics, an electoral majority was itself something that could be bought, indirectly if not directly. There remained no fundamental check on the growth of government—nothing to perform the restraining functions that the old Constitution and the dominant, limited-government ideology had performed in the 19th century. Politicians now could offer to sell virtually any economic policy whatever, no matter how few the gainers and how many the

losers. Of course, such conditions were tailor-made to bring forth special interests prepared to buy the policies from the politician-suppliers.

In the welter of largely contradictory policies, deadweight costs mounted enormously. More and more resources were devoted simply to working for or against economic policies and to circumventing or adapting to the proliferating requirements imposed by government. Not surprisingly, more and more latent interest groups saw the need to organize for political action. By the 1970s the entire economy had been thoroughly politicized, so that even the most intimate matters, such as babysitting services or nursing homes or the religious calendars of employees, had become subject to government intervention. A few years ago, Grace Commission investigators discovered that the federal government alone was conducting 963 separate social programs, many of them designated "entitlements." America's political process has become the locus of organized predation on a massive scale.

The growth of government cannot continue forever. An economy totally dominated by government isn't viable—even the Communists now recognize this. Eventually the government will eat up so much of the private sector that it will destroy the means of its own sustenance. At some point the balance of political power will swing away from support for bigger government in an effort to revive the dying goose that lays the golden eggs. If such reaction can occur in the Soviet Union and Eastern Europe, it certainly can occur here.

But that glorious day, in my judgment, is not yet in sight. Despite the plethora of burdens laid on the American people, the private economy retains sufficient vitality to limp along at a modest pace, albeit far slower than a truly free economy could progress. And the American people continue to demand, or at least to tolerate, a multitude of government programs promising solutions to almost every conceivable problem. So long as the dominant ideology lends support to collectivist measures and acquiesces in a political system dominated by special-interest deals, no far-reaching reform of our political economy is possible. So, as we look into the future of the United States in 1990, as far as the eye can see, we behold only big government and more big government. □

The Last Wild Children of Capitalism

by William B. Irvine

American futures markets have long played the role of villain in popular economic thinking. In his 1903 novel *The Pit*, for example, Frank Norris offers his readers the following description of the Chicago Board of Trade:

Within there, a great whirlpool, a pit of roaring waters spun and thundered, sucking in the life tides of the city, sucking them in as into the mouth of some tremendous cloaca, the maw of some colossal sewer; then vomiting them forth again, spewing them up and out, only to catch them in the return eddy and suck them in afresh.

Elsewhere in *The Pit*, Norris drops the sewer metaphor and instead describes in realistic fashion the action on the trading floor. Here, for example, is his description of the opening of trading on the Chicago Board of Trade:

Instantly a tumult was unchained. Arms were flung upward in strenuous gestures, and from above the crowding heads in the Wheat Pit a multitude of hands, eager, the fingers extended, leaped into the air. All articulate expression was lost in the single explosion of sound as the traders surged downwards to the center of the Pit, grabbing each other, struggling towards each other, tramping, stomping, charging through with might and main.

It was probably Norris, as much as any author, who was responsible for creating the image of futures-market-as-madhouse.

Dr. Irvine is Associate Professor of Philosophy at Wright State University in Dayton, Ohio.

This novelistic image of futures trading has not only survived the passage of time, but has been enhanced by the advent of television. Broadcasts from commodities exchanges demonstrate that Norris did not exaggerate: Futures exchanges are wild—some would say surrealistic—places.

All these images have had an impact. Ask most Americans what futures traders do, and they'll tell you that futures traders are adult men and women who make vast fortunes by standing in a circle, gesticulating wildly, and shouting at each other. In the minds of many Americans, futures traders resemble frenzied gamblers on a casino floor or participants in a contact sport whose rules are particularly demented. Should such people, many Americans wonder, be allowed to play a role in the shaping of the American economy? Indeed, should such people be allowed to roam the streets freely?

Even among those who are not swayed by this image of futures traders, there has been considerable antipathy towards futures markets. This antipathy is founded on the belief, common among many intellectuals, that futures markets play no significant economic role and have no socially redeeming value; instead, they exist simply so that greedy people can make fortunes at the expense of farmers, small investors, consumers, and other "little people."

A Growing Distrust

In the last few years, the traditional distrust of futures markets has grown apace as the result of two events. The first was the 1987 stock market crash. Many investors, regulators, and theoreti-

cians pointed an accusing finger at stock index futures as being partially responsible for the crash. The second event was the criminal investigation (still under way) into trading abuses on the floors of various futures exchanges, abuses that allegedly included cheating customers, market manipulation, fraud, and tax evasion.

As the result of this double blow, the future of American futures is in doubt. There are a number of people calling for regulation. "Shouldn't the government do something about futures exchanges," they ask, "particularly if the members of these exchanges are corrupt or if their trading activities can cause stock market crashes?"

Should we, then, "do something" about American futures markets? Would greater government regulation be advisable? Indeed, should futures trading be banned altogether? In what follows, I would like to defend futures markets as an economic institution and inquire into the proper role that the government should play with respect to these markets. There is, I think, a role for the government in futures markets, but I think this role stops far short of the kind of heavy-handed regulation that many have called for.

Before I begin my defense of futures markets, a few words of explanation are in order.

To begin with, a futures contract, as its name implies, is a contract between individuals. Whereas many contracts (e.g., a bill of sale for a car) specify an immediate exchange of goods, a futures contract specifies an exchange of goods at some future date.

Although individuals can draw up "custom made" futures contracts between themselves, there are advantages to using the standardized contracts traded on futures exchanges like the Chicago Board of Trade or the Comex in New York. For one thing, at organized exchanges it is much easier to find someone with whom to enter into a contract; and if one later decides to "back out of" the contract, it is much easier to find someone willing to assume the contract in question.

By *buying* a futures contract, one becomes obligated to take delivery of a certain amount of a certain commodity for a certain price on a certain date. The commodity in question can be something mundane like orange juice or pork bellies (from which bacon is made), or it can be something exotic like palladium, or something intangible like a "basket" of common stocks. In parallel fashion,

by *selling* a futures contract, one becomes obligated to deliver a certain amount of a certain commodity for a certain price on a certain date.

Who Buys Futures Contracts?

Who would buy and sell such contracts? And what would motivate them to do so? Many Americans think that the only people who would buy or sell futures contracts are speculators, and that the motive of these speculators is greed. In fact, speculators are only one of the groups who participate in futures transactions. The other major group consists of the producers and consumers of various commodities—i.e., businessmen, farmers, and other sober-minded types.

A farmer might, for example, want in July to lock in the price of the wheat he will harvest in September. Selling a futures contract enables him to do so. Conversely, a baker might want in July to lock in the price of the wheat he will need in September. Buying a futures contract—say, from the farmer just mentioned—can give him the price guarantee he seeks. Thus, when the farmer sells a futures contract to the baker, the transaction serves the interests of both; and both would be worse off if they were prohibited from entering into the contract in question.

Futures contracts, then, can be seen as a form of insurance, but instead of insuring people against loss of or damage to a physical asset like a house or a car or a crop of wheat, futures contracts "insure" producers and consumers of a certain commodity against price changes in the commodity in question. In other words, futures contracts function to shift the risk of price changes from the producers and consumers of a commodity to speculators, who are willing to assume the risk in question in return for the chance to profit from doing so.

It should thus be clear that by buying and selling futures contracts, people are engaging in one of their most basic economic rights, the right to enter into contracts with other individuals. This in turn means that when the government curbs the activities of futures exchanges, the government is to some extent infringing on the right of Americans to enter into contracts with others.

Furthermore, the right in question is not an abstract right, but a right, the violation of which can do real harm to real people. For notice that in

a free society, people enter into a contract only if they judge that it is in their best interests to do so. When the government steps in and prevents people from entering into contracts or places restrictions on the contracts they can enter into, it is blocking them from doing what they take to be in their own best interests.

It is true that the parties to a contract may be mistaken about what is in their best interests. However, a case can be made that people generally have a far better idea of what is in their own interests than politicians do. Indeed, someone sophisticated and affluent enough to trade futures is generally someone who has demonstrated his competence in handling practical affairs; not every politician or government regulator can say as much. This suggests that we should leave it to people to decide what contracts they should enter into—and this in turn means leaving it to the futures exchanges to set the rules for trading contracts and to determine the standardized form contracts should take.

What if people don't like the contracts or trading rules offered by a futures exchange? What if they think the rules or contracts are unfair? Then they won't trade on the exchange in question; they will instead trade on other exchanges (whose rules or contracts they like better) or they won't trade at all. Notice, however, that it is in the interests of futures exchanges to offer the public the contracts and trading rules that they desire; for the only way that members of an exchange can make a living is if people are willing to do business at their exchange. When thinking about this issue, we should also keep in mind that in America there exist several different futures exchanges competing for the business of futures traders.

The Proper Role of Government

Does this mean that the government should have no role at all in the operation of futures markets? By no means. Most people agree that one proper role of government is to act as the enforcer of contracts into which individuals have entered. If you make a contract with someone and he fails to live up to his end of the deal, you can seek compensation in a court of law. Thus, if a futures exchange does not live up to its own rules—and fails to compensate those who are thereby harmed—the courts should enter the picture.

In summary, leave it to the futures exchanges to design standardized contracts and to set trading rules; leave it to the government to take action when futures exchanges fail to enforce the rules they have set.

Some will complain that in making the above remarks I ignore the fact that events on futures exchanges can harm the economy in general (say, by causing stock-market crashes) and thus can affect Americans everywhere. Since the events that take place on exchanges can harm "innocent bystanders," they will maintain that the government is playing an appropriate role when it tells exchanges how to conduct their business.

In reply to this criticism, two comments are in order. First, it is far from clear that events on futures exchanges can cause stock market crashes. This, at any rate, is an issue on which economists are divided. Second, even if events on futures exchanges *could* cause stock market crashes, it is far from obvious that stock market crashes harm the economy in general.

Along these lines, Nobel laureate Milton Friedman has argued that stock market crashes need not destabilize the economy. Those who are skeptical of this claim should recall the events of 1987: America witnessed a particularly severe stock market crash, but it had little effect on the economy. Not only didn't we have a depression, we didn't even have a recession.

Other economists have argued that financial crashes, although painful in the short term, can be beneficial to an economy in the long term. After all, these crashes, by wiping out marginal (and presumably inefficient) enterprises, keep the economy in fighting trim. By way of analogy, a herd of reindeer will, in the long run, be far healthier if there exist packs of wolves who pick off diseased and deformed reindeer, whose presence would otherwise jeopardize the overall health of the herd. It is true that stock market crashes have their victims, but a case can be made that society as a whole (and in the long run) is better off with these victims than it would be if it tried to create an economy in which marginal businesses were protected from destructive economic forces.

This brings us back to Frank Norris's image of the Chicago Board of Trade as a great whirlpool, as the maw of a colossal sewer. I think that the whirlpool image is correct. What one sees at a futures exchange are the surface effects of much



On the floor at the Chicago Board of Trade.

deeper currents. The currents in question are the economic forces of supply and demand. And if futures exchanges are whirlpools, then traders on those exchanges are like swimmers caught in a whirlpool: Some swimmers will benefit from the currents of the whirlpool, and others will surely drown. (This explains the panicky atmosphere in the trading pits of exchanges.) And although there may be traders who momentarily control the course of the whirlpool, no one is strong enough to control it for long; and those who try to are often destroyed in the attempt.

Norris was wrong, however, in presenting us with the image of futures exchanges as sewers, for these exchanges, rather than sucking in and then

vomiting forth the life tides of a city, replenish the tides in question: Futures exchanges help far more people than they harm; and those they harm, more often than not, are speculators who knowingly and willingly exposed themselves to the risk of harm in return for a chance at profit.

Futures exchanges present a tempting target for government regulators. Even in the best of times, the public distrusts futures exchanges, and recent controversies surrounding these exchanges have made their political position weaker than ever. One can only hope that futures exchanges will retain their independence in coming years. We will all be poorer should regulators succeed in taming these last wild children of capitalism. □

Patience and Property: Corporate vs. Union Management

by Dwight R. Lee and Robert L. Sexton

Managers who anticipate a short tenure with their firm unsurprisingly have little interest in long-term solutions to its basic problems. Their goal is to look as good as possible in the immediate future.

—ROBERT REICH, *The Next American Frontier*

It is a commonly held belief that corporations, in pursuit of short-term profits, short-change the future. This alleged emphasis on the short run is seen to create a host of problems such as an eroding industrial and human capital base, a productivity crisis, a lack of competitiveness in world markets, the energy crisis of the 1970s, mounting levels of corporate debt, and environmental pollution. The solution advocated by Robert Reich and others is to substitute more control by representatives of government and labor. However, this would be a terrible mistake.

Property Rights and Incentives

Individual decision makers, whether acting as managers, union leaders, politicians, or workers, will appropriately weigh the future when it is in their interests to do so. This is the reason why private property ownership is critical to efficient, future-oriented economic decisions. If property rights are well defined and enforced, then current owners will benefit from any foreseeable increase in the future value of resources they control. And,

if private ownership rights are *transferable*, this will provide the incentive for individuals to concern themselves with outcomes that extend far into the future.

With corporations, transferable property rights exist in the form of shares of stocks. Since corporate stocks are easily transferable, any management decision that is considered to inhibit a corporation's long-run wealth position will be translated quickly into lower stock prices. On the margin, it takes only a few to recognize short-sighted business policies of management. Once this mismanagement is translated into lower stock prices, even relatively uninformed shareholders will notice and understand that it may be time to call their broker. Thus, transferable property rights in the form of stock reflect the future consequences of corporate decisions.

However, unions do not have the equivalent property rights, and that is why the long-run wealth effects of present decisions are not clearly registered in a way that feeds back into union decisions. This leads to several important implications. One, without transferable property rights (which reflect the present value of employment opportunities in a firm or industry) the control of union members over union management is restricted. To some extent, union members have control over union management through their right to vote on some issues and on their union leaders. Therefore, members can restrict union management from deviating too far from the collective interests of the members. However, any union-member voter has little motivation to be informed since a single vote will not likely have a decisive impact on any decision, and each worker's time horizon

Dwight R. Lee is the Ramsey Professor of Economics at the University of Georgia, Athens. Robert L. Sexton is Associate Professor of Economics at Pepperdine University. The authors would like to acknowledge the helpful comments of Gary Galles on an earlier draft of this paper.

extends only as long as his employment tenure.

This is not the case with corporate stockholders. They have much more control over their agents than union members have over theirs. The stockholder has the ability to buy and sell stocks. In order for union members to protect themselves in an equally effective way against poor union management decisions, they would have to change jobs and move to an employment setting with either a different union or no union at all. Hence, union leaders have a greater ability to maximize their personal goals and advantages and promote their own agenda than corporate managers, since union members have little or no effective recourse. In other words, unlike the market for corporate control, the market for union control is very ineffective.

Consequently, union decisions on many issues do not correspond with the interests of the members. The position unions take is often at odds with the political preferences of their members. Professors Dan Heldman and Deborah Knight found that in a majority of questions posed to union members in opinion polls, their positions differed (sometimes diametrically) from the positions which their union leaders were lobbying in Congress.

But, even if unions were perfectly responsive to the concerns of union members, they would still tend to be insensitive to future wage and salary decisions. Since workers don't own transferable "employment stock" that reflects the long-run value of their jobs, they have little incentive to take the long view when balancing current wage demands against the long-run gains from maintaining and expanding a productive capital base. But owning employment stocks would require that workers own their jobs with the right to sell them to whomever they please. This would remove the control over employment decisions from those who have supplied the capital and hence would greatly increase the costs of raising large amounts of capital.

However, when workers are in charge of management decisions, this often leads to myopic investment practices. For example, in worker-managed firms in Yugoslavia, employees are entitled to residual profits, but claims are retained only if the worker remains with the firm. So, it is in the workers' best long-term interests to take their higher wages out of the firm in order to invest in items which have a permanent title (for example,

furniture or jewelry) rather than investing in the long-term capital needs of the firm. This is true even when the returns on capital far exceed those of alternative investment opportunities.

Under reasonable property rights arrangements, workers will be less sensitive to the long-term employment effects of current salary, wage, and investment decisions than will corporate managers whose current compensation and future prospects are directly tied to the performance of the firms they manage, as reflected in stock prices. It is current compensation that is often used as a monitor of union effectiveness. And union leaders who cannot extract current wages and benefits from employers will fall under the wrath of their members.

Political Influence of Organized Labor

Unions have been adept at influencing the political process in support of legislation that increases their control over business decisions. There are two explanations for their political influence. One, members of labor unions are intensely concerned about short-run wages and fringe benefits. Such narrowly focused groups are more easily organized and generally are more politically effective than are groups with more diverse interests. Two, political action is best when an organized self-interest is able to disguise itself with the rhetoric of a noble cause. This is particularly evident in labor unions that work under the guise of struggling for the well-being of workers. But higher wages in the union sector tend to depress wages in the nonunion sector, so it is easy to see that union workers' gains come at the expense of nonunion workers. Thus the real battle that unions wage is not against business, but rather against nonunion workers, who often would be willing to work for less than the union scale.

Unions have effectively been able to project the image, however, that they are dedicated to the protection of workers' rights against the arbitrary so-called power of big business. Union-supported legislation that restricts the discretion of capital owners or corporate management is often politically popular because it is perceived as a justifiable means of curtailing exploitative business practices. This may explain the political appeal of minimum wage laws, maximum hour restrictions, and other

legislation that limits the ability of employers to negotiate with employees.

Unions also have been active in support of political measures to *restrict* corporate practices that serve to motivate corporate managers to concentrate on the long run. For example, takeovers, mergers, stock options, and bonuses provide important incentives for management to consider the future consequences of current decisions. Another example is a corporate arrangement called "golden parachutes" where corporate executives are compensated if their jobs are terminated as a result of a takeover or merger. It is argued that this type of arrangement provides incentives for corporate executives to take risks in line with what their diversified shareholders would consider appropriate and not to fight takeovers that would be in the shareholders' interests.

Union myopia will affect future productivity in at least two ways. First, in anticipation of a union's negative impact on the return to capital, one would predict that the projected equity value of a newly unionized firm, or one threatened with unionization, will fall. Second, in those industries in which union power is strongest, one would expect that wage demands eventually will reduce the industry's competitiveness and, in the absence of government bailouts and protections, push it into serious decline.

The filing of a union election petition and the results of that action can impose significant costs on a firm. Based on data from 1962 to 1980, a successful union drive against a firm lowered the firm's stock by 3.84 percent. According to Professors Richard Ruback and Martin Zimmerman, even the threat of unionization in the form of an unsuccessful union effort resulted in a 1.32 percent decline in the firm's stock price.

The reduction in returns to current and potential investors reduces an industry's investment appeal. Hence, capital formation will be retarded by the effects of unionization. Also, lower profitability in union firms will hamper the internal market for capital, a very important source of efficiency within firms.

One way to reduce the burden of union wage demands is by substituting capital for labor. And, indeed, one can be sure that the *ratio* of capital to labor will, over time, increase in response to excessive wage requirements. Whether this substitution

effect will motivate an absolute increase in the amount of capital isn't clear *a priori*. But, even if the amount of capital in the industry actually increases, it will be the result of a union-induced distortion in the capital-labor mix that will reduce both the efficiency of the industry and its ability to compete.

The union myopia that motivates excessive wage demands has been detrimental to the long-run well-being of all interests in the economy—consumers, providers of capital, and employees alike. But this economically destructive shortsightedness is the completely predictable consequence of political action that increases the power of unions over business decisions and over the allocation of business profits. Political attempts to rescue unions from the plight in which they find themselves—attempts which ordinarily involve granting them yet more power and imposing still more restrictions on business decisions—will prove just as self-defeating in the long run as have previous attempts.

Labor unions already have given worker representatives more control over business decisions than most people realize. This control has hampered the ability of business management to pursue long-run goals through far-sighted and productive investment commitments. Private business concerns may not give the future the weight that, in some ideal world, would be considered appropriate. But a realistic assessment of the motivations driving labor union activity leads to the unmistakable conclusion that giving more control over business decisions to labor unions will shorten the planning horizon of business firms.

As long as owners and managers of private businesses are free to allocate revenues among shareholders, employees, and capital investment in response to market forces, decisions will be made that promote capital formation and lead to long-run economic growth. Unfortunately, government regulation of labor relations has increasingly diminished businesses' (and therefore consumers') control over decisions relevant to capital investment, and passed that control to union officials. As a result, government has shortened the planning horizon of business decisions, allowed excessive wages to be substituted for capital formation, and reduced the long-run competitive vitality of major sectors of the U.S. economy. □

A Tale of Two Estates

by Andrew E. Barniskis

This is a tale of two estates in Bucks County, in eastern Pennsylvania. Actually, it's a story about a single piece of real estate, but one that's had two identities during my life.

In the early 1950s, when I was a boy, it was a millionaire's estate. It was private property—"Trespassing Strictly Forbidden"—but a creek ran through the property, much of its several square miles was covered by woods, and it held an irresistible lure for boys. Looking back, I realize that the fishing in the section of creek that ran through the property was probably no better than in the sections outside its borders, but sneaking quietly through the pine-covered hills to fish in one of the forbidden pools was an adventure that magnified perceptions of both the size and the number of fish.

The estate was patrolled by caretakers, and we all knew stories of terrible things that had befallen boys caught trespassing. But it never seemed to have happened to anyone we knew personally—the stories were always about some kid a couple of towns over, who went to a different school. The only time I came close to getting caught was when I went with a buddy who started being loud and began breaking down small trees. After that I always went alone, and never came close to being spotted again.

One day after I had made an early morning foray into the estate, I was returning home along one of the dirt roads through the woods when I heard a horse-drawn vehicle approaching. That was unusual, because by the early 1950s all of the

local farmers used tractors, and the few horses still around were kept for riding. As I hid in the bushes, I saw a strange sight—an elegant carriage filled with young men and women dressed in 19th-century costumes, laughing and joking as four beautiful black horses pulled them along.

To this day, I don't know the reason for their summer morning costume ride, but I remember the thoughts it brought to me then and over the years: How wonderful the world could be, that some people could indulge in elegant play in the middle of a weekday! While my own father worked at exhausting labor and neighboring farmers cursed their rusting machinery, here were grown people who could play midday make-believe, with accouterments that probably cost more than what most of my father's acquaintances would make in a year. I may not have cared much for fancy horses, or even for well-dressed young ladies at the time, but that vision of what was attainable in life influenced me greatly over the years.

Sometime between my boyhood and my early adult years, the estate acquired a new identity. The millionaire owner died and willed the property to the state. Eventually it was turned into a state park. From being the property and plaything of a few rich individuals it became the property of everyone—at least, in theory. Nevertheless, its former identity would once more pique my imagination.

After working for several years following high school, serving in the Army, and saving my money, I started working my way through a local college as a laboratory assistant. One day I was in the laboratory with a professor when the conversation turned to the old estate. Coincidentally, a mainte-

nance man who was working with us had been a caretaker on the estate in his younger days. He didn't need much prompting to begin pouring out stories of the extravagant, eccentric lifestyle of his former employers—the lavish parties, the dozens of servants, the grand cars, the small fortunes spent on the whims of a moment.

My professor, a true English gentleman and a sincere and outspoken socialist, was horrified and quite literally shaken: "How terrible that anyone should have so much . . ." he finally managed to stammer. As his student, I nodded false agreement, while thinking, "No—how wonderful!"

I was one of the professor's better students. I wondered what he thought kept me at my studies until well past midnight—dreams of working on rusting tractors, or of moving crates in a warehouse? Certainly not. I'd done those things. It was a vision I had seen that life could be much better than most of what had surrounded me while growing up. If I hadn't thought that something much, much better was attainable, I would have been out drinking with my friends, instead of studying.

I sought out the maintenance man several times and extracted as many of his stories of the old estate as I could. Many was the time, while in college, that reflecting on one of those tales would spur me to continue working an extra hour or two, after everyone else had turned off their lights. Along the way I had decided that "having so much"—whether it was wealth or academic success—had to start with work.

The New Vision

Years later the estate—now in its new, public identity—was to provide me with one more vision. I took my young son to the park to see if the old, secret pools still produced fish. We didn't have any luck because some noisy kids were throwing rocks down from the cliffs. Also, many of the old natural

landmarks had been vandalized, so I couldn't find the best pools. When we got back to the parking lot, a motorcycle gang was drag racing, openly smoking dope, and smashing beer bottles while a powerless park guard looked the other way.

As one by one, intimidated young families packed their picnics to leave, I looked at the tableau before me—the scruffy motorcyclists charging wildly around the lot, framed against the elegant old mansion, still standing on the overlooking hill—and thought, this is the triumph of the Marxist vision. The proletariat has inherited the capitalist's estate. Why are so few rejoicing?

I suppose that you could count the number of people who visit the park each year, and argue that more people get more good out of the estate now than when the millionaire owned it. Of course, there are annual lawsuits by those seeking to prevent the hunts the state holds to control the deer herd, and there probably will be a lawsuit filed by some bicyclists, who have just been told they can't use the woodland roads because they interfere with the horseback riders. There always seems to be some sort of political contest going on over how the park will be used. And, while the state makes a genuine effort, it's pretty hard to gather up all the trash that people can spread over several square miles. The Fish Commission gave up stocking the creek several years ago.

I've known the estate in its two identities, and I know what its old identity taught me. But my son has seen it only in its public identity. I wonder what it has taught him? Possibly, that in the world of collective ownership, things owned by everyone are cared for by no one, and that control then belongs to those with the power or arrogance or brutality to take it.

I know that I can tell my son about values and virtues and the work ethic. But there are no words that will have the impact of the vision he saw at the park that day. □

Municipal Services: Unfair Competition from Local Governments

by Bill Tomlinson

I recently saw an ad in our local paper in North Vancouver, British Columbia, which set me to thinking. The advertisement announced that a team of consultants had been hired by the municipal government to “establish strategies for the provision of parks and recreation services” in our city and the surrounding community. The announcement implied that as our population grew there would be a greater need for these services, and the municipal authorities should provide them.

On the face of it this might seem a reasonable proposition, since throughout North America we have become accustomed to having local authorities supply certain services, and there is nothing unusual about finding public parks in any city or village. Likewise many communities provide recreational facilities such as ice rinks, stadiums, swimming pools, and playing fields; and the great majority of residents raise no strong objection to having a portion of their tax money spent this way.

However, I began to look back on the course of events since we moved to North Vancouver 22 years ago, and it became clear that a pattern had developed. When we arrived we found there were two exercise clubs serving the community. Each had an ice rink, curling rink, swimming pool, saunas, and exercise room. Each was in competition with the other for members, but they had a far more serious adversary.

Mr. Tomlinson owns and operates a small plumbing company in North Vancouver, British Columbia.

Two or three years earlier the city had embarked on a major construction project—a recreation center with an ice rink, curling rink, swimming pool, saunas, and exercise room. As things turned out this was to be just the start of a burgeoning empire, as over the years three more facilities featuring ice rinks and swimming pools have been built in the district to accommodate the growing population. At present another pool with a special wave action feature is out to tender. In the meantime the two private clubs struggled on until one succumbed in the early '70s. The other went into receivership in the early '80s, but has remained in operation on a limited basis.

In the late '60s and early '70s there was a surge in the popularity of tennis. An entrepreneurial group put up a building to provide covered courts, and the parks department paved over sections of several parks and put up nets and fences. Since we live in a temperate climate where you can play tennis outside all the year round, many people chose to use the “free” courts, and the indoor club failed.

Exercise clubs come and go with regularity. A few have even survived and seem to be prospering. In spite of this, it is reasonable to assume that among those that didn't survive are some that could have done so if they hadn't been beaten down by the double hammer blow of competition from municipal recreational programs and the taxes they were paying to subsidize those programs.

The same scenario has been repeated in other

municipal services. Public libraries supplanted the private lending libraries. Similarly, in many communities, schooling, garbage collection, water supply, and fire-fighting services were provided by private firms until they were put out of business by unfair competition from local governments. Apologists for interventionism twist the argument around by claiming that government action is needed because the market fails to supply affordable services. We must be on our guard against the notion that because there is little or no direct cost, some services suddenly become worthwhile.

Many of us are aware of the dangers of socialism, and the influence it has had on politicians at the national level. But I wonder how many people are taking notice of the assaults on our property rights and civil liberties that are taking place week by week as local authorities introduce new programs. We must educate ourselves and help others to learn the difference between voluntary and coercive action, and we must involve ourselves in the affairs of our communities. Perhaps it will be by concentrating on local issues such as these that we will be able to stem the tide of collectivism. □

Misdirected Compassion

by Douglas Mataconis

Nearly every day we are confronted with newspaper and television stories about society's less fortunate members—families living in squalid conditions, and homeless people sleeping on the streets of America's greatest cities. Understandably, these stories are shocking to most of us; no one in a country such as ours, we say to ourselves, should be reduced to living in conditions like these. Someone should “do something” about it.

Unfortunately, this urge to help the poor typically leads people to believe that only government-sponsored programs can provide the needed aid. Whether the proposed remedy is a government-mandated “living wage,” rent control laws to ensure “affordable” housing, or other interventionist policies, the underlying premise is that compassion for the poor demands that we increase the size and scope of government. When we look at the results of these policies, however, we see that government

intervention doesn't improve the lot of the poor; in fact, it often worsens the situation.

Supporters of the minimum wage, for example, assert that the poor should be helped by insuring that their jobs pay a wage that meets their basic needs. That sounds reasonable and compassionate. However, what if a worker's productive output is less than the minimum wage? In this case, the very people who are supposed to be helped by the minimum wage—the low-skilled working poor—are hurt the most, since employers are less likely to hire them at this new, higher wage. As a result, a law that was passed out of compassion for the needy produces higher unemployment and more deprivation.

The results are similar with rent controls. In this case, a law is passed to make housing more affordable for those with low incomes. Again, this sounds reasonable and compassionate. The actual result of such a law, however, is to reduce the supply of affordable housing. By setting a ceiling above which rents cannot rise, such laws prevent landlords from earning returns comparable to oth-

Mr. Mataconis recently graduated from Rutgers University. He will be attending George Mason University School of Law in the fall.

er investments, such as stocks or bonds, that require less time and fixed capital. Thus, investors are discouraged from building new low-income housing or maintaining properties they already own. Once again, a law that was passed out of a sense of compassion for the poor does the greatest harm to precisely those it is supposed to help.

One is led to ask: If we really care about the less fortunate members of society, why do we pass laws and implement policies that make them worse off than they were before? It would be far better practically and morally to abandon this blind faith in the state's ability to help the poor, and search for a better way to assist those in need.

For example, instead of a government-mandated minimum wage, we should allow employers to pay what they believe the labor in question is worth, in light of competitive market conditions. Admittedly, there will be people who will be earning less than what many would consider "decent," but isn't it better that these people be employed at a job paying \$3.00 or \$3.25 an hour, and thus gain the experience needed to advance and earn more, rather than be unemployed under

a system where the government has decreed that wages cannot fall below \$4.25?

Similarly, we would find that a free market in housing is the best way to alleviate the crisis in low-income housing. Whereas now in many cities the only area of housing attracting investment is high-income housing, rent decontrol would restore the profit incentive to low-income housing. We would find that, at least initially, the costs of low-income housing in cities currently practicing rent control would probably rise but, as investors re-enter the field, competition from new and refurbished housing would drive rents lower.

There is nothing wrong with feeling compassion for the poor. Human charity, so long as it isn't coerced, is admirable. Problems develop, however, when compassion is misdirected into policies that actually worsen the plight of the poor. If this compassion is genuine, then those who feel it must abandon these policies and recognize that the best remedy for poverty lies not in a larger and more powerful government bureaucracy, but in an expansion of the free market and the opportunities it provides for everyone. □

Franklin Pierce on Public Charity

I readily and, I trust, feelingly acknowledge the duty incumbent on us all, as men and citizens, and as among the highest and holiest of our duties, to provide for those who, in the mysterious order of Providence, are subject to want and to disease of body or mind; but I cannot find any authority in the Constitution for making the Federal Government the great almoner of public charity throughout the United States. . . . it would, in the end, be prejudicial rather than beneficial in the noble offices of charity. . . .

—from a Veto Message, 1854

IDEAS
ON
LIBERTY



The Social Security Trust Fund: “Savings” vs. Saving

by Richard W. Fulmer

For every person receiving Social Security benefits in 1950, 17 others were employed. By 1970 the ratio had dropped to three workers per beneficiary, and as postwar baby boomers reach retirement age early in the 21st century, that ratio will drop to two-to-one. In the year 2030, workers will be paying an estimated one-third of their wages to support Social Security recipients.

Originally the program was intended to be pay-as-you-go, with receipts equaling disbursements. With insolvency looming, however, Congress in 1977 and 1983 decided to increase tax revenues beyond current expenditures and “save” the difference for future needs through the purchase of government securities. In practice, however, the purchase money is spent on current programs, and the “Trust Fund” is left with IOUs—thus Social Security tax receipts aren’t “saved” in any meaningful sense.

Proponents of the “Trust Fund” scheme argue that the government is simply investing in Treasury notes in the same way that a private citizen might, and, like the citizen, can expect a return on the principal when the notes are redeemed. But how is this “return” to be generated? The money isn’t being used to produce wealth, but rather is spent on current consumption. Investors must bank on the government’s future ability to sell more notes

(i.e., to keep the pyramid growing) or, failing that, to collect more taxes.

If taxes are used to buy back the IOUs, then we are left with the original problem: workers are still footing the bill. The only difference is that now the total is split between F.I.C.A. and the general tax fund. Actually, the workers would get some relief since corporations and Social Security recipients must also pay into the general fund, but the benefits of corporate participation would be offset by resulting price increases, reduced capital investment, lower wages, and higher unemployment.

In any case, the same amount of “relief” could have been realized by simply declaring that Social Security would be supplemented directly by general revenues rather than by shoveling those revenues in through a back door. The big difference, of course, would be that then the politicians wouldn’t get to spend the money from the “savings fund.”

Real Saving

Saving must be more than the mere husbandry of paper dollars. Ultimately there must be something for those dollars to purchase—production must precede consumption. True saving is an increase in real wealth, not dollars. As Adam Smith pointed out, increased wealth can result only from greater production which, in turn, can be achieved only by raising the number of productive laborers

or by improving the efficiency of laborers already employed. This cannot occur without additional capital investment. Capital is required for the maintenance of new workers or for the development of better methods or machinery.

An increase in the nation's productivity leads to a larger tax base from which tax revenues may be drawn. Therefore, the best long-term investment any government can make is to allow the private sector to retain its capital so that production can grow.

If, instead, the government takes more money from the market than it currently needs so as to form a "savings fund," it erodes its own tax base. In the end, the creation of such a fund *reduces* future tax income, and wealth isn't saved but lost.

The Smoke Screen of Consumption

Keynesians counter that such government action doesn't reduce production or productive capacity since the money taxed away from the private sector remains in circulation. Ultimately government expenditures wind up in the hands of consumers—government employees, contractors, members of the armed forces, and beneficiaries of Federal programs—who purchase goods through the market. This increased consumption, it is argued, raises demand for products and spurs industry to ever greater production.

In reality, however, consumption isn't increased by government spending; it is only *transferred* from some individuals to others. And this transfer reduces productive output. As Adam Smith explained in *The Wealth of Nations*: "The whole, or almost the whole public revenue, is in most countries employed in maintaining unproductive hands. . . . Such people, as they themselves produce nothing, are all maintained by the produce of other men's labor. When multiplied, therefore, to an unnecessary number, they may . . . consume so great a share of this produce, as not to leave sufficiency for maintaining the productive laborers. . . ." (Random House, 1937, p. 325)

Now What?

First we must admit that there are *no* funds in the "Trust Fund." The money has been commingled with other Federal revenues and spent. (The federal government runs multi-billion-dollar deficits, which include Social Security receipts and disbursements, so it can't have net savings.) Social Security hasn't been made "solvent"; it remains the same bankrupt pyramid scheme it has been all along. The problem has only been compounded by creating yet another pyramid scheme with which to finance the first.

Next we have to identify our real goal. It is not to salvage a particular program, nor is it to pile up mountains of paper money. The goal is to create sufficient *real wealth* to support people in their old age. Stated this way, it becomes clear that the issue is one of increasing production.

This can best be done by ending Social Security and allowing people to provide for their own retirements by investing their own money in real, productive capital through private banks, pension plans, and corporate stocks and bonds. Only through such private investment can we provide the capital to expand our industrial base.

In less than 150 years, the free market increased productivity so much that child labor could be stopped. Individuals, who previously had to work all their waking hours to earn a bare existence, now can support an entire family with only 40 hours of labor a week. The elderly, who had had to work until their deaths (or, in some pre-industrial societies, were left to die when their usefulness ended), can now look forward to retirement.

There is no reason why in the computer age the free market cannot continue this spectacular progress begun in the machine age. The market can provide the elderly with the material goods they need, but only if it is allowed to work. Only through *real* saving—producing more than we consume—can we provide for the future. We cannot do it by amassing paper dollars and Treasury notes. □

U.S. Trade Deficits Aren't a Problem

by Roger Nils Folsom and Rodolfo Alejo Gonzalez

Every U.S. trade deficit report brings forth myriad lamentations, routinely linking the deficit to the widely heralded notion that because foreigners allegedly now own more U.S. assets than we own foreign assets, the U.S. has become a "debtor" nation. Suppose this allegation is true and foreigners do own more stuff here than we own there. Does that situation really reflect debt that eventually we must repay?

Although recent data suggest that our trade deficit has begun to decline, it still is huge, and questions about its origins and consequences remain. What caused our trade deficit, and why haven't we stopped it? Won't foreign-owned assets cause us problems when exchange rates change? Isn't our trade deficit evidence of shameful profligacy? If foreigners own more here than we own abroad, how will we pay them a return on their assets? Could our trade deficit continue indefinitely—will it ever become a surplus? Wouldn't a shift from trade deficit to surplus require the dollar's foreign exchange value to fall even more than it has in the recent past? And what about the federal government's budget deficit?

Professors Folsom and Gonzalez teach in the Department of Economics, San Jose State University. They are particularly indebted to Heather Folsom, who at age 10 posed the fundamental question that gave rise to this essay. They wish to thank Kirk Blackerby, Betty Chu, Mario Escobar, Anna K.N. Folsom, David Henderson, Franz Hirner, J. Paul Leigh, John Navas, Geoffrey Nunn, Michael Pogodzinski, Tim Sass, and David Saurman for their suggestions; Ralph Kozlow and Russell Scholl for explanations of international economic data; Ann Arlene Marquiss Folsom for her editing; and participants at the March 1989 National Social Science Association convention at Reno, Nevada, where they presented an earlier draft, for critical comments. The authors alone are responsible for the views expressed here.

Deficits and Debt

A 10-year-old at dinner posed the first, fundamental question: "Even if we import more than we export, if the exports and imports are paid for, where does the *debt* come from?" The question implies the answer: Of course debt comes only if our trade deficit isn't paid for. And we are paying for our net imports by selling all sorts of assets (real and financial, non-debt and debt) to foreigners. These asset sales need not put the U.S. in debt internationally, just as domestic asset sales need not put us in debt domestically. (Some examples: Selling your house doesn't put you in debt. If you own a mortgage on someone else's house, selling that mortgage won't put you in debt, and won't increase his debt, either. And kicking down all the "for sale" signs in your neighborhood, because you don't want your neighborhood to be indebted to outsiders from other neighborhoods, makes no sense.)

Trade means exchange. If we export less to foreigners than they export to us, they must be getting something else from us to compensate. Our "current account" goods and services trade deficit is inevitably balanced by our foreign investment surplus. If our (broadly defined) exports are less than our imports, then foreign private individuals, firms, or governments must be accumulating more U.S. assets (either real or financial assets, short or long term) than U.S. individuals, firms, or governments are accumulating foreign assets.

Although conventional wisdom assumes that our trade deficit causes our foreign investment surplus, our trade deficit could just as well result from our foreign investment surplus. Actually, our trade

deficit and investment surplus are determined simultaneously, as people choose to export, import, and invest at home or abroad. Incidentally, the dollar value of U.S.-owned assets abroad has increased in every year since at least 1960, although a decrease would mean merely that Americans preferred to invest at home. Our foreign investment surplus occurs because foreign-owned assets in the U.S. are increasing even more rapidly.

Voluntary Transactions

That we are financing our trade deficit by selling assets to foreigners may sound disastrous. But our trade deficit and foreign investment surplus reflect voluntary market transactions from which each party expects to benefit, or else the transaction wouldn't occur. We have a trade deficit because we think we benefit from the transactions that generate it, and the foreigners with whom we trade think they benefit. Both sides generally do benefit.

Note that if we were running a trade surplus, for example by exporting more automobiles than we imported, we still would be selling assets—automobiles—to foreigners, again to the benefit of both sides. Also note that the automobile assets that we could be selling abroad, and the real and financial assets that we in fact are selling abroad, all use or represent scarce economic resources.

This similarity is obscured under the definitions currently used in international “balance of payments” accounting. An American-made automobile sold abroad counts as an export and hence reduces our trade deficit (and foreign investment surplus), while a building constructed in the U.S. but sold to a foreigner counts as foreign investment in the U.S. and hence increases our trade deficit (by increasing our foreign investment surplus). Yet there is no real difference between these transactions, other than that the automobile physically moves abroad while the building remains here.

Even though both sides benefit from their voluntary market transactions, there may be some different set of transactions, other than the ones actually agreed to and carried out, that would yield even greater benefits. We don't make the Pollyanna claim that any particular set of voluntary market transactions generates the best of all possible worlds; the most advantageous trades may be

overlooked. Voluntary market transactions simply make both sides better off than they would be without the transactions.

Those Profligate Americans

Despite many wails to the contrary, neither our many imports nor our net trade deficit show us to be frivolous and profligate. Most of our imports are consumer goods, but we also import many capital goods such as industrial machinery, trucks, and construction equipment. Moreover, many “consumer goods” imports such as automobiles and even home electronics could be considered capital goods because, just like a lathe or milling machine, they last and produce services for a long time. Even short-term imports such as food, flowers, or quickly broken toys can add to the stock of real capital in the United States. The more we import of anything, the more domestic resources we have available for production of other commodities, including real capital goods. Some of what we buy may be judged foolish, but purchases don't become foolish merely because they are imported.

Foreign-Owned Assets

Won't we have to pay back the foreign investments now being made in the U.S.? No. Foreigners are buying many kinds of real and financial assets. If they buy real estate, they own it now, so we won't have to pay anything back. If they buy equities in businesses, they own those equities now, so again we have nothing to pay back. If they buy private debt, for example General Motors bonds, General Motors will have to pay neither more nor less than if the bondholders were Americans. If foreigners buy U.S. government debt, the U.S. government will have to pay neither more nor less than if the debt were owned by Americans. If foreigners hold U.S. bank accounts (denominated in either dollars or foreign money), the bank's liabilities are no greater than if these accounts were owned by Americans. All of these assets pay a return (an implicit return in the case of non-interest bearing bank accounts) to whoever owns them, but there is nothing additional to be paid back, paid off, or paid out.

Admittedly, foreign willingness to lend to Americans may induce us to borrow more than we would otherwise. In this sense, some of our trade

deficit is being financed by new borrowing. But new borrowing from foreigners should cause no more problems than would new domestic borrowing. If some Americans borrow and waste the proceeds, they become worse off (as do the lenders if the borrowers default), but whether the lenders are domestic or foreign makes no real difference. Of course, if exchange rates change, speculators who hold portfolios of net assets denominated on balance in moneys that unexpectedly depreciate, or net liabilities denominated on balance in moneys that unexpectedly appreciate, will lose, but those losses will be balanced by others' gains.

(Even a growing international debt wouldn't imply impoverishment because the proper measure of wealth is assets minus liabilities, not assets or liabilities alone. U.S. wealth continues to rise, because U.S. domestic saving—even after deducting all government budget deficits—remains positive.)

Where will the output come from to pay the returns on the assets in the U.S. now owned by foreigners? This is an irrelevant question, since, if a foreign-owned asset is productive, its return accrues to its foreign owner; if it isn't productive, that is the foreign owner's problem, not ours. And the foreign investment was accompanied by enormous inflows of resources (remember our huge trade deficit) resulting from exchanges to which we would not have agreed unless we expected to benefit, presumably by increasing our productive capacity or at least our economic welfare.

No other society coerced us to import more than we export and to accept huge volumes of foreign investment. We aren't a pre-perestroika Eastern European nation "trading" with the Soviets. Voluntary foreign investments accompanied by resource inflows can pay their own returns. Foreign purchases of U.S. assets aren't a zero-sum activity, since increases in foreign-owned assets require neither a decline in U.S.-owned assets nor a rise in U.S.-owed liabilities. Descriptions of the U.S. as a "debtor nation" are unwarranted.¹

Trade Deficit or Surplus?

As foreigners reap their returns from owning U.S. assets, our current trade deficit could be followed by a trade surplus if foreigners choose to consume their returns or invest them outside the U.S., but these choices and a resulting trade sur-

plus aren't inevitable. Capital that flowed in need not flow out again. Foreigners could continue to reinvest their returns here. Many U.S. assets are owned by foreigners who want not to repatriate profits but to accumulate even more assets in the U.S., where private ownership rights are relatively more secure than in their home countries.

Thus our trade deficit and foreign investment surplus could persist indefinitely. Real capital flows to wherever the expected real rate of return is highest, and apparently it has been and continues to be higher in the U.S. than elsewhere. Eventually, in a static world, the inflow of capital would reduce U.S. rates of return to equal those elsewhere, and the inflow would cease, but "cease" doesn't mean "reverse." In any case, the world isn't static. Even if rates of return around the world eventually did equate, additional saving and investment would upset these equalities. The highest of the new rates of return would attract the new investment, creating new trade patterns in which the U.S. conceivably could have either a trade deficit and foreign investment surplus, or a trade surplus and foreign investment deficit.

A U.S. trade surplus will follow the current U.S. trade deficit only to the extent that foreigners consume or invest abroad their U.S. assets' returns, instead of reinvesting them here. Even then, if foreigners move or sell title to their U.S. assets across national boundaries, our current trade deficit with one country could be followed by a trade surplus with another country—or by no trade surplus at all, if foreigners follow their capital and migrate here, or sell their U.S. assets to other foreigners who migrate here.

For a Trade Surplus, Must the Dollar's Value Decline?

For the U.S. to develop a trade surplus (and foreign investment deficit), the value of the U.S. dollar relative to foreign money need not decline. A drop in the dollar's international value does make our exports more competitive and our imports more expensive, but it also makes our assets more attractive to foreigners and foreign assets less attractive to us. The net effect on our trade deficit and foreign investment surplus is ambiguous. We could develop a trade surplus without the dollar falling at all, or even if the dollar's value rose.

Recall that the U.S. trade deficit (imports into

the U.S. minus exports from the U.S.) necessarily equals the U.S. foreign investment surplus (foreign investment inflow into the U.S. minus U.S. investment outflow abroad). A drop in the dollar's international value encourages U.S. exports by making them cheaper to foreigners, and discourages U.S. imports by making them more expensive to us. If the dollar drops, the dollar value of our exports will certainly increase, but the dollar value of our imports will decrease only if we cut them enough to compensate for the higher dollar prices we pay. Thus a drop in the dollar's value will reduce our trade deficit (measured in dollars) only if our exports increase enough to offset any increase in the dollar value of our imports. That is, a drop in the dollar's value will reduce our trade deficit only if either our exports or our imports are sufficiently responsive to exchange rate changes.² Otherwise, if a drop in the dollar's value decreases our imports too little or increases our exports too little, then our trade deficit will increase instead of decrease. So much is well known, at least among those who have spent some time thinking about the effect on trade deficits of exchange rate changes.

When the Value of a Dollar Drops . . .

Less frequently considered is the effect of exchange rate changes on the components of our foreign investment surplus. A drop in the dollar's value affects international investment flows as it affects exports and imports. A drop encourages foreign investments in the U.S. by making them cheaper to foreigners, and discourages U.S. investments abroad by making them more expensive to us.³

It could be argued that foreign investment is relatively insensitive to exchange rate changes. For example, with a drop in the dollar's international value, expected to be temporary, foreigners would be especially eager to buy U.S. assets but Americans would want to postpone asset sales until the dollar returned to a higher "normal" value. If these motivations offset each other, asset sales wouldn't change.

Even a permanent drop in the dollar's international value could have little effect on foreign investment, because the demand for an investment asset presumably depends on its expected rate of return, which—it often is supposed—is unaffected

by a permanent change in exchange rates. A permanent drop in the dollar's international value reduces the price of U.S. assets in terms of foreign money, but it also reduces the future income that will be earned by that asset in terms of foreign money.

However, if foreigners have any expectation that they will spend any of their future returns in the U.S., then a drop in the value of the dollar—even if expected to be permanent—does make U.S. assets more attractive to foreigners. And if the resulting increase in foreign demand raises the dollar price of U.S. assets, Americans are encouraged to sell (despite the decline in the dollar's international value) if they expect to spend any of the proceeds of their asset sales in the United States. Only if Americans expected to spend all asset sale proceeds abroad would they be indifferent to the higher dollar prices for U.S. assets offered by foreigners when the dollar's international value goes down.

Thus if the dollar's international value drops, the dollar value of foreign purchases of U.S. assets will almost certainly increase, and the dollar value of our asset purchases abroad will decrease if we cut them enough to compensate for the higher dollar prices we pay. A drop in the dollar's value will increase our foreign investment surplus, unless we cut our asset purchases abroad so little that their dollar value increases, and increases enough to offset foreigners' increased asset purchases in the United States.

A drop in the dollar's value will decrease our foreign investment surplus (and hence our trade deficit) only if foreigners increase the dollar value of their asset purchases here less than we increase the dollar value of our asset purchases abroad. A drop in the dollar's value will reduce our trade deficit and foreign investment surplus only if either foreign purchases of U.S. assets or our purchases of assets abroad are sufficiently *unresponsive* to exchange rate changes.⁴ Otherwise, if a drop in the dollar's value increases foreign purchases of U.S. assets too much, or decreases our purchases of assets abroad too much, then our trade deficit and foreign investment surplus will increase instead of decrease.

Those who *forecast* that the dollar's international value will drop farther on the assumption that the trade deficit must end, and also those who *advocate* a further drop in order to force our trade deficit to end, are assuming not only that exports

or imports are highly responsive to drops in the dollar's value, but also that net foreign investment flows aren't highly responsive to drops in the dollar's value. When both trade and investment flows are considered, the effect of exchange rate changes on foreign trade deficits and foreign investment surpluses becomes much less obvious.⁵ Ultimately, the issue becomes an empirical question.

A drop in the dollar's international value could reduce our trade deficit and foreign investment surplus, by making our exports more competitive and our imports more expensive. But a drop in the dollar's international value could instead enlarge our trade deficit and foreign investment surplus, by stimulating foreign investment here and discouraging U.S. investment abroad. Although recent trade statistics suggest that the drop in the dollar's international value since February 1985 is beginning to reduce our trade deficit and foreign investment surplus, an end to our trade deficit certainly doesn't require the dollar's value to drop more.

For example, without any drop in the dollar's international value, our trade deficit could end and even become a surplus either because foreigners simply decide to buy more of our exports while investing less here, or because we decide to import less while investing more abroad. (Such decisions could result from changes in weather patterns and agricultural productivity, industrial productivity, new inventions and technologies, reliability of alternate suppliers, safety of investments in various countries, government domestic and trade policies, perceived goods' quality, consumer tastes and preferences, and so forth.) Regardless whether we sell foreigners more commodities and fewer assets, or we buy from them fewer commodities and more assets, neither the demand for nor the supply of dollars on foreign exchange markets need change, so the dollar's foreign exchange value need not change.

All parts of the U.S. use the same money, yet resources have flowed from New England to real investments in southern and southwestern states, and then have stopped flowing and even reversed direction. The fixed exchange rate between the New England dollar and the rest-of-the-U.S. dollar, constant for more than 200 years, has facilitated rather than impeded such resource movements within the U.S. by eliminating the risks of fluctuating exchange rates.

The nonhuman capital we have been discussing can move even if the owners of that capital stay put; human capital cannot move unless its owners migrate. Somehow that difference muddles our thinking and prevents us from seeing the similarities. Propositions that apply neither to labor nor non-labor resources we correctly reject for human capital but wrongly accept for nonhuman capital.

Not only foreign non-labor resources but also foreign people have come here. Do we need to "pay back" this labor inflow, by sending our children abroad against their will? No. Must we have extra children, in order to create a surplus to pay off our "immigration deficit?" No. Is our trade deficit an imaginary problem worried about by hallucinating minds? Yes.

Government Budget Deficits

What about our high government budget deficits and low (but still positive) saving rate? In years past, when almost all government debt was owned by Americans, government budget deficits seemed less threatening not only because they were smaller (and saving was relatively higher) than now, but also because "we owe it to ourselves." Now that foreigners own about 20 percent of U.S. government debt, that saying is less accurate and less comforting.

But even in years past, "we" and "ourselves" were different people. Regardless how much government debt is held domestically or by foreigners, government debt and the interest on that debt can be paid only by taxes or by defaulting—either outright, or by inflating the debt's value away, or, in the case of foreign-held debt, by a drop in the dollar's international value. Each of these alternatives would affect different people differently. Some will gain while others lose; nobody's wealth is likely to be unaffected.

Foreign trade "deficits" and government budget deficits are entirely different concepts. Foreign trade deficits and investment surpluses result from voluntary market exchanges of goods, services, and assets; government budget deficits arise from government spending financed by fiscal and monetary policies that government coercion imposes on individuals in the society. And unlike foreign trade deficits financed by foreign investment surpluses, government budget deficits really do generate debt (either interest-paying bonds or non-

interest-paying money) that will be financed by coercion (taxation or some sort of default). Compared with trade deficits, there is less assurance that government budget deficits are benign.

The U.S. government budget deficit and foreign trade deficit are often described as "twin deficits," implying that the budget deficit's adverse consequences are worsened by the foreign trade deficit—that is, by the foreign investment surplus that helps finance the budget deficit. But this view is seriously misleading because it forgets that the trade deficit results from voluntary market transactions, while the government budget deficit does not. Given the magnitude of the budget deficit, it isn't more serious merely because foreigners finance part (or even all) of it, since, without a foreign trade deficit and investment surplus, gross investment in the U.S. would be less. (If anything, the government budget deficit's consequences are alleviated, not worsened, by the trade deficit.) If the government budget deficit is too high, it is too high no matter whether it is financed by U.S. residents or by foreigners, no matter what the size of the foreign trade deficit. The trade deficit doesn't compound the government budget deficit.⁶ □

1. Incidentally, although asset ownership estimates state that foreigners own more assets here than we own abroad (\$1,786.2 billion versus \$1,253.7 billion at the end of 1988), this comparison is questionable because other data show the U.S. receiving \$2.2 billion of net foreign income in 1988. Unless Americans are consistently more sagacious investors than are foreigners, something is wrong—if they own so much more here than we own there, our net foreign income should be negative rather than positive. All these data are suspect, but the asset ownership data are especially suspect, because they undervalue U.S.-owned assets abroad by not fully allowing for appreciation since those assets were acquired, many of them long ago. "U.S. assets abroad are primarily direct investments that have been accumulated much earlier than foreign direct investment holdings in the U.S. and are recorded, for the most part, at their acquisition value, not at their current market price. As a consequence, the recorded value of foreign investment in the U.S. is less understated relative to its market value than is that of U.S. investment abroad. . . . It has been estimated by two State Department economists that U.S. foreign direct investment was undervalued by between \$400 billion and \$600 billion as of the end of 1987." Mack Ott, "Trade Deficit Myths," *The Wall Street Journal*, January 19, 1990.

2. More precisely, a drop in the dollar's value will decrease our trade deficit if and only if the weighted sum of the elasticities of our export quantities plus the elasticities of the dollar prices we receive for our exports exceeds the weighted sum of the elasticities of our import quantities plus the elasticities of the dollar prices we pay for our imports, with each elasticity weighted by the dollar value of its (export or import) transaction. These elasticities are the percentage change in quantities or dollar prices with respect to a percentage change in the international value of the dollar. (If the trade deficit is close to zero, and if the elasticity of the dollar prices we receive for

our exports is zero while the elasticity of the dollar prices we pay for our imports is unity, this condition becomes simply that the weighted export and import quantity elasticities sum to *more than one* in absolute value.)

3. We ignore the effect of exchange rate changes on expectations, particularly expectations about future exchange rates and prices.

4. More precisely, a drop in the dollar's value will decrease our foreign investment surplus if and only if the weighted sum of the elasticities of the quantities of our asset sales to foreigners plus the elasticities of the dollar prices we receive for selling these assets is *less than* the weighted sum of the elasticities of the quantities of our asset purchases abroad plus the elasticities of the dollar prices we pay for assets abroad, with each elasticity weighted by the dollar value of its (asset purchase or sale) transaction. (If the investment surplus is close to zero, and if the elasticity of the dollar prices we receive for our asset sales to foreigners is zero while the elasticity of the dollar prices we pay for our asset purchases abroad is unity, this condition becomes simply that the weighted quantity elasticities of our asset sales to foreigners plus our asset purchases abroad sum to *less than one* in absolute value.) These elasticities are the percentage change in quantities or dollar prices with respect to a percentage change in the international value of the dollar.

5. Some readers may remember some variant of the condition in note 2 (or note 4) above as a foreign exchange market stability condition, necessary and sufficient to make the elasticity to acquire and hold dollars, with respect to the international value of the dollar, negative. However, this is a stability condition only in models in which a money such as dollars is the only asset. In the present context, with exports, imports, non-money assets, and foreign money all trading against dollars, the stability condition would be that the weighted sum of the elasticities of the quantities of our exports *and* assets (other than dollars) sold to foreigners plus the elasticities of the dollar prices we receive for these sales exceeds the weighted sum of the elasticities of the quantities of our imports *and* assets (other than dollars) purchased abroad plus the elasticities of the dollar prices we pay for these purchases, with each elasticity weighted by the dollar value of its (export, import, or asset purchase or sale) transaction.

If money were the only asset, it might be reasonable to suppose that any trade deficit eventually would end. As the residents of the trade surplus country received more and more of the trade deficit country's money, eventually their demand for it would begin to become satiated and hence highly inelastic. Rather than continue accumulating trade deficit country money, trade surplus country residents would reduce their sales to the trade deficit country, or else increase their purchases from it, enough to end the trade imbalance. But this argument doesn't apply to a world containing a variety of assets, for which the total demand isn't likely to become satiated.

6. The opposite argument—that a large government budget deficit enlarges the foreign trade deficit and foreign investment surplus by raising U.S. interest rates—is plausible. However, the connection, if any, between budget deficits and interest rates depends on why the deficit is large—for example, whether an enlarged deficit results from an economic recession, a tax cut, an expansion of government spending on transfer payments, or an expansion of government spending on goods and services. (A recession tends to lower interest rates; economic expansion tends to raise them.) Similarly, an attempt to reduce the budget deficit could either lower or raise interest rates, depending on whether the deficit were reduced by a tax increase, lower government spending on transfer payments, or lower government spending on goods and services. It also would depend on how people reacted to the deficit-reducing policy, specifically whether U.S. private saving, and foreign investment in the U.S., rose or fell. Ultimately, interest rates are determined by the relative magnitudes of total saving (supply of loanable funds) and investment (demand for loanable funds), although many policy discussions seem to forget this fundamental.

Empirically, most deficit increases and decreases result from a combination of causes. Consequently, and not surprisingly, empirical studies generally don't support a straightforward "larger deficits raise interest rates" hypothesis.

Readers' Forum

To the Editors:

I read with interest Barbara Sall's article "Trickle Up: A Solution to Third World Poverty" in the April 1990 *Freeman*. While I believe that programs such as TUP do much to improve conditions for the poor, I think that TUP and other programs like it fail to address fundamental problems in the poor's access to credit. As a result, they can scarcely be called a solution to poverty but are at best a palliative. And at worst, by pretending to solve the problem, they distract attention from the real impediments to poor entrepreneurs in the Third World, and delay the implementation of policies that would truly rectify the situation.

By and large, these programs rely on charitable assistance to provide credit for the poor. But why don't the poor have access to domestic credit? The answer is to be found in Hernando de Soto's research in Peru. He has pointed out that the unavailability of credit to the poor is related to their lack of access to the legal system.

One of the requirements for acquiring a TUP grant is that the grantees must be able to secure the necessary government approvals and licenses. But, what happens when it takes 289 days of full-time effort to acquire such a license? What good is a micro-enterprise loan or grant when the costs of obtaining all the necessary government authorizations in a lawful manner rise to several times annual per capita income in the poor countries? (Hernando de Soto has shown this to be the situation for informal entrepreneurs in Peru.)

A long lasting and effective way of ensuring that the poor have access to credit is found in removing the legal and institutional obstacles placed in their way by mercantilist economic systems, and by fostering intermediary institutions so that they may have access to the legal and financial systems on a permanent basis.

Graciela D. Testa, Editor
International Health & Development
Washington, D.C.

Barbara Sall replies:

Graciela Testa has made some very important and positive points concerning the need to reform the legal and economic impediments to development in Third World countries. In fact, these needs were reiterated by Melanie S. Tammen, a policy analyst with

the Competitive Enterprise Institute in Washington, D.C., in the June edition of *Reason* magazine.

Tammen refers to Hernando de Soto's pioneering book, *The Other Path*, which "explains why only legal and regulatory reforms will permanently enfranchise Peru's microenterprises. . . ." So persuasive are de Soto's and others' arguments on the need for massive reforms in the way Third World countries do business, that even the World Bank is calling for legal reforms that would "make it easier to small enterprises with relatively large financial needs to use formal services."

But calling for a significant change in legal and economic policies that would allow very poor people to compete with the large family monopolies that are the beneficiaries of bureaucratic, legal, and regulatory controls is one thing—obtaining results that will bring in the little bits of money necessary to get poor families through one more day is another. Denying tiny enterprises their first chance at self-sufficiency for the long-range goal of changing hundreds of years of repressive policies may be impossible for people like the Leets, directors of the Trickle Up Program, to handle.

Instead, I would prefer to believe that the pressure of newly successful small entrepreneurs will be greater than any milquetoast reform guidelines imposed by the World Bank, AID, and other international development agencies. I seriously doubt that large Third World aid corporations will cease their number one task—that of funding the very regimes that deny credit and financial empowerment to the very poor.

The power of thousands of self-sufficient families, however, now able to educate their children and employ dozens of their relatives, to push for these extremely important reforms should not be underestimated. Likewise, the dismal track record of international aid organizations and reform-minded politicians in Third World countries should not be forgotten. As we have found only too often in this country, the removal of barriers to economic growth imposed by government is one of the most difficult tasks of a free people. It only becomes possible if those people have the ability to feed, educate, and shelter themselves. Any assistance toward those ends, such as the Trickle Up Program, will hopefully work toward the final goals expressed so well by Graciela Testa.

Barbara L. Sall
Boise, Idaho

The Quest for Community

by John Chamberlain

The Quest for Community, subtitled "A Study in the Ethics of Order and Freedom," was written in the 1950s by Robert Nisbet, a professor of sociology at Columbia University. Originally published by the Oxford University Press, it has now become part of the "ICS series in self-governance" published by the Institute for Contemporary Studies (243 Kearny Street, San Francisco, CA 94108, 272 pages, \$10.95 paper).

The book is confusing because pluralism, which Nisbet welcomes, is in itself confusing. As George Roche of Hillsdale College has said, we live in a "bewildered society." We come out of a 19th century in which men believed in individualism. They were satisfied to take status from membership in the "intermediate" organizations of the family, the church, the private school, the labor union, the sports club, the dramatic society, and so on. For the rest, they were happy in a world that believed in something called "progress." Community took care of itself.

But Tocqueville, that prophetic French visitor of the early 19th century, sensed troubles to come. Democracy was fine, but there could be tyrannies of the majority. The Founding Fathers, in dividing the powers of government, had done their best. But community was not a matter of elections and parliaments. It was a matter of man's relation to the cosmos in which we all must live.

Tocqueville worried about the strong drives of individualism and Statism which seemed to put inexorable pressure from two ends of the scale on the "intermediate" organizations. He saw the State stepping in to assume powers that should belong to groups of citizens. Unfortunately, citizens can be passive. The State didn't have to be the

wicked enemy of mankind that figures in the writings of Mencken and Albert Jay Nock. It didn't have to be vicious, as in Hitler's Reich or Stalin's gulags. It could aspire to be total in a nice way, with negligence taking over. But what of freedom? Tocqueville thought we could be conned out of it.

"Because of our single-minded concentration upon the individual as the sole unit of society," Nisbet writes, "and upon the State as the sole source of legitimate power, we have tended to overlook the fact that freedom thrives in cultural diversity, in local and regional differentiation, in associative pluralism, and above all, in the diversification of power.

"Basically," Nisbet continues, "all of these are reducible . . . to the single massive problem of political government to the plurality of cultural associations which form the intermediate authorities of society. . . ." Nisbet reworks this theme of diversification by quoting from a score of people to make the same point. Bertrand Russell, Montesquieu, Lord Acton, Proudhon, Frank Tannenbaum, David Lilienthal, Karl Mannheim, Lewis Mumford—all of them are lined up as proponents of setting unit against unit, power against power. The grand enemy is Rousseau's General Will. Decentralization is the word that can link anarchists (Proudhon), engineers (Lilienthal), and old-fashioned liberals together.

William A. Schambra, in his introduction to the new edition of *The Quest for Community*, says that Nisbet's work "stands among the most important social critiques ever written." There is no denying that every page of the book has provocative sentences. But the proliferation of quotations from so many other primary social critics gives Nisbet's

work the flavor of an anthology. Nisbet doesn't grant his readers the right to say, "Hey, you've made the point sufficiently strong in your own words. Why drag in all the corroborative voices?"

The justification for Nisbet's method is that it teaches. And Nisbet is first of all a teacher. Since he obviously hasn't found his "community" (he is still "questing"), he would be the last to claim the originality that Kant made the mark of the true creator. Nisbet would probably be satisfied to be known as a good teacher of the values underlying the free society. He can leave the hyperbole to others. □

DISCOVERY, CAPITALISM, AND DISTRIBUTIVE JUSTICE

by Israel M. Kirzner

Basil Blackwell, P.O. Box 1655, Hagerstown, MD 21741 • 1989 • 179 pages • \$29.95 cloth

Reviewed by Charles W. Baird

In three earlier books (1973, 1979, and 1985), Israel Kirzner developed his positive theory of market process which, he convincingly argued, is superior to neoclassical comparative statics as a framework for understanding how markets work in the real world. In the present book he employs the insights of his positive analysis to build a brilliant new theory of distributive justice, which he calls the "discovery theory of justice."

Just about everyone these days agrees that capitalism (meaning an economic system based on private property and voluntary exchange) does a better job of creating wealth than any other known economic system. But far too many still allege that capitalism fails to distribute that wealth equitably. Even the best known, and most respected, efforts to defend capitalist distribution—e.g., J. B. Clark's marginal productivity theory and Robert Nozick's entitlement theory—fail to convince the doubters. While Kirzner's arguments won't persuade all doubters, they are likely to reduce their ranks greatly.

The book is organized into seven easy-to-read chapters. In the first, Kirzner introduces his theme and outlines his argument. In chapters 2 and 4, he develops the key concept of discovery and explains its role in ongoing market processes. More about this later.

In chapter 3, Kirzner demonstrates that the discovery principle was overlooked by economists J. B. Clark, F. B. Hawley, Frank Knight, and

Joseph Schumpeter. Surprisingly, according to Kirzner, even Ludwig von Mises failed to grasp the normative implications of discovery. Although Mises' economic analysis incorporated the discovery principle, he defended capitalist distribution merely on utilitarian grounds. Philosopher John Rawls' view of economics is in the neoclassical tradition of welfare economics. Market processes and discovery are completely foreign to him. Although Robert Nozick's entitlement theory is consistent with a market process view of economics, he fails to incorporate any discovery concepts.

In chapter 5, Kirzner makes the case that once the role of discovery is fully understood, the well-known finders-keepers rule is seen to be applicable to the normative evaluation of capitalist distribution. In chapter 6, he defends the finders-keepers rule as a "widely shared ethical intuition" and shows how it overcomes the weaknesses of Nozick's entitlement theory. Finally, in chapter 7 he points out some of the questions—e.g., the problem of rectification of past injustice—which the discovery principle is incapable of answering.

My only substantive criticism of the book is that chapter 3 seems out of place. Chapters 2 and 4 naturally go together. So far as I can see, chapter 3 could easily follow chapter 4 without any disadvantage. It makes better sense to search for discovery in the work of others after discovery and its place in the market process have been fully explicated.

That said, the argument of the book is compelling. Briefly, and incompletely, it goes like this. There are two kinds of ignorance that every individual must cope with in the real world—ignorance of which one is aware and ignorance of which one is unaware. The first involves things which we know we don't know. We remain ignorant of some things by design simply because we don't think it is worth the trouble to find out about them. This sort of ignorance can be dispelled by deliberate search for the missing knowledge. It is the kind of ignorance that neoclassical economists address in the literature on information costs and search.

The second kind of ignorance, what Kirzner calls "sheer ignorance," refers to things that we don't know that we don't know. We simply have no inkling that any knowledge is missing. In many cases of sheer ignorance we would place a high value on the missing knowledge if it ever came to our

attention. We just fail to notice it or fail to see that it would be worthwhile to obtain. Sheer ignorance is dispelled by discovery. Discovery involves no deliberate deployment of resources in search; it comes spontaneously to those who are alert to new possibilities. A discoverer envisions a possible alternative state of affairs that he considers superior to the status quo. In other words, a discoverer is an entrepreneur who notices a hitherto unnoticed profit opportunity.

The next important distinction is between pure production and discovered production. In the former, a fully specified set of inputs is transformed into a fully specified output. This is the concept of production in neoclassical theory. Here it can be said that possession of the inputs guarantees possession of the output. The set of all inputs that are necessary (in the engineering input-output sense) for the physical production of the output can be considered inchoate output. The output can be attributed solely to the contributions made by each of the necessary inputs to the final product. This, indeed, is the basis of J. B. Clark's marginal productivity theory of factor incomes.

But in the real world things are not so simple. Given inputs aren't mechanically transformed into given outputs. Before any such physical transformation takes place someone has to envision the possibility that such production would be worthwhile. Someone has to discover the production possibility, assemble the necessary resources, and deploy the inputs. Desirable output goals and necessary means to those goals are not "given" to anyone. Discovery is the originative act upon which everything else depends.

Entrepreneurial alertness is fueled by the prospect of pure profit. Pure profit is defined as the difference between the price at which the output is sold and the sum of the prices paid for all of the inputs necessary, in the engineering input-output sense, for production. Entrepreneurship, therefore, is *not* a resource in the sense of neoclassical production theory. The pure profit gained by a successful entrepreneur cannot be defended as a Clarkian marginal productivity resource income.

But entrepreneurship is necessary for production in the sense that entrepreneurial discovery is the originative act upon which all production depends. In this sense it can be said that entrepreneurship is responsible for the whole of the final product. A successful entrepreneur discovers a

profit opportunity. Before the opportunity was discovered it did not exist in any economically significant sense. The discoverer can be said to have *created* the possibility, and it is a widely shared ethical intuition that a person who brings something into existence has a just entitlement to it.

Moreover, entrepreneurial discovery amounts to creation *ex nihilo*. The entrepreneur does not deliberately deploy any resources in discovery. The entrepreneur simply notices that which hitherto has been overlooked by everyone. The entrepreneur finds the profit opportunity, and, if we subscribe to the widely shared ethical intuition called the "finders-keepers" rule, we must conclude that the entrepreneur has a just entitlement to the pure profit that results.

Here I have a quibble. In chapter 2, Kirzner explains the difference between discovery and search. He writes, "One may, as a result of searching, 'find' something valuable that one sought. But the verb 'to find' in this context, is not at all the same as the verb 'to discover.'" In chapter 5 he adopts "finders-keepers" as the name of the ethical principle upon which to base his discovery theory of justice. This seems contradictory. Presumably he uses "finders-keepers" because that is the common name attached to the idea. But precisely because the name is so common, some may dismiss the principle as trite. Perhaps a better name for the principle would be something like "creators-keepers" or "originators-keepers."

Lest one think that the discovery principle applies only to a relatively few people called entrepreneurs and only to one sort of income called pure profit, Kirzner goes on to explain that every income received by every transactor in a capitalist economy includes a discovery component. As Mises pointed out, and as Kirzner has often reminded us, although it is analytically useful to separate the role of the entrepreneur from the role of resource owners and the role of consumers, everybody is an entrepreneur. A seller of labor is never in the position of merely having to choose from a well-defined and ranked set of alternatives. Neither is a capitalist, a landowner, or a consumer. Markets are never in neoclassical equilibrium. No one is ever sure what the available means and ends are. All decision making is done in the presence of at least some sheer ignorance. Better employment alternatives, better investment alternatives, better purchase opportunities, and better prices all must

be discovered. Doing the best you can for yourself, no matter what that means to you, requires alertness and entrepreneurial discovery. Discovery and the finders-keepers rule are applicable to all incomes.

One of the highlights of the book is Kirzner's discussion of supply and demand in chapter 4. Neoclassical analysis is centered on market-clearing prices and quantities—where supply and demand intersect. But most markets are out of equilibrium most of the time. Kirzner's description of the role of discovery in the actions of all transactors in any market in disequilibrium is the most complete and most convincing I have ever seen. It should accompany every lecturer's discussion of the famous scissors diagram.

Although Kirzner's discovery theory of justice is much more than a mere supplement to Nozick's entitlement theory, Kirzner deploys his theory to overcome two major objections that have been leveled against Nozick's arguments. Nozick's theory includes justice in original acquisition of titles to things and justice in transfer of such titles. Nozick uses Locke's labor theory of property to define his principle of justice in acquisition, and he bases his principle of justice in transfer on voluntary exchange. The former has been challenged on the grounds of the Lockean Proviso, and the latter has been challenged on the basis that an exchange is not truly voluntary unless all transactors give their informed consent.

According to Locke, one gets a just entitlement to an unowned gift of nature by being the first to mix his labor with the gift of nature providing that "there is enough, and as good left in common for others." In a world of scarcity, dissenters say, the proviso can never be met. Thus private property titles to what are originally gifts of nature cannot be justified. Ironically, it is only in a world of scarcity that the institution of private property is significant.

Nozick tries to escape this problem by redefining the proviso to require only that the acquisition of title not worsen the condition of others. Nozick claims that the wealth-creating characteristics of capitalism make it possible to avoid worsening the condition of others. Thus Nozick, like Mises, relies on a utilitarian defense of capitalist distribution.

Kirzner thinks, and I agree, that Nozick's modification of the Lockean Proviso isn't likely to persuade dissenters. More important, Kirzner explains that the principle of discovery makes the Lockean

Proviso irrelevant. The act of mixing labor with a hitherto unowned gift of nature has to be preceded by the originaive act of the discovery that such an acquisition would be worthwhile. It cannot be said that such an act of acquisition diminishes what is available to others. Before the discovery, the acquisition wasn't available to anyone.

Those who challenge Nozick's principle of justice in transfer do so on the grounds that in many ostensibly voluntary exchanges at least one party doesn't divulge all he knows to his exchange partners. Thus such exchange partners don't give their informed consent to the exchange.

For example, consider simple arbitrage. An entrepreneur notices that someone is willing to sell something at a price that is significantly lower than the price that someone else is willing to pay for it. The entrepreneur grasps the opportunity by buying low from the first person and selling high to the second person. The entrepreneur, however, could not do so if the over-eager seller knew the price that the over-eager buyer was willing to pay. Nor could the entrepreneur do so if the over-eager buyer knew the price at which the over-eager seller was willing to sell. By withholding such information, the entrepreneur makes it impossible for the others to give their informed consent. Hence, the dissenters say, the entrepreneur's gain cannot be justified.

Here again, the principle of discovery overcomes the objection. The opportunity for the low-price seller to sell directly to the high-price buyer did not exist in any practical sense prior to the entrepreneur's discovery of the price discrepancy. The buyer and the seller did not know of each other, and, moreover, they did not know that they did not know of each other. The possibility simply never occurred to them. The discovery of the possibility actually created it, and, in accordance with finders-keepers, the entrepreneur is entitled to the pure profit he created.

With the collapse of Communism, the only serious obstacle to the eventual universal adoption of the private property, voluntary exchange economic system is the continued perception by many that capitalist distribution is unavoidably unjust. Kirzner's book is a major contribution toward the correction of that perception. □

Dr. Baird is Professor of Economics at California State University at Hayward.

THE FREEMAN

IDEAS ON LIBERTY

324 The Census: Eyes of the Intrusive State

Erik A. Johnson

How did the elementary "enumeration" of the U.S. Constitution become the compulsory categorization of today?

328 What's Happened to Community Spirit?

James L. Payne

Moving toward a society of helpful, caring individuals.

330 Ezekiel's Job

Ridgway K. Foley, Jr.

Wisdom concerning the differences between proper belief and proper respect for the beliefs of others.

335 The Strongest Man

Gary McGath

Standing alone in opposition to government encroachment.

338 School Budgets and Town Meetings

R. W. Boehm

The involvement of government in matters beyond its proper role.

340 Mandated Airline Safety Seats Won't Increase Travel Safety

John Semmens

Attempting to force everyone to make the same choice diminishes individual freedom and enlarges hidden risks.

341 Air Bags—More Government Hot Air?

Anthony Young

Regulation of the automobile has taken on a life of its own.

343 Aquaculture: The Birth of an Industry

J. Brian Phillips

A look at fish farming.

347 What Makes a Market?

Ross C. Korves

Individual freedom is vital to the development of a market.

349 The First Civil Right Is Safety

Scott C. Matthew

The core function of government has been nearly forgotten.

350 Rights, Law, and Morality

Douglas B. Rasmussen

What is the fundamental difference between morality and law?

353 Freedom of Speech/Freedom of Ownership

Bill Anderson

Preserving "artistic free expression."

354 Another World

Richard L. Leshner

Welcome to the inefficient world of bureaucracy.

355 Book Reviews

John Chamberlain reviews *Breaking With Communism: The Intellectual Odyssey of Bertram D. Wolfe* edited by Robert Hessen. Also reviewed: *The Farm Fiasco* by James Bovard; *The Coming Soviet Crash* by Judy Shelton; *Economics and the Environment* edited by Walter Block.

CONTENTS
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Oil Spills

The *Exxon Valdez* in Alaska spilled over 10 million gallons of oil into the ocean. This was the third largest oil spill in history. In 1978 the *Amoco Cadiz* spilled 68 million gallons, and the largest spill was on the Yucatán in Mexico where an offshore oil rig spilled 155 million gallons of oil. But these are only the tip of the iceberg. For every gigantic oil spill, there are dozens of smaller spills of 10,000 gallons or more. These spills provide great danger to the shore line and to marine life. Concerned environmentalists often charge that the market has failed and we need more government intervention.

I think the causes are very different. First of all, in the case of the *Exxon Valdez*, the proximate cause was the fact that the captain allegedly was drunk and was in his cabin while the third mate, who wasn't qualified to operate in those waters, was piloting the ship when it went aground. You might ask yourself why Exxon didn't take greater care to be sure that an alcoholic wasn't given such an important task. What economic incentive did this firm have to act so irresponsibly? Is Exxon run by people who don't care—even about the bottom line? Certainly not. One of the problems is that in the U.S., and increasingly in Canada as well, there are laws against firing people who are handicapped. Alcoholism has been declared a handicap. So if we want to lay blame on someone, let us not look to Exxon. A large share of the blame belongs to these unwise legislative enactments which make it very difficult to fire people who are identified as handicapped.

There are other problems as well. The liability of companies who spill oil into the ocean is limited to the value of the cargo and the ship. This doesn't make any sense. You would think that in any rational set of laws the liability would be limited to the damages. Perhaps one of the reasons Exxon didn't double-hull its ships is because the liability was limited artificially by unwise laws. Another aspect of the problem is that fishermen have no standing to sue because they are not deemed to be the owners of the fish, even though they certainly are financially victimized by oil spills.

I am not saying that if we had a legal system more consonant with free enterprise principles there would be no oil spills. The market is not a

guaranteed cure for everything. As long as there are human beings involved, there will be mistakes. But certainly, were we allowed to use market principles to help safeguard ecological systems, our society would be a lot better off than under the present system where we are not.

—WALTER BLOCK
The Fraser Institute
Vancouver, Canada

(Note: Please see p. 359 for a review of *Economics and the Environment: A Reconciliation*, edited by Walter Block.)

Homelessness

Rent controls, building restrictions, zoning, artificially restricted and high-priced labor all contribute to the problem of the homeless. Anything that discourages building, imposes rules and regulations to make housing more expensive, plays a role. For instance, the village where I live just denied a builder's request to subdivide a large tract of land and construct 89 new homes; he will be permitted to erect only 59. On that account, 30 families who would have bought houses in this village will not be able to do so.

If these 30 families had not been deprived of the opportunity to move to new and better housing, they would have offered their present homes on the market, making them available to others who could afford only secondhand housing. As 30 other slightly less affluent families then moved up to those 30 somewhat better homes, *their* homes would become available. And so on down the line. At some stage in the process, 30 residential units,

vacated by their present occupants, would be converted into smaller apartments or rooming houses for the very poor.

In a free market economy, housing is continually being shuffled in this way from the present occupants to would-be homeowners and tenants across the entire economic spectrum. In time, even the demands of the very poor are met. When government interferences raise the cost of construction, this process is hampered. The poor who are the least able to pay for housing are the ones who suffer the most.

—BETTINA BIEN GREAVES

Farm Subsidies

Farm subsidies—roughly \$25 billion a year in Federal handouts and \$10 billion more in higher food prices—are the equivalent of giving every full-time subsidized farmer two new Mercedes-Benz automobiles each year. Annual subsidies for each dairy cow in the United States exceed the per capita income for half the population of the world. With the \$260 billion that government and consumers have spent on farm subsidies since 1980, Uncle Sam could have bought every farm, barn, and tractor in 33 states. The average American head of household worked almost one week a year in 1986 and 1987 simply to pay for welfare for fewer than a million farmers.

—JAMES BOVARD
The Farm Fiasco

(Note: Mr. Bovard's book is reviewed on pp. 356-357 of this issue.)

The Census: Eyes of the Intrusive State

by Erik A. Johnson

In 1790, David Howe of Hancock County, Maine, accepted the responsibility for counting the number of people in an area of his state loosely defined by such natural boundaries as foothills, forests, and streams. When he had finished, he posted in several public places his list of the "Whole Number of Persons Counted" (9,549), naming only heads of households and offering as his only statistical analysis the fact that he had included in the enumeration inhabitants of "some isles" not part of "named towns." In a letter to the federal government which accompanied his simple report, Howe opined that he had adequately discharged his duties merely by doing the best possible job under the circumstances.

President Washington would have been quite satisfied with Howe's work on that first Federal census, inasmuch as his own expectations about its scope and accuracy were quite low. Even before the effort was undertaken, Washington had written that "one thing is certain: our real numbers will exceed, greatly, the official returns of them; because the religious scruples of some, would not allow them to give in their lists; the fears of others that it was intended as a foundation of a tax induced them to conceal or diminish theirs; and thro'

the indolence of the people, and the negligence of many of the [census-takers] numbers are omitted."

The bicentennial census of 1990, on the other hand, is being administered by bureaucrats who have much higher expectations for its results. By amassing data on farms, factories, commerce, communities, institutions, and individuals, the United States government can better manage the myriad programs which seek to fund and administer the needs of the nation and its people. This, at least, was the message of the massive national advertising campaign of early 1990, which exhorted Americans to fill out census questionnaires with between 13 and 58 more questions than are necessary for a straightforward enumeration.

In 1790, David Howe simply went about counting people, asking only for the names of heads of households and the number of people in them. But in 1990, in addition to requesting basic name and address information, Bureau of the Census interrogatories delved into Americans' mortgages, pregnancies, language proficiency, work habits, intimate relationships, and indoor plumbing, empowered by a Federal law that makes noncompliance punishable by a fine of up to \$500. How did the simple census of 1790 evolve into the invasive census of today? How did the elementary "enumeration" of Article I, Section 2, Clause 3 of the

Erik A. Johnson, a writer and publishing consultant in southern California, is the former Managing Editor of The New American magazine.

United States Constitution become the compulsory categorization of today?

An Insider's View of the Census

Despite its big-government bias, Ann Herbert Scott's *Census U.S.A.: Fact Finding for the American People, 1790-1970* (New York: The Seabury Press, 1968) is perhaps the best book on the history of the U.S. census. Scott, who worked as an enumerator in the agricultural census of 1964, acknowledges in her book that the Bureau of the Census provided "working headquarters and enthusiastic assistance" while she was writing *Census U.S.A.* in the late 1960s.

Yet, despite the fact that it often reads like a press release for government "information gathering agencies," *Census U.S.A.* is a well-researched and comprehensive work. Moreover, the book assembles and organizes a great deal of information from many disparate sources. But most important, because it was written by a professional amanuensis for the welfare state, *Census U.S.A.* offers not only historical facts but insight into the way the census is being used to justify expansive government.

At the Constitutional Convention, Scott explains correctly, it was determined after much debate that a single head-count for the purposes of apportioning representatives and direct taxes made the most sense: The states would not be tempted to arrive at a fatter figure for the former and a leaner one for the latter. "It was the practical problem of balancing power—rather than a scientific interest in obtaining statistics on the people—that gave birth to the census," Scott writes. It wasn't long, however, before politicians and bureaucrats began to expand the meaning and the manner of the decennial census to meet the growing "needs" of a growing government.

Throughout the early 1800s, the census increased in scope and complexity. In addition to including information on manufacturing, agriculture, and foreign trade, by the 1840s the census sought to count and categorize the convicts, the deaf and dumb, and the "insane and idiots" in American society. Scott notes that Martin Van Buren, who supervised the 1830 census and later became the nation's eighth President, was an early proponent of a strong executive branch and sup-

ported broad governmental investigation of American society through ever more scientific and specific census questions. For the first nine censuses, incidentally, information was collected by U.S. Marshals and their special deputies.

Legislation passed in 1879-80 created a Census Office in the Department of the Interior and took census responsibilities away from the U.S. Marshals. Soon thereafter, 150 "census supervisor" positions were added to the burgeoning Federal bureaucracy and filled by civil servants and political appointees. These supervisors reported to a superintendent appointed by the President, which serves to explain why the census process in the last two decades of the 1800s fell victim to the effects of bureaucratic cronyism and party politics. In 1902, the Bureau of the Census received its present name and permanent status in the Federal bureaucracy.

By the end of the 19th century—about the time that our government began to flex its muscles in the formerly private realms of commerce and industry—the purpose of the census was clearly not enumeration but the collection and analysis of information for central planning. By the first decade of the 20th century—when our once-isolationist nation began to be enamored of its new military strength and the trappings of empire—the once-public listings of "persons counted" had been replaced by secret reports providing much more than population information to a federal government interested in more than simple statistics.

New Deal, New Powers

During the early decades of the 20th century, the Bureau of the Census managed to stake out its bureaucratic turf, justify increased budget allocations, and consolidate power through political alliances. When Franklin Roosevelt brought his interventionist philosophy to Washington in 1932, the Bureau of the Census was ready to provide grist for the mills of the New Deal.

According to Scott in *Census U.S.A.*, Roosevelt began "the peaceful revolution which . . . brought all parts of the federal government under new direction" and managed to convince an extraordinary number of Americans "that the welfare and security of the people [were] the accepted responsibility" of the state. Naturally, the concomitant redistribution of wealth, control of wages and prices, and regulation of business would proceed

more smoothly with central plans constructed from statistics and analyses supplied by the Bureau of the Census.

Roosevelt's appointee as Director of the Bureau, William Lane Austin, had an address book full of politicians and professors who would soon become plenipotentiaries in his activist agency. For his assistant director, Austin brought in Dr. Stuart Rice, president of the American Statistical Association and a proponent of scientific social engineering. Rice proceeded to increase the number of professional and scientific employees at the Bureau six-fold and initiate additional census studies (called "surveys") between decennial years.

In her chronicle of the Bureau's New Deal years, Scott reports with evident approval the fact that leading populists, progressives, and socialists of the era were pleased with FDR's attempts to hot-wire the engine of capitalism with plans based on "scientific studies"—many of which, of course, were based on census data. Scott admonishes her readers that "the capitalist machine is not automatic . . . man must watch and control it"—then quotes a John Maynard Keynes letter to President Roosevelt in which the economist praises FDR for trying to "mend the evils of our condition by reasoned experiment." Keynes goes on to tell the President that, if the experiments succeed, "new and bolder methods will be tried everywhere, and we may date the first chapter of a new economic era from your accession to office. . . ."

From the end of Roosevelt's reign until Scott wrote her book in the late 1960s, each new Administration had the Bureau of the Census concentrate on three main tasks:

(1) the ongoing modernization of its information systems, which quite literally have metamorphosed from hand-crank adding machines to state-of-the-art computers;

(2) the production of more numerous and more sophisticated abstracts of data in nearly every possible permutation, which can then be provided to businesses for marketing purposes and, naturally, to other agencies of government; and

(3) the efficient integration of requests for new or updated information into decennial censuses and interim surveys.

By the time *Census U.S.A.* was published in

1968, social and economic engineers had already convinced the majority of Americans that big government was here to stay.

Down for the Count

After two centuries and 21 censuses, we've arrived at the clear dividing line between the government's desire (not its right) to know about us and our right (if we so desire) to maintain our privacy, a thin line underscoring the word "compulsion." There is opposition to the compulsory census from all points on America's political spectrum, but there is not yet sufficient support in Congress for remedial legislation. (In 1976, the House of Representatives voted 248 to 140 to abolish all civil and criminal penalties for refusal to answer census questions, but the bill died in the Senate.)

Political figures of such philosophical diversity as conservative Republican Strom Thurmond, 1988 Libertarian Party Presidential candidate Ron Paul, and liberal Democrat George McGovern have spoken out against the compulsory nature of the modern census. McGovern, a man not normally associated with the principles of limited government, summed up well the Constitutionalist ideal of individual liberty vis-à-vis government information gathering: "There may be a legitimate purpose to be served by questions in the census, but I can think of none that surpasses the right of each individual citizen to be secure against government intrusion into his private affairs. Certainly the decision whether to answer inquiring government beyond numerical count should be left to the individual."

The reason that the original few head-count questions of the 1790 enumeration have been lost amid the queries concerning real estate value, employment, and personal lifestyle in the modern census is quite simple: In order for the government to do everything for you, it needs to know everything about you. Sadly, this justification for governmental intrusion into private affairs is accepted today by a majority of Americans of all ages, from both major political parties, in every region of the country.

Two fundamental lessons in liberty emerge from the study of the mutant census:

(1) that a collectivist state, whether democratic or totalitarian, cannot survive without intimate



"Taking the Census," a drawing from the 1870s.

information about its people with which to design and administer its central plans; and

(2) that the accumulation of such information will inevitably lead a free society into collectivism, as politicians both altruistic and Machiavellian justify regulation, intervention, and social programming for the amelioration of innumerable slights, plights, and injustices, real or imagined.

Over the last 200 years, the U.S. government has accumulated more and more information on the American people and their activities while politicians and special interest groups have used the data to perform social surgeries. But the more they operated on society, the more they wanted to know about the patient. Thus began the vicious cycle: more data leading to more programs, more programs producing more data, which lead to

still more programs producing more data, and on and on.

According to the cliché, a little knowledge is a dangerous thing. But in the dossiers of an unrestrained state, a little knowledge is very dangerous, while a lot of knowledge can be downright deadly. With questionable legislation but unquestioned police power behind it, the Bureau of the Census continues to pry into people's lives and add to the federal government's store of knowledge about American citizens. But considering the mounting Congressional opposition to the compulsory census and Americans' increasing awareness of governmental excesses, census bureaucrats might encounter growing resistance as they put the finishing touches on the 1990 study. In fact, they should count on it. □

What's Happened to Community Spirit?

by James L. Payne

Are people as considerate as they used to be? Drive through any large city and you don't even have to get out of your car to know the answer. You can see the vandalism that has destroyed property, the graffiti that insults the passerby, the litter and trash thoughtlessly thrown, the steel grillwork to check the press of crime. The occasional jogger runs with an attack dog.

What we see in the streets is reflected at other levels of society. Professions that used to be characterized by an ethic of service and self-sacrifice, such as nursing and teaching, are now known for strikes where members abandon their responsibilities for personal gain. Bankers and brokers overlook their fiduciary duties to make personal "killings." Even our top "public servants," the Congressmen, are a national scandal, grasping for higher incomes and benefits at the expense of the community. Today, everybody seems to be reading *Self* magazine.

What can be done about all this selfishness? How can we move toward a society of helpful, caring individuals? Several generations ago, a lot of reform-minded people thought they had the solution. It was government. Government was supposed to amplify our community-oriented impulses in helpful, compassionate programs. Government was supposed to check our self-centered disregard for others and make us behave nicely. Obviously, something is fundamentally wrong with this theory. Over the past century, government helping and correcting programs have

multiplied many times over. Yet instead of a society of considerate, sensitive individuals, we have an alarming jungle. What happened?

The answer is that reformers didn't understand government. They overlooked the fact that government is a coercive institution, that it works by using physical force to push people around: guns, billy clubs, handcuffs, and jails. Once you realize that, you begin to see why government action undermines community spirit. Forcing people to do things, even nice things, does not make them nice; it makes them resentful and self-centered.

Suppose your neighbor has a barking dog that is bothering you. If you take a gun and threaten to kill him and his dog, he will probably do something to end the barking. But is he going to feel helpful toward you in the future? If your battery is dead some freezing night, is he going to get out of bed to give you a jump start?

The same principle applies when "society" uses force. Take a simple example. In 1988, the Internal Revenue Service levied 2,153,000 accounts of some 1,133,000 taxpayers. That is, it sent banks and employers letters demanding money belonging to the taxpayer. Employers and banks complied because the IRS threatened to use force against them if they didn't.

How did these million-plus taxpayers feel about this? They went to the bank and discovered that their savings were gone, or their checking account was wiped out and their checks were bouncing. Perhaps the levy was an IRS mistake (there are hundreds of thousands of these), but even if it wasn't, the individual is bound to be angry. Political philosophers may say this seizure process is necessary to enable the government to help the

*James L. Payne has taught political science at Yale, Wesleyan, Johns Hopkins, and Texas A&M. He is working on a book on negative effects of tax systems, *Hosting the Federal Banquet: The Overhead Cost of Taxation*.*



needy, but our taxpayer is not a philosopher. He feels “ripped off,” robbed by “society.”

What, then, will be his attitude toward “society”? As he drives home, is he going to be patient and courteous toward other drivers? Does he feel that it’s his duty to make the world a better place for others? More than likely, he is looking for an opportunity to get back at the impersonal “they” who injured him, by defrauding the phone company, or a department store, or a stranger with whom he does business. And so continues the cycle of selfishness and harm, initiated by the government’s use of force.

Federal, state, and local governments are now making wide use of coercion to produce desired behavior in a myriad of activities. Force is being used to dictate hiring and firing decisions. Force is being used to prevent all but officially approved individuals from operating schools, restaurants, bus lines, clinics, beauty salons, and scores of other enterprises. Force is being used, through the government’s legal liability system, to enable individuals to pursue real and imagined

grievances against businesses, professionals, and neighbors.

Each instance in which force or the threat of force makes someone do what he didn’t want to do adds to the cynicism. The individual is increasingly persuaded that he lives in a hostile world and must protect himself. And so he indoctrinates his children, his friends and acquaintances: you’ve got to watch out for number one. Talk about helpfulness and self-sacrifice is for saps. The message spreads, even to Congressmen.

How to reverse the process? The answer is simple, but many will have to swallow hard to accept it: recognize what government is. Make explicit the fact that government involves the use of physical force. When, for example, Congress takes up the issue of access for the handicapped, don’t say, “We should use government to help the handicapped.” Say what you mean: “We should use coercion to help the handicapped.”

Once we recognize what government really is, it will be easy to notice how we undermine civility by resorting to it. □

Ezekiel's Job

by Ridgway K. Foley, Jr.

Basic distinctions often prove elusive. Whether by virtue of inattention, human resistance, lack of comprehension, or some indefinable perversity of life, we human beings often fail to grasp and act upon the most central differences both of concept and deed. As a result, all manner of disappointing and disturbing events take place, inasmuch as one misstep at the outset of a journey can foreordain an unexpected destination.

Consider one such essential distinction: personal belief and action premised upon a set moral code versus the coercive imposition of one's moral strictures upon another, unwilling human being. The dissimilarity is fundamental and not particularly obscure; yet, the blurring and commingling of these two very different precepts (and their attendant activities) have vexed men and women across time.

Ezekiel provides insights into this common and perplexing situation. Of course, it is not "with it" to relate modern problems to some old fellow who lived long ago and far away; in the skeptical and intolerant climate of today, so lacking in the civility of open thought, it just does not meet the modern dictates of intellectual exclusivity to refer to the Bible, to Christianity, or to any traditional religion—particularly one with established attitudes of "right" and "wrong." Yet the Book of Ezekiel lays a firm foundation from which all of us, no matter our religious persuasion, may investigate the differences between proper belief and proper respect for the beliefs of others. After all, the es-

sence of the human condition remains unchanged despite the passage of centuries.

Recall the backdrop of history. The Jewish people received the gift of insight into the very marrow of the individual—the ability to choose, to evaluate, and to select among alternatives, and in so doing to affect not only the actor's destiny but also the course of a lineal world history: "... I have set before thee this day life and good, and death and evil. . . . I have set before you life and death, blessing and cursing: therefore choose life, that both thou and thy seed shall live. . . ." (Deut. 30:15,19)

These ancient men and women displayed the same features and failings as we do. At times they made venal, undesirable, and unwise choices, and as a result suffered the inexorable consequences which flowed from their conduct. As a nation, ancient Israel waxed and waned: Things worked out well when the people adhered to the Decalogue, and bad times followed their evil exploits. God endowed men with freedom, even the freedom to forsake Him and to choose wrongly, for freedom necessarily entails the freedom to fail. Although the ineluctable law of cause-and-consequence foretold unpleasant sequels from inappropriate acts, the Jews of old seemed hell-bent on the eternal folly of trying to beat the house.

Now and then, when the Hebrew nation deviated sufficiently from the proper standard of behavior, God sent a prophet, a man assigned to remind His flock of the rules of the game and to warn them of the inevitable lunacy of trying to avoid responsibility for their wickedness. Sometimes the body politic listened; more often, the people ignored, joshed, or abused the prophet.

Enter Ezekiel

Ezekiel was one of the major prophets, a chap God called forth 26 centuries ago during one of those troubled times for Israel. Prophets were role players; they were given a part to play without a thought of the consequences. They spoke to largely hostile audiences. They faced uncomfortable, and sometimes dangerous, situations. They forsook popularity, credibility, status, and wealth. In return, they knew that somewhere, somehow, a dutiful Remnant¹ would hear and heed the words they uttered as God's intermediary.² Ezekiel fit right into this tapestry of history and role of prophet. God instructed him and he, in turn, carried the message to those of the multitude who chose to listen. And, it is that critical message recorded in Ezekiel 33:1-11 which edifies us specifically as to the dichotomy between personal commitment and coerced orthodoxy.

Ezekiel 33:1-11 imparts threefold tidings. First, God tells His people "I have sent thee a watchman" (Ezek. 33:7) and He outlines the obligations of the watchman. Second, He advises the Remnant of the duties laid upon those who hear His watchman. Third—and most saliently for our present purpose—He answers the ageless inquiry of the listeners, "How should we then live?" (Ezek. 33:10)

How should we then live? Distinguish between the encompassed relativism of a humanistic "man is the measure of all things" precept and an understanding that imperfect individuals will profess different beliefs. It is one thing to ascertain for oneself how the moral life is to be lived; it is quite another matter to impose that particular view upon an unwilling neighbor. The Christian may think it great folly for each man to live according to his internal moral code oblivious to God's law ("ye shall be as gods," Gen. 3:5), or "each individual's innate sense of truth and justice"; does this profession of faith necessarily or properly vest in the practicing Christian the right to compel all others to accept his creed? Or rather, doesn't the modern theocrat—be he religious, atheistic or agnostic—confuse subjective value with moral absolutes?

Thus, the Remnant through Ezekiel asked God, "How should we then live?" and received a simple and direct mandate: "As I live, saith the Lord." (Ezek. 33:11) Yet, simple declarations may cloak

deeper lessons. Surely, reflective men and women in the sixth century before Christ, as now, wondered how the Lord did live. And, for the Jew of 2,600 years ago, as for the Christian in the late 20th century, the answer appears in the recorded reports of eyewitnesses to history.³

God's Answers

God often provided sound answers to this secondary inquiry (How does the Lord live?) for Old Testament followers. For example, in the entire passage from Deuteronomy abstracted heretofore, God directed His people to follow His statutes and laws (see Deut. 30:15-19), a message often repeated but seldom heeded. He condensed His rules of conduct in the Decalogue (Ex. 20:1-17), a precise summary not dissimilar from the essential teachings of most of the world's great religions, and not wholly unlike the alleged inbred "innate moral sense" so popularly presupposed in current lore to reside in all individuals.

Somehow, the content of these simple yet exact rules of order either escaped most folks or suffered the serious amelioration of convenience. Hebraic law became burdensomely formal and uselessly coercive, smothering the essence in arid dust. People became baffled: How did God live? Was it as some neighbor declared? Or according to the local prophet, general, or rabbi? Couldn't these restrictive commandments be modified just a bit to fit a particular case which coincidentally happened to be of personal interest to the inquirer? Didn't modern times mandate more modern and less archaic solutions? And so the waxing and waning of the Old Testament travails continued unabated long after Ezekiel departed.

For the Christian, a remarkable and unprecedented event occurred 2,000 years ago: God answered the secondary inquiry (How does the Lord live?) in a unique and direct way. God became Incarnate, sending His Son in the form of a man, to live among witnesses, to encounter and suffer the range of human events and emotions and, incidentally, to show us just how the Lord does live.

In the examination of Jesus' life, set against the backdrop of the Old Testament law, we see not only how the Lord lives but also the stark distinction between principled personal belief and the mandate to respect the beliefs (no matter how dis-

similar or possibly erroneous) of others. Simply put, Jesus lived a life of pristine purity: He adhered to the essence of the Ten Commandments and eschewed sin and evil. He built no monuments to His reign; He assembled no mighty army to strike down the soldiers of Satan; He accepted no patronage; He granted no special favors; He left no estate of substance. In short, Jesus lived quite unlike any human being, ruler or ruled, in all of human history.

Did Jesus ever force anyone to believe, to chant His praise, to recite His creed, to follow Him? Did He ever box the ears of an unreceptive and hooting audience and charge them to "be Christians and do exactly as I say and do or I'll whomp you"? Did He ever ostracize or humiliate those who declined His offers? There is absolutely *no* evidence of such behavior.

Peter presents the perfect counterpoint, the epitome of demonstrative evidence. Once Peter figures out who his Master is he immediately suggests building a grand temple (Matt. 17:4-9); he admonishes Jesus that He must avoid His trip to Jerusalem and His destiny on the cross (Mark 8:31-33); and, in the garden, he slices off the ear of the servant of the high priest (Matt. 26:51-52). In every instance, Peter's actions earn stern rebukes, for Peter behaves as men do, not as the Lord does.

Abundant Lessons

Layers of lessons abound in the Lord's answer to Ezekiel's question, and each layer offers guidance for believer and nonbeliever alike.

First, Ezekiel and his counterparts must adhere to principle in a sea of challenge, doubt, and seduction. Absolutes in the form of correct choices and proper principles do exist; consequences flow from all choices, results that must be endured, events that beget future choices. Selection between alternatives may be made randomly, thoughtlessly, malevolently, or may rest upon the basis of the actor's understanding of, and adherence to, fundamental principle. The principled individual is charged to live scrupulously, to make the right choice at each and every opportunity, be he Christian or Jew, atheist or agnostic; the distinction exists in the standard.

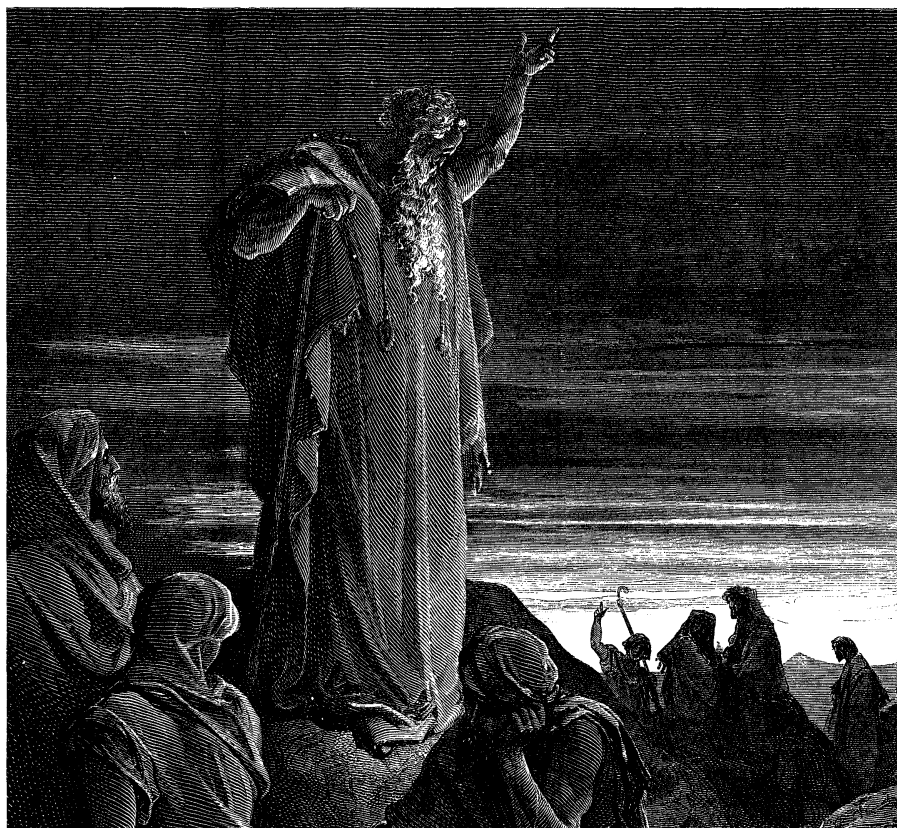
When the moral individual refuses to soften this quest for perfection, he is often met with derision, enticement, or compulsion. In this regard, scant

differences separate the doctrinaire libertarian and the overzealous Christian. There appears a natural human tendency to challenge the beliefs of others, first through shunning and scorn, last by force and fraud. Those most inflexible in principle seem to suffer the greatest assaults, possibly because the traducers implicitly recognize the propriety of the upright and seek to wrench them down to their level.

Disorderly man occupies an orderly sphere and setting. Gifted with the power to choose, flawed mankind necessarily makes poor choices on occasion, for freedom encompasses the power and the right to be wrong. The Christian is called only to be a faithful steward, not a perfect one. Perfection is our goal; it is not within our grasp. A sentry at Buckingham House, two and one-quarter centuries back, put it artfully: "But, Sir, if GOD was to make the world today, it would be crooked again tomorrow."⁴ Intolerance of human failings—of self or others—often eclipses the quest for betterment; this inherent intolerance leads directly to the second layer of understanding and the dichotomy between principle and force.

Second, then, Jesus' answer to Ezekiel's inquiry aptly illustrates the difference between holding and practicing a belief and demanding adherence by others to that ideal. While men are flawed, God is not; yet Jesus did not command obedience to His banner although He knew it to be true. Nor should men. Indeed, since men—unlike God—do not inevitably *know* that they hold proper principles and exhibit correct behavior, they ought not compel others to accept and adopt a possibly flawed precept.

Ample manifestations of the impermissible blurring of principle and command appear upon reflection: the religious zealot who seizes the machinery of government, establishes a state religion *de facto* or *de jure*, enacts blue laws, and orders compulsory chapel; the arid libertarian who, intolerant of any suggestion that others might reach similar results from dissimilar bases, mocks his Christian counterpart out of the discussion; the well-meaning sophisticate concerned about the homeless, the young, the irascible, or the disabled, who induces the county commission to use tax revenues to pay for shelters and rehabilitation centers; the illiberal liberal who concocts false testimony concerning, and selectively applies state legal sanctions against, disliked religious persons



GUSTAVE DORÉ

Ezekiel.

or groups who hear a different voice and dare to speak out. Sadly, the list appears endless: For religious and agnostic alike, the concept of “witness” has all too often transmuted proper belief and the quest for moral excellence into an evil charade replete with clever rationalizations, as each individual seeks to impose his agenda upon all others, to limit the discussion to prescribed topics, and to foreordain all solutions, hence circumscribing human action with his own finite boundaries in the name of his “truth.”

Third, Ezekiel reveals the role assigned to the committed: They are called to be watchmen (Ezek. 33:1-10). Watchmen perform specific tasks: They search out the truth, live out the truth, and speak out the truth, in order that others may hear and assimilate. No one expects a watchman to battle those about him. Watchmen cry out; they sound the tocsin; they raise the alarm; but Ezekiel does not suggest that the watchman’s obligations include compelling anyone to believe, to profess, or to act in any discrete manner. Instead, God’s watchmen provide knowledge and opportunity, a

palpable form of due process, to any and all who choose to consider the message.

The watchman directive applies to the nonreligious believer by a parity of reasoning. Leonard E. Read devoted many of his adult years to the study and explication of the appropriate methodology of freedom. He repeatedly reminded his readers and listeners that one who truly espouses the freedom philosophy could not coerce others to adopt those premises, since to attempt to do so would constitute the most startling contradiction in terms. He admonished us that the “end preexists in the means,” “the bloom preexists in the rose.” If we improve our own self and live according to right precepts, others will observe and be drawn to the proper path by the flame of attraction. Leonard Read’s adjurations do not differ in essence from God’s admonition to Ezekiel and echoed in Matthew 16:5 to “Let your light so shine before men, that they may see your good works, and glorify your Father which is in Heaven.”

In this fashion, the Ezekiel passage makes it manifest that committed individuals are duty-

bound to honor their commitment, but they are not to coerce others to follow their opinions or mimic their precepts. They should seek the truth, follow the right, improve the self, and never stray from fundamental principle. In the timeless truth of the redoubtable F. A. Harper, "A principle can be broken, but it cannot be bent." Concomitantly, committed men and women should attract others by the light of their words and the propriety of their deeds, never by the exercise of compulsion, aggression, fraud, manipulation, or malevolence—with or without the sanction of the state.

Further, Ezekiel offers us a fourth lesson. Those who hear the watchman must heed his warning or suffer the ineluctable consequences. Remember, one need not accept or act favorably upon a warning, but God makes it clear that the listener disregards the sound of the tocsin at his own peril. Once more, this passage accords with the fundamentals of freedom. Force and freedom are inimical: Freedom includes the freedom to fail, to make choices that seem wrong to legions of observers, to act meanly or intolerantly or foolishly, to go against the crowd. The essence of man resides in his power to make meaningful choices that will affect not only his life but also the lives of others here and hereafter. Deprivation of this power of creative choice, for whatever reason, not only limits that man's array of selections but also diminishes him as a person. "To enslave" is much too light and lax a verb to describe such oppression, for the person restricted is thereby lessened as a human being, stunted in his potential, and cut down in his moral growth.

God's watchman must speak out fearlessly and his listeners must act accordingly, or both will suffer inevitable consequences of their respective breaches of duty. But nowhere does the message provide that disagreeing men should either thwart the warning or forestall the reaction by destructive means. Just so the observant nonbeliever may deny the existence of the law of gravity, but when he leaps from an airplane without a parachute he pays the inexorable price for his sincere if incorrect intellectual position.

Limiting Human Action

What limits then restrain human action? The rules and order of the universe and the civil sanc-

tions against aggression. The nature of man and the consequential constraints of the world permit growth but preclude perfection. The civil or positive law—no less than the essential Biblical code—ought to deter and punish the employment of fraud and the initiation of aggression; after all, if Ezekiel demonstrates that proper belief does not include the coercive imposition of that belief upon an unwilling other, the lesson must also implicitly disparage the use of force for lesser purposes as well.

Most compulsion develops facially as a quest for "good" and as an affray against evil. B wishes to protect A from his folly. B "knows" that he knows better what ought to be done under the circumstances by virtue of his expertise, his beliefs, or his prominence, so he substitutes his moral, aesthetic, political, or economic judgment for that of his fellows. After all, if left to their own devices and desires, "they will make bad choices." On the surface, B's outward clamor is always for good, justice, and protection. In fact, the Bs of the world seek glory, patronage, and power, and their conduct displays the most heinous intolerance and cant. Those who seek to "do good" by coercive means accomplish great evil by depriving their subjects of their primary human trait. These dictators great and small live as men do, not as God.

Commitment to Christianity and to the free society are one and the same. The sole difference of note lies in the choices made by freely choosing individuals once all recognize the fundamental difference between commitment to principle and the use of compulsion to impose that principle upon others. □

1. See, for example, Isaiah 1:9; Nehemiah 1:3.

2. Albert Jay Nock, "Isaiah's Job," available as a reprint from The Foundation for Economic Education, Irvington-on-Hudson, New York.

3. It is confusing and amusing to consider the reluctance of some individuals to credit the notable—if not inspired—eyewitness accounts of ancient men and women, when those same individuals voraciously grasp as gospel the silly and demonstrably unsupported reports of modern ideologues and charlatans. For further insight, consider G.K. Chesterton, *The Everlasting Man* (New York: Dodd, Mead & Company, 1925), and Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds* (London: Richard Bentley, 1841).

4. James Boswell, *Boswell's London Journal*, edited by Frederick A. Pottle (New York: McGraw-Hill, 1950), entry of December 22, 1762, p. 100.

The Strongest Man

by Gary McGath

A major influence in my teenage years was Henrik Ibsen's *An Enemy of the People*. This splendid play deals with a Norwegian doctor named Thomas Stockmann who discovers an inconvenient fact: that the local baths, which he had helped to establish and are economically vital to the town, are dangerously contaminated. His supporters drop away from him as the town's leaders put pressure on them, until he is left alone to address a public meeting on the subject.

At the meeting, Dr. Stockmann is forbidden even to state the case which he came to present. Instead, he speaks on an even deadlier pollution: the power of the "compact majority" to stifle dissent. He is branded an "enemy of the people" and is driven out of the meeting; yet, in the courage and confidence which he shows, he is the clear moral victor.

For me, Dr. Stockmann was only a fictional character; things like that could happen, but only somewhere else in the world. Or so I thought, until I experienced a taste of his ordeal in my own town.

The story starts with a frustrated board of library trustees in Hollis, New Hampshire. For year after year, they have been trying to get the town to approve an expansion program which would double the size of the existing library. Year after year, it has been voted down. This year, they decided to take a more active role in shaping public opinion. They issued a series of flyers, in the name of the Hollis Social Library, and mailed with its bulk mailing permit, urging the people of the town to vote for the library expansion.

It seemed to me that political advocacy by a government agency is something which everyone would recognize as plainly wrong, though perhaps they needed to have the issue named for them. In view of this, I devoted an installment of my column in the local newspaper to this issue. In my column, I pointed out how such a practice could spread to every government agency if not opposed.

The column drew a response from one of the trustees, who defended their action, claiming that "it is the elected responsibility of the Trustees to be advocates for the library," and that engaging in political advertising is "a standard and continuing fulfillment of the Board's obligations to the citizens of Hollis." He stated that no tax money was used for the mailings, but that income from the library's trust fund was used, in addition to donated services. As further evidence that they were indifferent to my arguments, the library trustees sent out another mailing the week before the town meeting, again explicitly soliciting votes in favor of the expenditure.

The next step in the battle was the town meeting. After throwing out draft after draft, I devised a short speech that would, I hoped, convince an honest person that a government agency could not morally engage in political advocacy, whether it used tax money or solicited contributions for the purpose. The site was a crowded high school gym, not unlike many others across the country where town-sized democracy has been exercised. As I waited for my chance to speak, I kept scratching at my draft, taking out anything that didn't strictly address the point. Finally I had my turn at the microphone.

I said: "I'm Gary McGath of 5 Ames Road. I'd

like to address the issue of morality in politics. We're concerned with high taxes—they're bad enough—but the activity which the library trustees have been engaging in, in order to promote the warrant issue, I think is far worse. We're supposed to be a government of the people, not people of the government, but the library trustees have put out a whole series of flyers promoting their political position. [One of the library trustees] wrote a letter to the *Hollis Times* telling us that this money came out of the library trust fund, and thus presumably originated in contributions. But even so, a government does not have any business engaging in political advertising. Either they solicited contributions for political activity, or they solicited contributions that were not for political activity and then spent it on political activity. I consider either one to be entirely immoral. In today's morality, people tend to ask, 'What do we want?' and 'How can I get it?' and it seems as though that's about as much as the library trustees have been asking; and they figure . . ."

That was as much as I was allowed to say. The moderator of the meeting told me that the library trustees were not immoral, that he objected to my terminology, and that I had been given a sufficient opportunity to make my point. When I asked to be permitted to close out my remarks, he told me that if I repeated that the library trustees were immoral, he would make me sit down.

I fell into the trap. I hadn't said that the trustees were immoral, only that their actions were, so I couldn't very well repeat a statement I hadn't made. But my concern was with not being cowed, rather than with being lured into a statement that could be construed as a personal attack. I answered, "The library trustees are immoral." Outraged at being disobeyed, he told me to sit down. About half the crowd applauded him. No one said a word in my defense. I did not sit down; I left the meeting.

On my way out, I realized that in my haste I had forgotten my jacket. When I turned back to get it, a couple of undersized cops, trying very hard to look tough, stopped me. One of them got my jacket for me, but they had provided the final proof for me of how low Hollis had sunk; I was excluded from a public meeting, even if it was one I was only trying to leave. I had, in effect, been declared an Enemy of the People.

From here, the story stops following Ibsen. No

one has slashed my tires, thrown rocks through my window, or strangled my cats. Some people have offered me encouragement. But the shock of seeing people applaud the silencing of a political opponent has stayed with me.

At the Expense of Others

What makes people act this way? The desire for something at the expense of others is an obvious factor; when people want what they know others aren't willing to offer, it becomes tempting to resort to subterfuge. The open exchange of information is valuable to people who deal with one another by consent; it is a danger to people who want what others won't consent to. The crowd mentality is obviously operative as well; people will often stick with the group rather than appear different.

But these factors are symptoms of weakness rather than strength. People who want the unearned are dependent on those who provide it, and specifically on their ignorance. They must—as this meeting showed—turn to desperate measures to keep people from understanding the issues and making an independent decision. People who follow the "compact majority" have no enduring motivation; when the crowd sways in another direction, they must sway with the crowd or fall on their faces.

This is what Dr. Stockmann came to understand after he was declared an "enemy of the people." He discovered that each person who denounced him or stopped doing business with him was acting simply out of fear of his neighbors. He realized that he was temporarily stymied, but that he was the only person in town who knew how to take action on his own initiative. He formulated a plan to start a new school, in the very hall where he had been denounced, in which he and his family would teach poor boys from the streets to be free thinkers, until one day they would be strong enough to drive the "wolves" away.

As he made his plans, he was confident, not afraid, because of a "great secret" he had discovered: that "the strongest man in the world is the one who stands alone." Such a statement may seem paradoxical, especially to those of us who have stood alone in opposition to governmental encroachment and lost. But it is a truth which has shaped the world. Individuals standing alone have

always been the initiators of change; those who follow the crowd are merely acted upon, and those who purport to lead the crowd must constantly run to arrive where the crowd is going to be next. Anyone who hopes to see the world or a community move in a new direction must be the first to go in that direction and must be willing to stand on nothing more than his own judgment, presenting a case and setting an example which others will eventually understand.

No Quick Fixes

Some people hope for quick fixes to society through the political process. But before political change can happen, there must be change in the minds of people. Without this, the crowd will turn away from attempts at change. With it, nothing can stop the change; witness the events in the Communist world today.

The key element in Ibsen's "strongest man" is certainty without pretense. This does not mean regarding oneself as infallible; that sort of certainty is the most pretentious and vulnerable of all. It means not shrinking from the facts, not disguising one's own knowledge, but at the same time re-examining every piece of that knowledge whenever possible. Only knowledge that has survived the most difficult tests in one's own mind will survive in public debate.

To reach people by standing alone, it's necessary to reach them when they're standing alone, that is, one person at a time. It's possible to sway a crowd with an emotional appeal, but reaching people with reason is a much slower process. Creating a free society is a "bottom-up" process, one that proceeds from the individual to the social organization, not a "top-down" process of changing the

individual by changing society. People who depend on the crowd for their thoughts may adopt the slogans of freedom, but they won't understand its substance.

This approach doesn't preclude addressing large audiences, but it requires addressing the reasoning power of each individual, not appealing to mob instincts or disguising one's message as something fashionable.

It requires staying calm under stress, in order to be able to address the issue rather than the crowd. This can be the most difficult task of all, and a lapse can allow clever leaders to maneuver the debate to their advantage; failing to remember this was certainly my own greatest mistake in that town meeting.

It requires not overestimating the power of the crowd. It can seem, when facing a crowd alone, that the whole world has turned against you and that nothing you can say will ever make a difference to anyone. It's important to remember that there are still people with minds, even if they aren't present or if they lack the courage to speak in your defense, and that even people who cheer with the mob may reconsider in privacy.

In the case of my own experience, there was one light that penetrated the darkness: When the time came to vote, the library issue was defeated. Everything that the politicians had done couldn't get them their way; there were still enough people who made their own judgments to keep the vote short of the needed two-thirds. These people, to that extent, stood alone in their own minds. By encouraging each person to hold on to such independence, those of us who care for freedom can survive and succeed in spite of the loneliest moments which political battles may thrust on us. □

School Budgets and Town Meetings

by R. W. Boehm

In New Hampshire a popular topic of conversation during the first months of the new year is the local school budget. Newspapers report frequently on the heated proceedings of town meetings where school budgets are discussed. Television coverage shows that these gatherings can become highly emotional as aggravated citizens express their concerns. There is much gnashing of teeth.

There always are many in attendance who favor increasing the school budget for a variety of well-intentioned reasons. They are quick to express their opinions, but sometimes are intolerant of the views of others. Often these people have children in the school system, or work in the schools as teachers or support staff.

A growing number of citizens are tiring of ever-escalating property taxes and are bravely beginning to attend these meetings. They usually are fewer in number than the first group, frequently are the recipients of shrill denunciations of their lack of "charity," and generally are held to be beyond the pale. But many, quite simply, no longer can afford to pay their school taxes. In some towns, such as Bedford, these people are forming taxpayer associations. They want to control spending. They also resent the arrogant indifference of the school board to their differing point of view.

There is a third group of citizens who for a variety of reasons choose not to participate in school-budget politics. That these people's rights often aren't even considered doesn't seem to evoke any concern. After all, goes the popular retort, they can vote too.

So, what's the problem?

A frequent result of the voting process is the redistribution of wealth. This occurs not only in the case of schooling but in most issues that have become politicized. The government that is supposed to protect our rights equally now takes from one group to give to another. As our appetite for special-interest politics grows, so does the plunder that supports it. True, this democratic process is a more civil way to settle disagreements than resorting to brute force. But, as James Madison warned in *The Federalist*, democracy can and often does produce results similar to the physical violence it seeks to avoid. The tyranny of the dictator is replaced by the tyranny of the masses when anything can be made legal by voting. It seems we should be frequently reminded that the voting process doesn't necessarily make something right, only legal.

History reports that our Founding Fathers held an underlying assumption when they formed our democratic, constitutional republic: We are a moral people, and this morality is based on the commandments of God. Therefore it cannot be imprudent to say that the degree to which we will improve our political situation is likely to be proportional to the degree we once again permit ourselves to be influenced by the Judeo-Christian tradition. The Bible reminds the faithful to be "the salt of the earth and the light unto the world." We are to reflect God's love as we interact with the world. This seasoning role certainly extends to the realm of politics. Our instruction remains the same. St. Matthew recorded the Great Commission from our Lord at the end of his Gospel.

The Bible teaches that responsible behavior pri-

marily requires remembering our obligations to God and to our neighbors. Indeed virtually every religion teaches its faithful to love one's neighbor as oneself. St. Paul reminds the Romans: "Love is the fulfillment of the law." (Romans 13:10) We are asked not to do to our neighbor that which we do not wish done to ourselves. The Bible tells us that the main reason for government is to restrain the irresponsible or whoever wishes to diminish the liberty of another.

Before running down to the next town meeting, perhaps we first should make sure of the responsibilities we have to our neighbors: to love them, to forgive them, to pray for them, and to refrain from interfering with their ability to enjoy the same rights which issue equally to all. Forcing one's neighbor to pay for something other than the rightful role of government is not love. We are instructed not to judge our neighbor's lack of charity; rather, we are asked to set a better example and increase our own charitable efforts.

Good Intentions Are Not Enough

Given this, what subjects should be considered at a town meeting? The proposals from those of good intentions are never-ending. So the primary question becomes: Does the subject in question involve a legitimate role of government? Our good intentions are not enough. Scripture teaches that government is to be limited in power and is created primarily to regulate relations among the people of a fallen world. The functions of government are few: to maintain order, to protect life and property, and to provide justice. Quite simply, this involves little more than the operation of a police force and courts of law. This is what is Caesar's. The list is amazingly short and most definitely does not include such items as health, education, or welfare, to name just a few.

The skeptic will ask: How do you propose to replace the services the government provides? Doesn't the government do for us many things we can't do for ourselves? Beyond its rightful role, about the only thing the government can do for us that we cannot is legalize that which is wrong.

As F. A. Harper was quoted in the March 1966 *Freeman*: "The government . . . cannot possibly do anything that people can't do for themselves, for the simple reason that people comprise all that is government. Government is manned by the very same persons whose deficiencies are presumed to disappear when combined into a legal structure with bureaucratic, political trappings—a process which makes an ordinary person, if anything, less able than before to accomplish things."

The school issue, like all other issues that exceed the proper role of government, is not a budgetary problem nor is it a problem solvable by electing better representatives or instituting better government controls. Schooling simply is not a proper function of government. The involvement of government in matters beyond its proper role produces a coercive monopoly of special interests and privileges. This is a perversion of justice, for the only way the government can create entitlements is to take from one to give to another. In doing this, the government must forsake its rightful responsibilities.

The irony of this situation is the predictable outcome—mediocrity. An unhampered market stimulates competition. Economics, the study of human action, shows the result of competition to be higher quality goods and services for the lowest possible price. The current national schooling crisis is an excellent case in point. The facts are these: We have a monopoly school system; we are being forced to support it; it is by recent government admission mediocre; and it is widely described as overly expensive. Were this monopoly eliminated, the quality of schooling would improve dramatically and the price of it would decrease. Educators could teach whatever they wished, but their ability to stay in business would be determined by the sovereign of the market—the consumer, not Caesar.

At town meetings we should be discussing how to return government to its rightful role. Instead of talking about the upcoming school budget, we should be discussing how to get government out of the business of schooling and all the other places into which it wrongfully intrudes. □

Mandated Airline Safety Seats Won't Increase Travel Safety

by John Semmens

Last year three unrestrained children were killed in two separate airline crashes. Speculating that these children might have survived had they been belted into child safety seats, the National Transportation Safety Board has proposed that the federal government require such seats for infants and toddlers flying on commercial airlines. Proponents of the regulation point out that adult passengers are provided with seat belts. Why shouldn't small children be equally protected? Should parents be allowed to save money by risking their children's lives? Shouldn't the government make them behave more responsibly?

This all sounds very plausible. Who can be against safety? Yet, like so many other paternalistic schemes, the overlooked cost factor will undermine even the best intentions.

Safety regulation advocates frequently assert that we should be willing to pay whatever it takes to assure safety, especially when children are involved. The reality, though, is that our means are limited. We can't buy all the safety imaginable. Consumers must fit travel safety into a family budget, along with food, clothing, medical care, and shelter.

If parents with small children are required to buy an additional airline ticket to cover the safety seat rather than carry these children on their laps, three responses are possible. One possibility is that parents will, in fact, sacrifice some other expenditure in order to pay for the child's seat. However, child safety seats are currently available, and many

parents don't buy them. Also, just as restaurants can refuse service to people without shoes or shirts, airlines could refuse to carry a child without his being belted into a safety seat. That most parents and airlines don't voluntarily incur this expense indicates that there is consumer resistance to buying an additional ticket for a small child.

We shouldn't assume that such choices are inherently bad. The chance of an accident for any given airline departure is one in 300,000. The chance that a safety seat would make a difference is even less. Airline travel is safe and has been getting safer over the years. It is hardly irrational or irresponsible for a family to balk at paying an extra amount, possibly hundreds of dollars, for the remote chance that it will buy more safety.

Sacrificing some other expenditure to pay for the child's extra ticket isn't the only option available to parents. They might decide to make the trip by alternate means. A most likely choice will be the family car. However, statistics show that intercity automobile travel is much more dangerous than commercial air travel. The fatality rate for commercial airlines is about three deaths per 10 billion passenger miles. The fatality rate for auto transportation is about 220 deaths per 10 billion vehicle miles. In short, a family's chances of being killed on a trip are 70 times higher in the family car than on an airline.

If the additional cost of the child's safety seat leads to more automobile travel, not only would the regulation induce a family to select a less desired transportation option, it would also increase their risk. Even if only 2 percent of the parents with children small enough to be affected by the proposed regulation opt for auto transporta-

tion, the regulation will have the net result of increasing total travel fatalities. The few lives saved by the rule will be more than offset by the dozens or even hundreds of lives lost in highway accidents.

The surge in air travel following the deregulation-inspired price cuts suggests that the decision to fly is highly sensitive to the cost. Since the families affected by a mandatory child safety seat rule would typically see their air transportation cost rise by 25 to 50 percent, the shift to auto is likely to be much greater than 2 percent.

A final option for a family facing the higher cost of air travel under the new regulation would be to not make the trip at all. Once again people would be forced to accept a less desired alternative. But while staying at home won't expose them to the hazards of air or highway travel, neither will it guarantee perfect safety. Whatever activity is substituted for the forgone travel will have its own hazards. For example, in the past year more tod-

dlers died in backyard swimming pool accidents in Phoenix than died due to the lack of child safety seats on airlines in the entire nation.

All this is not to say that using an airline safety seat is a bad idea. People can be informed of the benefits and costs, and encouraged to choose wisely. But they should be allowed to choose for themselves. The world is complex. The needs and wants of people are diverse. Attempting to force everyone into the same choice, as the proposed child safety seat rule would do, diminishes individual freedom and, as we have seen, enlarges hidden risks.

The notion that there is an inevitable trade-off between freedom and safety is false. Regulatory suppression of free choice can very likely decrease safety. Rather than using governmental power to coerce people into less satisfying and sometimes more dangerous alternatives, why not leave them free to choose for themselves? □

Air Bags—More Government Hot Air?

by Anthony Young

The automobile today is as much a product of government regulation as of corporate design and innovation. For decades automobile manufacturers designed and built cars without government intrusion. That ended in the 1960s. The automobile suddenly became the focus of environmental activists and safety advocates. The number of regulations affecting cars in the late 60s amounted to only a trickle at first, but quickly reached storm surge proportions in the 1970s.

Manufacturers were forced to redirect much of their design and engineering manpower to the new wave of regulations. New words and phrases entered the automotive lexicon: emissions, impact absorbing bumpers, crash-worthiness, rollover

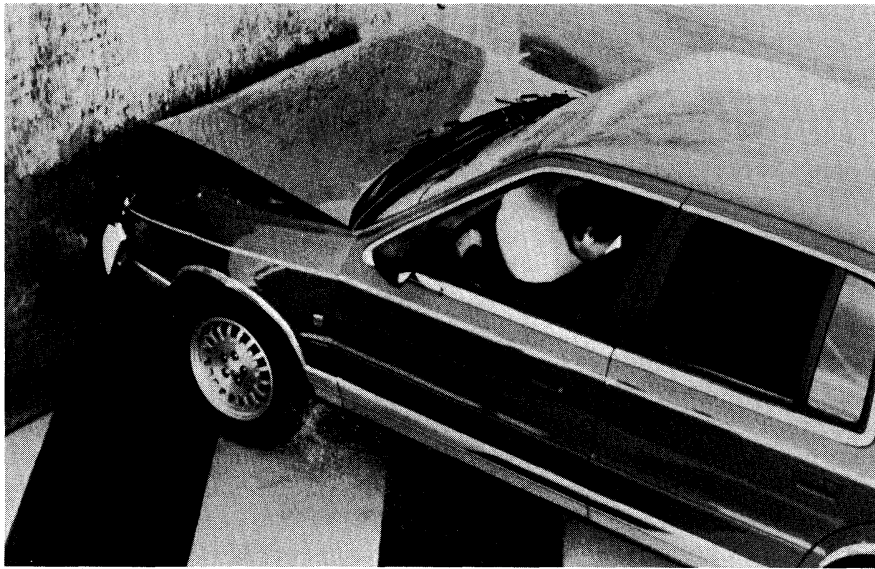
standards, passive restraints.

The last of these—passive restraints—proved the most abhorrent to the manufacturers, and the companies worked tirelessly to prevent such legislation from being passed. The car makers argued that such devices were complex, very costly, and embraced unproven technology. Some cautioned that in certain circumstances air bags, as they came to be known, might even be dangerous. There was also the fear of product liability lawsuits in the rare instances where the air bags failed to inflate.

The insurance industry lobbied for implementation of passive restraints, stating air bags would save lives and reduce injuries; air bags would also save the insurance companies millions of dollars in claims.

The debate raged for years. Seat belt interlocks

Mr. Young, a regular contributor to Automobile Quarterly, has written extensively on the automotive industry.



CHRYSLER CORPORATION

Crash testing 1990 automobile equipped with driver's side air bag.

were tried in the 1970s, forcing drivers to buckle up before their cars would start. But owners found ways of getting around this, and the idea was scrapped. In fact, Americans never have been great believers in the use of seat belts. Despite the life-saving and injury-preventing qualities of lap and shoulder belts, roughly half of all drivers eschew them, even with mandatory seat-belt laws in most states. The air bag, and in some instances, automatic seat belts that wrap around the driver when the car door is closed, circumvent the recalcitrant nature of the American driving public. The government says, in effect, "Since you refuse to exercise good, common sense by wearing a seat belt, the U.S. government has decided to protect you from yourself." And you must pay for it.

For those who refuse to buckle up, there are air bags. And drivers equipped with air bags will be the first to extoll the virtues of the device after surviving a head-on collision. Unfortunately, the other 50 percent of drivers who wear lap and shoulder belts are now forced to pay for a redundant and costly passive restraint starting with the 1990 model year. However, air bags are not yet required in every vehicle the manufacturer makes. Consequently, some new-car buyers, having worn lap and shoulder belts for years, are balking at new air bag-equipped cars and are selectively shopping for new vehicles without air bags.

Clearly, most car manufacturers wouldn't install

air bags if not required by law. However, some companies with a tradition of safety, such as Volvo, have installed air bags for a number of years. Air bags, nevertheless, have their limitations. They are effective only in head-on or front-oblique collisions. Lap and shoulder belts provide protection in many other accidents, including side impact, multiple impact, and rollover. Aware of the limitations of air bags, manufacturers continue to install inertia reel lap and shoulder belts in their air bag-fitted cars. Ads for the Lexus ES250 show a driver-side air bag supplemental restraint system inflated with a lap and shoulder belt buckled around an anatomical dummy.

Despite the obvious facts in the air bag versus seat belt debate, safety advocates have turned a deaf ear. They now seek to expand the regulations to include trucks, vans, and other vehicles. Thus, expensive passive restraints will be installed in millions of vehicles when fewer than one percent will be involved in accidents requiring them.

The air bag is yet another example of government trying to improve the automobile for society. As is so often the case, once government gets involved in the regulation of a product, light is never seen at the end of the tunnel. There is never a stated, final goal; there is only an ongoing effort of "improvement." Government regulation of the automobile has taken on a life of its own, the most notable result being a much more expensive product. □

Aquaculture: The Birth of an Industry

by J. Brian Phillips

In recent years, growing health awareness has led to a rising demand for fish and other seafood. Despite this, American fishermen are finding it difficult to earn a living. As is often the case, the industry has become increasingly politicized.

The free market has received much of the blame for the problems facing the fishing industry, and the solutions proposed by the industry almost always involve an expansion of government controls. But the fact is, the free-market, private-property system hasn't been allowed to operate, and this is the real cause of the industry's woes. The birth of a new industry—aquaculture—offers a free market alternative.

Government Policy

To understand and appreciate the rise of aquaculture, we must first have a grasp of government policy regarding fisheries and the commercial fishing industry.

Many analysts of the fishing industry summarize the industry's problems as simply a matter of too many fishermen chasing too few fish. This is true, so far as it goes, but it fails to tell us *why* there are too many fishermen and too few fish.

Like the family farmer, fishermen have a long, rich history in America. Like the family farmer, fishermen have been hard hit by high interest rates and foreign competition. And, like the family farmer, fishermen have responded by demanding help from the government, which Congress has been more than willing to provide.

As in agriculture, such interventions sever the

industry from market considerations, creating economic distortions. In both industries, technology has greatly increased productivity. In the fishing industry, bigger, faster boats, equipped with modern refrigeration and sophisticated electronics, allow fishermen to stay at sea longer, catch more fish per trip, and bring the catch to port already processed.

In a free market, increased productivity reduces the number of workers needed in a given industry. But in neither agriculture nor fishing have these productivity gains resulted in a proportional decrease in the number of producers. In agriculture, the result is a glut of many farm products. In the fishing industry, the result is overfishing and the depletion of fish stocks.

Like agriculture, government policies—low-interest loans, subsidies, protection from foreign competition—have encouraged production. Simultaneously, these interventions permit less efficient producers to remain in business. The result is too many fishermen.

“The Tragedy of the Commons”

The problem of overfishing illustrates what is commonly called “the tragedy of the commons.” Fisheries are public property, since nobody owns them. To the fisherman, the only way to profit from a fishery is to harvest its products. As an individual, he has little incentive or ability to preserve the resource. His conservation efforts will be offset by the counter-efforts of other fishermen. Consequently, each fisherman seeks to maximize his catch today, without regard to the impact it will have on his catch tomorrow.

Government interventions in economic affairs ultimately lead to further interventions in the future. The fishing industry is no exception. Government interventions stimulate production and lead to overfishing. In response, the government then intervenes to limit production.

The redbfish, or red drum, provides an example of a typical government reaction to overfishing. Until Louisiana chef Paul Prudhomme created blackened redbfish in the early 1980s, the red drum was a relatively obscure fish. But as blackened redbfish became a national craze, demand soared. Fishermen responded accordingly. In 1980, about 54,000 pounds of redbfish were caught in the Gulf of Mexico. Six years later, an estimated 5.4 million pounds were caught. At the time, officials predicted that by 1990 the annual catch would exceed 20 million pounds. Fearing the extinction of the redbfish, state and Federal officials banned virtually all commercial fishing for the red drum.

The problem of overfishing is hardly limited to the redbfish or the Gulf Coast. In New England, lobster, mackerel, and scallops are in short supply. And the government's policy has been essentially the same—reduce landings of the species in question. There are many methods for achieving this, such as limiting the fishing season, issuing fewer commercial fishing licenses, and outright bans.

On one hand, the government seeks to stimulate production through subsidies and low-interest loans; on the other, it seeks to limit production through tighter restrictions on fishermen. Like the family farmer, fishermen are caught between contradictory policies.

Aquaculture

The solution to the problem of overfishing is to privatize oceanic fisheries. When resources are privately owned, the owner has an economic incentive to conserve the resource. If he depletes a renewable resource more quickly than it can be replenished, he ultimately destroys the resource and loses his investment. While privatization of fisheries faces numerous political obstacles, a new industry—aquaculture—is establishing a *de facto* form of privatization.

Simply defined, aquaculture is fish farming. Its history stretches back many centuries—it is believed that the Chinese engaged in fish farming as

many as 4,000 years ago. Hawaiians built complex fish ponds long before the arrival of Captain Cook. In Southeast Asia, flooded rice fields have long been stocked with carp and mullet. In the United States, aquaculture has existed for many years, primarily in the South, but it wasn't until the 1980s that it began to develop into a viable industry.

While the United States is a relative newcomer to aquaculture, the nation's demand for seafood is fueling rapid growth in the industry. In 1982, total U.S. aquaculture production was 180,000 tons. In 1987, the harvest of catfish alone was nearly 175,000 tons, while all aquaculture products amounted to 375,000 tons. The industry's growth promises to accelerate during the 1990s—aquaculture has become one of the hottest investments around.

In 1989, plans were announced to produce 500,000 pounds of hybrid rockfish annually at the nation's largest indoor fish farm in Maryland. Naiad Corporation hopes to be harvesting 50 million pounds of catfish each year from its ponds near Danbury, Texas. M-K Ranches in the Florida Panhandle produces nearly one million pounds of crawfish each year. Redfish Hatchery in Mississippi expects to produce a million pounds of redbfish annually. In addition, dozens of other companies are raising the above species, as well as tilapia, trout, striped bass, and freshwater shrimp.

The term "fish farming" describes the very essence of aquaculture. Traditional fishermen are hunters. They must chase their quarry and capture it. As fuel costs rise and the stock of fish declines, traditional fishing has become increasingly expensive. Aquaculturists, however, raise fish in a closed environment, just as farmers raise chickens, pigs, and other domesticated animals. In fact, aquaculture is a form of animal husbandry.

Until the development of agriculture, human beings were hunters and gatherers; their food consisted of what they could capture or find. Agriculture allowed mankind to take control of his own destiny; aquaculture promises to expand that control. "The big thing about aquaculture is that you don't need to wait for a good catch day," says Levy Amar, general manager of Sealantic Inc., which raises tilapia fish in Katy, Texas. "If somebody needs the product, he will get it the same day in most cases."

Over the past 30 years, landings of ocean fish have held steady at around 57 million metric tons

annually. There is a limit to the ocean's ability to produce seafood. "Aquaculture is probably going to be the solution for the food supply in the fish market for the future," says Amar. "I don't think the oceans are going to produce more fish than what is being caught."

One of the problems facing aquaculture entrepreneurs is marketing. The tilapia fish, which has been cultivated for hundreds of years in other parts of the world, is virtually unknown in the United States. "We basically have to educate people," Amar says about the fish his company is raising. Catfish, which has long been enjoyed in the South, has only recently begun to be marketed in other parts of the country.

But marketing an unknown product isn't the only problem facing aquaculture companies. Despite aquaculture's long history, there is still much to be learned. For example, duplicating the natural conditions of the redfish, which range from coastal marshes to the open Gulf of Mexico, has posed numerous problems. Redfish also are very sensitive to cold weather—one Texas company lost 150,000 during a winter freeze in 1989.

Some experts said it would be impossible to raise redfish in a closed system. Yet, several Texas companies are now successfully raising redfish in indoor tanks. A Louisiana farmer is raising redfish in a salt water pond, while others grow redfish in blocked-off canals or submerged cages.

Mariculture

Aquaculture is frequently described as fish farming; mariculture is often called fish ranching. In aquaculture, fish are contained by barriers. In mariculture, fish are permitted to roam freely in the ocean.

Anadromous fish (those that spawn in fresh water but spend most of their lives in salt water, such as salmon), are most frequently targeted for mariculture. A typical venture consists of raising salmon in a hatchery until they are of age to be set out to "pasture." The young salmon are released into a freshwater stream and swim out to sea, where they "graze" until they have reached sexual maturity. At that time, they return to the freshwater stream to spawn. The salmon rancher then captures his "herd" and delivers them for processing.

Like aquaculture, salmon ranching is a risky business. Only 1 percent of all salmon return to

spawn. However, in Japan, researchers have found that improving the health of young salmon can double that figure. Indeed, biotechnology offers one of the greatest hopes for increasing seafood production. For example, one marine biologist has developed a species of lobster that weighs a pound within 20 months, instead of the usual five to eight years.

However, mariculture faces one major obstacle—the lack of private property rights. Without clearly stated property rights, those who introduce fingerlings or improved species into the wild will have no guarantee that they will be able to catch those fish at a later time. Without such assurances, their incentive is greatly reduced.

Fortunately, three states—Oregon, Alaska, and California—have recognized this problem and established property rights for salmon ranchers. In Alaska, once salmon reach a certain area, they become the property of the company that released them. Similar guarantees will be needed for other species if mariculture is to develop.

Impediments to Aquaculture

Traditional fishing cannot meet the world's growing demand for seafood. The oceans have a limited ability to produce fish and other seafood. Like agriculture before it, aquaculture offers the possibility of overcoming nature's limitations. Despite this, the aquaculture industry faces three serious obstacles: environmentalists, the government, and the industry itself.

Environmentalists have frequently lobbied for tighter restrictions on fishermen. In the early 1980s, environmentalists fought for a ban on commercial redfish landings. At the end of the decade, they demanded laws requiring turtle-excluder devices on shrimp boats. It would seem that environmentalists would welcome aquaculture, yet this is often not the case.

Some aquaculture enterprises use vast quantities of water, a fact which concerns many environmentalists. Fish feces, fertilizers and other chemicals used in aquaculture, environmentalists argue, can pollute waterways. Additionally, fish farms often attract wild animals, such as birds and raccoons, in search of food. To protect their property, owners often resort to shooting these animals, an action environmentalists condemn. Given the "greening" of America and the growing power of



ARKAT FEEDS

Catfish farming in Arkansas.

environmentalists, these objections pose a real threat to the industry.

Government, by both its action and inaction, will play a significant role in the success of the industry. Already, the agricultural departments in many states are heavily involved in regulating and/or promoting aquaculture. Controls on land and water use are so extensive in some areas that a prospective aquaculturist needs as many as 30 permits before he can begin operation.

However, government does have a legitimate role to play in aquaculture, particularly in mariculture. All industries depend on the recognition and protection of property rights. As the realm of man's productive efforts expands, government's proper role is the application of the principle of individual rights. Without this, new industries, such as mariculture, will be thwarted from the very beginning.

The most significant obstacle could be the industry itself. Many within the aquaculture industry welcome government intervention, just as farmers and fishermen have welcomed government intervention for years. Unlike beef, poultry, and pork products, seafood isn't subject to many government inspections. As ties between the industry and government become more cozy, the industry could ask for a government inspection program that would supplant private inspections. The result would be more government control.

In the meantime, aquaculture entrepreneurs are defying the wisdom of the experts in creating a new industry. They are transforming the fisherman from a hunter to a cultivator. They are finding more efficient ways to provide food and utilize resources. If allowed to operate in a free and open market, with clearly defined, enforceable property rights, all of us will benefit. □

What Makes a Market?

by Ross C. Korves

Economists are quick to talk about markets, as if everyone knew what a market is and why markets exist. We talk about the corn market, the housing market, the insurance market, the baseball card market, and so on. Some people think of physical structures, some think of people shouting and yelling at each other, and others think of a list of little numbers on the business pages of the newspaper.

Recently some of my colleagues and I had lunch with a young economist from the Soviet Union. She had come to the United States to learn more about business institutions and how companies are organized. In the course of the conversation, we got around to the need for a market system within the Soviet Union so that communication can occur between producers and consumers. The prediction of Ludwig von Mises that socialism would fail because of the inability to calculate has come true, and changes are needed if the Soviets are to prosper. Even Communist economists from the Soviet Union see that.

Our guest agreed that markets are needed, but since none exist the government would have to create them. That sounded strange to me. How can a government create markets? We explained that markets develop spontaneously as people interact. As people freely act they sort out what they want and don't want, and they communicate these ideas back to suppliers. But she didn't appear to be able to grasp that markets spring up on their own. We mentioned the black market within her own country as an example of people creating a market as the

need developed. That didn't seem to connect. She came back to the point that no markets existed, and the government would have to create them.

After a while, I concluded that the Soviet economist lacked an appreciation for freedom, particularly the freedom for individual consumers to communicate their wishes through a market system. Markets develop as hundreds and thousands of individuals make their wishes known. But Communism is a top-down system. Decisions on what to produce are made at the top, and consumers are forced to live with those decisions. The idea of consumer sovereignty doesn't exist. The more I thought about it, the more it became obvious that their consumers cannot be thought of as making decisions because in the Communist system there is no freedom. Individuals don't exist of and by themselves. Only the state exists, and people are just part of the larger system.

The freedom to act is fundamental to the development of a market. Some friends of mine are in the property casualty reinsurance business. Having had substantial claims as a result of Hurricane Hugo, they devised a way to calculate the additional coverage that would be needed if a similar catastrophe were to happen in the future. They took their proposal to "the market" and found that the reinsurance industry could easily understand what they were trying to do and quickly established a value on the activity. But without the freedom to act on an idea, and the freedom for others to react, there would be no market for that type of reinsurance.

This "market" that the reinsurer went to doesn't exist in a physical sense. There is no building. There was no group of people shouting at

each other in a large pit. And I didn't find a listing of prices in *The Wall Street Journal* the following day. If the government had set out to create this market for reinsurance, there would have been nothing to create. It was all in the heads of the people who sought out the reinsurance and those who responded to that need. There were, eventually, papers to be signed and accounts to be established, but that came after the market was established. If this type of reinsurance becomes popular enough, something about it may eventually be listed daily on the financial pages. To go one step further, if this reinsurance became extremely common, maybe an insurance exchange building would be built to put all the

people involved in this market in the same place to make market activity easier. A lot of business people and individual buyers would use the market. At that point, undoubtedly, some local, state, or federal government politician or agency would want to regulate the market to protect the participants from their own freedom of association.

I am not sure that the young Soviet economist ever grasped what we tried to explain about markets springing forth from the actions of individuals using their freedom to make choices. But I learned one more time that personal freedom is the basis for markets. Where there is no freedom, there are no markets, regardless of what a government may try to create. □

The First Civil Right Is Safety

by Scott C. Matthew

Just one block from the law school I attend, I cannot walk after dark. Experience shows that I would almost certainly be attacked. The local police now only warn people not to enter the area—they don't actually protect them. And what about the people who live there? It seems clear that something has gone very wrong.

The *core* function of government—the protection of the lives and property of its citizens—is being seriously neglected. More than that, government at all levels is run by people who no longer see that protection as the core function of govern-

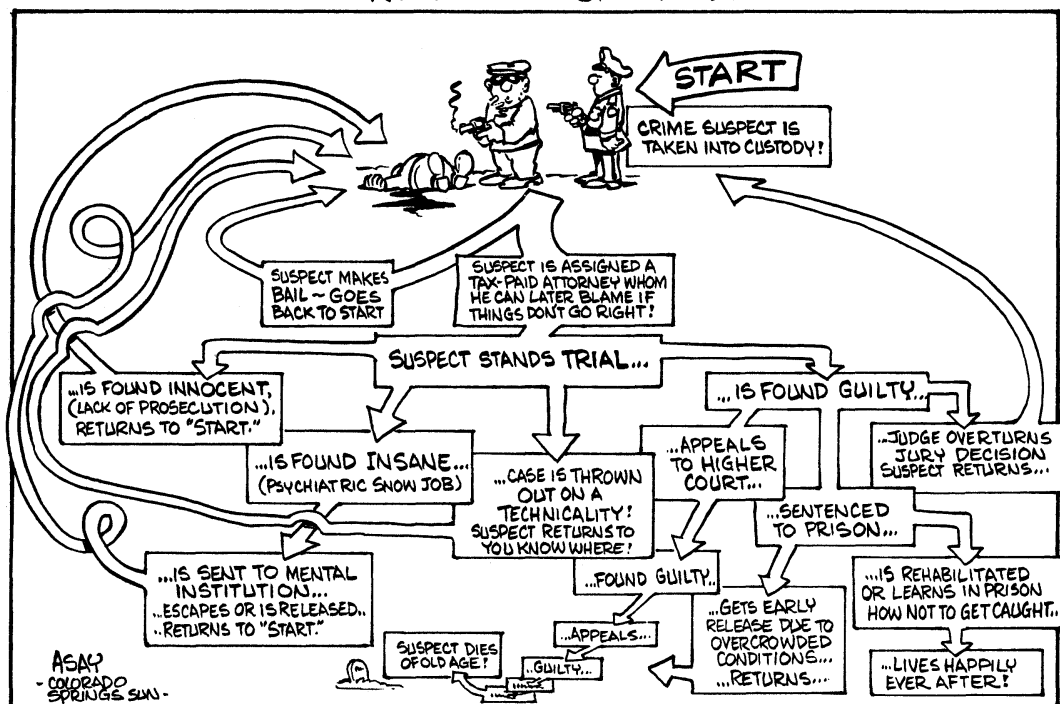
ment. Instead, government now concentrates on performing such tasks as propping up tobacco prices and sponsoring art exhibits.

Government can do only a few limited things at a time. Beyond a certain size and complexity, it begins to fail at all its tasks, and to damage all the interests it touches. Luckily, there are only a few functions that we need government to perform. Nationally, it must protect us from the aggression of foreigners. And locally it must protect us from aggression against ourselves and our property by other citizens. We need government to keep us safe. Without security in life and property, there is nothing else.

For the first 150 years of our nation's history, Americans used government to perform these

Mr. Matthew is studying law at the University of Chicago Law School.

CRIME AND PUNISHMENT: PROCESSING OFFENDERS



core functions, and very little else. And it performed them quite well. Well enough, in fact, that many people concluded that government should also be able to perform lots of other tasks. But government can't grow food or sew clothing or build cars—it can only confiscate wealth from the people who create it. The only thing of real value that government can produce is security. It is a product which individuals are singularly poor at producing themselves.

Unfortunately, the attempt to get more from government did not mean that government would fail at only its new tasks. That would have been bad enough, for government "solutions" discourage private actions that could work toward solving society's problems. It also meant that government's limited talents and abilities would be stretched beyond the breaking point. And so government no longer performs its one, irreplaceable function—the protection of life and property.

What has been forgotten in this process of expanding government is that virtually all the gains society reaps from government come with the securing of life and property. Beyond that

security, more produces less. As more tasks are assigned to government, it slowly begins to dissipate those large initial gains. America is approaching a middle area where government's failures outnumber, and outweigh in importance, its successes.

It seems today that everyone has a prescription for ways in which more government can make America a better place. Just one more law, one more program. But even if we could find the money and expertise to perform all these tasks well (which we cannot), the programs themselves would make us worse off. Asking government to perform these additional tasks—demanding that government compensate us for every bad break and insure us against our own failings—condemns us to fear and insecurity.

The average American pays 35 percent of his income in taxes. And he can't walk the streets at night. It is important to recognize that government doesn't need any more money to keep us safe. Government simply needs to concentrate on that task, and stop wasting our money on other things. □

Rights, Law, and Morality

by Douglas B. Rasmussen

"Rights" are a moral concept, but they are different from other moral concepts. They have a unique function. Their function is not to secure directly the moral well-being of individuals. Rather, their function is to protect the self-directedness or autonomy of individual human beings and thereby secure the social condition under which individual human moral well-being can occur.

Rights provide guidance in the creation and interpretation of a legal system which protects individuals from being used by others for purposes to which they have not consented. Rights are used to determine what ought to be a law. They provide the normative basis of law but, unlike the moral virtues, they do not provide individuals with any guidance regarding what choices to make in the conduct of their daily lives. Regrettably, the unique function of the moral concept of "rights" is not recognized today, and there is much confusion regarding this concept. This confusion is especially manifested in the claim that people have "welfare" or "positive" rights—the claim, for example, that people have a right to a job, an education, a home, and medical care. There are no such rights. The concept of "welfare" or "positive" rights confuses the functions of law and morality and thus does damage to a proper understanding not only of rights, but of law and morality as well.

Law and morality are not entirely unconnected. Law must have a normative basis if it is ultimately to have authority, and so the attempt to make law

entirely independent from morality is a mistake. But it is also a mistake to reduce the moral concepts that underlie law to those moral concepts which provide individuals guidance in the conduct of their lives. Yet, what is the fundamental difference between morality and law?

Morality and Law

There is a fundamental difference between the concerns of morality and law, and an examination of the character of human moral well-being will reveal the basis for this difference.

1. *Morality.* The moral life is concerned with choices that necessarily involve the particular and the contingent. Knowledge of the moral virtues and true human goods may tell all of us what, abstractly speaking, we ought to do; but in the real world of individual human conduct, where all actions and goods are concrete, moral virtues and goods involve the particular and the contingent. This is why prudence—the use of reason by the individual person to determine what ought to be done in the concrete situation—is the cardinal virtue.

Determining what moral virtue and goods call for in terms of concrete actions in specific circumstances can vary from person to person, and certain virtues can have larger roles in the lives of some persons than in others. Determining the appropriate response to the situation faced is, therefore, what moral living is all about. A successful moral life is by its very nature something that is highly personal.

This, of course, is not to say that any choice one

Dr. Douglas B. Rasmussen is Professor of Philosophy at St. John's University and co-author of Liberty and Nature: An Aristotelian Defense of Liberal Order (Open Court, 1991).

makes is as good as the next, but it is to say that the choice must be one's own and involve considerations that are unique to the individual. One person's moral well-being cannot be exchanged with another's. The good-for-me is not, and cannot be, the good-for-you. Human moral well-being is something objective, self-directed, and highly personal. It is not something abstract, collectively determined, or impersonal.

2. *Law.* Law, on the other hand, is neither concerned with determining the appropriate course of conduct for an individual in a specific circumstance nor with teaching him what he ought to do. Rather, law is concerned with the protection of the self-directedness or autonomy of individuals when they live among others. An examination of the character of human moral well-being will reveal why.

Before addressing the question of what people ought to think or how they ought to conduct themselves, an analysis of human moral well-being shows that people ought to act according to their own judgments. This is true, however, not because of the consequences but because of the character of human moral well-being. Self-directedness or autonomy is a necessary condition for and an operating condition of the pursuit and achievement of human moral well-being. It is necessary for *any* person undertaking *any* right action. It pertains to the very essence of human moral well-being and is, therefore, right for any individual regardless of the circumstances. The protection of self-directedness or autonomy must, then, be provided if human moral well-being is to occur socially. This point, of course, is of no great importance for determining personal conduct. A normative ethicist could not get very far with this information, but it is crucial for understanding the nature of law.

Since the self-directedness or autonomy of individuals *must* be protected if there is to be any possibility of their choosing as they ought, there needs to be an institution which protects the possibility of individuals being self-directed, an institution which states and enforces what *must* be the case.

The appropriateness of self-directedness or autonomy for human moral well-being is grasped only in abstraction from the specific virtues and concrete goods that a particular human being's intelligence determines as needed for the circumstances in which he finds himself. Thus, the institution whose aim is to protect the possibility of self-

direction should not be concerned with what is good for some individuals relative to concrete situations.

Protecting the self-directedness or autonomy of individuals is a concern only of community life, and thus the institution that is concerned with protecting self-direction should be concerned only with establishing and enforcing rules of community life which prohibit forms of action that use people for purposes to which they haven't consented. It should not be concerned with teaching individuals how to attain their well-being.

An analysis of human moral well-being, therefore, shows that there needs to be an institution which is concerned with what must be the case for any and all individuals when they live together, an institution concerned with the protection of only those things that are universally and necessarily good for any and all people no matter what their concrete condition or circumstance. This institution is law. Its function is to protect the self-directedness or autonomy of individuals.

Confusing Law and Morality

Consider the claim that people have a right to a job, an education, a home, or medical care. These are goods or services which, when considered from an abstract perspective, are beneficial or appropriate for everyone. They ought to be created or achieved. Yet, this claim is not too helpful in providing guidance to the individual in a concrete situation. None of these goods exist in the abstract. How are they to be created or achieved? What kind of job, education, home, and medical care does one need? To what extent and in what amount are these to be pursued? How is the achievement of one of these goods to be related to the achievement of other goods? What is the proper "balance" or "mix"? These questions can be answered only by a consideration of the unique needs and circumstances of the individual, and the insight of the individual himself is crucial to determining the proper answer.

Yet, if persons have a right to these goods and services, then it is the responsibility of the administrators of the law to determine the answers to the foregoing questions. They must determine the type, extent, amount, and combination of these goods and services individuals are to have and how they are to be balanced with other goods. They

must determine how individuals are to conduct themselves with respect to using these goods and services. Law, however, by its very character isn't suited for the task of determining what is good or appropriate for an individual in a concrete situation. Such specific knowledge cannot be a part of the law, or the law will lose its very nature.

Destruction of Morality and Law

Supposing that the law were to take on this function, what would be the effect on morality? What would be the moral worth of these goods and services? As every good parent knows, a child isn't mature unless he does what he ought to do in light of his own understanding of his well-being and what that calls for in the way of day-by-day conduct and behavior. Human moral well-being is active, not passive. Having the law attempt to determine what an adult's well-being requires destroys the moral worth of the provided goods and services. Even if the administrators of the law should, by luck, determine what is appropriate for an individual, the individual's own judgment hasn't been employed. Abstractly speaking, we may say that such goods and services are valuable, but in the real world of human conduct, they remain like works of art which have been provided to a man to enjoy at the price of him not using his senses.

An individual's judgment and effort are necessary not only for enjoying the values his well-being requires, but they are needed for the very existence of these values. The needed goods and services are to be created or achieved by an individual if they are to be morally worthwhile. Values and, more specifically, goods and services don't exist independent and apart from human cognition and effort. When we abstractly say that human well-

being requires certain values, we are speaking of what is to be created or achieved by the cognition and effort of an individual human being, not merely what is to be distributed and enjoyed. The goods of human well-being are not found lying about like manna from heaven. These values cannot be values for an individual unless he has achieved them himself. The idea that the moral life is a life of self-actualization refers to the manner of actualization as well as the object.

This last point also is important when we consider what the claim that individuals have "welfare" or "positive" rights implies. If an individual has a right to these goods and services, then, as a matter of law, others *must* provide them. Other persons are to be used without their consent for the purpose of providing these "rights." Self-directedness or autonomy—the very condition that all persons need to have legally protected in order for them to have the possibility of attaining their moral well-being—must be denied if these "welfare" or "positive" rights are to be enforced. When the law is used as an instrument for using persons for purposes to which they have not consented, when it is used to take the time and resources from persons without their consent, then, most truly, the rights of individuals are violated. The very reason for law is destroyed.

The claim that people have a right to a job, an education, a home, and medical care confuses law and morality. Trying to have the law provide what only the moral judgment and conduct of an individual can provide separates morality from the moral agent. It destroys morality and, as Frederic Bastiat noted, it perverts the law and makes it the destroyer of what it is to protect. Only by obtaining a clear understanding of the nature of law and morality, and by developing a proper concept of "rights," will this situation change. □

Freedom of Speech/ Freedom of Ownership

by Bill Anderson

Our city was recently in a mild uproar over the banning of the controversial Broadway musical *Oh! Calcutta!* The production's promoter wanted to bring the musical to Chattanooga; the publicly appointed review board for the Tivoli Theater said *Oh! Calcutta!* would violate the city's obscenity laws, and thus nixed its appearance.

What followed was the predictable spate of news stories, editorials, and letters to the editors of our two local papers. One editor declared that the city's review board was violating our rights to free speech; the other said *Oh! Calcutta!*, which does have some graphic nude scenes, was obscene and should be banned. Some readers agreed with the city officials, while others blamed Christian fundamentalists and other "prudes" who were serving as self-appointed "nannies" to Chattanooga theatergoers.

However, no one dealt with the primary problem: government ownership of the theater in question. The Tivoli is owned and operated by the Chattanooga city government, which means it is subsidized by tax dollars. Therefore, many taxpayers feel they have a right to decide what the theater management should be permitted to schedule. One paper tried to get around this by declaring that the city should permit *Oh! Calcutta!* to play, and allow patrons to decide for themselves whether they wanted to attend. While that may seem a Solomon-like compromise, the editor forgets that there are many people in Chattanooga who would have to subsidize that production through their taxes—something they wouldn't do

if given a free choice. Thus, government encroaches upon their freedom in just as coercive a manner as it does when it engages in censorship.

This controversy is reminiscent of a similar episode last year. The movie *The Last Temptation of Christ*, which many persons believed was blasphemous, came to a local, privately owned theater. Yes, there were peaceful protests, and, yes, some people paid to attend. While many persons on both sides of the issue weren't completely satisfied, those who wanted to see the film paid to see it, and those wishing not to see it weren't forced to subsidize the showing.

Whether it is *Oh! Calcutta!* or graphic "art" by controversial photographers, public funding of arts and cinema—or anything else, for that matter—places our society in situations in which one group experiences total victory while others face total defeat. Unlike in the private sector, government decision-making is always yes or no; there is no middle ground. Simply put, because the private market deals in proportional as opposed to absolute outcomes, markets are better able to handle such matters.

Public tastes run the spectrum when it comes to "good" or "bad" art, which is why people should be allowed as wide a range of choice as possible. Public funding eliminates much of that choice while it invariably politicizes—and corrupts—art itself.

The best solution to the question of whether *Oh! Calcutta!* is obscene would be to return the Tivoli to private ownership. While that might not satisfy everyone in Chattanooga, it would give people the choice of either supporting or ignoring the production. This would be "artistic free expression" at its best. □

Mr. Anderson is executive director of the Chattanooga Manufacturers Association.

Another World

by Richard L. Leshner

If it sometimes seems as if Federal bureaucrats inhabit a different world from the rest of us—it is because they do.

A case in point is the Federal Energy Regulatory Commission (FERC), an independent agency that among other things sets rates for transportation of natural gas, issues licenses for hydroelectric plants, sets rates for sale of electricity; and also sets rates for transportation of oil by pipeline.

FERC's work is highly technical, and the agency is forever hosting long-winded public hearings in which throngs of attorneys drone on and on as if they were being paid by the hour, which most of them probably are. It is a tedious business, but someone has to write every word down in black and white for lawyers to read.

Indeed, the importance of these FERC hearings is such that there is always a great demand for the transcripts which are about as thick as telephone books, and can sell for more than \$6 per page. Not surprisingly, many private companies that specialize in such work would be very happy to transcribe FERC hearings at no charge to the agency. They know they can make ample profit selling transcripts to the public.

So it was that when the contract to transcribe FERC hearings came up for renewal last year, several firms submitted bids offering to do the work for nothing. But the firm that had been doing the work, Ace-Federal Reporters, took it one step fur-

ther, offering to actually pay FERC about \$7,900 per year for the privilege.

Now any private firm in that situation would jump at the offer, but FERC is a government agency living in another world. To the bureaucrats at FERC, the paltry \$7,900 offered by Ace-Federal wasn't worth the trouble of handling it. FERC hastily rewrote its contract specifically to bar bonus bids. What followed next was a typical Washington free-for-all: Ace-Federal raised the ante, offering to pay FERC more than \$1 million over the five-year life of the contract, FERC awarded the contract to another bidder, and Ace-Federal filed a lawsuit against FERC.

FERC insists it is within its legal rights to deny the contract to Ace-Federal, and it may be. But the core of the problem is the bureaucracy's indifference to economic reality. An extra \$1 million or so means nothing to FERC. The money would actually go to the Treasury Department which, so far as FERC is concerned, might as well be another country. Also, FERC bureaucrats have nothing to gain by saving the agency money. To the contrary, it would make it more difficult for the agency to justify its annual demand for more funding from Congress.

The last I heard, FERC was in Federal court fighting tooth and nail to avoid having to accept more than a million dollars from a contractor. And if you can understand that mentality, then perhaps you can also understand why Uncle Sam can't get by on \$1.2 trillion a year. □

Dr. Leshner is president of the U.S. Chamber of Commerce

A REVIEWER'S
NOTEBOOK

Breaking With Communism

by John Chamberlain

Like Whittaker Chambers, Bertram D. Wolfe, when he broke finally with the Communist Party, did not return from hell empty handed. He and Jay Lovestone, as leaders of American Communism in the Twenties, spent years trying to convert Stalin to their idea that America was "different." All they had to show for their many trips to Moscow was expulsion from the party in 1929. But meanwhile Wolfe had had plenty of time to see how Communism worked, or didn't work. His experience made his first book on Russia, *Three Who Made a Revolution*, a triple biography of Lenin, Trotsky, and Stalin, a classic.

During the Thirties, when he was becoming an expert on Spanish and Latin American literature, Wolfe kept hoping for a reconciliation with Stalin. The Moscow purge trials disillusioned him, but not all at once. He worked on an autobiography, *A Life in Two Centuries*, which he left in a two-thirds finished state when he died in 1977 at the age of 81. The early reviewers of the book were left wondering how to date Wolfe's final conclusion that Communism would destroy human liberty if it were not vigorously opposed.

What was needed was a documentation of Wolfe's letters, speeches, and Voice of America scripts. Here is where Robert Hessen of the Hoover Institution at Stanford, California, stepped in. Poring through 61 linear feet of Wolfe material in the Hoover Institution archives, Hessen has, in effect, completed the Wolfe autobiography. His book is published as *Breaking With Communism: The Intellectual Odyssey of Bertram D. Wolfe* (Hoover Institution Press, 311 pages, \$24.95 cloth, \$18.95 paper).

Hessen warns his readers that Wolfe's most

important friendships, with Sidney Hook, Edmund Wilson, and Stalin's daughter Svetlana Alliluyeva, leave barely a written trace. But there is enough written evidence in the Hoover archives to date Wolfe's break with Communism as coming on March 13, 1938. The bullet that ended the life of Lenin's favorite theorist Nikolai Bukharin ended Bert Wolfe's hopes that a peaceful world would ever be possible under Communism.

Bukharin had been one of the theoreticians who went along with Lenin in the NEP period, when capitalism had a brief recrudescence in the Russian countryside. On July 16, 1971, Wolfe wrote a letter to Stephen Cohen of Princeton detailing the way in which Stalin, a master of chess moves, managed to undermine Bukharin. Other letters to Cohen, who was writing a book on Bukharin, are equally revealing. To Cohen, Wolfe wrote that Bukharin, "the good Bolshevik," was the "most decent and humane of the Bolshevik leaders."

In a letter to Leonard Wilcox, Wolfe painted a masterly portrait of V. F. Calverton, who maintained an apartment on Morton Street in New York's Greenwich Village, where he staged brilliant parties that brought unorthodox manuscripts to his *Modern Monthly*. I lived just around the corner on Barrow Street, and had the good luck to be invited to the Calverton evening sessions and to the monthly luncheons at Teutonia Hall underneath the Third Avenue Elevated. The luncheons and dinners were mildly alcoholic. Discussions eventually became good *Modern Monthly* articles. Stuart Chase was one of Calverton's discoveries. Calverton would have disliked being called a capitalist, but he was a born entrepreneur who kept the left-of-center writers of the day from falling into rigid

molds. If he had survived his leukemia I am sure he would have become a leader of a New Right.

In 1951 Bert Wolfe gravitated to work as a Voice of America script writer. One of his more notable coups was his revelation of the murder of the Polish army officers in the Soviet Katyn Forest. Germans insisted it had been done by the Russians. In this case the Germans happened to be right.

The diaries, letters, and newspaper clippings found on the dead bodies in the Katyn ended abruptly at a cold-weather date in 1940 when the Russians still held Katyn. Stalin asserted that the Polish officers were killed by Hitler's men in August 1941. Yet they were wearing cold weather clothes, and in no pocket was there a scrap of paper dating later than early May, when scarves are still welcome in the Katyn climate.

Eugene Lyons, writing in Don Levine's *Plain Talk* magazine for October 1949, was ahead of Wolfe's Voice of America account of the Katyn Forest murders. But *Plain Talk* had few readers; Wolfe was the first to bring it to the attention of thousands. The Soviets have now admitted that they did the killings. The *May Reader's Digest* has published a full account of the Katyn Massacre by a roving editor, Rudolph Chelminski, who first heard of it from his Polish-born father.

How Wolfe, an intelligent man, could have stayed with the Soviets for all those years of the Twenties and early Thirties may seem an insoluble mystery to many. But the Wolfe case was far from being unique. It was an emotional commitment to pacifism that brought Wolfe into the Far Left fold in World War I times. He stayed there, as did many others.

The nicest touch is added to this collection of Wolfe papers by editor Hessen, who quotes John Maynard Keynes as saying, "What do I do when I discover I am wrong? I change my mind. What do you do?" □

THE FARM FIASCO

by James Bovard

ICS Press, 243 Kearny Street, San Francisco, CA 94108 • 1989
356 pages • \$18.95 cloth

Reviewed by Hannah Lapp

Beyond the traditionally romantic perception of American farming lies the reality of our inept Federal farm policy—the bureaucratic quagmire so disgusting that few peo-

ple dare face it, much less get in and explore it. It's easier just to assume that somehow food and fiber will keep reaching our grocery store shelves, and to hope that the nation's farmers will keep doing their job, perhaps with a helping hand from the Feds. Enter James Bovard, who with his new book, *The Farm Fiasco*, has quickly earned himself the title of America's leading critic of Federal farm policy. He delves into the farm program labyrinth with the intent to conquer it, and actually comes through with his senses intact enough to enlighten the rest of us.

From Bovard, you won't hear sympathy for the good intentions of farm programs: farm policy is "trampling individual rights, sacrificing the poor to the rich," and harming farmers themselves, as well as consumers. No excuses for the hundreds of billions spent in farm programs over the past decades: the subsidies defeat their purpose by bungling markets for agricultural products and creating inefficient production methods on the farm. No apologies either for the U.S. Department of Agriculture and the political figures behind the whole chaos: most of them don't understand economics, and even those who do are too addicted to the power and money in farm programs to venture interrupting the flow.

The problem of dependence on subsidies by segments of American agriculture has not received the public attention it deserves—at least not before *The Farm Fiasco* came out. There hasn't been a general shortage of food, which gives consumers a sense of security in the status quo. The yearly billions spent by the government on agriculture don't alarm many taxpayers who have come to accept as truth the USDA's version of farmers as a welfare case and farm aid as serving to keep America fed. Meanwhile, the complaints arising from the farm sector itself are often interpreted as proof of the need for more subsidies rather than evidence of farm policy failure.

Still, the American public will allow itself to be misled only so far before people start asking questions. And present agricultural policy invites some very provocative questions, such as: "Why should tobacco production be subsidized?" "Why were millions of good milk cows suddenly ordered slaughtered one year?" "Why should the largest, wealthiest ag corporations receive the biggest share of handouts?" Or, "Why should certain individuals be paid to *not* farm?" Once the public

becomes informed on these and other pertinent questions, a general outcry could erupt, for which some farmers, politicians, researchers, and consumer advocacy groups are already preparing themselves by joining in the protest against farm subsidies.

Bovard's book is a major contribution to this movement, particularly because of our need for accurate information on the subject. He has researched both the history and reasoning behind Federal meddling in agriculture, which he traces back to the early 1900s, and to which he accords a part in the severe depression of the 1930s. He details the chain-reaction economic consequences of government interference in production and marketing of agricultural goods, and the negative environmental impact of various crop programs. Farm policy, he asserts, is our perfect example of the failure of central planning.

Although Bovard's assault on the notion of farmers' deserving Federal handouts will be perceived by some as heartless, he is in many ways vocal in defense of agriculture. The free market, he contends, would do much better justice to agriculture as a whole, and particularly to independent farmers who in many cases have been trodden underfoot by farm programs. "Every dollar of aid the government gives welfare farmers," he says, "makes it more difficult for self-reliant farmers to prosper and survive."

Bovard overthrows the myths surrounding farm subsidies in extremely blunt terms. At times he is derisive, as when he questions the "learning curve" of USDA officials who feigned astonishment when the Dairy Termination Program's slaughter of nearly two million dairy cows in a few months' time severely disrupted the beef market. Often he is severe in his criticism, using such terms as "massacre of the innocents" and "schizophrenia" to describe various farm programs. At other times, the absurdities of USDA games with the marketplace evince themselves in a comical style. "In 1948," says Bovard, "the government spent \$206 million buying a third of the potato crop. The government was soon buried in potatoes and ended up dashing them with kerosene and leaving them to rot in such places as alongside New Jersey highways. The nation was outraged, and in 1951 Congress abolished potato price supports. The USDA learned its lesson: Never again would it allow a surplus crop to rot near the highways of

New Jersey."

Uncle Sam's great farm fiasco is not a pretty subject, and James Bovard doesn't attempt to word it nicely. What he does accomplish is to bring out the facts for public scrutiny in this extensively researched and documented book. □

Hannah Lapp is a dairy farmer and writer in Cassadaga, New York.

**THE COMING SOVIET CRASH:
GORBACHEV'S DESPERATE PURSUIT
OF CREDIT IN WESTERN FINANCIAL
MARKETS**

by Judy Shelton

The Free Press, Front and Brown Streets, Riverside, NJ
08375 • 1989 • 246 pages • \$22.50 cloth

Reviewed by Lawrence Person

For many years, it was said that capitalists would sell Communists the ropes for their own hanging. Now, however, it has become clear that the Soviets don't even have enough money to buy the rope. Still, despite the Soviet Union's worsening economic crisis, Mikhail Gorbachev doesn't seem overly concerned, and Judy Shelton shows why: The West seems willing not only to sell Gorbachev the rope, but to finance the sale as well.

The first section of this book, "The Financial Condition of the Soviet Union," is in many ways the most interesting. Using the Soviet Union's own statistics, Shelton shows that the Soviets have been running huge budget deficits for several years, despite their claims to the contrary. By issuing credits for state ventures that fail to meet their production quotas, Gosbank, the Soviet central bank, has created an annual budget deficit that is almost double that of the United States. In a Western economy, those deficits would likely give rise to spiraling inflation. However, because prices of many Soviet goods are fixed, that inflation takes the form of severe shortages of consumer goods.

Although the broad outlines of Soviet economic problems have been known for years, Shelton fills in a number of details about how the U.S.S.R. manages its deficit financing and how that financing affects Soviet citizens. Faced with an increasingly resentful population and an economy head-

ing toward collapse, Gorbachev's perestroika plan attempts to stave off the crisis in two ways.

The first involves loosening the reins of central economic control. Local managers are to get more leeway in making hiring and firing decisions, and badly managed concerns are to be allowed to go bankrupt. While this probably will help increase the efficiency of some ventures, such a policy promises Soviet citizens only the down side of capitalism (bankruptcy and unemployment) without any of its benefits.

Since most Soviet citizens feel that they've already sacrificed enough for the benefit of the state, the second part of Gorbachev's perestroika plan is as vital as the first. By raising imports of Western goods, he hopes not only to modernize Soviet industry with Western technology, but also to increase the availability of consumer goods and placate the restive population. But such a strategy requires large amounts of hard currency to pay for those imports, since the ruble is Monopoly money on international currency markets.

In her second section, Shelton tells "How Moscow Acquires Outside Financing." Although previously barred from Western markets by the Soviet Union's default on money owed on Czarist loans and bonds, the Soviets recently negotiated favorable settlements on those debts with the English and Swiss governments. This, in turn, opened the door for borrowing from Western banks, and also cleared the way for the Soviets to issue their first Eurobond.

The Soviets obtain still more financing through foreign branches of the Moscow Bank, as their location provides a loophole for laws that bar credit to the Soviet Union itself. They also plan to get capitalist financing from their joint ventures with Western companies. Finally, although the Jackson-Vanik Amendment prohibits the federal government from issuing loans or credits to the Soviet Union, Gorbachev intends to circumvent that restriction by gaining admittance to the International Monetary Fund and World Bank.

Shelton finds all these developments disturbing, and with good reason. She argues that since money is fungible, lending the Soviets money to buy more butter also allows them to buy more guns. To that end, the last and shortest section of her book,

"Guidelines for the West," provides eight general rules for dealing with the Soviets, including not trading economic assistance for political concessions and not becoming overly enchanted with either Gorbachev himself or his country's moves toward capitalism. Although advocates of laissez-faire trading policies will no doubt have quarrels with the idea of increasing government monitoring of international trade and finance, her suggestions for the most part are quite sound.

This book does have a few flaws, starting with its title. Though eye-catching, it would be somewhat misleading were it not for the more accurate subtitle. Indeed, although Shelton hints at a Soviet collapse, she never comes right out and predicts it, nor does she mention non-economic factors (such as ethnic dissent) that might contribute to a collapse. She also fails to more than touch on the many other problems of socialism that led the U.S.S.R. to its current economic malaise (though to be fair, the failures of central planning are so numerous and deep that entire books have been devoted to the subject).

More serious is the lack of statistics on Soviet military strength. Since the fungibility of capital is one of Shelton's key points, statistics on the growth and/or maintenance of Soviet force levels during Gorbachev's tenure might provide valuable reinforcement for her case. She also tends to overstate the Soviet Union's ability to copy Western technology successfully, stating at one point that "High quality products can be carefully copied, reproduced in quantity, and the knockoffs sold to foreign buyers as Soviet products"—ignoring the fact that the Soviet Union's technological infrastructure is so poor that in many cases they not only don't *have* the tools to build such products, they don't even have the tools to *build* the tools.

Still, these are minor flaws next to Shelton's overall achievement. Written in a clear and largely jargon-free style, *The Coming Soviet Crash* sheds considerable light on a heretofore unknown aspect of both Communist economies and East-West relations. As such, it should be required reading for businessmen thinking about working with the Soviets, and anyone else seeking the truth about glasnost and perestroika. □

Lawrence Person is a writer and editor in Austin, Texas.

ECONOMICS AND THE ENVIRONMENT: A RECONCILIATION

edited by Walter Block

The Fraser Institute, 626 Bute Street, Vancouver, British Columbia, Canada V6E 3M1 • 1990 • 351 pages • \$19.95 paper

Reviewed by William H. Peterson

Is the face of Marx turning from red to green? Strategically the global movement—one might almost say global steamroller—for environmentalism could be a way for socialism or central planning to preserve and perhaps even to expand the intellectual battle lost in the collapse of Communism in Eastern Europe.

This thought arises in a reading of current events, with America's \$21 billion Clean Air Act of 1990 mirroring the costly White House-Congressional politics of environmentalism; with Cornell astrophysicist Carl Sagan barnstorming the country decrying "global warming"; with frenzied Green Parties springing up from Europe to Asia to Africa to North and South America, as cases in point.

It also arises in a reading of the revealing Fraser Institute production of a valuable work that says to the reader: "Hey! Wait a minute. Slow down. Reflect. Tailpipe emissions, for one thing, are cleaner by 96 percent since 1969. So no need whatsoever to throw out free enterprise with the acid-rain bath water."

The key, then, to this work lies in its subtitle, *A Reconciliation*. Fraser senior research fellow and editor Walter Block holds in his tone-setting contribution that ecology is really a branch of economics, even if he is willing to concede that economics just may be a branch of ecology.

The foundation of each is, or ought to be, private property rights. He accordingly says that ecological and economic costs are inseparable—two sides of the same coin. The two are intellectually indistinguishable insofar as our relations with nature are involved—but only if all costs are fully taken into account.

Maintains Block: The free enterprise system is based precisely on this cost-recouping premise, with no trespasses, poaching, or other violations of private property rights taking place. Free markets and not politicized bureaucrats should therefore

call the environmental shots. Capitalism itself, in other words, has a cleansing action. He writes: "Which fuels are most ecologically friendly? Without a free market that generates prices reflective of relative scarcities and a private property rights system that forces all costs to be counted, we cannot rationally decide which courses of action are most economically or ecologically sound."

In a cute aside, Block notes the furor over cloth versus disposable plastic diapers. Yes, he observes, in purely economic terms, when the parent's time (the largest cost element in the decision) is taken into account, there is no contest. Disposables win hands down. But some environmentalists object vociferously. They contend: Plastic diapers are neither biodegradable nor recyclable, as are cloth diapers.

Block concedes that cloth diapers are recyclable, but rebuts that washing them implies soap for cleaning and bleach for disinfecting, which pose environmental threats of their own. Too, electricity is necessary for washing, drying, and ironing, which in turn requires oil, gas, hydro, coal, or nuclear power—or more ecological problems. In addition, there is the problem of disposing of the resultant dirty water with its human wastes. So, he argues, the price system with its business of trade-offs comes up with viable answers.

Naturally enough, Block finds strong support among his contributors. Montana State University economist Richard Stroup, for example, holds that risks from hazardous wastes are minimized through what he calls "3-D" property rights.

These are rights that are *defined* clearly, so as to reside with a particular person or private entity; *defended* readily against non-owners who might wish to use a property without permission or not pay a rent to the owner, or who might otherwise appropriate the rights of private property; and *divestible*, or transferable, by the owner to others on whatever terms are mutually satisfactory to buyer and seller or donor and donee.

But three-dimensional property rights in no way diminish the stewardship and conservation called for by sound ecology. Quite the contrary, the "tragedy of the commons" is precisely avoided through private ownership. Incentive-motivated Weyerhaeuser and International Paper, to cite two examples, are not going to "rape" their own private forests but rather conserve them in perpetuity for future generations, *à la* Adam

Smith's Invisible Hand, through scientific tree-farming.

Nor is a private property rights system a one-way stream of benefits, Professor Stroup reminds us. Private property owners can miscalculate, they can incur unforeseen exigencies, they can also be sued, i.e., they are vulnerable to liability as when their property such as a truck inflicts injury or damages on others. Or again if, say, a chemical plant discharges toxic wastes into a river or the atmosphere, and thereby infringes on the rights and safety of others, the courts are duty-bound to grant injunctive relief to the plaintiff or plaintiffs.

This note on courts is vital to the argument of this book. Its contributors say over and over that free enterprise and sound ecology don't exist in a legal limbo—supply and demand function under the rule of law. They say the environment is better protected by law than legislation—a subtle but important distinction—stressing the ecological role of case and common law and of our third and much overlooked branch of government: the judiciary. □

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

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
OCTOBER
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364 Education and the Racist Road to Barbarism

George Reisman

Western civilization can continue only insofar as its intellectual substance lives on in the minds of new generations.

371 Where Are the Sons of Liberty?

Norman S. Ream

Who will join in the struggle to restore our heritage of freedom?

374 The Politics of Compassion

William B. Irvine

It is a mistake to use a person's political beliefs as the litmus test of his compassion.

376 Manipulating the Traditional Family

Peter J. Leithart

An analysis of "tax manipulation" from the perspective of Christian political philosophy.

380 Comparable Worth: Feminism Turning to Paternalism

Wendy McElroy

What is the measure of worth, and who will judge it?

382 Cable TV Needs Competition

John Merline

Competition among cable TV companies can bring about lower prices and better service to consumers.

387 On the Right to Strike

Charles W. Baird

Examining the strike-threat weapon and the legitimacy of the so-called right to strike.

392 Government Isn't Living Up to Its Contract

Roger Koopman

A look at the ways that government denies the individual his right to determine his contracts with others.

393 Readers' Forum

395 Book Reviews

John Chamberlain reviews *Fighting the War of Ideas in Latin America* by John C. Goodman and Ramona Marotz-Baden. Also featured: *Inside Perestroika: The Future of the Soviet Economy* by Abel Aganbegyan; *Preferential Policies: An International Perspective* by Thomas Sowell; and *South Africa's War Against Capitalism* by Walter Williams.

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The Politics of Poverty

Political competition depends on the skills and abilities of the competitors. How then can the poor, who lack the skills and abilities to compete successfully in the marketplace, compete in the political arena? They can't, and therefore they haven't. After all, if the poor had the skills and attributes that are necessary for effective political action, they would not be poor. Certainly billions of dollars have flowed through government programs supposedly established to redistribute income from the non-poor to the poor, but the poor did not structure these programs. The middle-class bureaucrats who run these programs, the consultants and academics who study them, and the doctors, farmers, and construction contractors whose services are demanded by them—they are the ones who share welfare programs and receive the most benefit from them. For example, in 1984 the federal government spent \$344 billion on transfer payments of which only \$80 billion went to the poor.

The benefits the poor do receive are provided in such ways as to make them more, rather than less, dependent on public support. As a result, they are made worse off in the long run. Current programs discourage the poor from entering the job market, and encourage poor husbands to abandon their families.

The welfare industry is perpetuating itself by undermining the economic incentives and the family structure that are so important if the poor are to develop the skills and attitudes needed to move up the economic ladder.

The deluge of government welfare spending has done nothing to redistribute income to the poor. It has, however, reduced economic productivity by requiring greater tax burdens on the private sector of the economy. The poor don't have a bigger share of the pie, and because of welfare expenditures, the pie is smaller than it would have been.

—DWIGHT R. LEE AND ROBERT L. SEXTON,
writing in the October 29, 1989,
Orange County Register.

The Black Hole

The government is seizing the thrifts, taking onto its own books the properties that served as collateral for defaulted loans. In theory, it will sell the properties and use proceeds to reduce its deposit-insurance liabilities. In practice, history suggests government ownership is a black hole from which property never escapes. Office of Management and Budget attempts to sell assets are routinely defeated. The one notable success, the sale of Conrail, took years. The government still owns 85 percent of the land in Nevada and 87 percent of Alaska. Think of it this way: The last time the federal government ever sold anything was the Oklahoma land rush in 1889.

—from an editorial in the March 15, 1990,
Wall Street Journal

Curbing the Impulse to Hire

In any community there are countless numbers of self-employed entrepreneurs who report that business is good—so good, they can't keep up. In the dynamics of business development this is the point at which an entrepreneur would normally hire his first employee.

All too often this fails to happen, mostly because would-be employers are reluctant to assume the mountain of responsibilities that government heaps upon them should they hire someone.

What should be a simple, straightforward business transaction of mutual benefit is now on the order of an adoption—requiring, through a host of laws and regulations, that the employer assume growing responsibility for the life of another human being for an unknown period of time and with increasingly unpredictable consequences.

What is overlooked in society's zeal to heap its problems onto the shoulders of employers is that economic reality demands that any employee, in any position, must produce enough product or service, which when sold at prevailing prices, will cover not only his wage (minimum or not), but also the

costs associated in hiring him, including insurance, day care, health care, sick leave, vacation, and maternity leave—not to mention the additional legal, accounting, and filing-forms-in-triplicate costs incurred by the seemingly innocuous decision to hire.

(This is not to say that such forms of compensation shouldn't and wouldn't be voluntarily negotiated in a free market without government mandates.)

But more than covering costs, would-be employers want to know, "Why should I assume this responsibility and risk?" Rational people will conclude, "I'd rather be fishing."

This spells doom, not so much for the prospective job creators, who will likely find a niche for themselves, but for potential employees who are not cut out for self-employment or need the experience and training of employment, who need the job creators and who will be left with substantially fewer choices and opportunities.

—Evelyn Pyburn, Editor,
Big Sky Business Journal,
Billings, Montana.

Stealing from Children

American economic wealth is the product of the labors, savings, and entrepreneurial efforts of many generations of Americans. Our generation is the beneficiary of the apparatus of production left us by many generations that preceded us. We neither planned nor built it; with minimal efforts on our part we are enjoying the broad stream of goods it is providing. Yet, for most of us this is not enough; we make our political institutions run chronic deficits and leave the bills to our children. We would rather consume their heritage than to forgo our benefits. Unfortunately, we are sowing the seeds of our punishment which, to be just, will be both certain and proportionate to the offense.

—Hans F. Sennholz,
"Thou Shalt Not Steal, Coerce or Deceive"
(Libertarian Press, Spring Mills, Pennsylvania)

Education and the Racist Road to Barbarism

by George Reisman

Major changes are taking place in the philosophy of American education, changes which are potentially capable of having an enormous impact on all aspects of American life. The changes are inspired by what *The New York Times* refers to as the "Eurocentrism critique." According to the *Times*, "Eurocentrism" is a pejorative term supposed to describe "a provincial outlook that focuses overwhelmingly on European and Western culture while giving short shrift to Asia, Africa and Latin America."

A typical manifestation of "Eurocentrism," according to its critics, is the statement that Columbus discovered America. This statement, which most children in America may have learned as their very first fact of history, is now regarded as controversial. Indeed, it is held to be positively offensive because it implies that "there had been no other people on the continent" before Columbus arrived. Traditional American education in general is denounced for seeing the world "only through a Western lens." Only through that "lens," it is held, can, for example, African art be regarded as primitive.

In an effort to eliminate such alleged Western and European "bias," schools are altering the

way in which history, literature, and the arts are being taught. Recent changes at Stanford University, where a course on Western civilization was replaced by one in which non-Western ideas had to be included, are only one case in point. The revisions in the history curriculum in California's public school system, to emphasize Indian and African cultures, are another. Curricula and textbooks are being widely rewritten, and, as evidence of the depth of the changes, the *Times* reports that efforts are under way "to reconstruct the history of African tribes, going beyond relying on accounts of Western travelers to examining indigenous sources, often oral, and adapting anthropological approaches."

The implications of these changes are enormous. The acceptance of the "Eurocentrism" critique and its denial of such propositions as "Columbus discovered America" speaks volumes about the state of the educational establishment in the United States and the intellectual establishment in general.

In order to understand the implications, it is first necessary to remind oneself what Western civilization is. From a historical perspective, Western civilization embraces two main periods: the era of Greco-Roman civilization and the era of modern Western civilization, which later encompasses the rediscovery of Greco-Roman civilization in the late Middle Ages, and the periods of the Renaissance, the Enlightenment, and the Industrial Revolution. Modern Western civilization continues down to the present moment, of course, as the

Dr. Reisman is professor of economics at Pepperdine University's School of Business and Management in Los Angeles, and is the author of The Government Against the Economy. This article is reprinted by permission from the April 30, 1990, issue of The Intellectual Activist, P.O. Box 582, Murray Hill Station, New York, NY 10156. Copyright © 1990, The Intellectual Activist.

dominant force in the culture of the countries of Western Europe and the United States and the other countries settled by the descendants of West Europeans. It is an increasingly powerful force in the rapidly progressing countries of the Far East, such as Japan, Taiwan, and South Korea, whose economies rest on "Western" foundations in every essential respect.

From the perspective of intellectual and cultural content, Western civilization represents an understanding and acceptance of the following: the laws of logic; the concept of causality and, consequently, of a universe ruled by natural laws intelligible to man; on these foundations, the whole known corpus of the laws of mathematics and science; the individual's self-responsibility based on his free will to choose between good and evil; the value of man above all other species on the basis of his unique possession of the power of reason; the value and competence of the individual human being and his corollary possession of individual rights, among them the right to life, liberty, property, and the pursuit of happiness; the need for limited government and for the individual's freedom from the state; on this entire preceding foundation, the validity of capitalism, with its unprecedented and continuing progress, capital accumulation, and rising living standards; in addition, the importance of visual arts and literature depicting man as capable of facing the world with confidence in his power to succeed, and music featuring harmony and melody.

Western Civilization Is Open to Everyone

Once one recalls what Western civilization is, the most vital thing to realize about it is that *it is open to everyone*. Indeed, important elements of "Western" civilization did not even originate in the West. The civilization of the Greeks and Romans incorporated significant aspects of science that were handed down from Egypt and Babylon. Modern "Western" civilization includes contributions from people living in the Middle East and China during the Dark Ages, when Western Europe had reverted to virtual barbarism. Indeed, during the Dark Ages, "Western" civilization resided much more in the Middle East than in Western Europe. (It is conceivable that if present trends continue, in another century it might reside more in the Far East than in the West.)

The truth is that just as one does not have to be from France to like French-fried potatoes or from New York to like a New York steak, one does not have to be born in Western Europe or be of West European descent to admire Western civilization, or, indeed, even to help build it. Western civilization is not a product of geography. *It is a body of knowledge and values*. Any individual, any society, is potentially capable of adopting it and thereby becoming "Westernized." The rapidly progressing economies of the Far East are all "Western" insofar as they rest on a foundation of logic, mathematics, science, technology, and capitalism—exactly the same logic, mathematics, science, technology, and capitalism that are essential features of "Western" civilization.

For the case of a Westernized individual, I must think of myself. I am not of West European descent. All four of my grandparents came to the United States from Russia, about a century ago. Modern Western civilization did not originate in Russia and hardly touched it. The only connection my more remote ancestors had with the civilization of Greece and Rome was probably to help in looting and plundering it. Nevertheless, I am thoroughly a Westerner. I am a Westerner because of the *ideas and values* I hold. I have thoroughly internalized all of the leading features of Western civilization. They are now *my* ideas and *my* values. Holding these ideas and values as I do, I would be a Westerner wherever I lived and whenever I was born. I identify with Greece and Rome, and not with my ancestors of that time, because I share the ideas and values of Greece and Rome, not those of my ancestors. To put it bluntly, my ancestors were savages—certainly up to about a thousand years ago, and, for all practical purposes, probably as recently as four or five generations ago.

I know nothing for certain about my great-grandparents, but if they lived in rural Russia in the middle of the 19th century, they were almost certainly totally illiterate, highly superstitious, and primitive in every way. On winter nights, they probably slept with farm animals in their hut to keep warm, as was once a common practice in Northern Europe, and were personally filthy and lice-infested. I see absolutely nothing of value in their "way of life," if it can be called a way of life, and I am immeasurably grateful that my grandparents had the good sense to abandon it and come to America, so that I could have the opportunity of

becoming a “Westerner” and, better still, an American “Westerner,” because, in most respects, since colonial times, the United States has always been, intellectually and culturally, the *most* Western of the Western countries.

Thus, I am a descendant of savages who dwelt in Eastern Europe—and before that probably the steppes of Asia—who has been Westernized and now sees the world entirely through a Western “lens,” to use the term of the critics of “Eurocentrism.” Of course, it is not really a lens through which I see the world. It is much more fundamental than that. I have developed a Western *mind*, a mind enlightened and thoroughly transformed by the enormous body of knowledge that represents the substance of Western civilization, and I now see the world entirely on the basis of that knowledge.

For example, I see the world on the foundation of the laws of logic, mathematics, and science that I have learned. And whenever something new or unexpected happens, which I do not understand, I know that it must nevertheless have a cause which I am capable of discovering. In these respects, I differ profoundly from my savage ancestors, who lacked the knowledge to see the world from a scientific perspective and who probably felt helpless and terrified in the face of anything new or unknown because, lacking the principle of causality and knowledge of the laws of logic, they simply had no basis for expecting to be able to come to an understanding of it.

It is on the basis of the same foundation of knowledge that I regard the discoverer of the Western hemisphere to be Columbus, rather than the very first human beings to arrive on the North American continent (probably across a land-bridge from Asia), and rather than the Norwegian Leif Ericson. I consider Columbus to be the discoverer not because of any such absurd reason as a preference for Europeans over Asiatics (Leif Ericson was as much a European as Columbus), but because it was Columbus who opened the Western hemisphere to the civilization I have made my own. Columbus was the man who made it possible to bring to these shores *my ideas and values*. It is not from the perspective of the residence of my ancestors, who were certainly not Italian or Spanish or even West European, that I regard Columbus as the discoverer of America, but from the perspective of the residence of my

ideas and values. Just as at an earlier time, they resided in Greece and Rome rather than in the Russia of my ancestors, so in the 15th and 16th centuries, the home of my ideas and values was in Western Europe. I hold Columbus to have been the discoverer of America from *that* perspective. This is the perspective that *any* educated person would hold.

There is no need for me to dwell any further on my own savage ancestors. The plain truth is that *everyone's* ancestors were savages—indeed, at least 99.5 percent of everyone's ancestors were savages, even in the case of descendants of the founders of the world's oldest civilizations. For mankind has existed on earth for a million years, yet the very oldest of civilizations—as judged by the criterion of having possessed a written language—did not appear until less than 5,000 years ago. The ancestors of those who today live in Britain or France or most of Spain were savages as recently as the time of Julius Caesar, slightly more than 2,000 years ago. Thus, on the scale of mankind's total presence on earth, today's Englishmen, Frenchmen, and Spaniards earn an ancestral savagery rating of 99.8 percent. The ancestors of present-day Germans and Scandinavians were savages even more recently, and thus today's Germans and Scandinavians probably deserve an ancestral savagery rating of at least 99.9 percent.

It is important to stress these facts to be aware how little significance is to be attached to the members of any race or linguistic group achieving civilization sooner rather than later. Between the descendants of the world's oldest civilizations and those who might first aspire to civilization at the present moment, there is a difference of at most one-half of one percent on the time scale of man's existence on earth.

The Standard for Judging a Civilization

These observations should confirm the fact that there is no reason for believing that civilization is in any way a property of any particular race or ethnic group. It is strictly an *intellectual* matter—ultimately, a matter of the presence or absence of certain fundamental ideas underlying the acquisition of further knowledge.

Those peoples who possess a written language

may be called civilized, inasmuch as writing is an indispensable means for the transmission of substantial knowledge, and thus for the accumulation of knowledge from generation to generation. Those who possess not only a written language but also knowledge of the laws of logic and the principle of causality are in a position to accumulate and transmit incomparably more knowledge than people who possess merely the art of writing alone. On this basis, Greco-Roman civilization is on a higher plane than any that had preceded it.

Finally, a civilization which possesses still further fundamental applications of human reason, such as the far more extensive development and elaboration of the principles of mathematics and science, the existence of the freedoms of speech and press, and the development of a division of labor economy, is a higher civilization than even that of Greece and Rome. (The freedoms of speech and press are an essential guarantee of the individual's right to disseminate knowledge without being stopped by the fears or superstitions of any group backed by the coercive power of the state. A division of labor economy makes possible a corresponding multiplication of the amount of knowledge applied to production and to meeting the needs of human life, for such knowledge exists essentially in proportion to the number of separate occupations being practiced, each with its own specialized body of knowledge. Equally or even more important, a division of labor economy means that geniuses can devote their talents full time to such fields as science, education, invention, and business, with a corresponding progressive increase in knowledge and improvement in human life.)

Such a civilization, of course, is *our very own, modern Western civilization* — incomparably the greatest civilization which has ever existed, and which, until fairly recently, had repeatedly been carried to its very highest points in most respects right here in the United States.

The fact that civilization is an intellectual matter is not known to the critics of "Eurocentrism." In their view, Western civilization is a matter not even so much of geography as it is of *racial membership*. It is, as they see it, the civilization of the *white man*. In reporting the changes in California's world history curriculum, the *Times* notes, significantly, that Hispanic, Asian, and black students now make up a majority of the 4.4 million pupils in the state. It quotes the co-author of the new

curriculum as saying many educators believe that "people who have non-European backgrounds don't feel their antecedents lie in Europe." Another critic of "Eurocentrism," who is described as "heading an overhauling of the public school curriculum of Camden, N.J., to stress . . . a more 'Afrocentric and Latinocentric' approach," is quoted as saying: "We are not living in a Western country. The American project is not yet completed. It is only in the eyes of the Eurocentrists who see it as a Western project, which means to hell with the rest of the people who have yet to create the project."

In these statements, Western civilization is clearly identified with people of a certain type, namely, the West Europeans and their descendants, who are white. Students descended from Asiatics or Africans, it is assumed, can feel at home only to the extent that the curriculum is revised to give greater stress to "the ancient civilizations of China, India and Africa, the growth of Islam and the development of sub-Saharan Africa." The critics of "Eurocentrism" proclaim themselves to be opponents of racism. In fact, they accept exactly the same false premise they claim to oppose—namely, that civilization, or the lack of it, is racially determined.

In earlier centuries, men of European descent observed the marked cultural inferiority of the native populations of Africa, Asia, and the Western hemisphere, and assumed that the explanation lay in a racial inferiority of these peoples. In passing this judgment, they forgot the cultural state of their own ancestors, which was as much below their own as was that of any of these peoples. They also overlooked the very primitive cultural state of many Europeans then living in the eastern part of the continent, and of Caucasians living in the Middle East. Even more important, they failed to see how in accepting racism, they contradicted the essential "Western" doctrine of individual free will and individual responsibility for choices made. For in condemning people as inferior on the basis of their race, they were holding individuals morally responsible for circumstances over which they had absolutely no control. At the same time, they credited themselves with accomplishments which were hardly their creations, but those of a comparative handful of other individuals, most of whom had happened to be of the same race and who, ironically enough, had had to struggle against

the indifference or even outright hostility of the great majority of the members of their own race in order to create civilization.

The New Racism and the Devaluation of Knowledge

Today, the critics of "Eurocentrism" rightly refuse to accept any form of condemnation for their racial membership. They claim to hold that race is irrelevant to morality and that therefore people of every race are as good as people of every other race. But then they assume that if people of all races are equally good, *all civilizations and cultures must be equally good*. They derive civilization and culture from race, just as the European racists did. And this is why they too must be called racists. They differ from the European racists only in that while the latter started with the judgment of an inferior civilization or culture and proceeded backwards to the conclusion of an inferior race, the former begin with the judgment of an equally good race and proceed forward to the conclusion of an equally good civilization or culture. The error of both sets of racists is the same: the belief that civilization and culture are racially determined.

The racism of these newer racists, which is now being imposed on the educational system, implies a radical devaluation of civilization, knowledge, and education. The new racists do not want students to study non-Western civilizations and the conditions of primitive peoples from the perspective of seeing how they lag behind Western civilization and what they might do to catch up. Study from that perspective would be denounced as seeing the world through a "Western lens." It would be considered offensive to people of non-West European origin.

No, what they want is to conduct the study of the various civilizations and even the state of outright savagery itself in a way that makes all appear *equal*. It is assumed, for example, that black students can feel themselves to be the equal of white students only if their sub-Saharan ancestors are presented as, in a fundamental sense, culturally *equivalent* to modern West Europeans or Americans.

Now such a program means the explicit obliteration of distinctions among levels of civilization, and between civilization and savagery. It presents ignorance as the equivalent of knowl-

edge, and superstition as the equivalent of science. Everything—logic, philosophy, science, law, technology—is to be ignored, and a culture limited to the level of making dugout canoes is to be regarded as the equivalent of one capable of launching space ships. And all this is for the alleged sake of not offending anyone who supposedly must feel inferior if such a monumental fraud is not committed.

I believe, contrary to the expectations of the new racists, that their program must be grossly offensive to the very students it is designed to reassure. I know that I would be personally outraged if I were told that my intellectual capacities and personal values had been irrevocably defined for me by my ancestors and that now I was to think of myself in terms of the folkways of Russian peasants. I believe that if my ancestors had been Africans and, for example, I wanted to be an artist, I could readily accept the fact that art produced on the basis of a knowledge of perspective, geometry, human anatomy, and the refraction of light was a higher form of art than that produced in ignorance of such considerations. I would readily accept the fact that the latter type of art was, indeed, primitive. I would not feel that I was unable to learn these disciplines merely because my ancestors or other contemporary members of my race had not. I would feel the utmost contempt for the deliberate, chosen primitiveness of those "artists" (almost all white) who had reverted to the level of art of my (and their) primitive ancestors.

Race is not the determinant of culture. Not only is Western civilization open to the members of every race, but its present possessors are also potentially capable of losing it, just as the people of the Western Roman Empire once lost the high degree of civilization they had achieved. What makes the acceptance of the "Eurocentrism" critique so significant is that it so clearly reveals just how tenuous our ability to maintain Western civilization has become.

Western Civilization and the State of Education

The preservation of Western civilization is not automatic. In the span of less than a century, virtually the entire population at the end consists of people who were not alive at the beginning. Western civilization, or any civilization, can continue

only insofar as its intellectual substance lives on in the minds of new generations.

And it can do so only if it is imparted to young minds through education. *Education is the formal process of transmitting the intellectual substance of civilization from one generation to the next and thereby developing the uncultivated minds of children into those of civilized adults.* Western civilization is imparted to young minds in the teaching of Euclidean geometry and Newtonian physics, no less than in the teaching of the philosophy of Plato and Aristotle or the plays of Shakespeare. It is imparted in the teaching of every significant subject, from arithmetic to nuclear physics, from reading and writing to the causes of the rise and fall of civilizations. Wherever the intellectual substance of Western civilization is known, its transmission to the minds of students is virtually *coextensive with the process of education*. For the intellectual substance of Western civilization is nothing other than the fundamentals underlying the highest levels of knowledge attained anywhere on earth, and if the purpose of education is to impart knowledge, then its purpose is to impart Western civilization.

Thus, to the extent that the process of education is undermined, the whole of civilization must also be undermined, starting a generation later. These results will appear more and more striking as time goes on and as more and more defectively educated people take the place of those whose education was better. The worsening effects will likely be further intensified as those whose own education was defective become educators themselves and thus cause succeeding generations to be still more poorly educated.

Education in the United States has been in obvious decline for decades, and, in some ways that are critical but not obvious, perhaps for generations. The decline has become visible in such phenomena as the rewriting of college textbooks to conform with the more limited vocabularies of present-day students. It is visible in the functional illiteracy of large numbers of high school and even college graduates, in their inability to articulate their thoughts or to solve relatively simple problems in mathematics or even plain arithmetic, and in their profound lack of elementary knowledge of science and history.

I believe that the decline in education is probably responsible for the widespread use of drugs. To live

in the midst of a civilized society with a level of knowledge closer perhaps to that of primitive man than to what a civilized adult requires (which, regrettably, is the intellectual state of many of today's students and graduates) must be a terrifying experience, urgently calling for some kind of relief, and drugs may appear to many to be the solution.

I believe that this also accounts for the relatively recent phenomenon of the public's fear of science and technology. Science and technology are increasingly viewed in reality as they used to be humorously depicted in Boris Karloff or Bela Lugosi movies, namely, as frightening "experiments" going on in Frankenstein's castle, with large numbers of present-day American citizens casting themselves in a real-life role of terrified and angry Transylvanian peasants seeking to smash whatever emerges from such laboratories. This attitude is the result not only of lack of education in science, but more fundamentally, loss of the ability to think critically—an ability which contemporary education provides little or no basis for developing. Because of their growing lack of knowledge and ability to think, people are becoming increasingly credulous and quick to panic.

Thus the critique of "Eurocentrism"—and any changes in curricula that may result from it—can hardly be blamed for inaugurating the decline in American education. On the contrary, it is a product of that decline. The fact that it is being accepted almost without opposition is evidence of how far the decline has already gone.

Why Cultural Relativism Prevails

The equivalence of all cultures, the equivalence of civilization and savagery, is the avowed claim of the doctrine of cultural relativism, which has long been accepted by practically the whole of the educational establishment. It in turn is a consequence of the still older, more fundamental doctrine that there is no objective foundation for values—that all value-judgments are arbitrary and subjective. The new racists are now merely cashing in on this view and attempting to apply it on the largest possible scale, in the process substantially altering the manner in which subjects are taught. Today's educational establishment has fewer compunctions about putting absurd ideas into practice, probably because of the deteriorated state of its own educa-

tion. (Many of its members were educated in the 1960s, in the environment of the "student rebellion.")

The fact that the educational and intellectual establishments are fully in agreement with the fundamental premises of the new racists helps to explain why even when their members are opposed to the "Eurocentrism" critique, they have nothing of substance to say against it. As reported by the *Times*, the objections raised amounted to nothing more than complaints about the difficulty of finding non-European writers, philosophers, and artists to replace the European ones dropped from the curricula, and grumblings about the lack of Americans able to teach authoritatively about non-European cultures.

In capitulating to the "Eurocentrism" critique, the educational establishment has reached the point of reducing education to a level below that of ordinary ward politics: education is now to be a matter of pressure-group politics based on the totally false assumptions of racism. If there is a majority of black, Hispanic, or Asian students in an area, then that fact is to be allowed to determine the substance of education, in the belief that these groups somehow "secrete," as it were, a different kind of civilization and culture than do whites and require a correspondingly different kind of education.

Colleges in the United States have demonstrated such utter philosophical corruption in connection with this subject that if there were a group of

students willing to assert with pride their descent from the Vandals or Huns and to demand courses on the cultural contributions of their ancestors, the schools would provide such courses. All that the students would have to do to get their way is to threaten to burn down the campus.

But what best sums up everything involved is this: from now on, in the state of California, a student is to go through 12 years of public school, and the explicit goal of his education is that at the end of it, if he envisions Columbus being greeted by spear-carrying savages, and he happens not to be white, he should identify with the savages—and if he does happen to be white, and therefore is allowed to identify with Columbus, he should not have any idea of why it is any better to identify with Columbus than with the savages.

This is no longer an educational system. Its character has been completely transformed and it now clearly reveals itself to be what for many decades it has been in the process of becoming: namely, an agency working for the *barbarization* of youth.

The value of education is derived from the value of civilization, whose guardian and perpetuator education is supposed to be. An educational system dedicated to the barbarization of youth is a self-contradictory monstrosity that must be cast out and replaced with a true educational system. But this can be done only by those who genuinely understand, and are able to defend, the *objective* value of Western civilization. □

Reprints Available

"Education and the Racist Road to Barbarism" is available as an 8-page, *Freeman*-sized reprint. Single copy: \$1.00; 10 for \$5.00; 25 or more, 35 cents each. Prices include postage. Order from: The Foundation for Economic Education, 30 South Broadway, Irvington-on-Hudson, New York 10533. Please include payment with order.

Where Are the Sons of Liberty?

by Norman S. Ream

The year was 1748 and Virginia, under a regulation of the Crown, was required to grant every Anglican clergyman in that colony an annual salary of 17,000 pounds of tobacco. During the following decade there was a sharp increase in the price of tobacco due to several crop failures. The Virginia Assembly, desiring no doubt that the clergy remain properly poor, passed what were referred to as the Two Penny Acts. These Acts set the value of the clergy's tobacco at twopence a pound, far below the market price. As could be expected, the clergy objected and brought suit. The dispute became known as the Parson's Cause and was appealed to the King's Privy Council which promptly annulled the law. Reverend James Maury brought suit in Virginia and won his case because the judges were bound by the Privy Council's decision. After the jury had heard Patrick Henry's defense, it awarded the Reverend Mr. Maury one penny in damages.

Patrick Henry was only in his 20s at the time. No doubt he was trying to build a reputation for himself, but his speech contained a ringing defense for the liberties of free men: "... a king, by disallowing Acts of this salutary nature, from being the father of his people, degenerated into a Tyrant, and forfeits all rights to his subjects' obedience."

The King's action through his Privy Council was only one of many threats to the people's liberties that provided a prelude to the final revolt.

Facing such threats, the Sons of Liberty were formed after the Stamp Act was passed in 1765.

Although these groups sometimes may have been unruly, for the most part they were made up of middle-class citizens who kept themselves under control. They did, however, make it clear that they would not and could not tolerate the loss of their liberties which George III was seeking to take from them. They frequently disguised themselves, as they did at the Boston Tea Party, burned stamped paper, staged processions, and intimidated English officials.

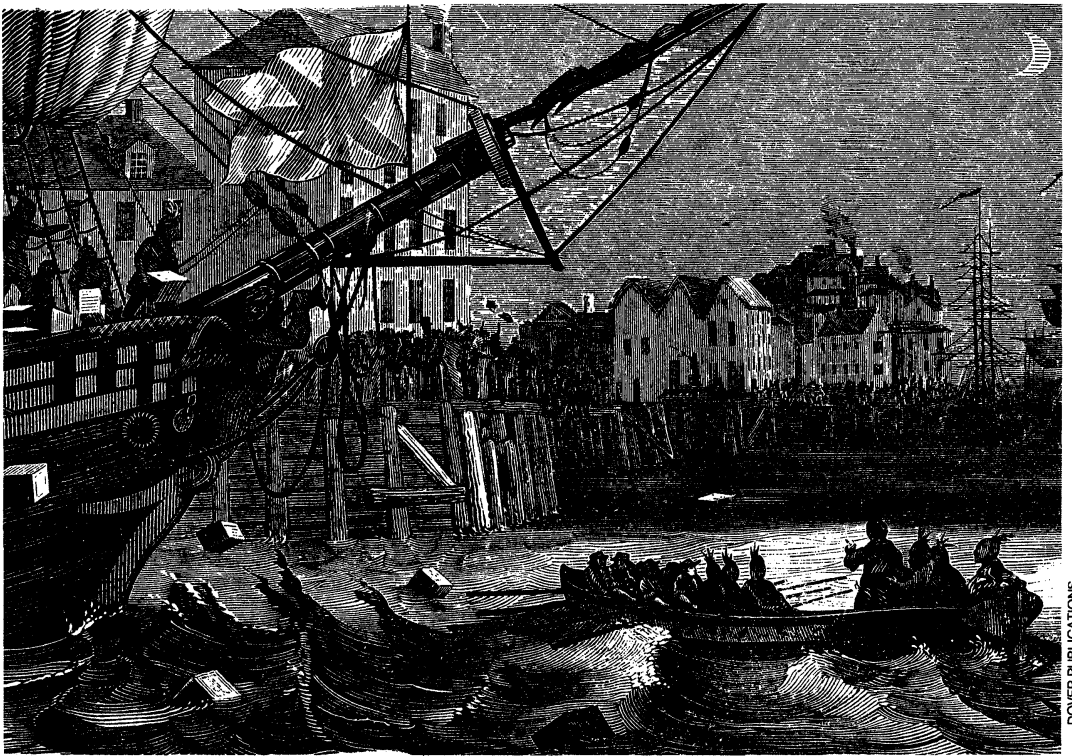
There is often a misconception on the part of Americans concerning the situation that existed between the people of the 13 original colonies and the British government prior to 1776. This misconception may be due to our 20th century's poor record at teaching history.

It is widely believed today that the colonists rebelled against the British and King George because they desired freedom from harsh rules and regulations, but the facts are somewhat different. As early as 1763, a decade before the Boston Tea Party, the colonists were free from most of the governmental restrictions we live under in the late 20th century. The colonists' objection was not that they had no freedom, but that what wide freedom they had was being threatened by new and odious rules emanating from England. They cherished the liberty offered them in this new land and did not wish to forfeit it.

Preserving Liberties

In his excellent work, *The Oxford History of the American People*, Samuel Eliot Morison makes the same point when he insists, "Make no

Dr. Ream, who served for many years as pastor of the First Congregational Church, Wauwatosa, Wisconsin, lives in retirement with his wife in Estes Park, Colorado.



The Boston Tea Party.

mistake, the American Revolution was not fought to *obtain* freedom, but to preserve the liberties that Americans already had as colonials.”

Morison makes clear that Americans of that period probably had more freedom than Americans of any succeeding era. Following the French and Indian War, King George was generally popular. During that period, however, the colonies had grown stronger and more self-confident, considering their own interests primary. They enjoyed complete freedom of speech, press, and assembly, and military service in time of war was voluntary. What taxes were enacted were not burdensome. As Morison puts it, “the hand of government rested lightly on Americans.”

Traveling through Virginia in 1759 a clergyman, Andrew Burnaby, observed, “They are haughty and jealous of their liberties, impatient of restraint, and can scarcely bear the thought of being controlled by any superior power.”

It is perhaps conceivable that this political, economic, and social latitude explains the strong reaction on the part of the colonists when George III threatened and actually began to restrict their freedom.

One has difficulty imagining Americans in our day reacting as did the 18th-century colonial Americans. Oppressive and restrictive laws may annoy us, but overall we are so affluent we would rather do nothing that would imperil our ease and comfort. Over the past several decades we have had our liberties slowly but surely abridged, and most Americans are unaware of or indifferent to how much liberty they have lost. We may murmur occasionally at legislative or administrative decisions that further curtail our liberty, but it is very unlikely we would revolt as did the Americans of 1776, or as did the Sons of Liberty in 1773 when they dumped the tea into Boston Harbor.

Although smuggling was widely practiced in New England, the people were generally law-abiding, perhaps more so than their 20th-century counterparts for whom there are so many proscriptive laws that no man knows their number. The more numerous the laws, the more law-breaking there will be. Laws, whether good or bad, are limitations on individual liberty, and when they get to be so numerous and so odious that they become difficult to endure, lack of respect for all law will be the consequence.

Trading Liberty for the Promise of Security

It has begun to happen in the United States today. The majority of long-suffering Americans are the victims of self-seeking politicians whose primary goal, and often apparently their only goal, is to maintain themselves in the cushy office to which they have become accustomed. We have endured continued inroads on our freedom, all made in the name of security and the public welfare. We have done what we were warned long ago not to do, trade liberty for the promise of security. As a consequence we have neither. Do we have increased economic security when government takes five months of our working income in taxes each year and when each family in America owes \$44,000 on the national debt?

The American taxpayer could today make a case similar to that made by Thomas Jefferson in the Declaration of Independence when he listed the failures and shortcomings of George III. Our representatives in Congress have given themselves multitudinous and generous benefits at the expense of ordinary citizens. They have exempted themselves from laws binding the rest of us. They have burdened us, our children, and our grandchildren with a huge national debt. They have laid on us an ever-increasing burden of taxation. Many of them have been guilty of gross immoral and unethical behavior. They have so arranged things that once in office it is nearly impossible to remove them.

Now comes, perhaps, what may prove to be the last straw—an April 1990 ruling by the Supreme Court destroying the Constitutionally mandated separation of powers between the legislative, judicial, and executive branches of government. It is Constitutional, the Justices ruled 5-to-4 in a Kansas City school-desegregation case, for a Federal judge to require local governments to increase taxes whether they wish to or not. It is strange beyond credibility that our nation rejoices over the death of socialism in Eastern Europe while seeking to impose it on ourselves.

In the Declaration of Independence, Jefferson argued the citizens' right to alter or abolish a government when it became destructive of the basic and unalienable rights of man. He went on to say, however, that experience had 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." Unfortunately, modern Americans seem accustomed to the sins of their politicians and thus are not in the mood to be rid of them. We have not demanded less government, less waste in government, a balanced budget, and a high degree of moral and ethical integrity—and so the sins and errors continue.

Someone once remarked that the trouble with politicians is that their office gives them power, and they come to believe that because they have power they also have wisdom. Certainly a knowledge of history gives the lie to any such absurdity.

The late Ben Rogge of Wabash College once wrote, "Given man's nature, freedom will always be in jeopardy and the only question that need concern each of us is if and how well we took our stand in its defense during the short period of time when we were potentially a part of the struggle."

Where are the Sons of Liberty today? We are not without hope. Freedom, the most basic right granted mankind by God, has been burned into the minds of men throughout the history of all civilized society. It remains unquenchable, and when its lack becomes intolerable, men and women will rise up and demand its rebirth.

Barbara Tuchman, in an article in the *American Scholar* (Autumn 1980), puts it this way:

We cannot reckon the better impulses predominating in the world, only that they will always appear.

The strongest of these in history, summoner of the best in man, has been zeal for liberty. Time after time in some spot somewhere on the globe, people have risen in what Swinburne called the "divine right of insurrection"—to overthrow despots, repel alien conquerors, achieve independence, and so it will be until the day power ceases to corrupt—which, I think, is not a near expectation.

Where are the Sons (and Daughters) of Liberty? They are among us yet today and always will be. Their numbers are growing. One day they will be successful once more in demanding the end of selfish power-seeking, the end of government by special interests, the end of socialism and centralization of power, and the renewal of freedom under God. □

The Politics of Compassion

by William B. Irvine

Not long ago a colleague and I were discussing my article on Federal disaster relief that appeared in the March 1990 *Freeman*. In the article I argued, among other things, that the government should not spend money to help rebuild the homes and businesses of the victims of the 1989 San Francisco earthquake. I pointed out that someone who could own a home in San Francisco would be wealthier than most Americans, and would therefore hardly be in need of a Federal bailout; that the homeowner could and should have bought earthquake insurance; and that by “bailing out” those who failed to buy earthquake insurance, the government was inadvertently encouraging people to go without insurance.

My colleague reacted to my article not by attempting to refute its claims, but by commenting on my lack of compassion. According to him, my views on the San Francisco earthquake showed an incredible degree of “professional detachment.” This, of course, was just a socially acceptable way of calling me heartless. This is a charge I have run into before, and it is a charge that anyone who opposes Big Government must learn to live with, since by opposing Big Government one must simultaneously oppose most of the things our government does to “help people.”

Indeed, a case can be made that many individuals develop liberal political leanings—and come to advocate a variety of government aid programs—because they think that to do otherwise is to abandon compassion. Before we follow in their footsteps, though, we would do well to think about the nature of compassion.

There are, I think, two competing “theories of

compassion”—i.e., two different ways in which we can measure how caring an individual is. There is, to begin with, what might be called the Mother Teresa Theory of Compassion. According to this theory, when *A* feels sorry for *B*, what *A* should do is expend personal effort and/or personal finances on *B*'s behalf. This theory used to be popular, but in America it has been supplanted by what might be called the Liberal Theory of Compassion. According to this theory, when *A* feels sorry for *B*, what *A* should do is cause *C* to be taxed so that *B* can benefit from the revenues thus raised.

The Liberal Theory may sound odd, but it has some obvious advantages over the competing theory. In the first place, it requires nowhere near the level of personal commitment that the Mother Teresa Theory requires. In the second place, it is far easier to spend someone else's money than your own. In short, the Liberal Theory of Compassion allows you to create the appearance that you are a caring person without simultaneously putting a dent in your lifestyle.

These two theories of compassion will, of course, differ in the “compassion rating” they assign to various individuals. Mother Teresa, for example, rates a perfect 10 under the Mother Teresa Theory (which is why I named it after her), but would rate perhaps a 2 under the Liberal Theory; someone like Senator Edward Kennedy, on the other hand, would presumably fare better under the Liberal Theory than he would under the Mother Teresa Theory.

Which Theory Is Correct?

Which theory of compassion is correct? In answering this question, it is useful to ask a second question: Who, in your opinion, is a better

Professor Irvine teaches philosophy at Wright State University in Dayton, Ohio.



example of a truly compassionate person, Mother Teresa or Edward Kennedy? If you think that Mother Teresa really is the more compassionate person, you will reject the Liberal Theory of Compassion in favor of the Mother Teresa Theory.

It is indeed puzzling that anyone would take a person's willingness to spend government funds on aid programs as evidence that the person is himself compassionate. By way of analogy, it would be absurd to take a person's willingness to increase Federal defense spending as evidence that the person is himself brave, or to take a person's willingness to spend government money on athletic programs as evidence that the person is himself physically fit. In the same way as it is possible for a "couch potato" to favor government funding of athletic teams, it is possible for a person who lacks compassion to favor various government aid programs; and conversely, it is possible for a compassionate person to oppose these programs.

In general, it is a mistake to use a person's political beliefs as the litmus test of his compassion. If you want to determine how compassionate an individual is, you are wasting your time if you ask for whom he voted; instead, you should ask what charitable contributions he has made and whether he has done any volunteer work lately. You might also inquire into how he responds to the trials and

tribulations of his relatives, friends, and neighbors.

Politically speaking, there are three important reasons why we should favor private acts of charity over governmental aid programs. In the first place, government aid programs tend to be destructive of Americans' spirit of charity. Many Americans do not make charitable contributions and do not play a personal role in relief efforts because they feel that they have already given—not "at the office," but on April 15th on their 1040 tax forms. In the second place, a case can be made that private acts of charity are more "cost effective" than government aid programs. People are unlikely to give their hard-earned money to an unworthy recipient or to a charitable organization that will waste it. Those who administer government aid programs, on the other hand, often lack the same motivation to make sure that the money they are spending is spent wisely. In the third place, private acts of charity are voluntary: No one forces anyone to give money. The same cannot be said of government aid programs, which are funded by tax dollars.

It may be true, then, that we opponents of governmental largess lack compassion—as measured by the Liberal Theory of Compassion, at any rate. Fortunately for us, there is another way to measure compassion, and I trust that we fare somewhat better under this alternative yardstick. □

Manipulating the Traditional Family

by Peter J. Leithart

According to Aaron Wildavsky, the use of taxation and spending as tools of broader policy goals is the chief purpose of fiscal policy in modern welfare states. "Most money," he writes, "is spent to affect citizen behavior rather than for direct government action."¹ This fact is little noted and analyzed. Yet it has become so much a part of the political atmosphere that even writers concerned with freedom accept the premise, and, instead of challenging the practice, seek to achieve their own agendas by the same means. This article is an attempt to examine the premises of "tax manipulation" from the perspective of a Christian political philosophy and to determine whether this use of tax policy is consistent with the idea of a free society.

Taxation has long been recognized as a powerful tool for achieving political, economic, and social agendas. Marx and Engels recognized the usefulness of taxation as an instrument of the proletarian revolution. In *The Communist Manifesto*, they summarized Communist theory in the slogan: "Abolition of private property." Since the bourgeois system of private property was the "final and most complete expression" of "the exploitation of the many by the few," it had to be scrapped, along with the bourgeois family, bourgeois education, and bourgeois nationalism.

The first step in this demolition of property was to be the rise to power of the proletariat, which would "use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the

state, i.e., of the proletariat organized as the ruling class, and to increase the total of productive forces as rapidly as possible," all of which would initially require "despotic inroads on the rights of property and on the conditions of bourgeois production." To this end, they urged the adoption, among other things, of progressive tax rates and the abolition of inheritance.² Private property, Marx and Engels recognized, could be undermined by tax policies, and the undermining of private property would serve their revolutionary ends.

Another giant of modern economic theory, John Maynard Keynes, also viewed fiscal policy—taxing and spending—as a tool for larger, chiefly economic, policy goals.³ Alfred Malabre, Jr., summarizes the Keynesian approach:

Keynesian theory urges that government spending be stepped up during recessions, even if an appreciable budget deficit happens to be among the consequences of such stimulative measures. A corollary to this notion is the danger of a so-called liquidity trap, which may develop when money is pumped into public hands but is saved and not spent. As savings pile up, the economy noses down on account of lackluster spending.

The Keynesian solution, as it has often been applied by policy makers in postwar American recessions, is for Uncle Sam to spend until business recovers. According to this theory, tax reduction tends to stimulate the economy, by leaving more money in the hands of consumers, while tax increases work the opposite way.⁴

Keynesian theory views fiscal policy as a tool to regulate aggregate demand.⁵

Supply-side theory also emphasizes the impor-

Mr. Leithart serves as pulpit supply of the Reformed Heritage Presbyterian Church (PCA) in Vestavia Hills, Alabama. He is married with five children.

tance of tax policy in the achievement of economic growth. Paul Craig Roberts distinguishes between Keynesian theory, which seeks to "manage demand" through tax policy, and supply-side theory, which focuses on the incentives produced by tax cuts. Supply-side theory, Roberts argues, pays no attention, as Keynesian theory does, to aggregate demand. According to supply-side theory, tax cuts stimulate the economy because they make savings, investment, and work more profitable, regardless of aggregate demand.⁶ Despite these differences, it is still true that Keynesian and supply-side theory both see tax policy as an instrument for the advancement of larger economic goals. The Keynesian uses fiscal policy to regulate demand, while the supply-sider uses tax policy to stimulate economic growth.

Finally, tax policy is seen by many as a tool for achieving a more "democratic" egalitarian distribution of wealth. By taxing the rich at confiscatory rates, and redistributing the money to those defined as "poor" (and to the bureaucrats who run Federal programs), the federal government seeks to equalize wealth. Herbert Schlossberg has argued that this form of egalitarianism is rooted in envy:

It has been a common assertion that envy is fostered by inequality and can be ended by egalitarian redistribution. British economist E. J. Mishan believes that feelings of deprivation that cause envy will be eliminated in the process of equalization, and that the progressive income tax is the best way to accomplish that task. "Ideally . . . the tax should suffice to cover all the initial and subsequent claims necessary to placate everybody in the lower-income groups, and the stronger is this envy of others, the heavier must be the tax."⁷

Some feminists have found in tax policy a powerful tool for achieving their social agenda. In the United States, tax policies tend to force families into a more egalitarian mold, even when the families don't accept feminist ideology. George Gilder has written:

The United States is enacting many of the policies that brought sexual suicide to Sweden. Despite the defeat of the Equal Rights Amendment and universal day care, the feminists are gaining their ends piecemeal. In particular, the decline in the value of the child deduction has

shifted the tax burden massively onto families with children. Through court decisions in favor of comparable worth, through the infiltration of the schools by feminist texts and teachers, through the day-care tax credits and other subsidies for the two-earner family, and through the rapid erosion of the joint income-tax return and the housewife's right to social security, feminists are winning quietly by legal and legislative action what they cannot win in referenda.⁸

Should Tax Law Be Changed?

Faced with these facts, some conservative writers are advocating changes in tax law that would encourage traditional family structures and large families.⁹ Allan Carlson, a pro-family conservative, proposes "a somewhat progressive income-tax structure that recognizes and supports marriage." Specifically, "the tax system should give strong preference to children as national treasures." To this end, "Congress should: (1) double the personal exemption, for children only, from the current \$2,000 to \$4,000 per child; (2) expand child-care tax credit into a universal credit set at a fixed amount of \$750 per child, available to all families with a preschool child . . . ; and (3) create an additional universal Dependent-Child Tax Credit of \$600 per child."¹⁰ These incentives would encourage larger families, without forcing mothers to choose between family and career.

Demographer Ben Wattenberg also advocates changes in tax policies that would encourage larger families. The federal government should not only encourage large families, but should encourage women to stay home with their children. How? "Give them money. Lots of it, in order to at least partly compensate for lost earnings."¹¹

A different argument for pro-family tax policies is offered by Bryce Christensen, writing in the Rockford Institute's *Family in America* newsletter, who observes that traditional, two-parent families are statistically healthier than broken families. It is unjust, therefore, for intact families to carry so heavy a burden for health care. Governments "must either impose values or impose costs," and public policy ought to strengthen, rather than weaken, the family. Christensen maintains: "Government affirmations of marriage and legitimacy might marginally restrict the freedom of some, but government indifference to these standards will

mean economic injustice for all those who safeguard their health by making the personal sacrifices that family life requires."

In other words, these writers urge the use of tax policies to achieve anti-feminist goals. In my judgment, the goals of these policies are laudable,¹² and these proposals are preferable to current policies. But what about the means of achieving these goals? As a Christian, I would ask the further question of whether such policies are consistent with a Christian view of the role of civil government.

Defining the Role of Civil Government

This question requires an examination of several related issues. First, what is the function of civil government? Romans 13:1-7 is the classic scriptural text on the role of the civil ruler. According to Paul, the main function of the ruler is to execute God's vengeance, that is, to punish wrongdoing and to "praise" those who do right. On the other hand, Scripture strongly condemns rulers who claim absolute sovereignty over their subjects. Nebuchadnezzar was reduced to a beast because of his arrogance (Daniel 4:28-37). Under God, the civil ruler has a legitimate and positive role to play in a free society, but he is not called to control the lives of law-abiding citizens.

Second, what is the nature of the family? Taking a biblical approach, we discover that in the New Testament, the Christian Church is the Christian's true family, and his commitment to the Church is more absolute than his commitment to his blood family. Jesus said in the strongest terms that we must break our ties to our blood relatives if they conflict with our loyalty to Him and to His people (Luke 14:26). Loyalty to the blood family is not absolute. Promotion of the blood family is less crucial than the pro-family conservative maintains. This is not to say that the family is unimportant, or that we should neglect the family. Rather, it is simply to say that the Church is *more* important.¹³

Further, it is clear that a person can be healthy and can make contributions to society even if he has no family. From a Christian perspective, we could note that Jesus was the perfectly healthy Man, and never married. Paul never married. The New Testament clearly presents marriage as a calling (I Corinthians 7). It is suitable for some, but unsuitable, for various reasons, for others. Family,

like marriage, is a calling. Some men are called to be husbands and fathers; some are not. Some women are called to be wives and mothers; some are not. Even some married couples might not be called to become parents. Men and women are normally intended to live in families, yet men and women can live healthy lives and promote the good of others without either marrying or bearing children. Though the Bible does envision strong families, it does not view the family as a salvific institution, as some conservative writers tend to do. Leaving aside for the moment the theological and biblical arguments, it is still the case that there are many single persons who make substantial contributions to the good of society.

Once we qualify the importance of the family, we are forced to the conclusion that promoting the family ought not to be the supreme test of the rightness of a public policy. Adherence to or consistency with norms of justice is our standard.

Faith and Economics

All of this suggests that the tax policies of a civil government should not seek to manipulate people into commitments to which they are not called, or penalize them for failing to adhere to the social goals of the rulers. Christensen admits that his recommendations involve "marginal" restrictions of freedom for single men and women. But why should men and women who have been called to singlehood have their freedom restricted in any way? More basically, Christensen's analysis tends to assume that people remain single for selfish reasons, because they do not want to make the sacrifice. But this is not true in every case. Even if it were true in the majority of cases—an unprovable assumption—tax policy would not solve the basic problem, which has more to do with faith and commitment than with economics.

Having outlined some biblical principles of both family and civil government, we can raise a more precise question: What role is the magistrate to play in the family? The one specific biblical warrant for intervention in the family by civil judges—i.e., the punishment of incorrigible juveniles—involves capital punishment of a criminal (Deuteronomy 21:18-21). There is no specific biblical warrant for other kinds of state intervention, though it is possible to extrapolate from this case law to other criminal cases. But one cannot infer

from this passage a general warrant for civil oversight of family life. As a general principle, interference with family life by civil officials should be limited to punishment of criminals.

This conclusion is also supported by a consideration of the question of property rights. When tax laws promote certain uses of money or certain forms of conduct, the framers of those laws are implicitly claiming that they know best how a person's wealth should be spent, how many children he should have, and whether his wife should work. The issue here is, who has the right to make decisions about the use of property or the structure of family life? Does the civil ruler have the right to erect obstacles in the way of certain perfectly legal behavior, or to clear the path for alternative, equally legal behavior? More bluntly (if less precisely), the question is, who is the steward of wealth and property, the civil magistrate or the family and individual? Who is the head of the family, God or Caesar?

Through their tax regulations and policies, Congress and the IRS implicitly claim the right to determine how resources are best used; they claim, in short, a right of ownership. In a free society, the choice of whether to borrow or save and invest would be left to the individual and family. Decisions about family size and structure would be made by the family, without the added pressures of tax policy. It is not the civil government's place to encourage one result or the other.

Of course, Christensen is correct that tax policy is not neutral in relation to the family. It is either pro- or anti-family. But there is more than one way for taxation to be pro-family. Freeing the family from manipulative taxation is just as pro-family as subtle changes in tax law. Using the tax system to adjust economic and social conduct politicizes the whole of society, and is inherently, if only implicitly, totalitarian.¹⁴ □

1. Carolyn Webber and Aaron Wildavsky, *A History of Taxation and Expenditure in the Western World* (New York: Simon and Schuster, 1984), p. 603.

2. Karl Marx and Friedrich Engels, *The Communist Manifesto*, in *Marx and Engels: Basic Writings on Politics and Philosophy*, ed. Lewis S. Feuer (Garden City, N.Y.: Anchor Books, 1959), pp. 20-29.

3. On the Christian employment of Keynesian theory, see Ian Hodge, *Baptized Inflation: A Critique of "Christian" Keynesianism*

(Tyler, Texas: Institute for Christian Economics, 1986).

4. Alfred L. Malabre, Jr., *Beyond Our Means: How Reckless Borrowing Now Threatens to Overwhelm Us* (New York: Vintage Books, [1987] 1988), p. 69.

5. Even Mikhail Gorbachev has begun to employ deficit spending in an effort to stimulate the Soviet economy. See Richard Parker, "Gorbanomics," *The New Republic* (February 27, 1989), pp. 18-20.

6. Paul Craig Roberts, "Supply-Side Economics: Theory and Results," *The Public Interest* (Fall 1988), pp. 16-36. Opponents of supply-side economics see the "Reagan recovery" as a classic Keynesian recovery, stimulated by Federal spending, huge deficits, and tax reductions.

7. Herbert Schlossberg, *Idols for Destruction: Christian Faith and Its Confrontation with American Society* (Nashville: Thomas Nelson, 1983), p. 103. The quotation from Mishan is from "A Survey of Welfare Economics, 1939-1959," *The Economic Journal* (June 1960), pp. 247-48.

8. George Gilder, *Men and Marriage* (Gretna, La.: Pelican Publishing, 1986), p. 153.

9. The practice of using taxation to protect the family is ancient. James Coffield describes the "pro-family" inheritance tax of Augustus: "Augustus legislated against celibacy, rewarding fathers of families and inflicting certain disabilities on celibates and married men without children. For example, unmarried men could not take inheritances or legacies, except from the nearest relatives; while married men who were childless could take only half the amount." (*A Popular History of Taxation* [London: Longmans, 1970], p. 25)

10. Allan Carlson, "A Pro-Family Income Tax," *The Public Interest* (Winter 1989), pp. 75-76. On President Bush's proposal of a universal child credit, see "Them's the Breaks," *The New Republic* (February 27, 1989), pp. 7-8. The *New Republic* editors laud Bush's proposal as "an interesting synthesis—liberal in its attention to the needs of poor people, and conservative in its avoidance of 'anti-family' incentives for using day-care centers. Whereas the [Democratic] Act for Better Child Care would reimburse only payments made to government-certified day-care providers, the Bush proposal would leave parents free to send their child to the next-door neighbor, to grandma's, or to an inlaw's." In fact, the editors rightly characterize the proposal as "really just an income supplement for poor working families with children."

11. Ben Wattenberg, *The Birth Dearth: What Happens When People in Free Countries Don't Have Enough Babies?* (New York: Pharos Books, 1987), pp. 150-51. Wattenberg's subtitle reveals his preoccupation with the foreign policy implications of low birth rates.

12. I consider the *Family in America* newsletter one of the most helpful publications available. I have learned a great deal from reading the essays printed there, and my challenge at this point should not be construed as an attack on the institution or its publications as a whole.

13. Contemporary efforts to support the traditional family by tax policies bear striking similarities to the practice of medieval governments of giving aid and protection to the Church.

14. Incredibly, Ben Wattenberg suggests Eastern European Communist nations as models for pro-natalist tax policies: giving money to parents who have children "is an important part of the solution that has worked at least for a decade or so with those dear Communist governments in Eastern Europe." See *The Birth Dearth*, p. 150; also pp. 141-44. On pp. 143-44, Wattenberg says, "if we were to follow the workable and decent parts of the Eastern European model, and adapt them to free circumstances, we are talking about using enormous resources." Eastern European nations provide not only cash grants to parents, but "day care, scholarships, maternal leave, [and] housing allowances." (p. 142) Clearly, Wattenberg is no fellow traveler, and I am far from saying that pro-natalist policies are wrong because Eastern European nations employ them. My argument is rather that the Eastern European model cannot be "adapt[ed] to free circumstances" because this model assumes an enslaved populace, whose entire life is centrally directed.

Comparable Worth: Feminism Turning to Paternalism

by Wendy McElroy

One of the most controversial feminist issues of the 1990s will be comparable worth—the idea that women should be paid the same as men in jobs of comparable value. Advocates claim that pay equity would strike at the very heart of gender discrimination. Thus, the free market could be converted into an instrument of social justice, rather than one of oppression.

More specifically, advocates claim that comparable worth would eliminate the wage gap—the wage disparity whereby women who work full time are reported to receive only 60 cents for every dollar received by men. It is with the socio-economic goal of wage justice that many recent lawsuits concerning comparable worth have been launched.

Understandably, economists and businessmen have been reluctant to transform the marketplace into a tool for social reform. In general, their criticisms of comparable worth have focused on several economic issues. They contend that the wage gap has been vastly exaggerated; comparable worth will price American products out of world markets; it will overprice the labor of women, thus creating unemployment for them; and it will penalize individual employers for following a wage structure dictated by the free market.

But lurking beneath the surface of the economic debate are more fundamental disagreements. Several assumptions underlie the comparable worth controversy.

Perhaps the most basic assumption of comparable worth is that the marketplace is incapable of providing justice. What else can explain the fact that a nurse, who preserves human life, is paid less than most garbage men? To these reformers, the market has been corrupted by centuries of discrimination, and must be corrected by legislation.

Critics of comparable worth counter that the marketplace was never meant to be an arena of social reform. It is simply a coordinating mechanism that tends to balance demand with supply. The price of labor, like the price of any other commodity, doesn't express a moral ideal, but the preferences of buyers and sellers in the market. To these critics, the marketplace is a mirror of society. To attack it is, at best, to attack the reflection of discrimination—not the cause or the source. It is like breaking a looking glass because it reflects too well.

Moreover, they point to instances where the free market has worked against discrimination. In South Africa, for example, government policies impose discrimination upon the market. Nevertheless, native laborers tend to go wherever there is work. Despite government fines and penalties, employers hire cheap black labor. Government regulations cannot change the economic law of supply and demand; all they can do is make it function in back alleys and underground.

Another fundamental difference in theory soon arises. Advocates of comparable worth believe that there is an inherently just wage attached to every category of labor. This “just wage” is supposed to be independent of market forces—labor

Ms. McElroy is the editor of Freedom, Feminism, and the State (Cato Institute, 1982), which was recently republished as a university text by Holmes and Meier.

is alleged to have an economic value apart from what anyone is willing to pay for it.

Inherent Value?

The concept of inherent value is nothing new. It dates back to the medieval guilds, which determined and enforced a “just price” for the goods they produced. More recently, Karl Marx put forth a labor theory of value, by which goods had inherent worth based on the labor required to produce them. If a worker received compensation below this just price, the discrepancy was said to be stolen money.

Unfortunately for these theories, they don’t explain the world around us. If commodities have inherent worth, how can we account for the price fluctuations we see in world markets every day? Moreover, any skill is economically worthless if someone isn’t willing to pay for it.

But the concept of inherent worth raises at least two other sticky questions: what is the measure of worth, and who will judge it? If the marketplace is an expression of discrimination, then any fair measure of worth must be independent of it. Nevertheless, advocates of comparable worth fall back upon the market price for labor as the only real standard available. Using this shaky starting point, reformers search for an objective standard of a just wage.

Perhaps the most influential of these new standards is the one generated in 1974 by the consulting firm of Norman Willis & Associates when it performed a comparable worth study for the State of Washington. This study assigned numerical scores to all classes of labor on the basis of four factors: knowledge and skills; mental demands; accountability; and working conditions. Commit-

tees then added up the numerical scores of different jobs and ranked them with respect to each other. Their findings, along with “expert” testimony, were offered to the courts as proof of the need for comparable worth legislation.

But these so-called objective results depended entirely upon who the experts were and who hired them. After all, the very attempt to measure value requires a concept of what value is, and this is subjective. The subjectivity has been highlighted by discrepancies within comparable worth studies themselves. For example, in Minnesota, a registered nurse, a chemist, and a social worker were ranked as equal. In Iowa, a nurse ranked 29 percent higher than a social worker, who ranked 11 percent higher than a chemist. This is a strange objectivity.

A New Paternalism

The controversy over comparable worth is not merely between advocates and denigrators of the free market. It is within the roots of feminism itself. Feminism of the late 1960s and early 1970s called upon women to become independent—“A woman’s body, a woman’s right.” Historically, the movement recognized that government legislation had been one of the major barriers to women owning land, negotiating their own contracts . . . being economic persons in their own right. But feminism in the 1990s is calling upon the government to intervene in women’s economic negotiations for the purpose of securing justice. There is a word for such intervention: paternalism. Paternalism is a word most often used with regard to mental incompetents and children. As a feminist, I shudder to see it now applied to women. □

Oppressive Government

Throughout the ages the market order has been most supportive of women’s rights. . . . The political command order, in contrast, reveals an uninterrupted record of discrimination. It applies the force of government to benefit one class of subjects at the expense of another class. It thrives on the political support from its beneficiaries, and brushes aside the protests of its victims.

—HANS F. SENNHOLZ, “Women, Work and Wages”

IDEAS
ON
LIBERTY



Cable TV Needs Competition

by John Merline

Consumer complaints about rising cable rates and declining service have spurred Congress to rethink its 1984 cable-deregulation law. According to Senator John Danforth, "Cable rates have increased because of the deregulation of the 1984 Cable Act." So legislators have moved to undo the "damage" done six years ago, by reimposing rate regulation.

As is too often the case when addressing economic issues, Congress is looking at only half the picture. While the 1984 Act deregulated cable rates (forbidding most cities from setting rate caps), it did nothing to break up the local monopolies that, in most cities, provide cable to consumers.

Of the 9,000 cable markets, only about 45 are competitive. The rest are operated as local monopolies, with the city government deciding *before-hand* which company will be the sole provider. Once the cable company is in place, protected by government from competition, the expected inefficiencies result, producing higher prices and poor quality with little hope for improvement.

Underlying all this is the assumption that cable TV, because of the high fixed costs involved in providing it, must operate as a "natural monopoly," much like the utilities. A survey by *Consumers' Research* magazine (see opposite page) shows this nostrum to be invalid.

According to the survey, cable can compete successfully for consumer dollars, and when it does, prices, on average, are lower to consumers, and service (measured in the number of channels provided) is better.

The survey covered 26 competitive markets

and compared these markets with 26 comparably sized non-competitive markets in close proximity. In these 52 markets, rates for basic cable (cable with no premium channels) were 18 percent lower in competitive markets than in non-competitive markets (\$14.23 per month vs. \$17.33 per month). Further, in areas where more than one cable company existed, more channels were provided on average (39 vs. 33), making the cost per channel about 33 percent lower (37 cents per channel vs. 55 cents per channel).

In some locations, such as Chula Vista, California, Orange County, Florida, and Cumming, Georgia, cable rates were lower in areas where cable competed, but higher in directly adjacent areas where it did not. For example, Cox Cable charges \$11.85 a month in areas of Chula Vista where it competes directly with Ultronic, but hikes its rate to \$17.95 in those neighborhoods where it doesn't compete.

In many areas, such as Vidalia, Georgia, Henderson, Tennessee, and Troy, Alabama, the monopoly provider lowered its rates after a competitor entered the city. In Henderson, the city government had fruitlessly attempted to get Multivision, the monopoly provider, to lower its rates. Frustrated, it asked a competitor to come into the market, and Multivision slashed cable rates from about \$20 to \$9, while adding channels to its service.

In Troy, Storer lowered its rates in 1990 to celebrate its 10th anniversary. In nearby Montgomery, where Storer currently faces no competition, rates were raised to \$18.25. As Harold Freeman, president of Troy Cablevision, notes, "When you have competition, you don't need a regulatory agency. That's evident by what's going on here in Troy."

John Merline is Editor of Consumers' Research, 800 Maryland Avenue, N.E., Washington, DC 20002.

BASIC CABLE RATES IN SIMILARLY SIZED COMPETITIVE AND NON-COMPETITIVE MARKETS¹

Competitive ²				Non-Competitive			
City	Monthly Rate	Number of Channels	Price Per Channel	City	Monthly Rate	Number of Channels	Price Per Channel
Troy, Ala.	\$11.98	42	26 cents	Montgomery, Ala.	\$18.25	29	63 cents
Mesa, Ark.	16.45	44	37	Phoenix, Ariz.	18.95	36	52
Chula Vista, Calif.	11.85	33	36	Chula Vista, Calif. ³	17.95	29	62
Sacramento, Calif.	16.23	33	49	San Francisco, Calif.	19.00	31	62
Cape Coral, Fla.	12.60	54	23	Fort Myers, Fla.	17.75	41	43
Citrus Co., Fla.	12.16	43	28	Brooksville, Fla.	17.61	30	59
Orange Co., Fla.	9.62	42	23	Orange Co., Fla. ³	16.95	30	56
Orlando, Fla.	15.50	31	50	Ft. Lauderdale, Fla.	16.20	33	49
Brunswick, Ga.	12.48	54	23	Waycross, Ga.	15.75	41	38
Cumming, Ga.	19.45	43	45	Clarksville, Ga.	15.95	29	55
Vidalia, Ga.	14.25	35	41	Louisville, Ga.	17.50	19	92
Warner Robbins AFB, Ga.	11.98	34	35	Macon, Ga.	17.25	34	51
Boone Co., Ky.	17.63	55	32	Covington, Ky.	19.30	54	36
Frankfort, Ky.	7.00	30	23	Lexington, Ky.	13.00	34	38
Glasgow, Ky.	11.23	43	26	Bowling Green, Ky.	18.35	32	59
Anne Arundel Co., Md.	13.08	37	34	Leonardtown, Md.	17.50	33	53
Monroe, Mich.	15.73	42	37	Adrian, Mich.	16.95	29	58
Omaha, Nebr.	15.83	35	45	Lincoln, Nebr.	15.95	30	53
Hillsboro, N.C.	18.23	32	57	Carrboro, N.C.	17.95	28	64
Paramus, N.J.	17.70	30	59	Palisades Park, N.J.	16.50	33	50
Cleveland, Ohio	14.47	41	35	Akron, Ohio	18.50	30	61
Allentown, Pa.	14.73	47	31	Reading, Pa.	18.62	50	37
Pottsville, Pa.	13.30	30	44	Lebanon, Pa.	15.95	30	53
Henderson, Tenn.	10.48	38	28	Jackson, Tenn.	16.95	36	47
Carrollton, Tx.	17.95	38	47	Addison, Tex.	17.95	32	56
Sandy, Utah	17.95	31	58	Ogden, Utah	17.95	24	75
Average	\$14.23	39	37 cents	Average	\$17.33	33	55 cents

1. Communities are similarly sized and/or in close proximity to one another.

2. Figures are averages for the rates and number of channels provided by competitors in these cities.

3. Rates are for basic cable in this area where not competitive.

SOURCE: March 1990 telephone survey by *Consumers' Research*.

New Technology and "Natural Monopoly"

The notion that cable is naturally monopolistic is further undermined by technological developments that allow companies to provide cable without the need for stringing or laying cable throughout a city. These technologies include private cable, wireless cable, direct broadcast satellite, and the use of common carrier lines. In addition, local telephone companies could easily provide cable to people in their jurisdictions.

With private cable, the operator pulls cable channels in from a satellite and transmits them to residents of a large apartment complex or housing development. He can then send the cable signal to other buildings using microwave transmissions.

Wireless cable operates like over-the-air TV, in the sense that its signals are sent from a main transmitter to antennas mounted on the roofs of subscribers' homes. There are currently about 32 wireless cable companies in the United States.

Direct broadcast satellite, a new development, allows the direct transmission of cable signals from

a satellite to people's homes. The new technology allows for the use of smaller dishes to pick up the signal than are currently in use, making it a more viable cable option to urban dwellers than current satellite cable.

Common carrier lines are installed by one company, usually the phone company, and then rented to any company that wants to send its signal over the wire. This method of delivering cable is currently being attempted in Chicago.

The local phone companies, or Baby Bells, are also trying to offer cable as part of their phone service; their efforts have been widely reported in the news. Currently, the Baby Bells are prohibited by law from providing any service other than local phone service, a prohibition which the Federal Communications Commission claims "no longer serves the public interest."

If allowed to develop, these methods of providing cable could quickly spur competitive forces in the industry.

Roadblocks to Competition

But if cable can compete, as seems obvious from the available data, then why does so little competition exist? Primarily, the reason is that city governments, cable operators, and cable programmers, each with a vested interest in the heavily regulated and non-competitive market, have thrown up countless barriers to entry into the cable marketplace. Far from a natural monopoly, cable's current status is, in reality, the result of deliberate policy.

City governments prevent competition in several ways. According to James Mooney, president of the National Cable Television Association, competition almost never occurs because cities "require so many commitments that only one franchise could survive economically." (A franchise is a permit to use rights-of-way to string or lay cable in a city.)

When most cities set out to award cable franchises, they did so with the understanding that cable offered a source of potentially huge revenues flowing from cable subscribers to city coffers. In what amounts to a consumer tax on cable, most cities charge cable franchises 5 percent of their gross revenues, along with requirements for elaborate public access facilities, free telecommunications for local government, and other goodies. These costs are, of course, borne by consumers.

According to Thomas Hazlett, an economist at the University of California at Davis, 20 to 30 percent of an average consumer's cable bill pays for these city-mandated benefits.

Just winning a franchise can be exorbitantly expensive. Cable companies have spent millions of dollars trying to convince city officials that they should be the sole provider of cable services. In Denver, for example, three companies spent more than \$1 million each in advertising, promotion, and lobbying to win the city's franchise.

To keep the franchise money flowing in, cities have a strong incentive to keep competitors out. As Mark Tauber, a lawyer who represents private cable companies, notes, cities "have attempted to curtail development of [competitive cable services] in order to ensure that the traditional franchised system, from which they receive a percentage of gross revenues in the form of franchised fees, controls the lion's share of the local market."

A famous example of this is the *Preferred Communications v. City of Los Angeles* suit, in which the company, Preferred, has been attempting for seven years to obtain the right to build a competitive system in the depressed Watts area of Los Angeles. The city, oddly enough, cites as one of its reasons for denying Preferred a franchise the possibility that allowing competition might jeopardize "cable service to all regardless of income."

In addition, city governments have vigorously litigated against even those competitors that don't need franchises to build cable systems, such as private or wireless cable. Such legal actions have occurred in Dallas, Indianapolis, New York, New Jersey, Chicago, and Washington, D.C.

Having bought into this regulated market, incumbent cable operators are extremely reluctant to give up their monopoly position. As one large cable operator put it: "When the city has held your feet to the fire and is taking 5 percent [in franchise fees] off the top, it infuriates you to see them not take action against someone who comes in and cuts into your business."

Cable operators in Kentucky, the Bronx, Chicago, and Florida, among other locations, have bitterly fought new entrants into their markets, not by competing, but through lawsuits, ad campaigns, and complaints to city officials. In Glasgow, Kentucky, for instance, the monopoly provider, Tele-scripps, filed two lawsuits attempting to keep a competitor out.

Incumbent operators will sometimes go to absurd lengths to convince city officials that one cable company is better than two. In Cape Coral, Florida, Cablevision ran a series of advertisements in local newspapers claiming that competition from Telesat cable would mean that "600 to 700 trees would be damaged," that cable rates would be higher, and that "competition rarely endures."

Meanwhile, in Collier County, Florida, the monopoly provider, Palmer Cable, invited the media and community leaders to a complimentary breakfast "and then proceeded to blow its own horn" and attack "Telesat and any other cable company that may want to invade Palmer's territory," according to an article in the *Marco Island Eagle*.

Chicago Cable TV, the franchised operator in the area, convinced the city to bring suit against 21st Century, a private cable company, effectively shutting down its operations.

The "Crown Jewels" of Cable

If this weren't bad enough, potential competitors face one final obstacle: getting quality programming. The way cable works, an operator must obtain programming from various suppliers, such as ESPN, TNT, the Discovery Channel, and others. These programs make up the "crown jewels" of basic cable service, without which it is nearly impossible to sell cable TV. According to Gene Kimmelman, executive director of the Consumer Federation of America: "Virtually all of the major programmers deny access to or discriminate against [competitive] operators in provision of programming."

A recent survey by Information Age Economics, Inc., of the 32 wireless cable companies in the United States bears this out. The survey found that 25 wireless systems were denied access to HBO, 14 were denied access to ESPN, 26 were denied the SportsChannel, and 31 were denied TNT. "Even when programming is made available to wireless cable systems," notes the report, "it is often available only on a restricted basis," that limits distribution to certain geographic areas. In Cleveland, for example, MetroTEN can transmit HBO only to those areas where it has a franchise, but not to near-by neighborhoods where it does not.

According to some industry analysts, programmers are reluctant to sell to competitive cable operators either because the programmers are

owned outright by large "multiple system operators" (or MSOs, cable companies with franchises in several cities), or because the MSOs use their market power to convince programmers not to sell to smaller competitors. According to Sol Schilhause, a lawyer active in promoting competitive systems, "The MSOs' clout with the major cable networks is turning out to be sufficient to assure that the second operator will have to try to compete without being able to offer cable programming that viewers have demonstrated they will pay for." Without these crown jewels, competitors are at a serious disadvantage.

In the absence of local regulation, the cable industry would likely have developed very differently. For example, because of the high costs imposed by city governments on cable franchises, only larger, better financed companies were equipped to compete for franchises. Smaller companies simply could not afford to pay for the advertising and promotion involved in swaying city councilmen, let alone pay for all the perks mandated by city officials. (In Sacramento, for instance, the winning franchise agreed to purchase 20,000 trees for the city.)

Upon winning a franchise, the monopoly providers of cable were able to use their profits to buy up franchises in smaller markets. In almost all the areas surveyed by *Consumers' Research*, the incumbent cable operator was owned by one of the large MSOs, such as TCI, Cablevision, or Multivision. In other words, the current system, with huge mandatory initial costs and monopoly profits, fostered concentration of the industry in a few hands.

It was this market power held by a few companies that led, in turn, to the MSOs' having the ability to convince programmers not to sell to smaller competitors. Cable companies appear able to assure programmers that selling to the competition would be bad for business, which they would likely be unable to do if competition were the norm rather than the exception. (In the cable industry, competition is referred to as "overbuilding," a term that carries with it a subtle pejorative meaning that competition in the industry is "wasteful." Does having two supermarkets in a neighborhood mean that the area is "overbuilt"?)

When competition is allowed, the other roadblocks are likely to fall. That is, if programmers realize that it is in their best interest to sell to all cable systems, they probably will do so. In a com-



petitive environment, such as in supermarket sales, it does a supplier no good to sell to only one company if a large number of the area's customers are buying from another company. There is anecdotal evidence, for instance, that in competitive cable markets, "penetration" (the number of homes that can receive cable) increases. That is because each firm is fighting to win as many subscribers as possible, and so they wire areas that previously had been skipped. This was the case in Troy, Alabama; Anne Arundel, Maryland; Boone County, Kentucky, and other areas. Many of the competitive firms claimed that the first areas they wired for cable had been left unwired by the incumbent cable companies.

When cable companies compete, lower prices occur. More people are likely to subscribe to the

service when it is less expensive. It is not likely, however, that this common-sense principle will be understood by programmers unless more areas in the country are competitive. As it stands, the only information comes from the powerful cable monopolists, who chant to programmers that new cable can't compete and that the competitors are probably fly-by-night operations who will provide few customers.

Cable TV suffers not from too much deregulation, but from too little. What is needed is a reversal of local government policies that prevent competitors from entering the marketplace. When cable does manage to compete, despite all these obstacles, the lesson is clear: the free market exerts downward pressure on prices, and upward pressure on quality. □

On the Right to Strike

by Charles W. Baird

Strikes have re-emerged as a political and labor relations issue. During most of the 1980s, private sector unions used their strike-threat weapon very sparingly. Many employers and unions pointed out that if American industry is to regain its competitive strength, the adversarial union relations model of the National Labor Relations Act (the Wagner Act of 1935, amended by the Taft-Hartley Labor Act of 1947 and the Landrum-Griffin Act of 1959) must be replaced by more cooperative labor relations. However, it now appears that many in the union hierarchy have decided to revive adversarial relations in general and strike threats in particular.

Three recent strikes have received a lot of media attention—the Eastern Airlines strike, the Pittston Coal strike, and the Greyhound strike. The thrust of the media coverage has been that the strike-threat weapon isn't nearly as formidable as it used to be. The chief culprit is alleged to be President Reagan. When he fired the PATCO strikers in August 1981 and successfully hired replacements, he created a model that private sector employers now emulate. It used to be that employers thought it would be bad public relations to hire replacement workers during a strike, but according to the media, Reagan's actions have removed the stigma. Furthermore, during the 1980s the Supreme Court issued several decisions that significantly reduced the economic value of the unions' strike-threat weapon.

Unionists are so upset at these setbacks that they have sought relief from Congress. Legislation

has been submitted in the House and Senate that would make it illegal for any employer to hire permanent replacement workers during a strike. William Bywater, president of the International Union of Electrical Workers, asserts that the union hierarchy has adopted this legislation as its principal legislative priority in the present Congress. Moreover, the Supreme Court cases were all decided on legislative, not constitutional, grounds, so Congress can override the Court by passing ordinary remedial legislation. Some unionists have proposed just that.

Before they rush to do the bidding of the AFL-CIO, legislators ought to examine the nature of the strike-threat weapon and consider in what sense, if any, there exists a legitimate right to strike. That is what I propose to do in this essay.

The Three Strikes

In March 1989 the International Association of Machinists (IAM) went on strike against Eastern Airlines. At first, pilots and attendants joined the strike; but after 164 days they announced they were willing to cross the IAM's picket lines. The IAM is still on strike, but some Eastern mechanics have crossed the picket lines, and Eastern has filled with replacement workers as many other slots as it needs for its current operations.

In April 1989 the United Mine Workers went on strike against Pittston Coal Company. The strike wasn't settled until February 1990. During this long struggle, striking miners ran up \$65 million in court-ordered fines for illegal, often violent actions. Part of the strike settlement called for Pittston to try to persuade the courts to drop the fines



Striking Greyhound employees confronting the nonunion driver of a Greyhound bus in New York City last March.

against the strikers. So far the courts have refused to do so.

On March 2, 1990, the Amalgamated Transit Union took 6,300 Greyhound Lines bus drivers out on strike in an attempt to shut down Greyhound's operations nationwide. The attempt failed because 1,800 drivers immediately crossed the picket lines, and Greyhound hired what it said were "permanent" replacements for most of the strikers. As of mid-April 1990, there had been 30 or more instances of gunfire attacks and a myriad of less serious acts of violence against buses and their drivers and passengers. On April 10 Greyhound filed a \$30,000,000 lawsuit against the striking union based on alleged acts of violence and extortion.

What Is a Strike?

When I ask students to define the word "strike," the most frequent answer I get is that a strike is a collective withholding of labor services by workers who do not like the pay and benefits package an employer has offered to them. This is the defini-

tion of strike that appears in most textbooks. If this definition were accurate, I would strongly affirm that there is a moral, as well as a legal, right to strike. But the definition is wrong. Section 13 of the National Labor Relations Act gives unionized private sector workers a legal right to strike, but there is no moral right to strike.

A strike is more than a collective withholding of labor services. It is, in addition, an attempt to shut the employer down by denying the employer access to suppliers, customers, and, most important, workers who are willing to work. The picket line is the principal means to this end. As the Supreme Court acknowledged in *American Steel Foundries v. Tri City Trades Council* (1921), even peaceful picket lines can intimidate. Moreover, picket lines are seldom peaceful. People who attempt to cross picket lines are routinely threatened and are often subject to violence. The Pittston and Greyhound strikes are merely the most recent examples of the true nature of picketing during strikes. That is why the Supreme Court, in strongly affirming the voluntary exchange rights of all participants in the labor market, limited picket-

ing to one picket per entrance in the *Tri City* case. The National Labor Relations Act has changed the law, but it hasn't changed the right.

A Legitimate Right to Strike

There is an awful amount of muddled thinking about rights on college campuses and among the judiciary. According to the jurisprudential doctrine called legal positivism, legislation creates rights. There are no natural rights. It's a matter of counting the votes. For example, if there are enough votes in Congress in favor of creating a right for person A to interfere in a voluntary exchange relationship between persons B and C, then such a right may be created. All that is needed is that the correct procedures for enacting legislation be followed. According to this view, there are no substantive limits on what Congress may enact.

Legal positivism emerged in American jurisprudence during the first third of the 20th century. Roscoe Pound, Louis Brandeis, Felix Frankfurter, and Oliver Wendell Holmes, Jr. were among its chief protagonists. Legal positivism gained majority support on the Supreme Court during the New Deal, and it has been dominant ever since.

The framers of the Constitution were not legal positivists. They subscribed to the idea that there are fundamental human rights that cannot be justly overridden by any act of Congress. Such rights are inherent in human nature. They do not depend on the outcome of any election. Government does not create or grant these rights. They are antecedent to government. According to this view, in order for an alleged right to be a legitimate human right it must be possible for all humans to possess and exercise the right simultaneously without logical contradiction.

For example, does any person have a legitimate right to a job? If person X claims the right to have a job irrespective of the willingness of any other person Y to employ him, then X's job-related rights are different from Y's job-related rights. X is entitled to possess a job, and Y has the duty to provide it. Since such an alleged right cannot be held and exercised simultaneously by all people in the same way, it is not a legitimate human right.

The only job-related right that can be held and exercised by all people in the same way is the right to make job-related offers to others. Sellers of labor services have a right to offer to work for

any employer on any terms the sellers wish. They do not have a right to compel any employer to accept such offers. In exactly the same way, employers have a right to offer to employ any worker on any terms whatsoever. They do not have the right to compel any employee to accept such offers. In short, the employment relationship is a contractual relationship based on mutual consent. In the absence of a contractual agreement to the contrary, no employee has a property right to any job.

What about the right to strike? In the absence of a contractual agreement to the contrary, any employee has a right to withhold his labor services from an employer if he doesn't like the pay and benefits the employer offers. If each individual has this right, then a group of like-minded individuals can exercise this right together. In other words, all individuals who want to may withhold their labor services at the same time. If this concerted action induces the employer to acquiesce to the workers' terms, so be it. That will depend on the relative bargaining power of the two sides, and neither side has a natural right to any bargaining power advantage. Each side's bargaining power depends on the attractiveness of its alternatives.

However, and this is the central point, notwithstanding Section 13 of the National Labor Relations Act, like-minded workers who simultaneously withhold their labor services have no legitimate right to interfere in any way with the right of the struck employer to engage in voluntary exchanges with customers, suppliers, and other workers. Workers who are willing to work for a struck employer who wishes to hire them have a legitimate right to do so. Moreover, they may agree to accept the very terms of employment that the strikers consider to be unacceptable. Replacement workers have the same job-related natural rights as striking workers.

Unionists resort to name-calling to imply that replacement workers don't have the same voluntary exchange rights as other workers. "Strike breakers" and, even more pejoratively, "scabs" are typical epithets. Jack London, for example, once wrote, "After God had finished the rattlesnake, the toad, the vampire, He had some awful substance left with which he made a scab." Richard Trumka, president of the United Mine Workers, who led the Pittston strike, thought it sufficient to say, "Replacement worker is a nice refinement in

terminology, but a scab is a scab" to make a case against employers who hire replacements. But scabs are human, and as Thomas Jefferson would put it, they are endowed by their Creator with the same unalienable rights as any other human. Notwithstanding the tenets of legal positivism, not even Congress can justly take away unalienable rights.

Replacement Workers and the Law

The National Labor Relations Act became law in 1935. The law guarantees a right to strike and to use picket lines to try to prevent the struck firm from operating. The *Tri City* one-picket-per-entrance rule of 1921 was overturned. Mass picketing is now legal. So long as overt violence is avoided (or disguised), pickets may threaten and cajole anyone who attempts to cross the lines. Since the National Labor Relations Act pre-empts state law, and since the local police are frequently outnumbered, police are often reluctant to step in even when overt violence takes place. During the Pittston strike, for example, the mines were effectively shut down by violence and threats of violence. Even judicially imposed injunctions and fines were incapable of restoring the voluntary exchange rights of nonstrikers.

Section 2 of the National Labor Relations Act provides that employers may not fire striking workers. Strikers have property rights to the jobs they refuse to perform. However, in *NLRB v. Mackay Radio & Telegraph Co.* (1938), the Supreme Court held that struck employers may hire permanent replacement workers in economic strikes, as well as temporary replacement workers in unfair labor practice strikes. An economic strike is one over issues such as pay, working conditions, and benefits. An unfair labor practice strike is one over some alleged illegal act of the employer such as discriminating against union workers or refusing to bargain with a certified exclusive bargaining agent. In an economic strike, the strikers are still employees (they may not be fired), but the employer doesn't have to reinstate them immediately following a settlement. They have first claim on any job that a replacement worker later vacates. In an unfair labor practice strike, striking workers must, upon settlement of the strike, be given the opportunity to take over jobs held by

replacement workers.

The Court did not decide *Mackay* on constitutional grounds. The Court merely held that the National Labor Relations Act doesn't prevent struck employers from hiring replacements. The Court, in keeping with its legal positivist doctrine, said that Congress may pass a law banning replacements but, until it does employers are free to hire them.

In *Belknap v. Hale* (1983), the Supreme Court acted further to uphold the voluntary exchange rights of permanent replacements. Prior to *Belknap*, some struck employers hired replacement workers and told them that their jobs were permanent. Then, after the strike was settled, these replacement workers were dismissed and returning strikers took their place. In *Belknap* the Court held that if an employer tells replacement workers that they are permanent replacements and then dismisses them when a strike is settled, the dismissed replacement workers may sue the employer in state courts for breach of contract. As the law stands now, during an economic strike employers are legally entitled to hire permanent replacement workers. If they do so they cannot offer those positions to strikers as part of a strike settlement.

Legislation has recently been introduced in the House and Senate that would make hiring permanent replacements illegal in all strikes. Temporary replacements could be hired, but it is very difficult to find qualified workers to take jobs on a temporary basis. The intended effect of the proposed legislation is to make the union strike-threat more credible as an economic weapon against employers. It is an egregious example of politicians attempting to grant special privileges to an organized, and politically active, interest group in exchange for financial and in-kind assistance at election time.

Recent Supreme Court Cases

The Supreme Court has recently issued three decisions that further decrease the effectiveness of the unions' strike-threat weapon. From a unionist's perspective, these cases violate the rights of union workers. From a natural rights perspective, the Court has only partially restored some basic liberties to nonunion workers and employers. Those same liberties had been unjustly overridden by earlier Court cases upholding and interpreting

the National Labor Relations Act.

In *Pattern Makers League v. NLRB* (1985), the Court ruled that a union member may resign from the union during a strike and cross a picket line without fear of legal retribution from the union. Under existing law, a union may fine a member who crosses a picket line, and the fine will be enforced by government courts. But a nonmember may cross a picket line with (legal) impunity. Prior to *Pattern Makers*, a union member had to give a 30-day notice before he or she could resign, and no one could resign membership during a strike. Now a union member can resign at any time without notice.

Except in the 21 states that have prohibited them in the private sector, union security clauses may be included in collective bargaining agreements. Under a union security clause, every worker who works in a unionized firm must either join the union (union shop) or pay service fees to the union (agency shop) as a condition of continued employment. In *Communications Workers v. Beck* (1988), the Court declared that money forcibly collected from unwilling workers could only be used by the union to pay for the costs of collective bargaining, contract administration, and grievance procedures. No such money could be used for partisan or ideological advocacy or union organizing activities. Fees collected from dissenting workers had to be less than the regular dues collected from voluntary union members. In the case of a union shop, any worker can become a "financial core" member at will. That is, membership duties are limited only to paying reduced dues.

In *TWA v. Flight Attendants* (1989), the Court held that after a strike settlement, employers need not replace "crossover" workers with returning strikers who have more seniority. A crossover worker is a striker who crosses a picket line to return to work before a strike is settled. Prior to

Flight Attendants, strikers maintained their seniority privileges after a strike. A crossover worker who was doing the job previously done by a more senior striker would have to give up the job to the returning worker. Now a striker may permanently lose a job assignment to a less senior crossover.

In sum, these three cases have made it more difficult for unions to maintain solidarity. During a strike a union member may resign at will from the union and cross the picket line. Such a worker completely avoids union dues or, under a union security arrangement, at least reduces his or her dues-paying liability. Moreover, as a crossover, such a worker perhaps gains permanent job assignments hitherto reserved for more senior employees. In conjunction with the *Mackay* doctrine, which enables employers to hire permanent replacement workers, these cases make unions less willing to strike. They decrease the economic value of strike-threats to unions, but they restore some voluntary exchange rights to others.

Conclusion

The current Supreme Court appears to be tentatively moving toward supporting the voluntary exchange rights of all workers. But, since all of these cases have been decided on legislative, not constitutional, grounds, all Congress has to do to again promote unionists' privileges over the rights of others is amend the National Labor Relations Act. Moreover, as present justices retire and new ones take their places, the Court itself could easily move back toward promoting unionist privileges at the expense of the rights of others. A constitutional amendment that incorporates the safeguards the Court enunciated in 1921 in the *Tri City* case and makes affiliation with a union a matter of individual choice, not majority vote, is the only (nearly) reliable way to defend the legitimate rights of all participants in labor markets. □

Government Isn't Living Up to Its Contract

by Roger Koopman

When you mention the word “contract,” it doesn’t evoke instant excitement. Most of us associate contracts with banks, car dealers, realtors, and the like, and think of them in terms of payment plans and other financial obligations. But in reality, a contract exists whenever two or more parties agree to be bound by a mutual arrangement—which may or may not take written form. Contracts, therefore, are a basic expression of voluntary actions, free agency, and free will. They are the mortar that holds together a peaceful and free society. Without contractual relationships, there would be neither order nor freedom of choice.

The Constitution is an excellent example of a contract, whereby the people contract the specific services of the federal government and establish strict prohibitions on governmental power to safeguard their liberties. Both sides are required to honor the letter of the agreement, but the relationship set forth in this document makes clear who (i.e., the people) is the superior party, and who is serving whom.

Marriage can be viewed as a contract between two people. While, in a civil sense, all marriages have a certain commonality, they are also highly individualistic “contracts,” reflecting the values, religious beliefs, personalities, and so on, of the husband and wife. Business relationships, likewise, are contractual in nature, whether written or verbal. So, in the same sense, are employer-employee relationships.

Contracts imply several things: 1) that the relationship was entered into with the full knowledge

of the individuals, 2) that it was arrived at freely, without force or coercion, and 3) that the relationship was perceived by all parties as beneficial. For a contract to be valid, then, there can be no interference by outside parties.

Obviously, freedom of contract is essential to an open, competitive, exchange economy. The entire system of free market transactions is based on contracts. The strength of this system is its diversity, and the extent to which it maximizes individual choice and personal freedom.

But somewhere in our history we began to accept, ever so slowly, the notion that government (our Constitutional servant), has the right to interfere with the contracts of free people. I’m sure the argument in the beginning was the same as the arguments are now, as all levels of government continue to erode our ability to contract freely with anyone for anything. The rationale is always that it is for the “public good.”

Funny though—I’ve never met one of those “publics.” I know that I’m not one, and as I look around, all I ever see are individuals, never publics. Maybe they’re kind of like leprechauns, these publics, and the only ones who can spot them are politicians. They’re always being talked about by the politicians, and all the laws seem to be passed in their behalf. They must have hired a great lobbyist!

But stop and consider all the ways that government denies the individual his right to determine his contracts with others. Take employment relationships, for example. Do Americans still have the right to form whatever mutually beneficial relationship they choose when they go to work for someone or hire someone? Of course not. Our

“servant” government doesn’t permit us, because they have a “better idea” in mind. So they force wage minimums on us that extinguish many jobs altogether. They force worker’s compensation insurance on us, even if the individual worker would rather pass on that “benefit” and take other benefits or higher wages instead. They force unemployment insurance on us in the same way. Do we have a choice, as employees, to opt for a different policy from the private sector—or to choose no policy at all?

What kind of choice can we make about the 15.3 percent we and our employer together must contribute to Social Security? Do we have the opportunity to design an alternative retirement program with our employer? And what about overtime arrangements? Who decides all of that on our

employment contract? The government again, because we “publics” can’t be trusted to know what’s best for us.

And this just scratches the surface in one area of our lives. You would be hard pressed to find any area of our existence where Big Brother doesn’t close off our options and dictate what kinds of contracts we are allowed. Just pause and think about it.

Then reflect on what this is saying about you as a person. How independent are you? How free are you to pursue your own happiness? How able are you to control your own destiny when your government all but writes your life’s contracts? And how much longer are you willing to sit back and watch other people you don’t even know rule your life? □

Readers’ Forum

To the Editors:

In your July 1990 issue, an article by Dwight D. Murphey seeks to position Employee Stock Ownership Plans (ESOPs) as a threat to the free market and as a vehicle for a new constituency for the American Left. Nothing could be further from the truth. ESOPs do not constitute “workers’ control” or “workers’ self-management” but instead allow workers (both hourly and salaried) to become capital workers as well as labor workers. One need only read the writings of Louis O. Kelso, founder of the ESOP concept, to understand that Kelso does not believe in a free lunch or a giveaway of capital ownership. Dr. Murphey in his article is correct when he states that workers’ “control is inefficient to the extent that it is socialist.” The ESOP advances the cause of the free market system and educates workers to understand that employers, in order to be competitive and profitable in a free market situation, must be efficient and productive. ESOPs can and have reduced labor-management strife, thereby providing ESOP corporations with a competitive edge in the domestic and world marketplace.

Stripped to its core, Murphey’s article seeks to

perpetuate an elitist group owning all the means of capital acquisition, thereby (though Murphey doesn’t seem to understand this fact) placing working men and women in ideological and economic competition with their employers. In that battle, everyone loses and no one wins. Inequality in the ability to achieve capital acquisition is a rallying cry for exponents of the foolish and dangerous socialist system. The goal of any economic system is to create goods and services that can be utilized by its producers as consumers. The theories of Louis and Patricia Hetter Kelso have made capital ownership a reality for millions in the United States, thereby spreading the constituency for the free market system and demonstrating to those individuals that in a capitalist system with broad-based capital ownership, their lives can be improved by reason of their own hard work and efficient participation in the free market system.

D. Bruce Shine, General Counsel
United Textile Workers of America

Professor Murphey responds:

I am calling my remarks a “response” rather than a “rebuttal” because I hope to enlist common ground—not an adversarial relation—with people such as Mr. Shine.

In my article in the July *Freeman*, I essentially made three points:

1. That employee ownership is growing by leaps and bounds as a result of the massive tax

preferences that have been given to it since 1974. This growth is a product of "interventionism," not of the free play of market forces.

2. That the rapid institutionalization of employee ownership will create a vast new constituency for government intervention. One reason for this is that millions of employees are being caused to rely upon a non-diversified form of holding as one of their principal investment vehicles. Government will almost inevitably, given the political realities once an enormous employee-ownership constituency comes into being, be called upon to make sure that employee-owned companies don't fail or at least to serve as guarantor that the employees won't lose the value of their shares if their companies fail.

3. That, even though I don't think the move toward employee ownership will lead to socialism in the United States, the Left can certainly be counted on to seek to dominate it with an anti-capitalist animus. Workers' control was central to much 19th-century socialist thought, and has been a centerpiece of Western European and American socialist thinking in recent years. What many of us don't realize is that there is an extensive and active socialist literature on the subject. This suggests that we are creating a potentially hostile institution within the heart of capitalism itself, with all of the future conflict that that entails. Those who favor a free market had better get busy within employee-owned businesses to see to it that such ownership actually does create an identification with capitalism on the part of the employees. We need to understand that American employees' hearts and minds are going to be contested territory in an unfortunate ideological war. It's a war in which proponents of a free market will, as always, be at a serious disadvantage in terms of intellectual and media articulation.

These are the points I made in the article.

Now I am pleased that Mr. Shine has raised an aspect that I did not have space to address in my article. (I've devoted considerable attention to it in recent issues of the *Conservative Review* and *The Journal of Social, Political and Economic Studies*. I will be glad to send copies to anyone who writes to me in care of *The Freeman*.)

He refers to the writing of Louis O. Kelso, known as "the father of the ESOP (Employee

Stock Ownership Plan)." He indicates that Kelso and his coauthors—who were Mortimer Adler for the first two of four volumes and Patricia Hetter Kelso for the final volume—actually favor employee ownership as part of a free market system, not of socialism.

I can only hope that Mr. Shine, and others, will go back and read Kelso's books carefully, looking past the rhetoric of a "new capitalism" and seeing that what Kelso has actually been propounding for over 30 years is a thoroughgoing socialism.

In fact, Kelso's writing is the most fascinating example I know of semantic inversion. He and Adler were brilliant in devising a way to call socialism "capitalism."

ESOPs are only a small part of the road to the "new capitalism." The idea is to have an unlimited supply of government-backed credit to lend to virtually everyone, without obligation to repay (and thus the semantically disguised handout), to make it possible for people to buy all sorts of property—including even shares in sidewalks—until everyone in our society owns roughly the same amount of property. Then everyone is to receive payments derived from their ownership as a form of entitlement. This vast scheme of redistribution and of entitlement payments is called "capitalism" because everyone is made an "owner" and is said to be receiving a return on his or her "capital."

I know this is astonishing, but anyone who doubts my summary of it is urged to run, not walk, to the public library to read any one—but preferably all four—of Kelso's books. There, under an impressive array of verbiage and semantic inversion, the discerning reader will see the whole scheme laid out in all its glory.

I hope Mr. Shine is one of the many who have genuinely been fooled by the Kelso books. Many solid free market proponents have accepted the Kelso rhetoric at face value. I have no doubt but that true proponents of a market economy will join me in opposing Kelso's scheme, although anyone who's been snookered needs a little time to adjust to a realization of it. After a short period of disbelief, they should be angry. Not at me as the messenger bringing bad tidings, but at Kelso.

Dwight D. Murphey
The Wichita State University
Wichita, Kansas

The War of Ideas

by John Chamberlain

John C. Goodman of the National Center for Policy Analysis, in company with Ramona Marotz-Baden of the Foundation for Research on Economics and the Environment, are doing their best to keep up with changing ideas as they affect Latin America. They continue to have their troubles.

As their new book, *Fighting the War of Ideas in Latin America* (National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, 252 pages, \$6.95 paper), went to press, the very first page of their introduction demanded drastic footnoting.

Goodman and Marotz-Baden had quite innocently stated that a free enterprise candidate had defeated a traditional socialist for the presidency of Brazil. They had followed this by saying that in Peru, the leading candidate for the presidency is a former socialist who now strongly endorses free markets. But after their writing, the president of Brazil revealed himself as a currency freak. His constituents woke up to the fact that they could not put their hands on 80 percent of their money. The repercussions of the Brazil situation were quickly felt in Peru, where the popular novelist Mario Vargas Llosa was supposed to be a shoo-in to succeed Alan Garcia as president. Vargas Llosa had indicated sympathy for the decision that had so drastically curtailed the Brazilian money supply. When news of this got abroad there was a quick rush to abandon Vargas Llosa. It is all a great mix-up. The upshot of the business has been most peculiar: a son of Japanese immigrants, Alberto Fujimori, beat Vargas Llosa in a runoff. He did it by working out of a store front in Lima, with no money, capitalizing on the deep-rooted fear that

no government could be trusted with a people's savings.

If the whole of the Goodman/Marotz-Baden entries had to be subjected to such footnoting, it would not be worth much as information. Goodman and Marotz-Baden do much better when they stick to trends. Their various case studies are all on the upbeat side insofar as hopes for a free enterprise hemisphere are concerned. Chile has created a workable private social security system. In Guatemala, Manuel Ayau, a former president of the Mont Pelerin Society, is in the running for the presidency of his country. Two decades ago he started the free enterprise Francisco Marroquín University, whose graduates are now playing constructive roles in Guatemalan politics. Ayau has brought many Mises and Hayek scholars to his campus, including Milton Friedman, a three-time lecturer. It costs more to study at Francisco Marroquín than at state schools, but voluntarists have raised the necessary supplementary funds for scholarships. The university has, according to Goodman and Marotz-Baden, "home grown nearly 40 of its 200-plus faculty members, including its Dean of Economics. Recently, its Theology School opened satellite schools in Costa Rica, Honduras, El Salvador, and even Nicaragua."

We have touched on Peru, where Hernando de Soto's *El Otro Sendero* (*The Other Path*) battles with the terrorist organization incongruously titled "El Sendero Luminoso" or "The Shining Path" for adherents. The underground—or "informal"—economy in Peru, which has constructed \$8.3 billion worth of houses in 20 years in comparison to the government's \$174 million, will go with Alberto Fujimori in easy preference to tougher taskmas-

ters who would force a waiting time of many years to get legal title to land. Fujimori has announced that Peru, which has stopped paying on its international debts, will "rejoin the world economy"—meaning that it will develop a plan to stabilize its economy with the help of the International Monetary Fund.

Venezuela and Mexico offer little puzzlement to Goodman and Marotz-Baden. The oil bonanza of 1974-83 might have put five important Western nations on Easy Street. But Venezuela and Mexico, which had high-priced oil to sell along with Norway, Holland, and Great Britain, muffed a glorious opportunity. Instead of paying off debts, all five of the oil-possessing nations immediately increased public expenditures.

"In Venezuela," we are told, "government spending as a percent of GDP [Gross Domestic Product] varied between 30 and 35 percent from 1962 and 1972; yet government spending climbed to 57 percent of GDP by 1984." In Mexico, public spending peaked at 61 percent of GDP. Holland hit 62 percent, Norway 48 percent, and Britain 46 percent. The oil-money spending went for all sorts of public projects, and it was accompanied by increased government borrowing for parallel expenditures. "In all five countries, the rationale behind these government policies was the belief that public spending would create and distribute wealth. In each case the opposite occurred. As resources were diverted from the productive private sector to the inefficient public sector, the consequences were devastating. In many cases the increased spending took the form of acquiring, expanding, or starting government-owned enterprises. Invariably, these firms incurred losses, which required even more government subsidies. As the subsidies to inefficient state-owned enterprises grew, efficient companies in the private sector were starved for capital."

The Mexican economy, despite its abundant natural resources and its industrialization after 1949, has turned into a nightmare. The runaway inflation "has resulted in a tremendous outflow of capital in the last ten years. An estimated \$60 billion in private Mexican money has poured into the U.S. and at least another \$8 billion has been identified in Swiss bank accounts. What went wrong?"

The editors tell us about the *ejidal* system of landholding, under which land was split into parcels too small for the peasants to eke out a sub-

sistence living, let alone produce food for sale. To give up the *ejidal* system would require a tremendous rejection of one of the Mexican revolution's most cherished traditions.

But, say Goodman and Marotz-Baden, "As this book goes to press, there is mounting evidence that President Salinas is serious about free market reforms—that he favors real reform, not merely cosmetic changes designed to appease international lenders."

Salinas has announced his own conversion to the cause of privatization. If we could establish a genuine free trade area from Canada and Alaska to the Panama Canal it would be a tremendous victory for freedom. But the problem of Castro, who keeps pouring arms into Central America, would remain. And there is the warning attributed to Jack Kemp: "The International Monetary Fund is a greater threat to Central America than the Sandinistas." Fujimori, though Peru is not in Central America, should take note of Kemp's general reasoning. □

INSIDE PERESTROIKA: THE FUTURE OF THE SOVIET ECONOMY

by Abel Aganbegyan

Harper & Row, Keystone Industrial Park, Scranton, PA 18512 • 1989
241 pages • \$19.95 cloth

Reviewed by Russell Shannon

Abel Aganbegyan has been one of Mikhail Gorbachev's chief economic advisers. In his book, which is written for general audiences, Aganbegyan indicates clearly that he has had ample opportunities to observe the operation of a centrally controlled economy and is vividly aware of its failings. He also reveals not only a firm grasp of, but also a strong admiration for, some of the most basic characteristics of a free market economy. Yet his understanding of and dedication to market principles is so flawed that one puts the book down with a sense of sorrow. If these are the views of one of the Soviet Union's staunchest free-market advocates, then it seems likely that paternalism will prevent perestroika (economic restructuring) from being more than partial.

For years, tales have leaked out of the Soviet Union about the grotesque absurdities which result from centralized control of the economy—

how, for example, a shoe factory made all its shoes the same size to satisfy Gosplan's quota rather than serve the desires of consumers through the market. Now we are treated to such examples coming from the "horse's mouth," as Aganbegyan puts it. All such problems he blames on the Soviet system of *diktat*, or centralized command, which features monopolies in most realms of production. Competition, Aganbegyan notes, has been prevented in order to avoid the problems of unemployment and bankruptcy. But the monopolies have produced vast quantities of largely useless items, such as the "bulldozer" built by a tractor factory which simply added a blade to a caterpillar tractor and proclaimed it to be a "bulldozer."

Tens of thousands of these ersatz bulldozers were produced by the Chelyabinsk factory each year, primarily for use in the far north. Aganbegyan states that "no bulldozer lasted even a season, and every year each one required a total overhaul costing several times more than the original purchase." Nor is this an isolated instance, for Aganbegyan states that what he calls the "dictatorship of the producer over the consumer" causes the story to be repeated "in every branch of the automobile, shipbuilding and machine-tool industries."

Clearly, Adam Smith's precept that "consumption is the sole end and purpose of production" has been ignored, with disastrous results.

Aganbegyan has several ideas about what needs to be done. He proclaims the need to control monetary growth in order to prevent inflation—sounding much like Milton Friedman, whom he has met. He also advocates opening up the Soviet economy to international trade, providing the double benefits of greater international division of labor and a strong incentive for domestic firms to improve product quality. And he stresses the importance of allowing individual contractual arrangements to replace the *diktat* of central supervision.

Of course, as Aganbegyan realizes, the Soviet Union has engaged in such periods of reform in the past—under the New Economic Policy instituted by Lenin in the 1920s as well as more recently under Khrushchev and then Kosygin. Yet all these reform phases failed, and the Soviet system sank back into costly centralization.

Will things be different this time? Aganbegyan ardently believes they will. He puts his faith in the growing democratic elements in the Soviet Union

which Gorbachev has introduced. But if he were to cast his eyes to the Soviets' great southern neighbor, India, he would observe that democracy is no guarantee of an end to bureaucratic control and widespread economic waste.

In fact, Aganbegyan himself is reluctant to relinquish much of the centralized control which guides production through five-year plans, guarantees workers' employment, and provides certain minimum needs. He does recommend allowing workers to buy their own homes, partly in order to soak up some of the "ruble overhang" which has developed because the lack of suitable consumer goods has resulted in an extraordinary accumulation of savings. But land and mineral wealth, he believes, should remain basically under state control, and 20 to 30 percent of the Soviet Union's annual output would be directed by the state.

What will be the outcome of perestroika? At the turn of the 20th century, Henry Adams visited Russia and in *The Education of Henry Adams* wondered, "Could inertia of race, on such a scale, be broken up or take new form?" Adams wasn't overwhelmed with optimism. Nor will such a feeling pervade the reader of Aganbegyan's book. It does seem reasonable to suggest that the ugly caterpillar of Communism has entered a sort of cocoon. Will it emerge as a beautiful capitalist butterfly? That seems unlikely. One suspects that, instead, it is apt to appear as a much more drab and modest socialist moth. □

Professor Shannon teaches in the Economics Department at Clemson University.

PREFERENTIAL POLICIES: AN INTERNATIONAL PERSPECTIVE

by Thomas Sowell

William Morrow & Co., P.O. Box 1219, 39 Plymouth Street, Fairfield, NJ 07007 • 1990 • 221 pages • \$17.95 cloth

Reviewed by David M. Brown

Advocates of preferential policies can't afford to ignore this book—at least, not if they care about how their policies are working in practice.

With the diligence and insight his readers have come to expect, Thomas Sowell doesn't skimp when it comes to presenting and analyzing the rel-

evant empirical data. He looks at the often bloody results of coerced preferences in a variety of political and social contexts around the globe and comes up with some disturbingly similar patterns.

By preferential policies, Sowell means “government-mandated policies toward government-designated groups,” policies “which legally mandate that individuals *not* all be judged by the same criteria or subjected to the same procedures when they originate in groups differentiated by government into preferred and non-preferred groups.”

In the first part of his book, Sowell discusses three major contexts for such policies: “Majority Preferences in Majority Economies,” “Majority Preferences in Minority Economies,” and “Minority Preferences in Minority Economies,” in three riveting chapters of economic and historical analysis.

By labeling economies “minority” or “majority,” Sowell is specifying which group or groups tend to dominate economically in a particular society. In the United States, the majority (roughly speaking) dominates, while the government-preferred minority (e.g., blacks) is regarded as disadvantaged and requiring special government help. Minority economies include places like Malaysia, Nigeria, and Sri Lanka, where an ethnic or racial minority—often composed of better-educated and/or better-motivated outsiders—economically outstrips the indigenous majority and so incurs at least some of that majority’s envy, resentment, and political wrath.

The motivation of concern over unfair discrimination, which we are familiar with in this country, doesn’t wash when the beneficiary of preferential policies is the majority. After all, the minority has no evident means, aside from political force, of systematically excluding the rest of the populace from certain economic or social contexts (which is why South African apartheid is not, and could not be, a free-market institution). But neither, it turns out, does the majority have any such means. Majority preferences have had to be imposed by force in both majority economies (as in the pre-’60s South, with the Jim Crow laws) and minority economies such as Malaysia. It *had* to be by coercion because, in the marketplace, discrimination is costly. And the individual who indulges in unjust discrimination, forgoing a more economically rational alternative, must pay those costs. “When apartments remain vacant longer because minority tenants are

turned away, the landlord pays a cost for discriminating. So does the discriminating employer whose jobs remain unfilled longer or can be filled more quickly only by offering higher pay.” In the free market, the more rational, non-discriminating businessman has a competitive edge—regardless of his own group membership or that of the other parties involved.

On the other hand, the discrimination costs for government are negligible. When a legislator passes a law or a bureaucrat enforces it, neither is obliged to pay the resulting costs to the businesses or other institutions that must obey it.

These differing incentives manifested themselves in the wake of the Jim Crow laws, the network of restrictions against blacks that were imposed in the post-Reconstruction South. When streetcars were a private, profit-making, relatively unencumbered enterprise during the 19th century, streetcar owners in the South did not segregate blacks and whites into different compartments; that would have entailed new costs (the disaffection of black customers) without new profits. (They did, however, segregate passengers into smoking and non-smoking cars, a move justified by economic demand.) As racial segregation was legally mandated around the turn of the century, furthermore, streetcar companies in towns like Mobile, Montgomery, and Augusta initially refused to comply with the law. In Tennessee, Jim Crow legislation was delayed (and later overturned in court) through the opposition of the streetcar company there. Sowell notes that, because of the economic burdens involved, evasion of legally enforced racial discrimination is common in other industries and countries as well. With infuriating insensibility, government imposes arbitrary costs on innocent citizens.

Preferential policies have been instituted throughout the world. Almost always, in the name of some “higher goal” of equality among groups, reason, economic efficiency, and simple civility are scrapped, with a small elite typically benefiting at the expense of everyone else—not excluding the intended beneficiaries. Often, those in a position to benefit from preferential policies are already the more advanced members of their group, with the education or income needed to take advantage of the politically imposed opportunities others cannot touch.

In Malaysia, a majority economy dominated by

an outside minority (the Chinese), political preferences for Malaysians benefited "at most 5 percent" of Malays. "While the statistical representation of Malays on corporate boards of directors in Malaysia rose under preferential policies, so did the proportion of Malays among the population living below the official poverty line," Sowell notes. "In short, the Malay masses provided the political support for preferential policies that benefited the Malay elite—in the name of the masses."

In the United States, "the largest gains in black wages relative to those of whites between 1960 and 1970 occurred in private sector industries *less* regulated by government and *less* likely to be government contractors." Furthermore, "Black males with more education and more job experience have advanced in income, both absolutely and relatively to whites, while black males with less education and less job experience have *retrogressed* relative to whites over the same span of years. In short, the gains have gone to those already more fortunate, as with preferential policies in other countries." That's one pattern that Sowell notes.

Another pattern is violence. One is struck by the extent to which preferential policies stir up and exacerbate the racial resentments which often motivated those policies to begin with. Blacks against whites in the United States, Assamese against Bengali in India, Hausa-Fulani against Ibos in Nigeria. In Nigeria, where the Moslem North lagged behind the South in areas like education and jobs, group polarization attending preferential policies for Northerners led to mob violence, the hunting down and slaughtering of Ibos, and ultimately civil war. The Ibos, who had tried to split off from Nigeria and form their own country, ultimately surrendered, and fortunately at least some preferences were rescinded (in one of the few instances of such backtracking anywhere).

The consequences of preferential policies, which Sowell covers exhaustively, are disastrous. But what if consequences don't matter to the policy molders? One of the most startling passages in this book is from an ethnic "spokesman" conceding the generally superior qualifications of a competing ethnic group, but concluding, "Maybe they are better qualified but why is merit so important? We can have some inefficiency. That will be necessary if our people are to get jobs. Are we not entitled to jobs just because we are not as qualified?" One would suppose that qualifications were

important so that you could do the job for which you have been hired; but, alas, that's irrelevant if the real point of a job is not production but the satisfaction of arbitrary racial demands, and costs be damned.

The more theoretical second part of the book discusses the illusions of knowledge, control, and morality that have influenced support of preferential policies. There are echoes of the Hayekian perspective on the distribution of knowledge through society here, and of Sowell's own analysis in *Knowledge and Decisions*, which make this section particularly intriguing—and devastating.

Regarding the question of morality in particular, the book provides convincing evidence that if being moral has anything to do with the promotion of human life, racism at the point of a gun has little to do with it. □

David M. Brown is the managing editor of the Laissez Faire Books catalog and a free-lance writer.

SOUTH AFRICA'S WAR AGAINST CAPITALISM

by Walter E. Williams

Praeger, One Madison Avenue, New York, NY 10010 • 1989 • 159 pages • \$37.95 cloth

Reviewed by Matthew B. Kibbe

Many people are justifiably outraged by South Africa's apartheid system. Others offer apologies. What often unites these two seemingly disparate views is the belief that apartheid is somehow the result of profit-seeking under free-market capitalism. Starting from this belief, one must either rationalize the existence of a government-imposed system of legalized racial discrimination or embrace some form of socialism. These extremist views are reinforced by the statements of South African leaders such as former President P. W. Botha, who proclaimed that South Africa "is a symbol of . . . free enterprise," and black anti-apartheid activist Bishop Desmond Tutu, who declared that he is fundamentally "opposed to capitalism."

This book cuts through the emotionally charged rhetoric surrounding racism to get to the root of the apartheid system. Professor Williams shows that the problem in South Africa is not the free-market process, it is the existence and dominance of centralized government power. As he puts it,

"... South Africa's apartheid is *not* the corollary of free-market or capitalist forces. Apartheid is the result of anticapitalistic or socialistic efforts to subvert the operation of market (capitalistic) forces."

To prove this thesis, Williams develops a broad, interdisciplinary study of South Africa's apartheid system, weaving theoretical economic analysis into a rich historical, legal, and institutional cloth. This interdisciplinary approach makes Williams' findings all the more persuasive.

Still, as one might expect from a Walter Williams book, this volume is driven by the logic of markets and prices. "Under market allocation of resources," he observes, "price is the major determinant to resource usage—which is not to say that racial discrimination is absent. It is recognized that market allocation tends to exact a penalty from those who engage in racial discrimination. As such, the free market is no respecter of race, ethnicity, religion, sex, or nationality."

Unfortunately, it has been special-interest politics—not the market—that has held sway in South African racial affairs for the better part of this century. The policy of apartheid, a term made popular by South African Prime Minister Daniel François Malan in 1948, originated in a myriad of government-imposed laws designed to keep nonwhites from participating and competing in the market process. As early as 1911, under the coercive influence of white labor unions, the South African government passed the first in a series of restrictive labor laws which became known as the "color bar." The Mines and Works Act of 1911, under the guise of safety, required "certificates of competence" for many types of work. Such certificates were largely unavailable to nonwhite natives.

The white labor unions and other white supremacists lobbied for other regulations which, in effect, prohibited blacks from being hired. These groups demanded that the hiring of blacks and other nonwhites be subject to the same compulsory employer compensation and minimum wage requirements granted to white union members. The intent of such legislation, Williams contends, is obvious. Such labor laws took away the only bargaining chip available to the blacks and other nonwhites—their willingness to work for a lower wage. Many whites recognized this. In 1925, for example, the report of the Mining Regulations

Commission proposed a mandatory system of minimum wages per job "in order to rescue the European miner from the economic fetters which at present render him the easy victim of advancing native competition."

Contrary to the view accepted by many on the political left, apartheid is not the result of white businessmen attempting to maximize profits by enslaving cheap black labor. It is instead a product of political privilege. Says Williams:

The mere existence of South Africa's extensive racial regulatory laws is evidence enough that racial privilege is difficult through free market forces. Consider South Africa's job reservation laws, which mandate that certain jobs be performed by whites only. . . . The presence of job reservation laws suggests that at least some employers *would* hire blacks in the "white jobs." The fact that they would hire blacks to do white jobs neither requires nor suggests that these employers be necessarily any less white supremacist than anyone else. It does suggest that those employers who would hire blacks considered such a course of action to be an attractive alternative because blacks were willing to work for lower wages—"uncivilized wages"—than white workers. The business pursuit of profits—which caused employers to be less ardent supporters of the white supremacist doctrine—has always been the enemy of white privilege. This is why South African white workers resorted to government.

"The whole ugly history of apartheid has been an attack on free markets and the rights of individuals, and a glorification of centralized government power," Williams concludes. Only when South Africa's people—black, white, or colored—"declare war against centralized government power" will there be genuine progress toward freedom. Walter Williams' new book provides powerful intellectual ammunition for that war. □

Matthew B. Kibbe is Director of Federal Budget Policy at the United States Chamber of Commerce, and a doctoral student in economics at George Mason University's Center for the Study of Market Processes. Nothing written here is intended necessarily to reflect the views of the United States Chamber of Commerce.

THE FREEMAN

IDEAS ON LIBERTY

404 The Great Banking Scandal

Hans F. Sennholz

Why is Congress skirting the real issue behind the S&L mess?

406 Boom Time for State and Local Government

John Hood

The truth about state and local spending in the 1980s.

409 Environmentalism: Freedom's Foe for the '90s

Robert James Bidinotto

Cleaner air and water are not the only items on the agenda of the environmental movement.

421 Markets and Pseudo-Markets

Donald J. Boudreaux

Arguments in favor of "the market" are not necessarily arguments in support of classical liberal values.

424 The Myth of Public/Private "Cooperative Enterprises"

Barbara R. Hunter

A transfer payment is a transfer payment is a transfer payment.

426 Sweden: No Model for Eastern Europe

Eric Brodin

Why newly emerging democracies should not view Sweden as the ideal welfare state.

429 The Two-Edged Sword of Chaos

Gary McGath

Before asking whether a mathematical model fails in its predictions because it is chaotic, we should ask if any such model is valid in the first place.

433 Rising Prices: The Market's Way of Conserving Oil

Jorge Amador

Have oil companies "gouged" consumers during the most recent Mideast crisis?

436 The Nature of Government

Fred Dekkers

The more the power of the state is concentrated in fewer hands, the greater the danger of abuse.

438 Book Reviews

John Chamberlain reviews *The Politics of Plunder: Misgovernment in Washington* by Doug Bandow; also featured: *Free Market Morality: The Political Economy of the Austrian School* by Alexander Shand.

CONTENTS

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PERSPECTIVE

Sweden

In a society where individuals cannot easily increase their income, or accumulate private wealth by ordinary work, they turn increasingly to the zero-sum game of transferring incomes from one another rather than engaging in the positive-sum game of producing income through work, capital accumulation or productive risk-taking. The problem is not that it is impossible to get rich in Sweden, but rather, that it is difficult to remain so through honest productive activities.

Problems associated with public sector monopolies, such as slack management and large bureaucracies, are also typical in Sweden. The notion of uniformity seems attractive to egalitarian spirits, but apart from the normal problems, this creates a new problem in a contractionary economy when government budgets have to be reduced. It is difficult to find alternative sources of supply. This fosters tensions in society since it becomes imperative for each pressure group to gain access to political power at the expense of others. Since part of the welfare state concerns distribution over the life-cycle, one should add that groups seeking to gain benefits from some programs may hurt their future position if present gains accrue at the expense of programs favoring the elderly.

—PETER STEIN,

writing in the *Journal of Economic Growth*
(Vol. 2, No. 4)

(Note: Please see page 426 for Eric Brodin's "Sweden: No Model for Eastern Europe.")

The Permissive Society

If everyone must be equal and no one is to feel inferior, moral distinctions are no less objectionable than intellectual or social ones, and the surest way of eliminating them is by denying that there is any moral difference between competing values and modes of conduct. You cannot, for instance, criticize ruthlessness in business if there is nothing wrong with sacrificing honesty to the pursuit of success. Similarly, if it is true that individuals should be free to gratify their impulses in any way they choose, without risking social or moral sanctions, it implies that the idea of an objective moral law is an illusion, otherwise moral neutrality would

be indefensible. You cannot, after all, condemn adultery if it is considered that the pursuit of sexual pleasure justifies breaking your marriage vows. It is consequently more than a coincidence that most left-wing intellectuals combine an attachment to socialism with hostility toward "conventional morality." What adds fuel to the cultural fire is that the process of moral and social decomposition set in train by the Left has been reinforced in recent years by a mistaken conviction among political libertarians that the permissive society is the moral corollary of the free society—a logical extension of freedom into the moral sphere.

—PHILIP VANDER ELST,

Freedom Today, April 1990, published by the
Freedom Association, London, England.

Monitor Update

The September 1988 *Freeman* carried scuba diver Gary Gentile's account of his lengthy struggle with the National Oceanic and Atmospheric Administration to gain permission to explore the wreck of the *Monitor*. On July 4, 1990, having won his court battle, Gary led a team that photographed the remains of the Civil War ironclad.

Administrative Law Judge Hugh J. Dolan handed down the pivotal decision that allowed Gentile to make his dive. In his decision, Dolan quoted the *Idaho Law Review* (1980): "A venturesome minority will always be eager to get off on their own, and no obstacles should be placed in their path; let them take risks, . . . let them get lost, sunburnt, stranded, drowned, eaten by bears, buried alive under avalanches—that is the right and privilege of every free American."

No Peanuts

If your father grew peanuts in the 1940s, there is a good chance that you or your siblings have a government-granted entitlement known as a peanut quota. Should you not inherit a peanut quota, you can expect to pay rather dearly if you wish to obtain one. Today peanut quotas on farm land are usually far more valuable than the land itself.

The nation's 44,000 peanut-quota owners are protected against any and all competition, domestic and foreign. Moreover, they are guaranteed a

\$631.47 per ton support price by the federal government. This is approximately twice the price on world markets, and about twice the growing costs of efficient U.S. growers.

The national quota for foreign-grown peanuts is 850 tons a year. This is less than one-tenth of 1 percent of U.S. consumption. Thus, for all practical purposes, foreign-grown peanuts are forbidden to U.S. consumers. However, U.S.-grown peanuts are available to foreign consumers at about half (or less) the price to U.S. consumers.

American farmers who grow peanuts without a Federal quota are "free" to sell their crops in the domestic market *only* for peanut oil or meal. If they cannot sell their crops in these markets or to foreign consumers, they must turn them in to the government for \$149.75 per ton—less than 25 percent of the floor price for the peanuts of quota owners.

Is this equality? Is this freedom? Can this really be America?

—C. F. FISCHER, III
Dothan, Alabama

Fighting the Wrong Enemy

I gave a lecture to about 200 people at the University of the North in South Africa, which is a black university. A black student stood up and said, "I'm a Marxist. I believe in Marxism and socialism."

I said, "Fine, may I ask you a few questions?" I asked him, "Do you think you ought to be able to open up a business wherever you want to?"

He said, "Yes."

"Do you think you ought to be able to independently negotiate your wages with an employer?"

He said, "Yes."

I said, "Do you think you ought to be able to live wherever you want to live without interference by a third party?"

He said, "Yes."

Then I said, "You're really for laissez-faire capitalism. The problem you have been fighting all these years is Communism, because Communism means government ownership and/or control over the means of production."

—WALTER WILLIAMS,
speaking at The Fraser Institute,
February 19, 1990.

The Great Banking Scandal

by Hans F. Sennholz

Federal Reserve Chairman Alan Greenspan recently shocked the financial world when he estimated the eventual cost of the savings and loan bailout at half a trillion dollars. And Treasury Secretary Nicholas Brady added a jolt by admitting that taxpayers must bear most of the burden.

It is a scandal, all agree, the greatest ever in U.S. financial history. It is greater by far than the bailouts of Chrysler, Lockheed, and New York City, even greater than the costs of the default of Third-World debtor countries. In ages past, it would have been ignored as a malicious story that was absurd and impossible. Yet, it is as real as the S&L losses and bankruptcies.

It is even more scandalous that most of the perpetrators are escaping unscathed. The legislators and regulators who created the system during the 1930s have left the stage of life and can no longer be held accountable. But there are many who helped to fashion the S&L structure, who drafted and enacted the Depository Institutions Deregulation and Monetary Control Act of 1980 that stoked the fires of inflation, and the Garn-St. Germain Act of 1982 that invited crooked appraisals and dubious accounting. They are making their escape.

A few politicians actually paid a nominal price for the damage they inflicted. Representative Ferdinand St. Germain of Rhode Island, co-author of

the law that made matters worse, was defeated for re-election. Speaker Jim Wright, who badgered Federal regulators for his favorite S&L bankers, resigned in disgrace. Five Senators are at risk because they intervened with regulators on behalf of big campaign donors. Yet, no Representative or Senator is expected to lose a penny from the debacle. In fact, they voted themselves several boosts in salaries and pensions and are about to raise them again.

The politicians who created and nurtured the system are quick to point at the bankers who saw an opportunity to splurge and steal. Some 50 thrift officials and accountants already have been convicted, and more are likely to face indictments as inquiries proceed. But even if a few hundred incompetent and corrupt owners and managers should be found out, their numbers are puny when compared with some 50,000 employees laboring in the industry. It is unlikely that the number of industry perpetrators will ever reach 1 percent of employees, but it is obvious that more than one-half of legislators created and fashioned the system and that regulators guided it every step of the way.

The greatest outrage, however, is the lack of Congressional interest in the causes of the disaster. There are no hearings, no investigations, no special prosecutors, not even committee debates on the real causes of the scandal. Congress is visibly skirting the real issue.

The reasons for such conspicuous silence may be as numerous as the voices against the hearings and investigations. Some legislators undoubtedly are convinced that they have the

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is the author of the 57-page booklet The Savings and Loan Bailout: Valiant Rescue or Hysterical Reaction? available from The Foundation for Economic Education at \$4.45.

answer: the irresponsibility and greediness of bankers. Many newspapers and broadcast media share this opinion, which implicitly exculpates the legislators.

The conspicuous silence may also hide an awareness of guilt. Many legislators not only cast their votes for the system but also have used it, and continue to use it, for their own ends. Savings and loan associations and other government-sponsored and regulated institutions are among the most generous contributors to the re-election campaign funds of the politicians who legislate and regulate the conditions of S&L existence. The contributions amount to many millions of dollars, bolstering the political and financial fortunes of incumbents. Surely, any Congressional investigation would soon discover the connection, which would be rather embarrassing to the legislators.

Public opinion, which offers a ready answer to all things, usually points at a lax Reagan Administration and a reckless industry. It neither theorizes nor analyzes, nor argues on grounds of inexorable principle. In vague and eclectic fashion, public opinion clings to simple notions of good and evil, command and obedience. It places the blame on evil bankers and lazy regulators who neglected their police function.

Actually, the bankers' greed and the regulators' negligence merely are visible symptoms of much greater evil. The real cause of the disaster is the very financial structure that was fashioned by legislators and guided by regulators; they together created a cartel that, like all other monopolistic concoctions, is playing mischief with its victims.

The structure was erected on the foundation of government force rather than voluntary cooperation. Held together by numerous laws and regulations, it weakened from the inflation fever of the 1970s and growing institutional competition during the 1980s. It suffered severely during the Nixon, Ford, and Carter Administrations which lifted interest rates high above the rates S&Ls were permitted to pay and charge. As depositors withdrew their deposits and turned to higher-yielding money market funds, S&Ls were caught in the vise of inflation and regulation. Moreover, rising interest rates caused S&L instruments consisting primarily of long-term mortgages to plummet in price. All S&Ls suffered staggering losses. It is surprising that some actually managed to survive.

In desperation about their sinking ship, the legislators finally consented to "deregulate," that is, they relaxed some rules while they tightened others. They passed the Depository Institutions Deregulation and Monetary Control Act which reduced aggregate reserve requirements for Federal Reserve member institutions by about 43 percent and tightened Federal Reserve control over financial institutions.

To lower reserve requirements is to pour more fuel on the fires of inflation. The 43 percent reduction that member banks experienced was unprecedented in scope and magnitude; it flooded the markets with new credits, caused interest rates to skyrocket to a 20 percent prime rate, and precipitated an inflation rate that reached a staggering level of 18 percent. To control the price inflation, the Carter Administration then invoked the Credit Control Act of 1969 and placed controls not only on banks and thrift institutions but also on all consumer lenders, such as retailers and auto dealers.

The Depository Institutions Deregulation and Monetary Control Act extended Federal Reserve credit controls by imposing reserve requirements on all transaction accounts. At the same time, credit unions, savings banks, savings and loan institutions, and nonmember banks were required to keep their reserves with the Fed. In short, the extension of Federal Reserve controls and the expansion of Federal Reserve funds greatly tightened the vise that was to crush more than 3,000 thrift institutions.

The S&L industry is a component part of the American financial cartel that builds on legislation and regulation. Federal deposit insurance was added in 1933 to prevent a repeat of the sad banking picture of the Great Depression. Unfortunately, government insurance is self-defeating. The greater the protection government provides, the greater the risks the insured are willing to take. Depositors who are fully insured have no incentive to select a solid bank over a poorly managed bank. Federal deposit insurance contributed to the debacle of the S&L industry.

As with so many government programs gone awry, the S&L system was born of good intentions and economic ignorance. Unfortunately, the economic ignorance of politicians and officials is always visited on the people. It is visited anew on the American people who are facing a bailout bill of some \$500 billion. □

Boom Time for State and Local Government

by John Hood

If the press has anything to do with it, the 1990s will be a decade of higher taxes and government expansion in America. The last year or so has seen article after article, editorial after editorial, proclaiming an end to the "Decade of Greed" and calling for a new surge of activism—and a corresponding surge in taxes to pay for it. Much of the media's pro-tax and pro-government sentiment coalesced around Earth Day 1990, which was really a couple of months of constant calls for America to "invest in a clean environment."

The most recent development in this barrage has been the addition of state and local budget gaps to the perennial example of the Federal budget deficit as proof that Americans are undertaxed. In both 1989 and 1990, state governments around the country experienced slower-than-expected growth in tax revenues, leading to record budget deficits in some states. Since most of the affected states have balanced-budget provisions, they have not been able to delay their day of reckoning—as has the federal government so far. Consequently, highly visible battles have been waged between advocates of budget restraint and those of tax increases to balance state budgets. The national press, among others, has seized upon these state budget woes to predict that the 1980s of governmental restraint are preparing to give way to the 1990s of renewed governmental expansion.

John Hood is a columnist for Spectator magazine in Raleigh, North Carolina, and publications director of the John Locke Foundation, a state-policy think tank.

Whether or not their prognostication is correct, the press and the various interest groups that manipulate it (teachers' unions, state employee unions, etc.) have based their entire case on a false proposition: that the 1980s was a decade of governmental contraction. Nothing could be further from the truth. Although the rate of government expansion may have slowed a bit on the Federal level during the Reagan Administration, the share of national income consumed by Federal spending was the same in 1989 (22 percent) as it was in 1980. "Budget cuts" blamed on Reagan were only reductions in the rate of increase in government spending, not real reductions in government's role in society and the economy.

On the Federal level, this story has been told more than a few times. But since the new battlegrounds of government activism are state legislatures and city halls, it is important to recognize the truth about state and local government in the 1980s—that during a time when the federal government retained its already large role in American society, state and local governments *increased* theirs dramatically, by 17 percent in real per-capita spending from 1981 to 1989. And the state and local tax burden on typical households increased steadily during the same period, according to the Tax Foundation, while the Federal burden remained roughly the same. Far from being a decade of fiscal conservatism, the 1980s were a boom time for government on the state and local level. Consider the record of government expansion in two dissimilar states: New York, the stronghold of

Northeastern liberalism, and North Carolina, a Southern state with a conservative image.

New York

As of April 1990, New York State faced a projected \$3 billion budget deficit for fiscal year 1991. While Governor Mario Cuomo, other state politicians, and the state press have attributed the state's budget problems to tax cuts, slower-than-expected economic growth, and the 1987 stock market crash, Ed Rubenstein of the Manhattan Institute attributes the deficits to runaway government spending. During the 1980s, he reports, New York state spending outpaced inflation, population growth, and per-capita income growth, consuming 16 percent of New Yorkers' personal income in 1988—up from 14.7 percent in 1983.

The state's general fund, which doesn't include federally funded programs or capital projects, grew at an average rate of 9.6 percent a year from 1980 to 1989, doubling every seven and a half years. Chip in Federal and other funds, and the total state budget grew by about 53 percent from 1983 to 1989.

Naturally, the meteoric rise of state spending in New York has been accompanied by higher effective tax rates on New York households. From 1983 to 1988, state taxes as a percentage of personal income rose by almost 10 percent—a rate more than three times as fast as that in "Taxachusetts."

In New York, as in many other states, one reason asserted for state government expansion has been President Reagan's New Federalism, which shifted the burden for some programs from the Federal level to the state level. But the fact is that Federal funds followed the programs more often than not. In the case of New York, Federal aid money to the state and to local governments actually increased by 15.4 percent *after inflation* between 1983 and 1988, according to Rubenstein.

Where did the state and local governments in New York spend their massive influx of taxpayers' money? Virtually every area of the state budget increased in real terms during the decade, especially in education, environment, anti-poverty, and economic development programs. For much of the decade, New York led the nation in per-capita state spending on public welfare; in fiscal year 1987, it spent almost \$600 per capita on public welfare, over \$100 more than the next highest

spending state, Massachusetts. New York maintained higher-than-average spending levels in education and environmental programs during the decade, and expanded the state government's role in "economic development." By 1987, it had attained the dubious distinction of being second only to Illinois in state spending to encourage tourism.

North Carolina

While New York's reputation squares with its profligate record during the 1980s, North Carolina has somehow maintained an image of a small-government, low-tax state while expanding government programs, expenditures, and taxes at almost the same rate as New York. In some ways, as a matter of fact, North Carolina taxpayers have had an even rougher time of it.

From 1978 to 1990, the state budget increased by 50 percent after inflation, which far outstrips the increase during roughly the same period in population growth (up 13 percent) or state per-capita income (up 15 percent). Moreover, the spending authorized for the current 1990 fiscal year capped several years of uninterrupted budget growth, establishing a spending plateau 49 percent higher than in 1983.

Meanwhile, North Carolina taxpayers paid an average of almost \$1,500 in state and local taxes in 1988, 26 percent more after inflation than they did in 1978. North Carolina levies the highest individual and corporate income taxes in the Southeast, and recently raised its gas tax to almost 21 cents per gallon—one of the highest rates in the nation. Significantly, observers outside the state are beginning to regard North Carolina as a high-tax state. In January 1990, *Money* magazine ranked North Carolina 11th in the country in total tax burden levied on a typical reader of the magazine, and first in the Southeast.

As in New York, state officials have blamed the increases in spending on Reagan's New Federalism, complaining that new Federal mandates have forced more spending. But the flow of Federal funds to the state has increased by 26 percent in real terms since 1978.

During the 1980s, North Carolina dramatically increased state spending on education and on economic development programs, assuming that higher government expenditures would "solve"

these and other problems. State subsidies for private industries and organizations, deemed a "progressive" investment in economic development, expanded greatly during the 1980s. One subsidy, to the North Carolina Microelectronics Center, rose to \$26 million by the end of the decade.

What About the Tax Revolt?

Some might be surprised to learn that state and local governments in so many states have expanded during the 1980s. After all, a nationwide tax revolt, starting in 1978 with California's Proposition 13, was supposed to be a defining political event for the 1980s.

And, indeed, it was—in those states where the "revolt" actually ended up restraining the growth of government and even rolling it back a bit. Usually, this required some kind of mechanism restricting taxes or spending, or requiring large legislative majorities to enact increases. California's tax limitations spared the state the kind of fiscal woes that occurred in New York, Massachusetts, North Carolina, and other states.

The problem was that during the 1980s, an expanding economy led to increasing revenue collections, both at the Federal level and in many states and localities. These revenue windfalls gave legislators the latitude to increase spending on so-called "pressing needs" while maintaining their reputation as fiscal conservatives. This became a politician's dream (regardless of party affiliation) and a public choice economist's nightmare: while special interest lobbies were successful in expanding government's role, taxpayers felt no real incentive to call for restraint. Some states did enact tax rate hikes, but most financed massive expansions of government on projections of increased revenues for future years.

In the last two years, however, this bubble has popped. As the economy has cooled off, revenue collections have failed to keep up with projections, and suddenly government officials are

faced with a dilemma. They must either impose new taxes on the slackening economy to meet their revenue needs, or they must scale back the tremendous surge in government action they enacted during the 1980s. Their decision will determine whether the United States is headed for a true rebirth of limited government and free markets, or for the continued growth of bureaucratic, interventionist government that regulates and subsidizes virtually every sector of the economy.

Whatever their decision, public officials will eventually have to answer to the public. And despite the constant drumbeat to maintain the current level of government spending, there is some evidence that voters won't countenance new taxes to finance it. Recent initiatives to increase state or local tax rates in Michigan, Washington State, North Dakota, and Virginia have lost at the polls. And a recent vote in California to increase the state's gas tax to finance highway renovation and construction succeeded not due to voter acceptance of big government, but instead because the taxes were successfully depicted as "user fees" dedicated to a specific purpose.

There are even signs that a new tax revolt might be brewing: tax limitation referenda in states from Massachusetts to Oregon are attracting substantial public support. The question now is whether voter resistance to taxes—the "supply side" of government expansion—will lead to reductions in the demand for government programs, subsidies, and regulations. Advocates of government restraint, free markets, and liberty have much to do if a new tax revolt is indeed to be translated into a fundamental rollback of government on the state and local levels. An important first step is simply to realize that the 1980s, widely believed to be a period of government restraint and contraction, was a boom time for state and local government—and that after this decade of big government ascendancy, no problems appear to have been "solved." □

Environmentalism: Freedom's Foe for the '90s

by Robert James Bidinotto

The following is an abridged version of Mr. Bidinotto's speech at a Foundation for Economic Education conference on April 28, 1990, held at the Alderbrook Resort Inn on the Hood Canal in Washington State.

I woke up early this morning to the view of the pre-dawn sun catching the snow-capped peaks of the noble Olympic Mountains across the water. Sea gulls whirled and screeched above the boats moored at the dock, framed by the deep green pine forests that hug the canal.

It was a quiet moment, laden with expectation and hope. I thought: What a beautiful environment for a conference; what a beautiful environment for man. And I thought: How fortunate that I am here to see this, for only my seeing it gives this morning its beauty, and only my hearing it gives this day its song.

Then, drawn back to the reason for my presence here, I was deeply disturbed. I knew that this was not the view of many who called themselves "environmentalists." They viewed my presence as an intrusion—not as giving meaning to nature, but as spoiling its purity. That, indeed, was the message reiterated endlessly during the Earth Day celebrations. I wondered: Where did they ever get so perverse a view?

Mr. Bidinotto, a staff writer for Reader's Digest, writes and lectures on criminal justice and environmental issues. He is the author of Crime and Consequences, published by The Foundation for Economic Education in 1989.

Children of Rousseau

At the time of the first Earth Day in 1970, some young people, intimidated by the pace and complexity of modern life, were looking either to rebel or to retreat—to tear down "the System," or to withdraw to nature for a "Colorado Rocky Mountain high." Children of Rousseau, they preached the inherent goodness of untouched nature and undisciplined emotion; the corrupting influence of reason, culture, and civilization; economic egalitarianism and small-scale participatory democracy; the mystical infallibility of the collective will and the sacrifice of the individual to the group. And they were united in their hatred of a common enemy: modern American, capitalistic society.

While most of their moderate contemporaries grew up to become our architects, accountants, and automobile dealers, a small cadre—the Rousseauian residue of the Woodstock Generation—never outgrew their fundamental cultural alienation and hostility. They never developed the slightest interest in the basic values accepted by most people. For 20 years, they have been seething on the fringes of society. Now, like scavengers scenting a wounded animal, they are closing in on a vulnerable culture.

This small group of fanatics sets the *moral* premises of today's environmentalist movement. Contrary to the beliefs of many decent people who call themselves "environmentalists" and even of most of those who join environmental groups, the

leadership cadre is not primarily interested in clean air, land, and water, in abundant resources, or in resolving disputed claims to their use. They have a far different agenda.

Before I continue, let me clarify a very important point. I'm emphatically *not* arguing that environmental concerns are trivial or misplaced. Pollution, overuse of various resources, toxic waste disposal, and other environmental issues are legitimate concerns. Yet these problems arise, not from a failure of the free market system, but from the very failure to apply free market principles to resource management in the first place.

The failure to define property rights in all natural resources has led to "the tragedy of the commons"—the tendency to treat "publicly owned resources" as free goods, to which everyone has a claim, but for which no one bears any responsibility. The competing collective claims upon vast tracts of government-owned land, the abuse of air and water, the conflicts between protecting "endangered species" versus advancing the economic well-being of people—these and many other dilemmas are caused by the absence of the principles of property rights, free markets, and individual accountability.

How market mechanisms may deal with these problems has been addressed by others, and is not my primary concern here.¹ What I intend to explore, rather, is the philosophical meaning of the contemporary environmentalist philosophy and movement, as it has been shaped by its leadership cadre.

Deep Ecologists vs. Greens

This cadre is loosely divided into two competing, but often overlapping camps. For simplicity, I'll distinguish these camps as the Deep Ecologists and the Greens.

The Deep Ecologists are the apolitical heirs to the old "counterculture" movement. Tending toward mysticism and nihilism, and sometimes paying explicit homage to the anti-technology Luddite movement of the Industrial Revolution, they see the environmental crusade not as a means of reforming modern society, but of escaping or obliterating it. These contemporary pagans and Druids march under the banner of "Green lifestyles" and "biocentrism."

Many are misfits, attracted to the bizarre and

mystical as a means of escapism. *Ms.* magazine breathlessly reported on the growth of "eco-feminism" and the "resurgence of earth-based paganism, including . . . Native American religions and Goddess-worship." One itinerant environmentalist conducts "workshops" in which participants are urged to remember their alleged evolutionary history by rolling on the ground and imagining what their lives were like as dead leaves, slugs, and lichens.²

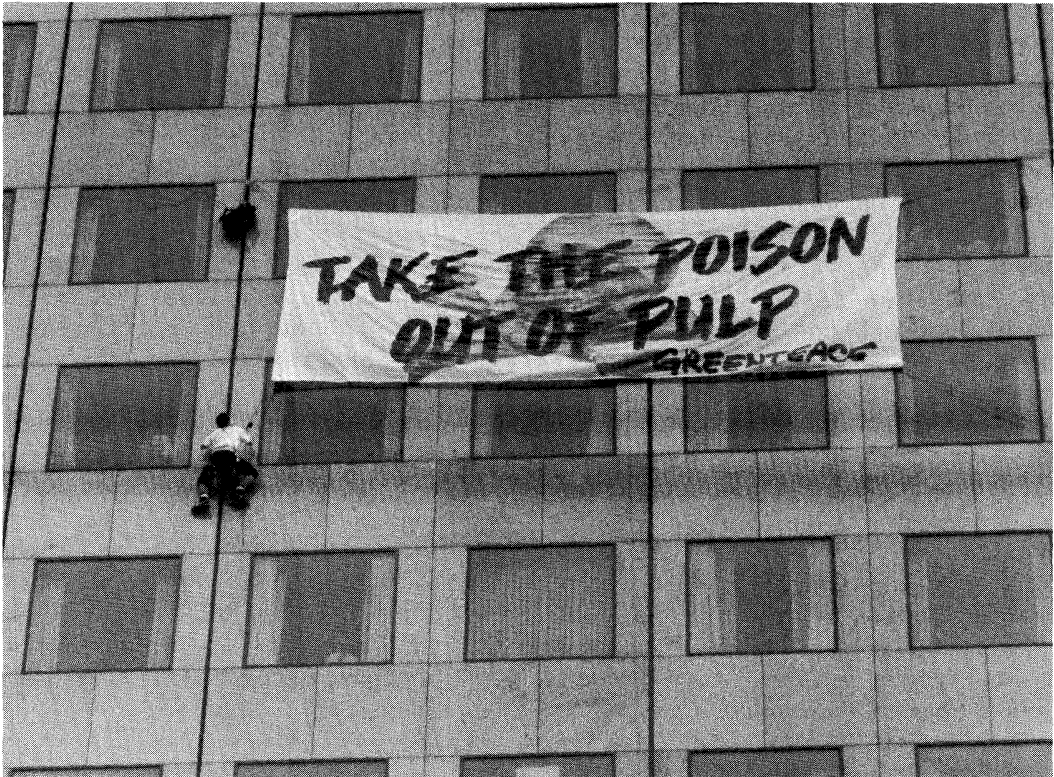
Other Deep Ecologists prefer "direct action" against corporate and governmental targets, ranging from theatrical civil disobedience to outright terror, sabotage, and violence. They man groups like Greenpeace, Earth First!, Sea Shepherd, Rainforest Action Network, People for the Ethical Treatment of Animals, and the Animal Liberation Front.

The Greens, by contrast, are the political heirs to the New Left. Marching under the banners of "Green politics" or "Social Ecology," they profess at least a nominal concern for human values and modern culture. But their goal is a socialist, redistributionist society, which they claim is nature's proper steward and society's only hope.

The most consistent among them join the various Green Parties and groups; but the more pragmatic and sophisticated join the more respectable, better-heeled fronts, including the Natural Resources Defense Council, the Environmental Defense Fund, the Sierra Club, the Wilderness Society, the Worldwatch Institute, the Union of Concerned Scientists, or even the United States Environmental Protection Agency and its regulatory sisters.

For all their feuds, both camps supplement each other. The Deep Ecologists set the moral tone and spiritual direction: they inspire, radicalize, and recruit. Meanwhile, the Greens translate these raw assets into political power—into proposals, manpower, candidates, and ultimately laws.

Both factions—particularly the countercultural "direct action" groups—have been growing rapidly. But the more radical ones have been expanding far faster than old, mainstream liberal, "tree-hugger" groups such as the Nature Conservancy, the National Audubon Society, the Humane Society, and the National Wildlife Federation. These latter have struggled to keep up, becoming increasingly radicalized by the competitive demands of the environmentalist marketplace, and



AP/WIDE WORLD PHOTOS

Georgia Pacific's Atlanta headquarters is assailed by Greenpeace demonstrators who unfurled a banner protesting the company's use of chlorine in the processing of paper products.

by the logic of the environmental ethic itself.

In its purist form, the so-called "environmental ethic" was defined in 1966 by UCLA historian Lynn White Jr., and in 1972 by Norwegian philosopher Arne Naess.

White blamed the ecological crisis on the West's Judeo-Christian heritage, which, he said, was based on the "axiom that nature has no reason for existence save to serve man." He called for a "new religion" based upon "the spiritual autonomy of all parts of nature" and "the equality of all creatures, including man."³

Naess took this a step further. Individuals do not exist, he said; we're all only part of larger "ecosystems." The "shallow ecology" of mainstream conservation groups, he argued, was still anthropocentric or homocentric—that is, man-centered. It aimed only at improving the environment for the benefit of humans. "Deep ecology," on the other hand, led to a view of "biospheric egalitarianism . . . the equal right [of all things] to live and blossom."

In short, this philosophy maintains that all things are created equal; they should be venerated

as ends in themselves, as *intrinsically valuable* apart from man; and they have equal rights to their own kinds of "self-realization," without human interference or exploitation.⁴

The "Animal Rights" Movement

The most prominent manifestation of "biospheric egalitarianism"—the "animal rights movement"—emerged with the publication in 1975 of philosopher Peter Singer's book, *Animal Liberation*. Led by a group of young philosophy professors, this movement went far beyond traditional concerns for animal welfare or protection. Its basic premise was captured in the title of Singer's first chapter: "All Animals Are Equal."

"This book," Singer wrote, "is about the tyranny of human over non-human animals." That tyranny amounts to "speciesism," akin to "racism." A speciesist, Singer said, "allows the interest of his species to override the greater interest of members of other species." Note the word "greater."⁵

As philosopher Tom Regan, author of *The Case for Animal Rights*, put it, "the fundamental

wrong is the system that allows us to view animals as *our resources*, here for us. . . .” Instead, Singer and Regan held that all beings with a capacity to feel pleasure and pain have an “inherent value of their own.”⁶ Or, as columnist and ethologist Michael W. Fox asserted, “Each sentient being should be valued in and for itself.”⁷

According to three other animal rights philosophers, this means “. . . there can be no rational excuse left for killing animals, be they killed for food, science or sheer personal indulgence.”⁸ It means: no animal testing of medicines or surgical techniques; no hunting, circuses, or rodeos; no bird cages or dog pens; no leather; no meat, milk, or eggs; no use of animals, period.

Even man’s most innocuous activities are viewed as intruding upon the rights of other species. Philosophy professors Dale Jamieson and Tom Regan, addressing 200 marine scientists, declared that whales have rights, since “they have a mental life of greater sophistication than many humans.” They attacked the training of whales to perform in aquatic parks, and even oceanic whale-watching cruises. “Whales,” they admonished the group, “do not exist as visual commodities in an aquatic free market, and the business of taking eager sightseers into *their* [emphasis added] waters . . . is exploitative.”⁹

There can be no compromises on animal rights, say its proponents. Steven Wise of Attorneys for Animal Rights contends, “The lives of tens of millions of animals do not belong to us and are not ours to compromise.”¹⁰ The authors of an animal rights anthology affirmed: “Compromise, in the traditional sense of the term, is simple unthinking weakness.”¹¹

This fanaticism has led some activists to acts of terrorism and violence against the “tyrant species.”

In April 1987 the Animal Liberation Front torched a university research building in Davis, California. In October 1988 the same group tossed paint and acid on the homes and cars of people working for the San Diego Zoo.¹² Bombs have been planted at British fur stores and, this year, at up-scale department stores around San Francisco. Women wearing furs have been attacked on the streets of New York City. One woman there was recently convicted for attempting to murder the president of U.S. Surgical Corporation, which uses animals to teach doctors surgical procedures; this

animal lover was captured with two pipe bombs filled with nails.¹³

The “Rights” of Nature?

Such acts are the cul-de-sac of the premise that animals have intrinsic value and inherent rights. To see why, it is important to grasp how different this view is from the Lockean-based tradition of rights. That tradition regards rights as arising from human nature. Rights are moral principles that define the boundary lines necessary for peaceful interaction in society. The purpose of these boundaries is to let men pursue their well-being and happiness without interference.

Any intelligible theory of rights must presuppose entities capable of defining and respecting moral boundary lines. But animals are by nature incapable of this. And since they are unable to know, respect, or exercise rights, the principle of rights simply can’t be applied to, or by, animals. Rights are, by their nature, based on a homocentric (man-centered) view of the world.

Practically, the notion of animal rights entails an absurd moral double standard. It declares that animals have the “inherent right” to survive as *their* nature demands, but that man doesn’t. It declares that man, the only entity capable of recognizing moral boundaries, is to sacrifice his interests to entities that can’t. Ultimately, it means that *only* animals have rights: since nature consists entirely of animals, their food, and their habitats, to recognize “animal rights” man must logically cede to them the entire planet.

“Is it not perverse to prefer the lives of mice and guinea pigs to the lives of men and women?” asks philosopher Patrick Corbett. Not really, because “if we stand back from the scientific and technological rat race for a moment, we realize that, since animals are in many respects superior to ourselves, the argument collapses.”¹⁴ Man, snarls Michael W. Fox in his book, *Returning to Eden*, “is the most dangerous, destructive, selfish and unethical animal on earth.”¹⁵ All animals may be equal in animal rights theory; but—as Orwell pointed out in *Animal Farm*—some animals are more equal than others.

Some “biospheric egalitarians” (or “biocentrists”) have decided that even plants and inanimate objects have rights *not* to be used by humans. In *The Rights of Nature*, Roderick Frazier Nash



AP/WIDE WORLD PHOTOS

Earth First! demonstrators are removed and arrested after they blocked a truck entering the Louisiana Pacific Lumber Company in Samoa, California, last June.

notes that "ecological egalitarianism," as he calls it, "accords nature ethical status at least equal to that of humans. The antipode is 'anthropocentrism,' according to which humans are the measure of all nature."¹⁶

In 1972, Christopher Stone published an article in the *California Law Review* titled "Should Trees Have Standing?—Toward Legal Rights for Natural Objects." This absurd viewpoint was further dignified by the prominent liberal Harvard law professor Laurence H. Tribe, in a 1974 *Yale Law Journal* article, and later in a book of essays. Worse yet, Stone's argument was actually accepted and cited in a 1972 dissenting opinion written by Supreme Court Justice William O. Douglas.¹⁷

Direct Action and Eco-Terrorism

The most successful of the Deep Ecology groups is Greenpeace International, whose activists engage in highly visible acts of "non-violent" civil disobedience, such as plugging up smokestacks and chemical waste pipes, or invading missile test sites on inflatable rafts. Their

Robin Hood image has paid off with at least 4 million contributors worldwide and an annual income over \$100 million. Greenpeace has become the darling of the liberal media, and the entertainment industry's charity of choice. The cable music network, VH-1, financed and is airing dozens of free commercials for the group, many narrated by Hollywood celebrities. A movie about Greenpeace founder David McTaggart is in the works.¹⁸

Even more disturbing is the fawning media treatment given to the group Earth First!, the violent guerrilla arm of the Deep Ecology movement. It specializes in sabotaging bulldozers, tearing down billboards and power lines, putting nails on roads to stop logging trucks, and pounding spikes into trees to destroy saw blades.¹⁹ One of its slogans is "Back to the Pleistocene"²⁰—meaning, back to the last Ice Age. Another slogan is "no compromise in defense of mother earth."²¹

"The only thing we have in common is an absolute conviction that the Earth comes first," says a U.S. government scientist who is a secret member.²² Another member, Christopher Manes, has recently published a book, *Green Rage: Radical Environmentalism and the Unmaking of Civiliza-*

tion. His closing line: "The time to make the choice between the natural and cultural world has come."²³

Neo-Luddism

Appropriately, the patron saints of the Deep Ecologists are the 19th-century Luddites—English workmen who, during the Industrial Revolution, went on a rampage to destroy factory machinery.

Today, says Daniel Grossman in the left-wing *Utne Reader*, "modern-day critics of industrial automation, nuclear technology, pesticides, genetic engineering, and other dubious technologies proudly wear the label of 'Neo-Luddites.' Indeed, the 19th century Luddites . . . offer a source of inspiration for today's Neo-Luddites. . . . Neo-Luddites judge the acceptability of a technology not merely by its impact on human health and the environment but also by its effects on human dignity and traditions of society. . . . Neo-Luddites are unwilling to accept disruptive technological forces as the inevitable cost of progress." In short, Neo-Luddites are proclaiming a right to perpetual stagnation—not just for themselves, but imposed upon the rest of society.²⁴

Chellis Glendinning, a psychologist and author, defines the "principles of Neo-Luddism" in a companion article. Neo-Luddites "perceive the human role not as the dominator of other species and planetary biology, but as integrated into the natural world with appreciation for the sacredness of all life." The only appropriate technologies, she says, are those created "by the people directly involved in their use—not by scientists, engineers, and entrepreneurs. . . ." These must be "understandable to the people who use them and are affected by them."

This means a technology simplified, intellectually, to a level comprehensible to society's lowest common denominators. Thus, she concludes, "*we favor the dismantling of the following destructive technologies [italics in original]: nuclear technologies . . . chemical technologies . . . genetic engineering technologies . . . television . . . electromagnetic technologies . . . computer technologies.*"²⁵

A Death Wish for Humanity

Human values, even human life itself, mean little to Deep Ecologists. In one interview, Arne

Naess targeted ideal world population at 100 million people. Given that current world population is about 5.3 billion, what do Deep Ecologists hope will happen to the remaining 5.2 billion?²⁶

Reviewing a recent Deep Ecology manifesto—Bill McKibben's *The End of Nature*—David Graber, a biologist for the National Park Service, expressed his own hopes thusly:

Human happiness, and certainly human fecundity, are not as important as a wild and healthy planet. I know social scientists who remind me that people are part of nature, but it isn't true. Somewhere along the line—at about a million years ago, maybe half that—we quit the contract and became a cancer. We have become a plague upon ourselves and upon the Earth. . . . Until such time as Homo Sapiens should decide to rejoin nature, some of us can only hope for the right virus to come along.²⁷

Mr. Graber isn't alone in his death wish for the human race, as Earth First! leader David Foreman makes clear: "We advocate bio-diversity for bio-diversity's sake. That says man is no more important than any other species. . . . It may well take our extinction to set things straight."²⁸ Or how about this: "An ice age is coming, and I welcome it as a much needed cleansing. I see no solution to our ruination of Earth except for a drastic reduction of the human population."²⁹

Foreman therefore finds a silver lining in the horrible Ethiopian famines: they are, he says, Mother Earth's natural defense against overpopulation.³⁰ Likewise, his group's official publication has cheerfully suggested that, from an ecological perspective, the AIDS epidemic might mean the end of industrialism, which is "the main force behind the environmental crisis. . . . [Thus] as radical environmentalists, we can see AIDS not as a problem but a necessary solution."³¹

Despite such nihilistic ravings and criminally destructive acts, Earth First! is being treated more and more respectfully by the liberal media. David Foreman, arrested by the FBI for conspiring to sabotage two nuclear power plants, was given a flattering profile on CBS's "60 Minutes" program.³² Earth First! was also glowingly depicted in a segment narrated by pop singer Carole King for the syndicated program, "A Current Affair."³³

Mainstream environmentalists often refuse to repudiate Earth First! Former Senator Gaylord

Nelson, who was a founder of the first Earth Day and now is with the Wilderness Society, has said, "I think groups like Greenpeace and Earth First! make a significant contribution to the educational process."³⁴ Darrell Knuffke, a regional coordinator for the Wilderness Society, calls Earth First! "extremely important to the movement."³⁵ Environmentalist guru David Brower, who built the Sierra Club to prominence, defends Earth First! sabotage without qualification: "They're not terrorists. The real terrorists are the polluters, the despoilers."³⁶

Earth First!'s growing acceptance by the media and mainstream environmentalists demonstrates the radicalization process within the movement. In fact, Earth First!'s Foreman had been the chief lobbyist for the Wilderness Society until 1980, when he quit because it was too moderate for his taste. Likewise, even the direct-action group Greenpeace was too tame for Paul Watson, one of its co-founders; so he founded Sea Shepherds, a more violent group which boasts of having sunk 12 whaling ships.³⁷

David Brower explains how this radicalization process works. "I founded Friends of the Earth to make the Sierra Club look reasonable. Then I founded the Earth Island Institute to make Friends of the Earth look reasonable. Earth First! now makes us look reasonable. We're still waiting for someone to come along and make Earth First! look reasonable."³⁸

Nature vs. Human Nature

What is the distinctive aspect of human nature that so offends these radical environmentalists? As they make clear in virtually every utterance, it is man's power to reason, and everything that flows from it: abstract knowledge, science, technology, material wealth, industrial society, the capitalist system.

Animals, lacking any rational capacity, survive by adapting themselves to nature. Human beings can survive only by utilizing reason to adapt nature to themselves. This means that to subsist, man must unavoidably use and disrupt animals and their habitats, transforming natural resources into food, clothing, shelter, and tools (capital). By nature and necessity, man is a *developer*.

To traditional Western thinkers, this was man's power and his glory. To Deep Ecologists, however,

man is the only thorn in an otherwise perfect Garden of Eden. They go beyond (or below) Marx, rejecting even the labor theory of value, and substituting a "natural resources standard of value." They equate natural resources with *capital*, and thus the development of resources with "capital consumption." Therefore, to develop resources, as man must, is to destroy. And since man is *destructive by nature*, everything in the universe is "natural" . . . except *human nature*.

In summary, Deep Ecology is an example of what I call "neutron philosophy": it kills people, while leaving their environment intact.

The Greens

While the Deep Ecologists denounce a man-centered perspective toward nature, the more pragmatic political types within the environmental movement are reluctant to admit such an underlying animus. Besides, these would-be "planet managers" don't want to destroy the world: they want to run it. So, to garner political power, they posture (like their Marxist ancestors) as friends of humanity. In well-furnished offices, their lawyers and lobbyists crank out endless reports and legislative proposals, often cloaked in the ill-fitting mantle of the very science and technology they privately despise. Even the legitimate scientists among them tend to look at facts through Green-colored lenses.

In his 1968 book, *The Population Bomb*, Dr. Paul Ehrlich declared: "In the 1970's . . . hundreds of millions of people are going to starve to death. . . . Nothing can prevent a substantial increase in the world death rate. . . . We must have population control at home, hopefully through a system of incentives and penalties, but by compulsion if voluntary methods fail. . . ."³⁹

But the only mass famines or deaths were politically engineered by Communist governments in Cambodia and Ethiopia. Everywhere else, food production went up, population soared, death rates went down, and life expectancy increased.⁴⁰ This hasn't ruined Ehrlich's credibility with the media: he's now a commentator for NBC television, and has another book out, *The Population Explosion*, regurgitating his same old Malthusian horrors.

Then there was the great cultural angst over the "nuclear winter." Nuclear war, declared Green astronomer Carl Sagan, would stir up a vast overcast that would freeze the planet, destroying all

life. Immediate nuclear disarmament was the only answer. Alas, later studies determined that Sagan's calculations from computer models had been badly flawed: the dreaded "winter" probably would be only a two-week cool snap. But *that* information never made it to the front pages.⁴¹

How about the great asbestos scare? All that insulation in our homes and schools was going to create a cancer epidemic, environmentalists told us. Well, a 1988 Harvard symposium, and articles in *Science* magazine and the *New England Journal of Medicine*, all confirmed that the levels of asbestos exposure faced by most occupants aren't dangerous at all. Nonetheless, the EPA-generated asbestos scare has cost the public millions of dollars in taxes and depressed real estate prices, and asbestos removal has actually *increased* the danger by stirring up particles.⁴²

Similar scientific nonsense undergirds the scares over the ozone hole,⁴³ acid rain,⁴⁴ genetic engineering,⁴⁵ nuclear power plants,⁴⁶ radon gas in our homes,⁴⁷ and the great Alar-on-our-apples cancer scare of 1989.⁴⁸

Consider today's overriding environmental concern, the "greenhouse effect." It's a case study of how science is being manipulated by Green politics.

"Global Warming" = Political Science

In the sweltering summer of 1988, Dr. James Hansen, director of NASA's Goddard Institute for Space Studies, told Congress: "The earth is warmer in 1988 than at any time in the history of instrumental measurements. . . . The four warmest years . . . have all been in the 1980s. . . . In my opinion . . . the greenhouse effect has been detected, and it is changing our climate now."⁴⁹

Hansen's alarming statements launched a wave of frightening predictions and controversy about what might happen if the planet warmed up.⁵⁰ Yet how good is the *evidence* for global warming?⁵¹

Heat-trapping "greenhouse gases" (e.g., carbon dioxide) have, in fact, been growing by minute quantities in our atmosphere.⁵² But claims that this has already warmed the earth about 1 degree Fahrenheit over the past century⁵³ have been refuted by recent reviews of earth temperature records and NASA satellite data.⁵⁴ Moreover, the frightening predictions—of future rising tempera-

tures,⁵⁵ killer heat waves, giant hurricanes,⁵⁶ and melting polar ice that will raise sea levels and inundate coastal cities⁵⁷—are being scaled down with each new scientific study.⁵⁸

If greenhouse gases increase and all other factors remain the same, the earth will warm up. But other factors *aren't* remaining the same.⁵⁹ For example, clouds keep the planet some 20 degrees Fahrenheit cooler than it would be under clear skies.⁶⁰ Many scientists think global warming would produce more cloud cover, which might act as a natural thermostat.⁶¹ Oceans also have a complex effect upon climate.⁶² Sunspots, volcanos, and small changes in earth's rotation or orbit can easily overwhelm any warming impact of minute greenhouse gas increases.⁶³

Proponents of global warming—such as James Hansen, and Stephen Schneider of the National Center for Atmospheric Research—crank out their dire predictions from computerized climate models. But poorly understood climatic processes are only crudely represented in these models.⁶⁴ Schneider himself concedes that it's an "even bet" that the models overestimate future warming "by a factor of two."⁶⁵

The best evidence for the global warming theory, Hansen told me, came from air bubbles trapped deep in Antarctic ice. These revealed lower concentrations of atmospheric carbon dioxide during ice ages, but much higher concentrations during warm interglacial periods.⁶⁶ The greenhouse theory, of course, is that carbon dioxide changes are supposed to *cause* temperature changes. But when questioned, Hansen admitted that, according to the ice samples, *the temperature changes came first*.⁶⁷ In short, the actual sequence of climatic events was exactly *backwards* from the greenhouse theory.

For such reasons, dozens of atmospheric scientists participating in a 1989 greenhouse workshop concluded that claims for greenhouse warming could not be made "with any degree of confidence."⁶⁸ Richard Lindzen of M.I.T.'s Department of Earth, Atmospheric and Planetary Sciences says flatly, "The data as we have it does not support a warming."⁶⁹

Yet the absence of evidence hasn't deterred the Greens from demanding that we adopt drastic political, economic, and lifestyle changes to "protect ourselves" against a threat that may never materialize.

The Insurance Policy Ruse

Global warming has become the favorite cause of the Greens, because "remedies" for it would require a scale of government intervention that strikes at the very heart of the free market system.

Today coal, oil, and other fossil fuels provide 90 percent of the world's energy. Yet environmentalists propose huge tax increases to discourage fossil fuels, in the name of reducing carbon dioxide emissions. An EPA report suggested that "the government could increase the price of fossil fuels by imposing charges or fees, at the same time reducing the price of desirable alternatives by providing subsidies."⁷⁰ The Worldwatch Institute suggests a hefty "carbon tax" on fossil fuels, to compel people to switch from coal, oil, and natural gas and toward "renewable energy sources," including solar, wind power, and the like.⁷¹ Senators Albert Gore, Timothy Wirth, and others have introduced bills to force major, expensive changes in fuel efficiency,⁷² to reduce carbon emissions, and to halt international deforestation.⁷³ Other proposals would discourage auto use, encourage public transportation, and foster drastic population control.

The most "green" thing about these proposals is the color of the money they would cost. Estimates from an array of economists range from \$800 billion to \$3.6 trillion.⁷⁴ EPA administrator William Reilly concedes that "To slow down the global heating process, the scale of economic and societal intervention will be enormous. It will involve far greater inconvenience, dislocation and cost."⁷⁵

This prospect—more primitive lifestyles and massive state planning—holds great appeal for many environmentalists. Their political problem, though, is how to build public sentiment for such massive taxing and spending, particularly at a time of considerable governmental red ink.

The answer is fear. Whether the issue is Alar, radon, ozone holes, or global warming, environmentalists use the same basic tactic. First, they proclaim some terrible doom right around the corner. When responsible critics demand evidence, the environmentalists reply: "Well, there seems to be disagreement and uncertainty here. But the consequences of this possible threat are so dangerous that, as an act of prudence, we can't afford to wait until all the facts are in. We have to act *as if the threat were real*."

Jonathan Schell explains: "In the past, action usually awaited the confirmation of theory by hard evidence. Now, in a widening sphere of decisions, the costs of error are so exorbitant that we need to act on theory alone—which is to say on prediction alone." Scientists, he adds, must "disavow the certainty and precision that they normally insist on. . . . Scientists need to become connoisseurs and philosophers of uncertainty. . . . [T]he incurable uncertainty of our predicament, far from serving to reassure us, should fill us with unease and goad us to action."⁷⁶

In the face of this uncertainty, says Stephen Schneider, "A few tens of billions, or perhaps hundreds of billions of dollars, spent annually around the world for such planetary insurance . . . is an investment that is long overdue."⁷⁷

This "insurance policy" ruse neatly switches the burden of proof from those proposing a theory, onto those who are demanding evidence. By this nifty logical inversion, the theorist no longer has to prove his case; rather, the skeptic is somehow supposed to "refute" a case for which no evidence has been offered in the first place. The absence of evidence is now cleverly relabeled "uncertainty," against which we are exhorted to buy expensive "insurance policies." Precisely because we have no case, say the environmentalists, you'd better do what we say. This is nothing more than an extortion racket, relying on our own self-doubt as its enforcer.

Stephen Schneider does admit to an ethical dilemma about all this. He says that sometimes, to advance their views with the public, scientists "have to offer up scary scenarios, make simplified, dramatic statements, and make little mention of any doubts we might have." Each scientist, he cautions, must decide the "right balance [between] being effective and being honest. I hope that means being both."⁷⁸

But since when are scientists supposed to "balance" the truth with *anything*?

Cashing in on Eco-Hysteria

Clearly, the American people are never going to buy the Deep Ecology outlook of Earth First! or the Animal Liberation Front. But these groups make the more pragmatic, political left-wing groups look comparatively responsible—and they are cashing in. The Natural Resources Defense

Council, Worldwatch Institute, and the Environmental Defense Fund are manipulating scares over global warming and pesticides, not to destroy man, but to turn him into a harnessed beast of burden, with themselves holding the reins.⁷⁹

For example, Senator Timothy Wirth of Colorado said that "We've got to try to ride the global warming issue. Even if the theory of global warming is wrong, we will be doing the right thing anyway, in terms of economic policy and environmental policy."⁸⁰

And what kind of "economic policy" are we talking about? Stephen Schneider says that solving problems like global warming will require us to "redistribute our current resources . . . thus altering accustomed levels of expenses or incomes."⁸¹ *Time* magazine says: ". . . Americans . . . will have to . . . find alternative sources of energy and use all fuels more efficiently. What all this requires is self-discipline on the part of the world's haves and increased assistance to the have-nots. . . ."⁸² Botanist Peter Raven recently told a Pittsburgh conference that "The people at the top are consuming far, far more than a vast number of people at the bottom. It's much too unequal . . . in a way that affects the sustainable productivity of the world."⁸³

Don't assume the motive here is sympathy for the poor. The massive anticipated job losses in existing fossil fuel industries don't faze the environmentalist cadre. "I realize that such a switch would be a staggering blow to the coal mining industry," says Schneider. "But where is it written that anyone has an indefinite right to antisocial or antienvironmental employment?"⁸⁴ Paul Ehrlich, too, makes it clear that the environmentalist goal isn't to make poor people better off. Since rich people, by using more resources, cause many times more "ecological destruction" than poor people, Ehrlich concludes: "Actually, the problem in the world is that there are too many rich people."⁸⁵

So the basic division within the environmental movement is between the Greens, who want to rid the planet of rich people, and the Deep Ecologists, who want to rid the planet of people, period.

In Defense of Human Nature

Underlying it all is an antipathy for a complex, technical, and free society where survival is bought at the cost of ambition, learning, thinking, taking

risks, and working hard, all within a free, competitive marketplace. One sees the radical environmentalist motivation clearly captured in the book title, *Returning to Eden*—a woozy yearning for an egalitarian garden, where fruit drops from the tree into one's lap, where the struggle to survive ceases, where all animals lie down in peace and harmony. If you're a Deep Ecologist, the "ecosystem" will take care of you; if you're a Green, the social system will. But either way, environmentalism's Eden is a risk-free place where idle wishes will be the coin of the realm.

With the collapse of Communism—particularly of socialist economic theory—environmentalism has become freedom's foe for the '90s. Environmentalism represents a now-denuded Marxism, stripped of all its tenets, desperately clutching its last fig leaf of mindless egalitarianism. As such, it is a purely negative, contentless "ism." It is the final rallying point for nihilistic drifters and collectivist dreamers, who are united, not by ideas, but by a hostility toward human thought; not by values, but by an aversion for human aspirations; not by some utopian vision of society, but by a profound alienation from human society.

How are we to confront the radical challenge posed by environmentalism? It is useless merely to oppose it: environmentalism represents an intellectual and value vacuum, and one cannot negate negation. Therefore, our defense against it lies not in politicking, nor even in economic education, but in something far more basic, something upon which economics and everything else depends.

Our defense lies in accepting our own human nature, and the solemn responsibilities that flow from it. By fulfilling our nature and responsibilities as human beings, we bring meaning and value into the world.

Whatever they wish to call themselves, the contemporary children of Rousseau are at war with human nature—with *Homo sapiens* and the homocentric view of the world. Driven by fanatical hostility, they cannot be bought off by appeasement and compromises, which will only weaken our free society and its cultural institutions. However, they can be rendered harmless—if we reject their Procrustean moral premise, which reduces man to, or below, the status of mice, weeds, and soil.

Nature indeed provides beautiful settings for the work of man. But unseen and unappreciated, the environment is meaningless. It is but an empty

frame, in which we and our works are the picture. From that perspective, environmentalism means sacrificing the picture to spare the frame.

We shall protect ourselves, and our civilization, against their assaults on the day when we finally confront their charge of "speciesism" with buttons and bumper stickers proudly declaring our own right to exist as *our* nature demands, and unashamedly proclaiming our own form of "species solidarity."

Without apologies, then, let me be the first to come out of the closet, so to speak, and declare: I am a practicing homocentric. □

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Markets and Pseudo-Markets

by Donald J. Boudreaux

The 1980s will be remembered as the decade in which "the market" gained a degree of respect worldwide that it never had or that it had only many decades ago. Most obviously, the overthrow of Communist regimes throughout Eastern Europe during the final months of 1989 holds promise for significant economic reforms that will introduce market mechanisms into those economies. Recent election results in Nicaragua, and current political maneuverings in the Soviet Union, also suggest that a continuation down the path toward freer markets is likely. Obviously, classical liberals should be pleased by these developments.

More time-tested reforms have taken place in the English-speaking world. In Great Britain, Margaret Thatcher's program is an attempt to restore the market in that nation. And, of course, the United States in the 1980s was the Reagan era—a period in which "the free market" lost its vulgar connotation in the popular mind.

Although Thatcher's and Reagan's efforts deserve praise (especially when compared with the possibility of a continuation in the 1980s of 1970s-type policies), that praise should be only mild. The changes brought about were neither as extensive as those promised in the late 1970s and early 1980s, nor as permanent. Of course, Thatcher and Reagan faced political realities that made it extremely difficult to do more than bruise government on its little toe; any attempt to cut off an arm or leg of government almost certainly would have resulted in the loss of Thatcher's or Reagan's political head. It is a common theme that opponents of government intervention seldom win in battles with politically

entrenched special-interest groups. It is also a common theme among classical liberals that ideas do matter and that long-run victory for the market is possible only with a fundamental change in the way people think about the role of government as compared with the role of the market.

I accept the claim that ideas matter. Therefore, I believe that the ideas marshalled in support of the market should be correct, promising neither too little nor too much. I argue here that a significant portion of the intellectual arguments undergirding the Thatcher-Reagan efforts were misguided. (Being a United States citizen, I confine my essay to the U.S. experience.) In brief, my thesis is that arguments in favor of "the market" are not necessarily arguments in support of classical liberal values. Restoration of "the market" is not an ultimate goal of classical liberalism. By focusing too much on "the market," classical liberals and their friends can undermine the case for the ultimate classical liberal values of peace, prosperity, and liberty.

Arguments in support of these classical liberal values should focus, not on "the market," but on the protection of private property and freedom of contract. It is these latter two institutions that are absolutely necessary for peace, prosperity, and liberty. Although private property and freedom of contract inevitably give rise to markets—defined as the interactions of buyers and sellers for the purpose of exchanging ownership titles—markets as such are secondary phenomena in a classical liberal society. That is, classical liberals should aim their arguments at supporting private property and freedom of contract rather than directly at supporting "the market." By doing so, free mutually beneficial

Dr. Boudreaux is studying law at the University of Virginia.

exchange will be protected. More important, what I call "bastard markets" or pseudo-markets will be avoided. Pseudo-markets are markets that arise, not via the interplay of private property and contractual freedom, but via the *suppression* of these vital classical liberal institutions.

Pseudo-Markets versus Real Markets

An example of what I mean by pseudo-markets may be useful. Consider a manufacturing firm that has been purchasing its inputs from independently owned suppliers. Now suppose that a technological change occurs that allows this firm to increase the efficiency of its operation by merging with one of its suppliers. The institutions of private property and freedom of contract insure that this merger may take place. After the completion of the merger, no formal exchange occurs between the input-supply branch of the firm and the manufacturing branch. In a literal sense, a market relationship has been terminated. Suppose now that a court or an administrative government agency orders this merger dissolved. By forcing the manufacturing firm to sell its input-supply branch to an independent owner, a "market" relationship is (re)established: the manufacturing firm now engages in a greater number of formal exchanges than before because now it must purchase its supplies of this particular input from a separately owned firm.

But the market relationship created here by the court did not grow out of the institutions of private property and contractual freedom. Instead, it resulted from the attenuation of these institutions. This is a pseudo-market; it is illegitimate from the perspective of classical liberalism. Compare this pseudo-market relationship with the market relationship that exists when the manufacturer and its input supplier voluntarily choose not to merge. In the latter case, the market grows out of the institutions of private property and freedom of contract. For this reason I call such a market—in this case for inputs—a "real market."

A danger arises when people fail to account for the fact that protection of private property and freedom of contract is not synonymous with protection of markets. The danger is that the protective walls around private property and contractual freedom begin to crumble. The path is

then opened for private property and contractual freedom to be violated by government. Few classical liberals will disagree with the claim that markets erected out of the material gathered from the dismantling of private property and contractual freedom promise neither lasting peace nor prosperity. And it can hardly be argued that these pseudo-markets are consistent with liberty.

When government has the power to use markets without respecting the private property and contractual freedom of its citizens, it can design and employ markets to achieve goals that have little to do with the individual goals of the people. As incongruous as it may seem, markets become a tool in the central planner's kit of instruments for attempting to engineer society into some preconceived mold.

One problem with the use of pseudo-markets, of course, is that the central planner may desire a set of social outcomes that is different from that which contributes most to the welfare of the people. More fundamentally, political support for pseudo-markets can be purchased in democratic societies only when voters are promised specific benefits that the market supposedly will bring them. This support requires an explicit listing of what the pseudo-markets promise to do (e.g., reduce prices, increase employment opportunities, and so on). But such political support is tenuous because, by their nature, markets are simply a forum for exchange—markets can expedite the exchange only of that which already has been produced. Although the signals sent out by market exchanges are crucial in the determination of what goods are produced and how, these signals emerge only in the actual process of market exchange. Thus, specific accurate predictions about the benefits and costs of a system of market exchange can seldom, if ever, be made.

Market signals—which relate relative intensities of consumer wants and relative scarcities of alternative inputs—cannot be predicted independently of the process that generates them because markets synthesize a vast amalgam of information "bits." The signals sent out on the basis of this synthesis result in specific outcomes, the details of which no one ever could have hoped to predict. Markets, therefore, are a poor tool to use in attempting to attain specific results. Thus, political support for markets based only on the promise of specific outcomes too often, if not invariably, leads

to disappointment among those who lent their support to the market. In the face of such disappointment over the specific performance of the market, the political coalition built up to support the market dissolves. Support for the market eventually evaporates, and this "experiment" with the market is abandoned because of the popular belief that the market failed.

Consider, for example, the Reagan tax cut in 1981. The promised result was that government revenue would increase because of the "Laffer Curve" effect. Although debate still goes on about the actual revenue effects of this tax cut, the consensus seems to be that government tax revenues did not increase as a result of the 1981 tax-rate cut. That is, the specific market outcome that was anticipated did not happen. Reagan's market experiment with lower tax rates was widely viewed as having failed, and the stage was set for 1982's tax hike.

In contrast, had the 1981 tax cut been based upon arguments in support of private property, the observed outcome of the tax cut would have occasioned far less criticism. No one could have argued that the tax cut didn't fulfill its goal. Under these circumstances, we very well might have avoided the 1982 tax increase.

Whenever pseudo-markets are created, they are usually intended to serve the interests of a politically well-organized group. But even when such markets fulfill their intended purpose, they seldom make a net positive contribution to the welfare of society.

An example of this recently occurred in the airline industry. United Airlines spent a great deal of resources developing its Apollo computerized reservation system. When United bought the rights to Pan Am's Pacific routes, the court refused to allow the purchase unless United agreed to make its reservation system available for use by its competitors on terms that did not discriminate against its competitors and in favor of United.

By requiring United to deal with its rivals on terms that it would not have otherwise agreed to, the court, strictly speaking, created a market. But notice that United's right to dispose of its property as it sees fit has been pushed aside by the court. Exchanges will be made that would not have taken place in the absence of the court's decision. Clearly, the airlines who now have the right to purchase use of the Apollo reservation system from

United are benefited by the court's ruling; the court's creation of this market helps these airlines.

However, consumers won't benefit. Because the incentive to invest in the development of such reservation systems is reduced by the precedent set in the United-Pan Am case, fewer such systems will be developed in the future. In its attempt to protect the market for United's rivals, the court found it necessary to modify United's freedom of contract and private property rights. The result will be that airlines, on the whole and in the future, will be less efficient than they otherwise would be, and consumers will ultimately bear the cost of the forgone improvements in efficiency.

The Role of Classical Liberalism

Classical liberals should focus on the explication and defense of private property and freedom of contract, pointing out how these institutions are indispensable for well-functioning markets and for free and prosperous societies. The role of classical liberal principles is to restore private property and contractual freedom to their place of primacy in Western civilization—and to continue to introduce these principles to non-Western nations.

Classical liberals have the responsibility of opposing those who seek to engineer society through selective introduction of market mechanisms. The classical liberal must work to persuade others that markets that emerge out of the interplay of private property and contractual freedom are the only markets that promise genuine net benefits to society. The classical liberal must further remind others that markets created by the suppression of these institutions are not the type or form of economic organization that classical liberalism champions.

As we begin the new decade, the risk of disenchantment with the market is high. By failing to recognize the distinction between pseudo-markets and real markets, voters may well decide that the market is not all that it was claimed to be at the beginning of the 1980s. What the classical liberal must do is, to be sure, defend markets, but defend them only insofar as they are a natural and healthy result of private property and freedom of contract. It is the intellectual and moral foundations of these latter institutions that must be supported by sound classical-liberal argument. If classical liberals meet this challenge, restoration of the market—the real, not pseudo, market—will follow. □

The Myth of Public/Private “Cooperative Enterprises”

by Barbara R. Hunter

A popular term today for schemes that transfer money from the taxpayer's pocket either to a private individual or to a private organization is “cooperation.” According to this notion, the government (which may be municipal, county, state, or federal) has the right to extract from the taxpayer any sum for any purpose, as long as those doing the extracting have determined that the taking is for a “good purpose.”

Strangely, once the money has been taken, it is no longer recognized as belonging to the taxpayer. Now it is instead “government funds,” and these funds are portrayed as a source of benevolence from that particular government to the recipient. A multiplicity of terminology may be used to mask the actual source of the alleged benevolence—“cooperative effort,” “synergy,” “assistance,” “aid,” “investment,” “joint effort,” “financial incentives,” “partnership,” to name a few. Not surprisingly, both the beneficiary and the local press are likely to portray this giving only in terms of the marvelous benefits the community will enjoy as a result of the influx of funds, without referring to the taking that made the giving possible.

Some of the fallacies of the notion of public/private cooperation may be seen in a recent example.

A Long Island, New York, company, long known for its high-technology contributions to the nation's defense, discovered it was no longer doing well in the competitive quest for contracts. A thorough examination of its operations revealed several problems: (1) its physical plant, originally conceived as necessary for a growing company (which it no longer was), was too large, and consolidation

was needed if it was ever to bring its costs into line with its competitors; (2) much of its equipment, and some of its major facilities, were obsolete and simply couldn't be used for today's more demanding technologies; and (3) a shortage of capital made it appear difficult, perhaps impossible, to remedy these problems. Interestingly, the company has a parent corporation, but the parent obviously didn't consider it worthwhile to plow the needed funds into the company; otherwise, it would have decided the investment was a good one, and the money would have been provided.

But even though one's own parent company determines that such an investment won't be beneficial, such technicalities don't stop those who hope the government (that is, the taxpayer) will take a different view of the merits of the case. In the absence of the necessary money, the company decided to look for what it called “an innovative approach to funding.” Just how innovative it was became evident following a meeting between company representatives and the New York State Department of Economic Development. The Department's rationale for supporting the company's funding plan was that the state wanted the company to “continue contributing its impact on the state and local economies.”

Ironically, the company never said it planned to stop contributing that impact, and it never hinted it might take some other approach, such as moving out of state or closing its doors. Nevertheless, over a six-month period, the company managed to get both the Department of Economic Development and Suffolk County officials to approve the plan and to commit money to the project. And this was no small sum: The state's share will be \$2.1 million

Barbara Hunter is an educational consultant in office automation living on Long Island.

in grants and loans, the county's \$2.5 million in "industrial development bonds," in addition to real estate tax abatements on the projects and sales tax abatements on the capital purchases associated with the projects (neither of which is available to the company's competitors).

Two factors need to be considered if the plaque presented by the county executive to the company president, inscribed "New York State—Suffolk County—(company name)—'A Partnership for Progress'" is to be identified for what it is.

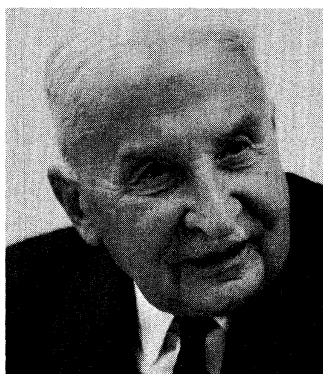
First, every dollar flowing from the state or county coffers to the company has to come from somewhere. In New York State, where both individual and corporate taxes are among the highest in the nation, these dollars can be traced back to numerous disadvantages that will accrue to those who are not the recipients of this largess: money out of the individual taxpayer's pocket, money that this company's competitors will not have for their own development or other purposes because they

have been forced to hand it over to the various levels of government to benefit the favored company. If one doesn't bother thinking through the *full* implications of a decision that takes money from one person or company and gives it to another, it might seem that some form of wealth or other value has been created in the process. The failure to look at the full picture is a likely reason why this action has been proudly announced by the company and hailed by the press.

Second, perhaps the ultimate irony of the scheme is that this is the year in which both New York State and Suffolk County are awash in red ink, the year in which Suffolk County taxpayers are facing real property tax increases of as much as 30 percent, and in which the governor has been searching for new ways to raise state taxes. One could easily ask just how many of the already beleaguered taxpayers would have agreed of their own volition to turn over as much as \$4.6 million of their already imperiled incomes. ☐

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Ludwig von Mises

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Sweden: No Model for Eastern Europe

by Eric Brodin

The Eastern and Central European countries that have abandoned (or at least renamed) their governments are scouting around for a new form of government. They want a system that will provide the relative freedom found in a market economy yet, at the same time, satisfy people accustomed to social welfare benefits. Delegations from East Germany, Poland, Czechoslovakia, Hungary, and the Soviet Union recently visited the Scandinavian countries to learn more about their apparently successful wedding of socialism and democracy.

Most of these delegations went to Sweden, which for decades has been touted as a model welfare state. The Social Democratic government of Prime Minister Ingvar Carlsson has shown its foreign visitors around and pointed out what a "social democracy" has brought. Would the "mixed" Swedish economy, which combines private ownership of the means of production with an elaborate welfare system, be appropriate for the formerly Communist countries? Let us take a closer look at the Swedish experiment in socialism.

Swedish socialism had its origins in the 1880s, when an egalitarian movement led by August Palm, a former tailor, gave birth to Swedish unionism and the Social Democratic Party. Socialist programs, particularly the "reformed Marxism" of Eduard Bernstein, were imported from Germany. By 1932 the Social Democrats had gained majorities in both houses of Parliament. (Sweden now has a unicameral parliament with 349 seats.)

Professor Brodin, a native of Sweden, is Director of The Foundation for International Studies, Buies Creek, North Carolina.

With the Social Democrats in power, the pace of socialization accelerated. Most welfare measures were passed with the cooperation of the two centrist parties, the Liberals (*Folkpartiet*) and the Center (formerly Agrarians). Other measures could be passed only with the cooperation of the small Communist Party. Swedish industry was pretty much left alone so that it could pay the taxes needed to finance the welfare system. The Social Democrats have maintained political hegemony in Sweden since 1932, with the exception of a coalition government in World War II and an interregnum of the three non-socialist opposition parties (1976-1982), during which no important plank of the welfare state was removed.

Gunnar Myrdal and his wife Alva played leading roles in the development of Sweden's welfare state. Gunnar Myrdal won a Nobel Prize in Economics in 1974, and Alva Myrdal won a Nobel Peace Prize in 1982. Conveniently forgotten today is their admiration of the eugenics principles of Nazi Germany. The Myrdals believed that only such drastic measures would assure that the Swedish stock would be the best for the coming welfare collective.

During the next decades the Swedish welfare state expanded into more and more areas of social life in an attempt to eradicate the bourgeois nature of the traditional Swedish family. The government on all levels began to assume a *paterfamilias* role. Allan Carlson, writing in the May 1990 issue of *Chronicles*, quotes one Swedish official as saying, "I should like to abolish the family as a means of earning a livelihood, let adults be economically independent of each other and give society a large

share of responsibility for its children." Carlson explores this development at length in *The Swedish Experiment in Family Politics: The Myrdals and the Interwar Population Crisis* (Transaction Books, 1990).

A "Bold Experiment" that Failed the Family

Socialist programs would have a grave impact on Swedish family life. Sweden now has the world's lowest first-marriage rate and one of the lowest birthrates. Half the children are born out of wedlock. Yet the authors of the Swedish welfare state always believed that their course was right. Alva Myrdal in her book *Nation and Family* (MIT Press, 1941, p. 11) said: "The Scandinavian countries, and particularly Sweden, by historical accident are given the most advantageous set of prerequisites for a bold experiment in social democracy. If it cannot successfully be developed in Scandinavia, given by historical chance exceptionally advantageous conditions, it would probably not work out anywhere else."

Among those "exceptionally advantageous conditions" were some that were specifically Swedish. The Swedish population is small; it just passed 8.5 million. It is remarkably homogeneous, having only the Lapps of the north as a minority, and in the 1970s and 1980s a foreign work force of several hundred thousand. Furthermore, Sweden escaped the horrors of war for more than 175 years and was able to convert its munitions plants into factories for producing housing materials after World War II. It has thus been able to grow wealthy in a Europe that, for the most part, had been adversely affected by the war. Sweden also escaped the social displacement and ills that often follow wartime defeats, and the resultant social disintegration.

With the Social Democratic Party in firm control from 1932 to 1976, and the acquiescence of the two centrist parties, Sweden erected a panoply of welfare measures unprecedented anywhere in the world. Contributing to the system's apparent stability was the cooperation between the central Labor Organization and the Swedish Central Employers' Organization. The welfare state seemed to be a viable system.

But in the 1970s, things began to fall apart. Restive labor unions who saw their members' salaries eaten up by inflation, and employers who

saw their share of social costs rise to 40 percent of workers' salaries, began to chafe at the tax burden. Unprecedented absenteeism by workers who collected 90 percent of their salaries from their first day off (without the need for medical certification) priced Swedish exports out of world markets.

High taxes, and the breakdown of many of the social services which these taxes were supposed to finance, have caused a tear in Sweden's body politic. Inflation rose, and the formerly harmonious collective bargaining sessions between the Labor Organization and the Swedish Central Employers' Organization have turned into hostile confrontations. When the self-employed author Astrid Lindgren received a tax bill of 102 percent, she wrote a stinging story, along the lines of *Alice in Wonderland*, that was one of the leading factors in bringing down the Social Democratic Party in 1976.

Swedish industry found itself with falling profit margins; many firms established subsidiaries outside of Sweden where workers were more productive and taxes were lower. The Meidner Funds, which had taken a portion of Swedish industries' profits and deposited them in funds run by unions, were the last straw. They will, in all likelihood, be terminated, but they have placed a huge burden on Swedish companies.

One of Sweden's most astute economists, Professor Assar Lindbeck, writing in Sweden's leading daily *Dagens Nyheter* (December 22, 1988), perceptively noted, "The high marginal taxes and the production of public services cause the family to more and more focus on the 'care' of objects, while public institutions, to an increasing extent, take over the care of people, an occupation earlier regarded as the specific duty of the family. In a welfare state of the Swedish type it is not the corporations that are socialized, but the family, or more correctly, many of the traditional functions of the family. One could probably say that while classic socialism meant socialization of industry, a welfare state of the Swedish type means socializing the households' traditional care and support for fellow citizens."

The Swedish welfare state has reached a crisis state outlined by the East German Marxist theoretician Jürgen Habermas in his *Legitimationsproblem in Spätkapitalismus*:

"The division of labor between the state and the private sector that forms the basis of the Swedish

model requires that a continually increasing share of the national product be transferred to the public sector. Technical and economic changes must be accompanied by an enormous public investment to assure the stability of society. There is a point where the dislocation in the social structure becomes so great that people are no longer willing to pay the price of the necessary remedies. The demand for security remains, but the desire of each person to contribute to the cost of this security diminishes. The welfare society then faces a crisis of confidence."

A System that Doesn't Work

As the standard of living has fallen over the past ten years, it has become evident to almost all observers that the Swedish system no longer works. Håkan Gergils, a member of the Swedish Civil Rights Movement and an adviser to Swedish industry, noted in *Economic Affairs* (October/November 1989) that "This development has created a new class of poor people. The number of Swedes in this category increased to 600,000 last year, which means that around 10 percent of the adult population in Sweden cannot earn their living by working. They have to rely on public support for housing, food, clothing, etc. The most astonishing thing is that the new class includes a large number of well-educated people. A great number of full-time working men and women with, under normal circumstances, an acceptable income, have been trapped into dependency by the progressive tax system."

Another eyewitness account came from Jacob Arfwedsson, who left Sweden to pursue a doctorate in political science at the Catholic University of Paris. While doing specialized studies under Professor Claes Ryn (another Swedish-born intellectual of rare ability) at the Catholic University of America, Arfwedsson pointed out to this writer in April 1990 that the whole complex of social ser-

vices in Sweden is falling apart. The Social Democratic government had to renege on its promise to provide care for all children by 1991; desperately ill people have to go abroad because the waiting lists for hospital care in Sweden are years long.

To this crisis-ridden welfare state many in Eastern and Central Europe now look for solutions to their own crises. Yet these nations have no real chance to replicate even the more successful aspects of Sweden's cradle-to-grave welfare provisions. A welfare state must be wealthy in order to provide for the creature comforts and exigencies of a population. And after decades of command economies, these nations are close to economic collapse.

The Wall Street Journal (February 22, 1990) editorializes: "The reality of today's Sweden is the lingering myth of a cradle-to-the-grave Welfare Paradise. The myth is based on an enormous system of subsidies—from food consumption to having children and even reaching old age. Savings are non-existent and investments are flowing abroad. That the gravy train is sputtering can be seen in the degradation of services, particularly medical care, and increasing poverty. Conditions in Sweden, of course, are still a far cry from those in Eastern Europe. But since the economic problems of both arise from the same socialist theory, countries trying to escape the grips of a statist nightmare have little reason to emulate Sweden's welfare system."

As one whose life has been rather evenly divided between his native Sweden and his new homeland, the United States, it is sad to see the glitter flaking and the glamour fading from the nation that gave him birth. But socialism, whether of the Marxist, democratic, or nationalist kind, is bound to fail. It is, in its various forms, a system of institutionalized envy. If the failure of the Swedish experiment in cradle-to-grave welfarism serves as an eye-opener to those who would imitate it, then it will have served an important purpose. □

The Two-Edged Sword of Chaos

by Gary McGath

In any debate, it's a great temptation to refute the other person on his own terms. Sometimes this is the right approach; if you and your opponent agree on a basic premise and disagree only on how to implement it, then it makes sense to show that your proposals are better by his standards. But if the disagreement is one of basic principles, and if beating your opponent on his own ground entails adopting his frame of reference, your victory may well be Pyrrhic. Even if you adopt his premise just for the purpose of showing his inconsistency, you've allowed the debate to be conducted on his terms, and you can easily lose sight of what you should really be proving: that he's wrong not just in particulars, but in his basic approach.

For instance, an advocate of the free market and a socialist might agree that prosperity is desirable. If the socialist claims that his system will create prosperity, it's proper to answer the claim on its own terms, showing that socialism in fact wouldn't achieve the goal for which its advocate hopes. On the other hand, suppose the socialist claims that his system will provide a more just distribution of wealth. Anyone who knows a little history may see a chance for an easy comeback here and point to all the cases in which socialism has created its own privileged classes, thus showing that socialism fails to distribute wealth justly. But the person who follows this approach is granting a key element of the socialist's argument: that there is some ethically proper amount of wealth that each person should have. This line of argument may indeed force him

to admit that existing socialist societies haven't measured up to the ideal, but he can respond that the remedy lies in a more consistent application of economic justice. Moreover, he can now take the offensive, pointing out that socialism at least aims at a "just distribution," whereas capitalism leaves no room for the government to correct the alleged inequities created by the market.

The right way to approach a mistaken claim is to answer it at the most basic level at which it's mistaken, not to pick at its details. Neglecting this principle is sure to lead to fruitless debating of side issues and failure to recognize errors at their source.

A case in point is the implications that some advocates of the free market have seen in so-called "chaos theory." This area of study has captured the interest of the educated lay public in the past few years, particularly as a result of James Gleick's 1987 book, *Chaos: Making a New Science*. Aside from the mathematical fascination of the theory, it may have wide-ranging implications for deciding what kinds of problems are tractable. The theory suggests that certain types of systems, although they can be described mathematically, behave in such outrageous ways that predicting their future behavior mathematically is all but useless. However, it tells us that even such seemingly "chaotic" systems can be analyzed and described by applying new mathematical methods.

Traditionally, builders of mathematical models try to construct systems that are, so to speak, "well behaved." A falling rock, for example, can be modeled in a well-behaved way. A fairly simple equation, taking into account gravity and air resistance, will predict how the rock will fall. Minor air

currents or tiny errors will result in only slight deviations between the predicted and the actual result.

In contrast with well-behaved systems, some types of systems are "chaotic." A tiny change in the system may result in large changes in its later behavior. The smoke rising from a cigarette is an example of a chaotic system. A little difference in the temperature of the smoke or the conditions of the air can result in a completely different pattern of smoke. A mistake in the ninth decimal place when calculating the behavior of a chaotic system may result in a 200 percent error in the outcome. Building a model that will accurately predict the behavior of this type of system is a virtually impossible task.

Long-range weather predictions also face the problems of chaotic systems. According to chaos theory, a sneeze in Minnesota may affect whether it will rain in Virginia three months later. Because of the practical impossibility of measuring the current situation with sufficient accuracy, and of carrying out the calculations to enough decimal places, accurate long-range weather forecasts may be beyond human reach.

Chaos and Economics

Do similar considerations apply to economics? Some advocates of the free market have suggested that they do. Chaos theory, they have suggested, rebuts those who want to model and centrally direct the economy on a mathematical basis. Tom G. Palmer, editor of the *Humane Studies Review*, says that chaos theory shows that "Technocratic prediction of the future—as would be necessary for a 'planned' society—is impossible *on mathematical grounds*. It turns out that certain systems are 'initial condition sensitive,' meaning that a tiny change in the initial conditions can produce enormous changes in the results."¹

Noted libertarian economist Murray Rothbard writes in a similar vein: "The neo-classicals have for a long while employed their knowledge of math and their use of advanced mathematical techniques as a bludgeon to discredit Austrian [economists]; now come the most advanced mathematical theorists to replicate, unwittingly, some of the searching Austrian critiques of the unreality and distortions of orthodox neo-classical economics. In the current mathematical pecking order, fractals, non-linear thermodynamics, the

Feigenbaum number, and all the rest rank far higher than the old-fashioned techniques of the neo-classicals."²

Much of the philosophy underlying chaos theory is attractive to anyone who distrusts the mathematization of economic systems. Gleick tells us that the theory may be "turning back a trend in science toward reductionism." He echoes F. A. Hayek when he writes: "Yet order arises spontaneously out of these [chaotic] systems—chaos and order together. Only a new kind of science could begin to cross the great gulf between knowledge of what one thing does—one water molecule, one cell of heart tissue, one neuron—and what millions of them do."³

Rhetoric such as this is attractive, and can add to the temptation to challenge mathematical economists on their own ground by throwing still more complex mathematical systems against them. However, this attempt to enlist chaos theory is mistaken and potentially harmful to a proper defense of the free market. To see why, it's necessary to understand just what chaos theory says and doesn't say.

The contribution of chaos theory isn't that it tells us that there are unpredictable systems. We've always known that. Rather, the theory applies to a certain type of system: one that can be described by a set of equations or a computer program. Set up the starting conditions, run the program or solve the equations, and you can see the system unfold itself.

Chaos theory's point is that for some systems, the results of running the program won't even be close to the real-life behavior of the system. The equations are perfectly legitimate, but the system is extremely sensitive to tiny perturbations. Unless every tiny input to the system is measured with impossible accuracy, and unless the calculations are performed with outrageous precision, the results will be completely wrong. However—and this is crucial—such systems may still be susceptible to analysis by tools which belong neither to traditional deterministic mathematics nor to statistics.

As an example, consider the Japanese game called "pachinko." In this game, a ball is launched with a spring, then falls through a field of pins. The player's goal is to make it fall toward certain targets. Pachinko exhibits "sensitive dependence on initial conditions"; a tiny change in the force of

launching the ball will make it fall a completely different way. Using traditional modeling methods, pachinko would be just a game of chance. There are, however, patterns in the relationship between the launching and the course the ball follows, and expert players can direct it toward the high-scoring targets. These players might be considered intuitive chaos theorists. They are able to find order where there seems to be none.

The mathematical systems that Keynesians and their allies have used to describe the economy, on the other hand, aren't like a pachinko game. Their equations are completely well-behaved. Pump a nickel more or less into the economy, and nothing drastic will happen. If you decide not to go shopping on Tuesday, you don't throw world trade into turmoil. Displayed on a chart, the Keynesian equations show a nice smooth relationship between input and output. The chart of a genuine chaotic system looks like something from a psychedelic art museum.

The mathematical economists' equations should be challenged on a more basic level. The proper question to ask is whether they, or any set of equations, actually model the course of the economy. Before asking whether a mathematical model of the economy fails in its predictions because it is chaotic, we should ask whether any such model is valid in the first place.

An economic system is, in fact, the sum of a vast number of ongoing human choices. These choices aren't totally arbitrary, but reflect people's perceived needs and desires, so certain statistical generalizations can be made about them. Supply and demand curves can be drawn for particular commodities. These curves are, however, simply empirical generalizations reflecting the aggregate of people's choices at a given time. Nothing says that their preferences will be the same next year. People's desires may change, or new discoveries may lead to new options.

Ludwig von Mises wouldn't accept the premise of mathematical economic models, and didn't quibble over their accuracy. Rather, he challenged the premise at its root: "There is no such thing as quantitative economics. All economic quantities we know about are data of economic history. No reasonable man can contend that the relation between price and supply is in general, or in respect of certain commodities, constant. We know, on the contrary, that external phenomena

affect different people in different ways, that the reactions of the same people to the same external events vary, and that it is not possible to assign individuals to classes of men reacting in the same way."⁴

Human economic activity is "chaotic" in the sense that it is unpredictable and not subject to mathematical analysis, but this has nothing to do with chaos theory. Pachinko-like systems are completely determined by simple mechanical laws; their behavior depends entirely on the way they are set in motion, and chaos theory provides tools for analyzing them in spite of their apparent unpredictability. Human behavior, in contrast, is unpredictable not because its flow displays "sensitive dependence on initial conditions," but because it is not dependent on initial conditions at all. The future may change due to events that no amount of precise calculation can predict.

Chaos as a Planner's Tool

Rather than being an argument against centralized planning based on economic models, chaos theory may offer the planners new weapons. For instance, Gleick discusses scientist Benoit Mandelbrot's exploration in 1960 of cotton-price fluctuations. "Economists," Gleick states, "generally assumed that the price of a commodity like cotton danced to two different beats, one orderly and one random. Over the long term, prices would be driven steadily by real forces in the economy—the rise and fall of the New England textile industry, or the opening of international trade routes. Over the short term, prices would bounce around more or less randomly."

But Mandelbrot took a different view. "Instead of separating tiny changes from grand ones, his picture bound them together. He was looking for patterns not at one scale or another, but across every scale." He found that "Each particular price change was random and unpredictable. But the sequence of changes was independent of scale: curves for daily price changes and monthly price changes matched perfectly."⁵

Independence of scale is a key idea in chaos theory. By using "fractals," a kind of curve which contains miniature replicas of itself, which in turn contain yet smaller replicas of the same pattern, and so on, modelers can create pictures that are rich in detail out of relatively simple formulas. This per-

mits great depth of detail without information overload. Fractal economics could create the ultimate nightmare for opponents of central planning: a model that claims to unite both the macro-economic and micro-economic realms, that describes not only the broad course of the economy but the detailed activities of each individual. With such a model, planners could claim to know enough to delve into each person's life, without having to know anything about that particular individual. Gleick cites mathematician Ralph Abraham's dream of using mathematical models to "educate children to be better members of the board of directors of the planet."⁶

Advocates of government intervention have talked about "priming the pump" of the economy, only to be refuted by the impossibility of figuring out which pump should be primed and to what extent. But the ideas of chaos theory could encourage new variants on this model, replacing the old idea of priming the pump with one of flipping the handle of the pachinko machine. With these new tools, they might imagine, it will be possible to decide exactly how far to pull the handle, even though traditional analysis can't offer a clue. "Of all the possible pathways of disorder," Gleick tells us, "nature favors just a few."⁷ Economic planners, turning this idea into pop science, could easily conclude that the unpredictability of human activity is no obstacle to classifying and controlling human behavior.

Murray Rothbard regards the discovery of patterns in seemingly random events as a challenge to the idea that market expectations can accommodate "perfect knowledge" of the future apart from random, unpredictable fluctuations.⁸ Yet this seems odd. Chaos theory, far from challenging the predictability of future market behavior, claims to find patterns even in the variations that have previously been regarded as random. Whether these patterns really exist is a matter for study; if they do exist, then the investor who learns to predict them will have an advantage over people who use traditional analysis.

In any event, statistical patterns are meaningful only for large numbers of stocks (or other commodities) over long periods of time. The rise or fall of a particular commodity's price is the result of particular events and people's response to them, not of abstract mathematical forces. People who anticipate these events and responses will do

better than the average investor; those who follow statistical averages will simply obtain average results. Again, the key to refuting the claim that statistics provide perfect knowledge lies in recognizing that they are simply mathematical descriptions, not in trying to one-up existing descriptions with new ones.

In fact, though, chaos has no more to offer to the planners than it offers to the free market. In analyzing a particular phenomenon under steady conditions, Mandelbrot's methods may well produce a description that closely matches the observed phenomena. But these methods can provide no information about the phenomena of human action which affect an economy in vital ways. A new invention, the emergence of a new political movement, changing economic habits resulting from changing philosophies of life, and similar phenomena are not simply random fluctuations, or even new inputs to a mechanistic system; the analysis of unconscious systems has only limited applicability to the realm of human choice. The modeler can only devise formulas after the fact to fit the data, with no guarantees that these formulas will describe the future.

Chaos theory is a fascinating area to study, and it is very likely to have applications in the analysis of current trends. However, it offers neither support nor refutation to the idea that an economy can be mathematically planned. It doesn't refute classical methods of mathematical planning, because it simply doesn't apply to them. Nor does it provide new methods of plotting an economy's long-term course, because it is as helpless as any other mathematical method to anticipate the consequences of changing choices and emerging knowledge. The best strategy for advocates of the free market is to stick with the basic principles that have shown its moral and economic superiority, and to avoid trying to undercut the champions of mathematical planning on their ground. □

1. Tom G. Palmer, review of *Chaos: Making a New Science* in the August 1988 Laissez Faire Books catalogue.

2. Murray N. Rothbard, "Chaos Theory: Destroying Mathematical Economics from Within?" *The Free Market*, March 1988.

3. James Gleick, *Chaos: Making a New Science* (New York: Penguin Books, 1987), p. 8.

4. Ludwig von Mises, *Human Action*, Third Revised Edition (Chicago: Henry Regnery Company, 1966), p. 351.

5. Gleick, pp. 83-86.

6. *Ibid.*, p. 279.

7. *Ibid.*, p. 267.

8. Rothbard, *op. cit.*

Rising Prices: The Market's Way of Conserving Oil

by Jorge Amador

Sound familiar? Crude oil prices skyrocket hot on the heels of turmoil in the petroleum-rich regions of the Middle East. Almost instantly, it seems, retailers raise the prices of gasoline at the pump. Consumers begin to grumble.

Enter the politicians, who accuse the oil companies of "gouging" consumers during the crisis. "There is absolutely no reason consumers should already be paying more for oil and gas," declares one, Senator Joseph Lieberman of Connecticut. "In the last week, American consumers have been ripped off on a massive scale." Within a fortnight, two dozen state attorneys general are investigating the rise in gas prices, while Congress, though officially in summer recess, manages to hold three hearings on the issue.

Did the politicians lead the attack—or follow safely behind? In a Gallup survey, conducted for *Newsweek* magazine in the wake of the Iraqi army's invasion of Kuwait, 94 percent of those polled agreed that "American oil companies were using the Mideast crisis as a pretext" to raise prices. More ominously, 83 percent also believed that gasoline price increases should be limited by law.

Supply and Demand: Not So Simple

New Jersey Governor James Florio aptly summarized the reason why consumers were upset. "The information we have is that there is no prob-

lem with regard to supplies," he said. "Inventories are in surplus, in fact. And yet we see these forces at work with no understandable explanation being offered to consumers."

Florio's view is not implausible. Indeed it is true, as far as it goes. The trouble is, it doesn't go very far. Worldwide stocks of oil were at near-record highs, yes, but the law of supply and demand is more complex than a straightforward accounting of current inventory and consumption. The market rewards those who correctly anticipate the future and prepare for it, and punishes those who do not.

What drove the price of petroleum and, ultimately, of gasoline so high so fast, despite the existing surplus, was simply the concern that armed conflict soon might severely curtail the flow of Middle Eastern oil. As Iraqi tanks rolled into Kuwait, which holds 10 percent of the world's known oil reserves, and massed on the border with Saudi Arabia, which holds 25 percent, such fears were not unfounded.

"It's not profiteering, it's prudence," one energy analyst told *Newsweek*. In times of uncertainty, wholesale purchasers of crude oil and refined gasoline try both to buy more and to withhold some of what they have from the market so they can tide over a shortfall should it arise. Consumers engage in a similar practice when, during periods of actual or potential shortage, they try to keep their gas tanks full at all times. "Tank topping" was one of the major causes of the long gas lines of the 1970s.

But why doesn't competition keep the price

Jorge Amador is a free-lance columnist and editor of The Pragmatist, a current-affairs commentary.

down? After all, the oil is still flowing and there are plenty of sellers out there. There are two answers.

One is that competition did in fact soften the blow to consumers. According to petroleum industry analysts, a \$1 increase in the price of a 42-gallon barrel of crude oil amounts approximately to a 2.5 cent increase in the price of a gallon of gas. Crude oil prices, which had hovered in the \$19- to \$22-per-barrel range for most of 1990, fell as low as \$15.60 in June and were at \$17.30 as late as July 9. They began to rise as OPEC states met that month to discuss Iraq's demands that strict production quotas be imposed and the price set at \$25. Prices remained around \$20, however, as Kuwait and others continued to produce above their OPEC quotas, undercutting the \$21 compromise cartel fix.

What the dynamics of marketplace competition broke down, Iraqi president Saddam Hussein decided to prop back up by naked force, and so the tanks rolled into Kuwait. The price of crude jumped to \$23.11 on August 2, the day of the invasion, and to \$28.31 by August 7 as the governments of oil-consuming nations joined an embargo of Iraqi-controlled oil and Iraqi troops approached the Saudi Arabian border.

The \$11 surge in the price of a barrel from July 9 to August 7 would normally translate to a retail price increase of some 27 cents per gallon. Yet the average gas price rise in the period was about 21 cents. The national average price of self-service regular unleaded gasoline actually fell by approximately 7 cents per gallon in mid-July, according to the American Automobile Association. From a low of about \$1.05 on July 24, it rose to \$1.26 on August 9, then moderated to \$1.22 by August 13.

An Ounce of Prevention

Another answer is that an entrepreneur who bucked the trend, keeping his prices low and all his supplies for sale in spite of the threat, would run the risk of finding himself out of stock, and out of business, just as the real shortage developed. Some refiners, such as the Sun Company, stopped selling to non-contract buyers in order to ensure the flow of supplies to their regular customers.

"If the difference between our gasoline and our competitors' is five to 15 cents, we'd have a run on our supply," said an Atlantic Richfield spokesman to *The Wall Street Journal* on the weekend of the

invasion. Indeed, after going along with the initial price hikes, ARCO froze pump prices for two weeks in an attempt to garner new customers and fend off the negative publicity that befell most other oil companies. A gallon of ARCO gasoline sold for 13 cents less than the competition's. It worked for a while, as sales volume increased by 15 percent. But the company suspended the policy August 23 when many of its service stations found themselves out of gasoline to sell.

Selling low to all comers may pay off if the stream of crude never in fact slows down, but it may not be the wisest course while tanks and attack jets are closing in on the oil fields. The price will remain at the higher level, regardless of actual inventories, so long as the threat of a supply crunch persists.

Rising prices are an early warning signal, the market's way of encouraging conservation in times of prospective shortage. Should the crisis blow over and the shortage never materialize, prices will fall back as the urge to act prudently recedes. Price controls, which so many Americans seem casually to endorse, would precipitate precisely the kind of energy crisis that price rises serve to warn us against. They would enable us to indulge our appetite for fuel at the same rate as if nothing out of the ordinary were going on. Meanwhile, as the price of crude continued to soar, wholesalers and retailers would find it increasingly difficult to cover the cost of buying new stocks to sell. Few of us would enjoy the consequences of price controls if and when an actual shortage came to pass.

Doesn't this justify raising taxes on fuel, then, in order to encourage conservation? As early as 1980, Presidential candidate John Anderson urged a 50-cent Federal tax on gasoline. Deliberately high gas taxes in Europe, it is said, have helped to shield those economies from oil price shocks.

If taxes have protected against the momentary jolt of skyrocketing fuel prices, it has been at the cost of a constant heavy drain on European economies. Taxes represent well over half the price of gas in Germany, France, and Italy, where in the first quarter of 1990 a gallon sold for \$2.74, \$3.44, and \$4.33, respectively. Even if their governments absorbed the August price hikes by lowering gas taxes, European consumers would still be paying two and three times as much as we. Had the U.S. followed the same policy, Americans would have spent a decade paying that much more for



gas—and that much less on other things we'd prefer—with little appreciable benefit.

For Americans, only when a shortage became a real possibility—ten years later—did the price go up. The market raises prices when conditions warrant it, not before, and as much as is needed, not more so.

Why an Immediate Price Hike?

There is another persistent question. Since oil tankers take several weeks to carry newly pumped crude to the refinery, why did the price of gasoline shoot up right away? After all, the gas at the pump had been extracted, delivered, and refined at the old prices, hadn't it?

As a matter of fact, much of it had not. As oil analyst Trilby Lundberg explained to *The Philadelphia Inquirer*, the U.S. "lacks the refinery capacity to meet demand for gasoline during the peak summer driving period. . . . As a result, oil companies have to buy large quantities of gasoline on the spot market and pay the prevailing price." (On the "spot market," refiners with excess inventory offer their surpluses for immediate delivery.)

Service station tanks hold only a few days' worth of gasoline sales; hence on any given day a large proportion of them are getting new deliveries. Because the new gasoline is priced at the current market rate, changes in the wholesale price of gasoline are quickly translated to changes at the pump.

In any event, as we have seen, prudence demands—in light of the prospect of shrinking supplies—that sellers conserve what they do have by withholding it or raising their prices.

The facts may be unpleasant, but the free market does us a service in transmitting them to us so we can prepare for the worst. "Jawboning" the oil companies to limit gas price increases would encourage consumption in the face of impending shortages and render us helpless should the flow actually be cut. At the same time, the market hedges against the threat of shortages to mitigate them when they do arise. Increasing fuel taxes to "protect" us from price shocks would enforce conservation prematurely, hurting us all to avert a transitory trauma. Fortunately, in the free market we have an alternative to the governmental extremes of heedless feast and needless famine. □

The Nature of Government

by Fred Dekkers

In the fable “Ali Baba and the Forty Thieves,” the magic words “Open Sesame!” give access to fabulous wealth. Many former Communist countries seem to assign the same magical power to the word “democracy.” Democracy, of course, is a fair-sized step in the right direction, but some very important considerations must be taken into account.

No democratic majority can create wealth just by making laws because none of the things that form wealth are found freely in nature. Nature offers only potentials: raw materials that have to be mined, transported, transformed, packed, distributed, and so on. Wealth is created by individuals—by their ambition, motivation, labor, thrift, investments, organizational talents, and, most of all, by their thinking and ideas. As Ludwig von Mises wrote: “Production is not something physical, material, and external; it is a spiritual and intellectual phenomenon. Its essential requisites are not human labor and external forces and things, but the decision of the mind to use these factors as means for the attainment of ends. What produces the product are not toil and trouble in themselves, but the fact that the toiling is guided by reason.” (*Human Action* [Chicago: Henry Regnery Company, third edition, 1966], pp. 141-42)

Politicians can’t create wealth, but they can destroy it because that is the nature of political power. As Mises wrote: “State or government is the social apparatus of compulsion and coercion. It has the monopoly of violent action. No individ-

ual is free to use violence or the threat of violence if the government has not accorded this right to him. The state is essentially an institution for the preservation of peaceful interhuman relations. However, for the preservation of peace it must be prepared to crush the onslaughts of peace-breakers.” (*Human Action*, p. 149)

Government reserves for itself the legal faculty to use physical force. All laws are backed by that legal monopoly, the threat to impose fines and/or imprisonment on those who don’t comply or obey.

Power can be misused or abused. I may have a gun to defend myself and my property against thieves, but if I use it to steal someone else’s property, I am misusing the gun and abusing the power it confers on me. In the same way politicians can misuse or abuse the power of the state.

The more the power of the state is concentrated in fewer hands, the greater the danger of abuse. A one-man dictatorship will be more dangerous than a triumvirate, which will be more dangerous than rule by a party leadership. The majority rule of democracy is a further improvement, and it has the advantage that it can be changed or revoked by elections. Nevertheless no majority, be it democratically elected or not, offers in itself the guarantee that it won’t abuse the power at its disposal.

It is clear that the use of governmental power must somehow be limited. One way to restrict government power is by a “super-law”—a law that can’t be changed by a political majority vote, a law to which government itself must comply. In most countries such a “super-law” is called the constitution. The function of the constitution is, or should be, to protect the individual against the abuse of government power by politicians.

Mr. Dekkers, who lives in Belgium, is the founder of the European Libertarian Center. This article is excerpted from his foreword to the forthcoming Hungarian-language edition of Planned Chaos by Ludwig von Mises.

But can we determine objectively the function of government? Can we state precisely the limits to which government should go in exercising its power?

This comes down to the question: "Can we delimit properly and objectively the legitimate, the just, the appropriate use of governmental violence?" Mises addressed this question in a speech before The Foundation for Economic Education in 1969: "The main problem of the market, the main problem of human cooperation, is the fact that there are people who resort to violent action, who do not comply with the rules that are necessary for the preservation and operation of the market. In order to prevent this violent action, in order to make possible the workings of the market, of human cooperation, of human society, it is necessary to have an institution that protects the market against violence, against people who lack the knowledge or the will to comply with the rules of peaceful exchange of commodities and services. This is the function of government."

Violence is the opposite of voluntary coopera-

tion. Violence means coercion, oppression, injustice, and ultimately war. The only way, however, to oppose violence is with violence. Violence thus has two aspects. It can be used aggressively: an aggressor initiates violence and uses it against otherwise peaceful fellowmen. Or violence can be used defensively: it is then used only in reaction against aggressors.

The conclusion is that government, the embodiment of all legal violence, can act in a positive way for the inhabitants of a country only if it uses its power to protect them against foreign invaders and domestic predators.

Government can create the most appropriate conditions for voluntary and creative cooperation between individuals by protecting them against violence. In that way, government can be the individual's best ally. But when government abuses its entrusted power, it can become the most dangerous of enemies. The legally disarmed individual is powerless against the exclusive legal wielder of physical force. History is filled with examples of both. □

IDEAS
ON
LIBERTY



The Necessity of Private Property

If history could prove and teach us anything, it would be that private ownership of the means of production is a necessary requisite of civilization and material well-being. All civilizations have up to now been based on private property. Only nations committed to the principle of private property have risen above penury and produced science, art and literature. There is no experience to show that any other social system could provide mankind with any of the achievements of civilization. Nevertheless, only a few people consider this as a sufficient and incontestable refutation of the socialist program.

—LUDWIG VON MISES, *Planned Chaos*

The Politics of Plunder

by John Chamberlain

Doug Bandow, who has collected his columns and articles in *The Politics of Plunder: Misgovernment in Washington* (Transaction Publishers, New Brunswick, N.J., 507 pages, \$34.95 cloth) is about as total an anti-Statist as one could find. He positively resents politicians, or anyone else for that matter, who use other people's money for their own ends. This makes him an enemy of thousands who live inside the Washington Beltway. He does not spare his language: politicians to him are simply thieves. They practice legalized larceny.

The trouble, from a reviewer's standpoint, is that a book about the thieves becomes many books. The thieves abound and multiply. Where, indeed, to cut in on the parade?

Bandow offers his own cut-in point when he says 30 percent of the American farmers are part of America's "permanent dependent class." Their subsidies increased in the 1980s at a faster rate than any other government programs. Direct payments to farmers ran \$25.8 billion in 1986, a 545 percent jump over 1981.

"Nor," says Bandow, "is that all the money received by rural America. In 1986, the federal government spent another \$3.8 billion on crop research, soil conservation, and similar programs. Sugar quotas, peanut quotas, and citrus marketing orders provide billions more dollars to producers through higher prices instead of higher taxes. At the same time, Uncle Sam has proved to be an incredible bungler as Farmer-In-Chief. . . . Despite several billion in export subsidies . . . the American farmers' share of international food markets continues to shrink."

Bandow knows that the traditional "family

farm" is not lightly to be derided. But there is no reason, he insists, to force Americans to keep farms afloat "any more than to save any other uneconomic family business, whether dry cleaners or corner drug stores. Just 8 percent of America's full-time farmers produce two-thirds of the nation's food; there is no public interest in subsidizing the many small operations which contribute virtually nothing to the nation's food supply. . . ."

With sugar quotas being what they are, there is no danger that cane and beet growers will fail to satisfy America's sweet tooth at a price. So Bandow proceeds to remark upon the "sleazy" action of Congress's elimination of the \$250,000 limit on loans to beekeepers.

The beekeepers got on the Federal dole in 1949 and, like so many of their farming counterparts, have demonstrated an "uncanny knack" for looting the Treasury. As a result, the government became the world's largest beekeeper.

Having had some testy fun with the beekeepers, Bandow passes on to the sunflower "crisis." He doesn't mind eating sunflower seeds, but sees no reason to send the bill for them to taxpayers just to please North Dakota. Moving on to the subject of marketing orders for citrus fruit, Bandow gets really serious. Just once in recent decades has a freeze in Florida resulted in a situation that made it possible for Californians to market navel oranges freely without "orders." The success of the brief free market in oranges has encouraged free-market organizations to press for the permanent elimination of all controls. Bandow would cheer, but he is afraid that reform will not come easy. "Until conservative free-market enthusiasts and liberal champions of the consumer place their

professed principles before the votes of agribusiness," he says, "food will continue to rot in the fields."

Bandow is not only implacable about the farm situation, he is implacable about dealing with any protective theory or practice. Amtrak must go; the Postal Service must yield its monopoly of first-class mail. Uncle Sam's extensive land holdings—"six times the size of France"—must be made available to users by lease or sale. Airline deregulation must be preserved. OPEC is no long-term menace if we proceed to "lease the oceans" off the coasts of Alaska and California.

Bandow wants to make our judges "answerable" not only to people but to the Constitution. He would limit their terms of office.

Bandow says it is time to repeal the Davis-Bacon Act which stipulates that workers on Federal projects shall get "prevailing" (meaning union scale) wages. One wishes him luck. He has already had some luck in pushing the movement to allow knitters to work at home. The Reagan Administration finally decided to lift constraints from home workers as long as the employer filed with the Labor Department and paid the minimum wage.

As for the minimum wage itself, Bandow thinks it is a job killer. But that is another story. ☐

FREE MARKET MORALITY: THE POLITICAL ECONOMY OF THE AUSTRIAN SCHOOL

by Alexander Shand

Routledge, Chapman & Hall, 29 W. 35th Street, New York, NY 10001-2291 • 1990 • 228 pages • \$55.00 cloth, \$16.95 paper

Reviewed by Nick Elliott

In the past, Austrian economics has often been regarded as an obscure and arcane offshoot of the discipline, which has had little practical effect. More recently, the Austrian school—particularly Friedrich Hayek—has become an acknowledged influence on the government of Margaret Thatcher. A leading Labour Member of Parliament advised Mrs. Thatcher to stop listening to the "mad professor who is constantly whispering in her ear."

Alexander Shand's first book was *The Capitalist Alternative*, a compact guide to the economics of the Austrian school. He follows it up in *Free Market Morality* with an introduction to what the

Austrians have to say on political economy. After all, the Austrians have always referred to their discipline as "praxeology"—the science of human action—so it is perhaps inappropriate to pigeon-hole their work as "economics."

In fact, the book dips into much more than Austrian economics—it distills volumes of political economy into a digestible 228 pages, covering writers from Descartes to Dostoyevsky, from Locke to Lenin.

The Austrian economists have also been classical liberals, and they have deduced their libertarian political economy from the same principles that guide their economics. Methodological individualism—the idea that the individual should be the starting point of analysis—also leads to political individualism. Austrians have always argued that holism—treating groups and aggregates as real—is bad economics. It is a short step to argue that holism can be despotic, because it teaches that the individual counts for nothing.

Being "political" in no way compromises their scholarship, because their work displays every evidence of rigorous social science. One striking example is Hayek's view that the market cannot be claimed to be "moral," because it doesn't conform to anyone's desired ends. This view obviously comes from an honest scholar in the pursuit of truth, rather than an ideologue willing to enlist any argument in his cause.

The most stimulating sections of the book are those on altruism and on equality. The Austrian argument that the discovery process of the market is the best means for improving the position of the worst off is one that isn't widely understood. This lack of understanding is especially evident in the political opinions of religious leaders. The case is put very crisply by Hayek, when he says of the capitalist that "He is led by the invisible hand to bring the succor of modern conveniences to the poorest homes he does not even know."

There is one point of Shand's here with which I would take issue. This is where he describes the view that businessmen shouldn't be altruistic because this would divert them from the pursuit of profits. If we follow the subjectivism of the Austrians, we must allow for altruism to enter into the preferences of individuals, and who is then to say that the outcome is "worse" than if profit were the only concern?

Murray Rothbard cleverly argues that a society

will become more charitable as it prospers. As people become richer, and acquire more exchangeable goods (cars, televisions, and so on), the marginal utility of those goods falls. Concurrently, the marginal value of nonexchangeable goods—those things that “money can’t buy,” like the pleasure of helping others—goes up. Therefore, a growing economy encourages charity and good works.

To an economist the book reiterates the distinctions between Austrian and neoclassical economics. The Austrians view society as highly complex, such that it cannot usefully be reduced to demand and supply curves. In parts, though by necessity for such a book, it is tantalizingly brief on such points of distinction and debate. Shand combines well the roles of chronologist and critic, with survey followed by comment.

The author credits the Austrians with little influence, and indeed includes a section on “The Limited Acceptance of Austrian Ideas.” He is too cautious, perhaps looking with the academic’s eye for a complete transfusion of ideas into policies.

Several of the collectivist theories and paradigms described in *Free Market Morality* have been thoroughly discredited, and this must in part be due to the robust and relentless challenges made by the Austrians. They have surely helped to bury the idea that there is a simple relationship between unemployment and inflation, and they must also have helped to drive unreformed Keynesian economics into the fringes that it now occupies. Both of these changes have had very definite results in actual policy.

And, while far from popular, the Austrians have made considerable inroads into academic and political discourse. Shand reports that a

prominent academic once scoffed at the these free-marketeers “preaching to the converted” in the Mont Pelerin Society, a charge that no one could fairly make today.

Shand does credit the Austrians with some influence on British policy toward inflation and toward trade unions. One should add the caveat that Hayek’s precise recommendation on inflation wasn’t followed, but he did provide a new understanding of the problem.

More important, in my view, is the new appreciation of the market economy that the Austrians have given to the Thatcher government. Some of the ideas explained in the book have frequently popped up in ministerial speeches over the last few years. Mrs. Thatcher caused a storm when she said that there is no such thing as “society,” only individuals, but this is a prominent theme for the Austrian school. Shand explains that the Austrians believe the welfare state to be based on the synoptic delusion—the idea that the relevant facts can be known to one mind. This idea has appeared in the recent fervid debates about the future of the National Health Service. And the Austrians disparage macro-economics, arguing that attention should focus on the micro-foundations of the economy. This argument has often been invoked by Thatcherite Chancellors of the Exchequer.

The book is a good introduction to Austrian political economy, and is particularly useful because it points out the relevance of the ideas to present-day politics. □

Nick Elliott is a financial journalist with the London bureau of Dow Jones & Company, Inc., and an associate scholar of the Adam Smith Institute.

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444 Glory Be!

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Aspiring to serve freedom and truth.

446 Kun Shou You Dou: Even a Cornered Beast Will Fight

Marcella Smith

An American language teacher learns a lesson in practical Chinese politics.

454 You Missed the Point, Bernie

Donald G. Smith

No, it *isn't* in the Constitution.

456 The Taproots of Political Corruption

William H. Peterson

Tracing a pattern of majoritarianism and interventionism.

460 "Socialism Works"

Evelyn Pyburn

Dissecting an obvious untruth.

461 Affirmative Action: The New Road to Serfdom

Steven Yates

To what extent is affirmative action compatible with the principles of a free and open society?

473 Book Reviews

John Chamberlain reviews *Basic Communism* by Clarence B. Carson.

475 Index for 1990

CONTENTS

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PERSPECTIVE

Bad Charity Drives Out Good

In early America, some poverty (brought about by calamity such as fire and earthquake, or by crippling accident or early death) was seen as the result of God's Providence. Some was the result of business failure, not always the entrepreneur's fault. Much, however, was seen as self-created through drunkenness, laziness, or other sinful behavior. The need to determine and administer the exact type of aid required in each case placed significant demands not only on the poor, but also on the more fortunate, who were expected to give of their time as well as their treasure. It is estimated that over half of New York's wealthiest one percent donated part of their leisure time to helping the poor or the sick prior to the Civil War, a pattern found in other large cities.

Particularly significant are the changes caused by the economic and social conditions that developed toward the end of the century. When communities were generally small, personal involvement was easy; but large-scale urbanization brought economic segregation. The better-off could ride to work on broad avenues instead of walking through a variety of wards, and many churches followed their wealthier members uptown or out of town. The more fortunate would be less likely to face need directly. . . .

Some charitable groups became "simply relief societies." Able-bodied individuals who did not wish to work learned to go from agency to agency; and some were said to receive aid from many different groups, their income related to the number of tears shed and false stories told. In a parallel to Gresham's Law, bad charity was able to drive out good.

—MARVIN N. OLASKY
writing in the July 1990

issue of *Alternatives in Philanthropy*.

Voices from the Black Community

By cunning propaganda, and for obvious reasons, our leaders have turned politics into a religion among blacks. Masters at standing truth on its head, they've sold us the bill of goods that politics brings prosperity. Nothing could be further from the truth. Politics translates into economic benefits

for those few who are elected to office, not for the masses who vote for them.

Economist Thomas Sowell has shown repeatedly, in his comprehensive works on ethnic groups, that it is those groups that studiously avoid political involvement that achieve prosperity and rise to the top. It's only after achieving affluence that other groups turn their attention to politics. Success in politics has never been necessary for economic advancement, nor has it ever been translated into upward mobility.

Other groups know enough to distrust the fickleness of political trends. They figure out early that the political pendulum swings back and forth, according to ever-changing public opinion, and that government policies are necessarily tied to trends that cannot be depended upon in the long run. Today, the pendulum swings left, tomorrow to the right.

Yet, here we are expending vast resources and precious energies on one election after another, trying to keep the pendulum from swinging one way or another way, instead of taking our cue from other groups and concentrating our efforts on economic enterprise. Last year, both *The New York Times* and *Wall Street Journal* reported on what everybody already knows, that America's Korean immigrants behave like all groups before them. They literally take care of business and pay no attention to the political high jinks going on around them. How many Korean mayors can you count?

—ELIZABETH WRIGHT, Editor
writing in the Winter 1990 issue of
Issues and Views, an open forum on
issues affecting the black community.

The majority of black youth and young adults are not the street brawling ignoramus seen on the front pages of newspapers and on the evening news. . . . The majority of us are decent people who deserve a better image than the one we're being given by the violent few among us. But we have to

disassociate ourselves from these people, and remain firm in our moral and ethical codes of behavior that prohibit us from acting out our anger in violent ways, no matter how justified.

Despite our past problems with police and other officials, we have to support efforts to prosecute the small number of criminals who commit violent acts against other blacks in our communities and who, by their actions, show contempt for the law. Those of us who believe in obeying laws against the destruction of property, assault of other human beings, and other unnecessary acts of crime and violence outnumber those who don't, and it's time, past time, that we stop aiding and abetting these criminals with our silence, or by coming to their defense. . . .

—from an editorial in the December 5, 1989,
Toledo Journal, quoted in the Winter 1990
issue of *Issues and Views*.

***Freeman* Columns Pass the 1,200 Mark**

What do the *Cleveland Plain Dealer*, *Indianapolis Star*, *Orange County Register*, *Tampa Tribune*, *Allentown Morning Call*, *Colorado Springs Gazette*, *Camden Courier-Post*, *Sacramento Union*, *New York City Tribune*, *Diario La Hora* (Guatemala), *La Prensa* (Argentina), *El Diario de Caracas* (Venezuela), *Libre Empresa* (Bolivia), *Ultima Hora* (Dominican Republic), *Diario Xalapa* (Mexico), and *La Prensa* (Honduras) have in common? They are among the more than 200 newspapers in the U.S. and Latin America that have carried *Freeman* articles, specially prepared and sent out from FEE several times a month for the past four years. FEE's op-ed program has now received more than 1,200 tearsheets, with new newspapers being added to the list every month. If you see a *Freeman* article in your local paper, we would very much appreciate it if you would send us a copy.

Glory Be!

by Leonard E. Read

True glory consists in doing what deserves to be written; in writing what deserves to be read; and in so living as to make the world happier and better for our living in it.

—Pliny the Elder

The Roman naturalist Pliny the Elder was born in 23 A.D. When he passed away at the age of 56, he had written 37 books on the nature of the physical universe—including geography, anthropology, zoology, botany, and other related subjects.

Pliny did, indeed, leave the world happier and better for having lived in it. He lived every moment of his life with zest—enthusiasm—perhaps the greatest stimulus for noble works. Wrote Emerson: “Every great and commanding movement in the annals of the world is the triumph of enthusiasm. Nothing great was ever accomplished without it.”

The following is an attempt to think through and to understand Pliny’s three parts of True Glory. If even partially successful, I will make a small contribution to the displacement of that which should be neither written nor read.

True glory consists in doing what deserves to be written. It consists in noble deeds worth recording. This is to be distinguished from blatant notoriety. History presents far more writings of the latter sort than the former. Alexander the Great, Charlemagne, Napoleon, Hitler, Stalin, and countless

Leonard E. Read founded the Foundation for Economic Education in 1946 and served as its President until his death in 1983. He was a philosopher, teacher, and exemplar. This article was adapted from the December 1978 Freeman.

other great destroyers loom too large in written history.

Why these lopsided recordings? It is the bad, not the good, that attracts the public eye. Observe today’s media and the preponderance of reporting that does not *deserve* to be either written or read, spoken or heard.

In my study of writing that deserves to be written, I’ve been surprised that most of the world’s great writers—past and present—never kept a daily journal. Obviously, they had other disciplines that brought out their remarkable writings. We are all different in all respects. As for me, I have kept a journal for nearly 27 years without missing a day—capturing every thought that comes to mind or that I have learned from others—a rewarding experience. What a discipline—writing such entries for nearly 10,000 days!

Recently I came upon my entry of August 11, 1955, long since forgotten:

If it were not for the gravitational force pulling us down, there would be no such concept as “up.”

If there were no darkness, we would have no sense or appreciation of light.

If there were no evil, we would have no awareness of virtue.

If there were no ignorance, we would not know intelligence.

If there were no troubles, there would be no aspirations.

If there were no insecurity, we would not know of security.

If there were no blindness, we would not be con-

scious of perception.

If there were no poverty, we would not experience riches.

If no man ever imposed restraint on others, *there would be no striving for liberty and the term would not exist.*

I now recall discovering, just a few days later, while reading Dagobert Runes' *Treasury of Philosophy*, that around 500 B.C. Heraclitus was saying the same thing: "Men would not have known the name of justice if there were no injustice." This made me laugh at my "originality" and brought to mind Goethe's assertion: "All truly wise ideas have been thought already thousands of times."

Assuming the above observations to be valid, then "doing what deserves to be written" is learning how to cope with and overcome life's countless obstacles. It is an observed fact that the art of becoming—human development—is composed of acts of overcoming.

Obstacles are assuredly the source of aspirations. Human frailties—which lead to such things as governmental interventions of the kind that destroy creative activities—inspire their own overcoming. Why, then, do errors have their value? Their overcoming leads to evolution—human liberty!

True glory consists in writing what deserves to be read. There are countless thousands of books, articles, and commentaries that deserve to be read. The vast majority of these writings are known to a mere handful of people. I shall refer to only one that is an inspiring and instructive example: *You Are Extraordinary* by Roger J. Williams.

Professor Williams, a noted biochemist, became convinced that his wife's death was caused by the doctor treating her as "an equal," rather than as an individual. This led the professor to his first study in human variation, having to do only with the variation in taste buds in different people. The findings, published in *Free and Unequal*, are fantastic.

Having an unusually inquiring mind, he began an investigation into ever so many other forms of variation. The findings appeared in 1956: *Biochemical Individuality*, somewhat technical for lay readers. Nevertheless, I read it with avidity, because it contained an important key to the freedom philosophy. It was this book that led to my

acquaintance with the author.

We corresponded, and after answering a question of mine he added that he had just written a book, to be entitled *You Are Extraordinary*, designed, he said, for lay readers. The manuscript was enclosed.

Professor Williams was extraordinary. So are you and so am I and so is each human being. Indeed, no one is the same as a moment ago. Variation is a rule of all life—plant, animal, and man.

Once variation is recognized as a fact of life, there can be no endorsement—none whatsoever—of know-it-alls controlling the creative actions of you or me or anyone. Authoritarianism dismissed as utter nonsense! We would witness hosts of public officials reduced to a mere fraction thereof. All but a few would return to that wonderful status of *self-responsible* citizens—America's miraculous performance on the go again.

True glory consists in so living as to make the world happier and better. How do we live to make others happier and better? Here are a few guidelines, mostly gleaned from others:

- Stand for and staunchly abide by what is believed to be righteous—seeking approval from God, not man.
- Strive for that excellence in the understanding and explanation of freedom which will cause others to seek one's tutorship. This brings happiness to both the striver and the seeker—and the world!
- Live with zest and enthusiasm. Nothing great was ever accomplished in the absence of such spirit.
- Be optimistic. This does not mean a blindness to dictocrats lording it over us. Rather, it is self-assurance that a turnabout is in the offing. The world is not going to the dogs as the prophets of doom proclaim. Optimism increases happiness for it is contagious.

To serve truth and freedom is as high as we can go. When more of us than now attain this intellectual and moral height, the path toward glory will open:

Glory to God in the highest, and on earth peace, good will toward men. □

Kun Shou You Dou: Even a Cornered Beast Will Fight

by Marcella Smith

I stood watching the Yellow Sea slide onto the sands of eastern China. In the distance, a fairy-tale pagoda rose above red-tiled German villas, remnants of this resort town's European past. The calm sea soothed me; I held my husband's hand, thinking what a lovely place this would be for a vacation. But it was no vacation. We had come here to leave China, and leave quickly. With barely two days' notice, we had frantically packed, spent our useless Chinese money like crazed game show contestants, and made for the coast. We would fly out to Hong Kong the next day. It was June 1989: Chinese students and citizens, peacefully seeking democracy, had been murdered by the People's Army in the streets of Beijing.

Ahead on the beach, a crowd hummed and pointed. A student was walking straight into the sea, fully clothed. He plunged directly into the cold water, steadily advancing, his loose shirt floating in a halo around his waist. A Chinese friend of ours scuttled down to the water's edge. "Think of your family," he called. "They will be disgraced by your actions."

The young man turned back.

My husband Matt and I had traveled to China to teach English at a college in Taian, a city of over 250,000 people. Taian, a small town by Chinese standards, is located in Shandong, an arid province that juts out toward Korea between the Bohai Sea to the north and the Yellow Sea to the south. Taian is the home of six colleges and of Tai Shan ("Peace Mountain"), the holiest of the sacred mountains of China. I arrived in the early spring of 1989, when

Buddhist peasants, mostly round little old ladies tottering on butterfly feet, made their way up thousands of stone steps to the top of the holy mountain, burning paper money for their ancestors, and hoping for the blessing of the gods.

My first day of teaching was April Fool's Day. I was happy to be in China in the spring, happy in my role as the new American teacher. But as I entered the building my mood collapsed. The rank odors of urine and coal smoke permeated the entire building. I had to step around globs of spit in a dark, dirty hallway in order to get to my classroom. I had been told it was the nicest room on campus.

Entering, I breathed a sigh of relief. At least there were windows. I closed the door on the reeking hallway and walked down to the front of the room, greeting my new students as I passed. They answered with nervous nods and small laughs. In China, laughs are an integral part of the language, and you soon learn their meaning. This one meant, "Please don't ask me to speak. I don't know any English."

As the weeks passed, my initial zeal for teaching quickly waned. My students slouched in their chairs, yakked during class, gazed aimlessly out the window, and punctuated my lectures with loud, juicy spitting. They rarely did their homework and never studied for tests. Writing assignments were copied out of encyclopedias. During tests, they opened their books and brazenly asked questions back and forth. When I accused them of cheating, they laughed—a high-pitched, anxious laugh—and denied it. Later, I would get a note. "What you did was very hard on me." I felt guilty about causing my students to "lose face," but continued to slap zeros on the tops of their papers.

Mrs. Smith is a free-lance writer. To protect the identities of the Chinese students, some of the names in this article have been changed.

“Long Live Sixty”

Soon, I learned a new Chinese saying: “Long Live Sixty,” a pun on the Cultural Revolution slogan “Long Live Mao.” If you are a college student, no matter how little you apply yourself, you will always receive a passing grade: 60. No one fails. Everyone gets a degree after four years. Your course of study is predetermined by officials. Many students know, even before they enter college, what their work assignments will be after they graduate. If you are interested in architecture, and the Party needs engineers, then a engineer you’ll be. Aspiring to continue your education and become a professor is a ludicrous idea. A common simile in China is “as poor as a professor,” for educators make less than shoe repairmen, taxi drivers, or vegetable peddlers.

Still, I refused to fall into the complacency the students seemed to demand of me. Determined to give my students what I called a “real” education, I inundated them with writing assignments. Curiously, their initial essays repeated the same stock phrases—eerily similar—over and over: the product, I discovered, of years of mandatory Marxism classes. An in-class assignment on Chinese history elicited identical platitudes on many of my students’ papers: “Through science, we can achieve great things.” “China had a glorious past, but now we are behind. We must study hard so we can catch up.” Their knowledge of the U.S. was also uniform: “The United States has a high divorce rate. Many people take drugs and are sick with AIDS. We must learn technology from the United States, but retain our Chinese values.” My students felt most comfortable when I drilled them, a monotone droning of English words in unison, safe from being singled out. It was difficult to get them to speak English individually, but in a group they would speak loudly, with one voice.

There was one student, however, who stood out from the rest, who had his own voice. He sat up in the front of the class, his head tilted to one side, staring at me with large, lively eyes and a rakish grin. He was the only student in my class who chose his own English name—“Daniel”; the others passively waited for me to give them a name, absolving personal responsibility even in the simplest of things. He was the only one who asked questions (“How many black people are there in America?”), the only one who dove into

writing assignments with glee, the only one who, during quiet moments, I could hear repeating a new English word over and over to himself. He was also the only one who wanted to be in the class. All the others had been mandated to take the class and weren’t concerned with learning English: Long Live Sixty. Daniel, however, had saved up three months’ salary to pay for these classes, and the rare privilege of hearing a native speaker of English. He made the most of it—asking questions after class, sharing meals with me and my husband. Within one month, he went from being barely understandable to virtually fluent.

“*Kun Shou You Dou*”

Daniel and I shared a love of language, and quickly became friends. He delighted in American slang, and we enjoyed discussing the ways in which language reflects culture. We traded idioms back and forth, amazed at similarities: both Chinese and English share expressions such as “putting the cart before the horse” and “killing two birds with one stone.” One idiom he taught me was *kun shou you dou*, or “even a cornered beast will fight.” We used it laughingly at games of cards: I would be points ahead of Daniel, clearly the winner, but he would laugh and shout “*kun shou you dou*,” refusing to resign himself to defeat.

One day, Daniel sadly told me of his earlier education. In the 1960s, anti-intellectual Maoists had staffed the schools with peasants; as a result Daniel’s education had been so poor that he was unable to pass his college entrance exams. So he taught himself the building trade and, even though he lacked formal education, was now teaching construction at a local college, using what money he could save to pay for college courses. He understood my frustration with the apathy of his classmates, and prevailed upon me to understand that most students in China no longer see higher education as a way to advancement. Daniel, the son of teachers, was one of the few who valued learning for learning’s sake.

So, if higher education is seen as worthless, how does a student get ahead? The only way is through cultivating *guanxi*, which means “special relationship” or “connections.” *Guanxi* is an integral part of daily life, an unavoidable necessity. The word itself is rarely spoken by Chinese, and when it is, is cloaked with a laugh. It is more frequently spoken

by foreigners who unwittingly find themselves trapped in a system with no alternatives. *Guanxi* is more overtly expressed in the word *meiyou*, a word spoken with such frequency that it is one of the first words a visitor learns in China. *Meiyou* means, literally, "not have." In one sense, *meiyou* means "I haven't got it, I can't get it, this government is too corrupt for anything to work smoothly." You hear the word every time you ask for anything, from cooking oil to plane tickets. When a shopkeeper says "*meiyou*," it is an invitation to press him harder—perhaps with money, more likely with a "back door," someone you know who is part of that person's *guanxi* network. In a situation where the person has power over you, *meiyou* really means "Give me something and I'll talk to my friend (or cousin, or father-in-law) about it." Unless you are the child of a cadre, born with *guanxi*, it is very difficult to have power as a young person, for power comes from amassing a network of "special relationships," and that network, integral to survival, comes only through time.

Corruption

Guanxi is not just an easier way to get things done; it's the only way. *Guanxi* penetrates Chinese society like a cancer, crippling individual initiative. In China, to be ambitious one must also be corrupt; the most honest and diligent people are often found in positions of the least power. If you're a student, and you want to go to America to study, and you work hard until you're at the top of your field and study English until you can speak it better than your teachers, then when an opportunity comes up for a visiting scholar position in your field in the United States, you see the university president's son-in-law, who can say "hello" and "good-bye" in English and knows little of your field, packing his bags to get on the plane to go take the position that belongs to *you*. This happened to a good friend of ours. Her reaction? Not rage, as you would expect, but a certain resigned sorrow and, of course, a small laugh.

The corruption of *guanxi* permeates every layer of society in China, from the old woman selling vegetables on the street to the highest officials. If flour is being rationed, then the clerk sells it to friends and to those who can return favors. Deng Xiaoping's son benefits greatly from his "special relationship"—he is now a millionaire.

However, unlike in Western societies, the corruption of men in power isn't reported in the Chinese media. Mention it and you get still another laugh, meaning, "We don't talk about that." *The China Daily*, our most accessible paper, was a Party tabloid dripping with "good news." Front-page stories chronicled the success of industries, the bravery and heroism of citizens, the progress of the Four Modernizations. Educated Chinese never take the media seriously; its amateurish propaganda is aimed at the peasant class, who make up the vast majority of Chinese citizens. Our friends were quite adept at deciphering the "news": "Oh look," they would say. "Pictures of Deng exercising in the park! He must be dying."

The Life of a Student

The debilitating effects of *guanxi* and a distorted press would be enough to explain the apathy of my students, but in addition to being powerless to effect any real changes in their lives, they also face appalling living conditions. Student dormitories are worse than the worst U.S. slums. (A Chinese delegation visiting Houston asked to be shown the "slums" they had read about, and then didn't believe they were being shown real slums. In their world, government officials would never show foreign guests the country's insufficiencies, and besides, back home, many people live in similar—or worse—conditions.) The student dorms are shoddy looking buildings, victims of poor craftsmanship and lack of upkeep, with broken windows, littered stairwells—in stark contrast to the beautifully constructed temples that still stand after centuries. A standard joke in China is that you can't tell whether a building is being torn down or put up, because the materials and craftsmanship are so pathetic.

A dormitory's stench forms a cloud around the buildings that can be smelled from half a block away. "Sanitary engineering" is a Western technology the Chinese haven't quite mastered. The toilets don't work, but continue to be used. Sinks and corners become urinals when the toilets are full. As many as eight people live in a small room with bare cement or dirt floors. The plumbing (when there is plumbing) rattles, clogs, and moans. Cold, unpotable water is turned on three times a day for half an hour. Hot water is unheard of; students fill thermoses for tea from a single rusty boiler on

campus. Electricity, like water, has long daily outages. Many dorms have no heat in the winters, with temperatures frequently dropping below freezing. The food, served in a filthy dining hall, is barely palatable. Students survive on *mantou*, a soft doughy roll made solely out of white flour and water, and on limp vegetables cooked with bits of gristly meat. Needless to say, students are often sick, and always tired. Long afternoon naps are a custom in China; energy levels are low and sleep is the best way to escape the ennui of student life.

Students spend the bulk of their time away from the dormitories, usually gathering in empty classrooms to "study." Our small apartment, embarrassingly bourgeois compared to the students' rooms, soon became a place to hang out, drink soda, play cards, and chat. Friendships come easily in China, as they are the main form of entertainment. Daniel was one of many frequent visitors, staying for dinner night after night. I could tell that he wished to reciprocate, but was too embarrassed to invite us to his small room. Instead, he taught me to cook elaborate dishes and insisted on spending half a month's salary on a banquet "in our honor" at a local restaurant.

Evenings with Daniel and other students were lively and enjoyable, and caused me to change my initial impressions. Students who seemed barely alive during class burst with enthusiasm over a simple card game; clearly their apathy wasn't inborn, but chosen, as a defense against hopelessness. There was no real reason to work hard in school.

I soon began to see the wisdom of another new Chinese saying, which told of the three types of Chinese students: the *yi to*, the *er go*, and the *san hun*, each with their own way of coping. The *yi to* fervently throw their energy into studying to pass the TOEFL (Test of English as a Foreign Language), the standard examination required for admission to all English-speaking universities. They pin their hopes on escaping the system by being accepted to study in the U.S., Australia, or Canada. Their chances are slim, and they know it. The *er go* are so named for spending the bulk of their time playing *go ji*, a lightning-fast gambling game that involves six decks of cards, as many quarts of beer, and a great deal of raucous shouting. And the *san hun*, who, by my informal poll, made up the vast majority, were resigned to their fate, frittering away their days, shuffling along with their hands in their pockets and all the time in the

world. They played a mean game of ping-pong, and loved to stage mock arguments, which always drew a crowd of even more *san hun*, interjecting comments and laughing.

Daniel was also one of the few students I met who escaped categorization; one of the few who, in spite of great odds, entertained hope for the future. One day as we walked up the hill at the foot of Mount Tai, he spoke, as many others had, of passing the TOEFL, going to the U.S., getting a degree. But then he hesitated. "What I really want to do is study psychology," he said. I was astonished. Psychology is considered a Western evil in China: affirming the individuality of each and every one of us, it goes against the grain of a paternalistic society that wishes to have a nation of subservient people, all thinking the same thoughts—thoughts the government chooses. The works of Freud are banned, and most people don't know that psychology exists. Amazed, I asked him why he had chosen this forbidden subject. He scowled at a cheap plastic buddha on the side of the road, stuffed with money by peasant pilgrims for "good lucky," and said, "Because my people have no spirit."

April 16, 1989

Daniel impressed me with his energy, his dedication, his belief in his ability to make a difference. I grappled with how to impart some of Daniel's spirit into the rest of my students. The morning of April 16, 1989, signaled the beginning of the transformation I was wishing for, but it had nothing to do with my work, and, sadly, it was not to last. When I walked into the classroom that morning, I was greeted with a hubbub of sounds. Instead of slumping at their desks, gazing out the window, my students were standing, wildly gesticulating. Instead of talking quietly, they were arguing, shouting; some looked as though they had been crying. I knew what had raised their spirits to anger and sadness: the death, the day before, of Hu Yaobang, a beloved leader, one of the few who wasn't corrupt.

At last, I thought to myself. A subject that they were interested in. Hu's death could be a catalyst to inspire my students to write, maybe even speak. My students were angry, for the rumor was that Deng Xiaoping and Li Peng had badgered Hu, the "students' friend," to the point of a heart attack. ("His heart was sick for China. Deng Xiaoping killed him," they told me in private.) Word that

their counterparts in Beijing were walking the streets in protest brought a light to their eyes and an urgency to their speech I had never seen before. I threw out my lesson plan for the day and devoted the whole class to the story of Hu Yaobang, and we wrote a mock newspaper article on the board.

I knew that in China no one talks openly of any topic that is remotely controversial: it is best to pretend the subject doesn't exist, hide your uneasiness behind a laugh, and stay out of trouble. I knew it, but rebelliousness took over, and I delighted in speaking and writing about a forbidden subject. My students delighted in it too, and most of them joined in the exercise, with a few exceptions.

One of those exceptions was the *banzhang*, or "class monitor." Until that day I thought that the monitor's duties were to ensure that I had hot water for tea, and that the blackboards were cleaned at the end of the day. However, I soon learned that the monitor is the highest ranking member of the Communist Party in his class. It was also his duty to report everything said in the classroom back to his leaders.

A Confrontation

That afternoon, my husband left the apartment; within minutes, three older Party members were at my door. (Later, we found that the gatekeeper was told to notify the officials as soon as my husband walked out the college gates.) I poured tea as they sat on the couch across from me: two English teachers, one acting as interpreter, the other ducking his head, hoping I wouldn't expose his poor knowledge of the English language. The third was the leader of the Foreign Language Department, a man we had nicknamed "Fishface" for his total lack of humor and his wide mouth, locked in a perpetual frown, which gave him an amazing resemblance to a gopher.

They made a sad trio: former Red Guards, now in petty positions of power, nostalgic for the glory days of the Cultural Revolution. I could almost sense their history: in their teens, they were on the wave of what was thought to be a new era, a new beginning for China. At that time, they must have felt the same camaraderie and excitement my students felt now, in their own quest for change. But years of institutional brutality and lying to survive had crushed their spirit, until no trace remained. There was none of the humor, the sparkle of friends

like Daniel. Just bitterness, set deep in the grooves of their faces, and eyes that never met mine.

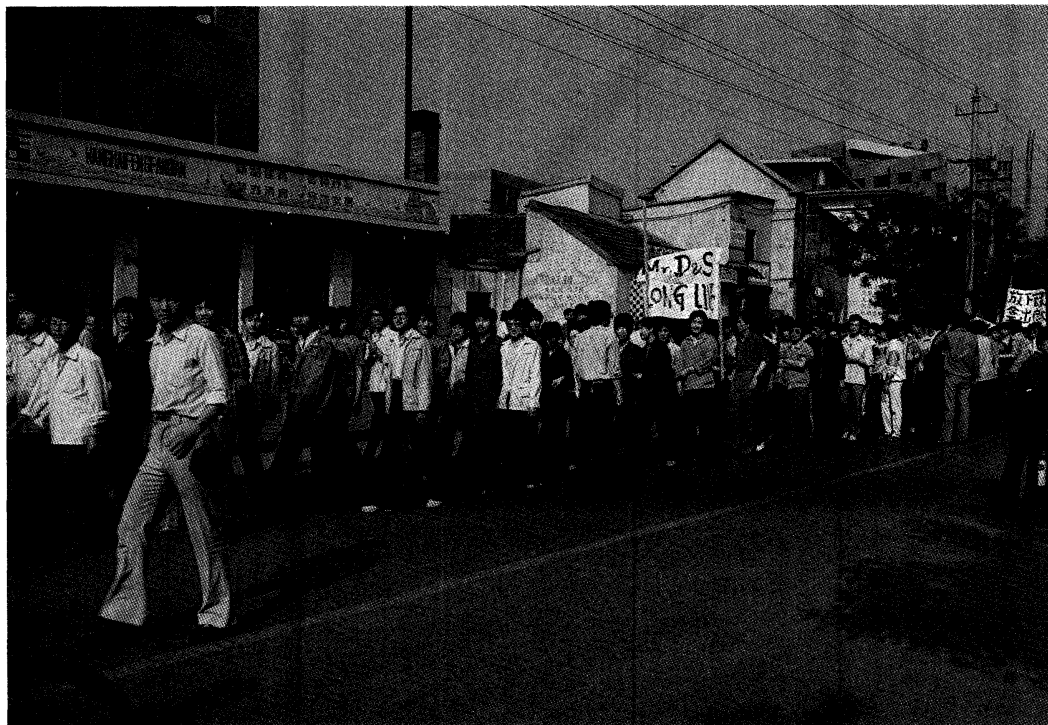
"You are an English teacher. You have been given books to teach from. It is your duty to teach your students from these books," the interpreter told me. I sat silent as we acted out our parts, bit players in a farce about the Cultural Revolution. I thought of our friend in Beijing who told us of a man who had been harassed by Red Guards and thrown out a window, breaking both his legs. But this was the 1980s, the decade of openness. I was only caught up, temporarily, in the old habits of these sad people. Fine, fine, I thought—I'll teach out of the boring old book. Just leave.

They made their point quickly. No mention was made of my class that day, of Hu's death, or of the student unrest in Beijing. I was curious about their thoughts, and cautiously broached the subject. The three nervously glanced at each other; Fishface laughed, his mouth struggling to retain its downward grimace. "Oh, ha-ha-ha-ha," he said. "Do not worry. We are taking care of it. It will end soon. You are in Taian—a small city—a problem like that would never happen here."

But the demonstrations in Beijing were not over. They swelled in size, and went from mourning a great man's death to an outright attack on corruption and the specious media—what the demonstrators called "vestiges of feudalism." Students from our city rode the train eight hours north to Beijing to support their peers; soon the train conductors, in solidarity with the students' cause, gave free transportation to students in and out of the capital. News of the movement spread rapidly on the college grapevine, and my students continued their energetic discussions during their free time.

Then, on the night of April 28, as my husband and I lay asleep in bed, the windows open for coolness, I was startled awake by a sound—a muffled roar—was it a dream?—was it the pilgrims climbing the mountain?—no, they were always just chattering, nothing like this. And it was far away, down by the river, like a rushing of wind. I woke Matt, and we went out onto the porch. It was definitely a roar, like a crowd of people. Perhaps some festival we didn't know about. Puzzled, we went back to bed.

The next morning Matt left for an early class, but reappeared within minutes, breathless. "No class today! I'm going to a demonstration!" he shouted, grabbing his camera and flying down the stairs. It was the continuation of a large demon-



Student demonstrators in Taian.

stration from the night before, born at the Teachers' College and growing to include thousands of students from all the colleges in town.

"They threw chairs out the windows! They knocked down the gates of the school!" my students excitedly told me. The president of the Teachers' College had told Beijing that Shandong students did not support the pro-democracy movement, and word of his report infuriated the students, sparking a riot. No support! In the days that followed it seemed as though every student in town was on the street, chanting "Down with Li Peng!" From Jinan, a city an hour north of us, came stories of demonstrations exceeding 100,000, with the students lying down on the railroad tracks to block army trains. Every campus in every city in China was rallying in support of their brothers and sisters in Tiananmen Square. Big-character posters, painted rapidly to show the urgency of their message, bloomed on campus walls, disseminating news from Beijing. Classes were boycotted: no time for such things, there was work to be done! For the first time ever, I saw students *running*—dashing enthusiastically to rallies—an astounding sight after being accustomed to seeing them shuffle along like rag dolls.

The visits from Fishface and his entourage continued. Since the students were boycotting classes, I had stopped going down to my room every day; many of the students had gone to Beijing, and the rest were busy with daily demonstrations. "You must go to your classroom," he told me. They had rounded up some *guanxi* students, obsequious sons and daughters of cadres, who would serve as my students until the "trouble" passed; it was important to Fishface and his ilk that things appear as normal as possible. Walking down to class, an older cadre-member caught up with me. "Ah, going to class?" he said, satisfied at the appearance of normality. In the classroom, as always, I heard the same lines, repeated in robot fashion. Asking one of my "students" to translate a hastily scrawled character poster plastered to the wall, she ignored my request, saying: "The students must be in the classroom. It is their duty to study."

Daniel as "Hooligan"

Daniel visited our apartment every day now, regaling us with tales of the pro-democracy movement, improving his English by leaps and bounds.

We laughed and called him "hooligan," Li Peng's term for the bad element that was causing all this "trouble." Daniel told us of large character posters he had printed: one was a petition stating the students' demands for a free press and an end to corruption. Grinning, he said that for the first signature, he had forged the name of the college president. He proudly marched through town with a homemade sign saying "Hello, Mr. D"—the students' affectionate name for democracy.

It was spring, and there was a heady feeling all around. The students now had a vehicle for their pent-up frustrations, a hint of hope that they could change their fate. It was as though energy and exuberance had been lying in an underground stream, waiting to bubble up. One day, while I watched a demonstration, one of my students who never spoke English in class ran up to me exclaiming, "Miss Marcella! We are marching for free!"

When, on June 4, 1989, the blow finally fell, so too fell the brief hopes of those brave, frustrated students. The night of June 3 we watched the television news, and knew by the reports (the army's duty is to protect the students . . . the soldiers have been ordered to defend themselves . . .) that students would be killed. Still, our Chinese friends denied the possibility. "Oh, no-no-no-no," they said, waving their hands, dissembling their fears with laughter. "The People's Army would never kill the people."

The morning news reported 40 dead. As the numbers climbed into the hundreds, then past a thousand, we sat rigidly by the radio, waiting for the hourly reports of the BBC and Voice of America. By the evening of June 4, we knew it was time to leave.

All the next day we attempted to contact school officials, but they were in a meeting, agreeing, we assumed, on the standard Party response to the massacre. Finally, that evening, we sat down with the vice president of the college. As always, tea was poured, and pleasantries were exchanged before getting down to business. My husband and I were angry, firm in our convictions. We no longer had any patience with Chinese protocol. "We cannot stay in a country that murders its children," we said. "We want to leave China as soon as possible." "Oh, ha-ha-ha-ha," the vice president answered. "Why are you so worried? Why don't you wait and see? There is nothing to worry about. Taian is a

small, peaceful town. Nothing will happen here."

He clearly wanted us to continue going about business as usual, pretending nothing had happened. We mentioned to him that over a thousand had been murdered. "Oh, huh-huh-huh. Not so many have been killed. Not so many as that. You do not have to worry. You are not in danger. There will be no more trouble. It is over now." "Besides," he continued, "how do you know the Voice of America and the BBC are not lying? You yourself have said that your American press is not always truthful." Cringing, I remembered an earlier question-and-answer session where I had innocently delved into the "inadequacies" of the American media.

"You Are Not in Danger"

The crushing of the pro-democracy movement confirmed the bleak circumstances of the students. Students who, a week before, were marching and shouting in the streets, were back to shuffling, avoiding the Americans, and speaking of the movement only behind closed doors. It was as if nothing had happened. Mention of the Tiananmen atrocities brought the same response, repeated *ad infinitum*: "You are not in danger."

No matter what we said, the rationalization that the idiot Americans were fleeing, fearful of being ripped apart by an angry mob of counterrevolutionaries, prevailed. They seemed truly unable to understand our motivations. Of course it wasn't danger we were worried about, although certainly that was foremost in the minds of our loved ones back home, who were unable to reach us. We knew that the officials wanted us—the highly visible Americans—to stay in the classroom, drilling our students with boring lessons, "proving" that everything was all right. "You must stay," we were told. "Think of your duty to your students." It was our duty to our students that made us leave. We could not pretend nothing had happened. The only way to support them was to make the physical statement of leaving, to create a visible absence that would show that we did not tolerate the actions of the Chinese government.

Starving for news, we turned on the television. Scenes of happy workers, satisfied in serving their country, were now the dominant theme. "Ah," Daniel would tell us, "that means the workers in Beijing are joining the fight." Footage of the students "peacefully leaving" Tiananmen Square was

shown: it was an old clip of a demonstration, shot from the rear. Scenes of students setting fire to tanks and close-ups of dead and mutilated People's Liberation Army (PLA) soldiers were aired repeatedly: the Counterrevolutionaries Attack Peace-loving Members of the People's Army. The commanding general of the PLA held a press conference, saying, "No one was killed in Tiananmen." And the media continued to implicate foreign influence, especially American influence, in the "student trouble," causing some of our Chinese friends to become increasingly nervous about their contact with us.

Still, brave "counterrevolutionaries" within the news media were able to get their message out: one night, soon after the massacre, a newscaster, dressed in black, hung his head while he broadcast lies written by the government; he was never seen again. Another night the English service news broadcast was canceled; in its place savvy technicians ran a documentary about funeral customs. In the middle of the documentary, a red cross was displayed for 30 seconds, telling viewers that the Red Cross figure of over a thousand dead was accurate.

To counter the propaganda, we had news from students who had recently returned from Beijing. They wrote their stories on huge sheets of white paper, in black characters splattered with drops of red. The PLA was arresting students getting off of trains in Jinan, and was placing tanks at intersections, so the students would continue on to our smaller, safer town. "The soldiers of the 27th army were shot up with amphetamines before their rampage," we were told. "They crushed the bodies with tanks, bulldozed them into piles, and burned them, so no one would know how many. Beijing was covered with a cloud of putrid smoke." And they brought with them the chilling rumor of civil war: "The 38th army is on the outskirts of Beijing, preparing to fight the 27th."

And, when the stations weren't jammed by the government, we listened to the scratchy broadcasts of the Voice of America and the BBC. "Foreign diplomats' residences were riddled with machine gun fire yesterday." Good grief, we thought. If they're shooting at the diplomats, what about the lowly foreign teachers? We thought of our families back home watching film of the carnage, news we were unable to see.

Almost two weeks after the massacre, we still

seemed unable to persuade the school officials to assist us in leaving. Rumors were that the trains into Shanghai were blocked, and everyone knew Beijing was a madhouse. We worried about our families worrying about us, for there was no way to communicate with them. We began to wonder if we would ever leave. The school officials seemed desperate to have us stay; we were their only visible symbols of normalcy. Suddenly, on a Wednesday, they brought us news of train tickets booked for us that Friday. We would travel to the coast and fly out to Hong Kong. I began to pack.

Our friends wept openly; in China it is customary to cry at the parting of friends, and it was cathartic. Our friendships, though short, ran deep. I knew that, like me, they were also crying for China. I felt as though I were abandoning them: we were leaving, and they could not. There was news of executions in Jinan—not of students, but of workers, for strikes were what the government feared most. We were concerned about Daniel's safety. He had thrown himself heart and soul into the pro-democracy movement, and had been quite visible. "Go home," we told him. "Back to the countryside. Dirty up your clothes. Grow vegetables." But this advice only made him laugh. "If they kill me because of my actions, let them," he smiled. "There are 1.1 billion of us. They cannot kill us all."

Out through the "Back Door"

In the end, events intensified. It was as though China were kicking us, to make sure we got the point. Storekeepers and restaurant owners struggled frantically to cheat us, knowing they would not see foreigners—and their money—for a long while. We had to use a "back door" and bribery to wangle tickets to Hong Kong from a travel agent who was laden with expensive jewelry, the by-product of her profession. In the hotel lobby, we were constantly dodging a chuckling little man with a video camera glued to his eye, setting a propaganda trap: "The Happy Americans Untroubled by Recent Events in Beijing." And, in the evening of our last day, we watched as the young student walked into the Yellow Sea.

Late on our last night in China, wide awake and edgy, I sat watching the television show face after face, bright, alert, faces—like Daniel, I thought—all wanted by the PLA. I could decipher the names of the colleges: Beijing University, Beijing

Iron and Steel. And the names: Wuer Kaixi, Chai Ling . . . and the ages: 22, 23, 19 . . . These were not the faces of criminals. They were China's best and brightest, her only hope for the future. I knew that, if found, they too would be killed. And I feared for Daniel.

Now, back home in the U.S., I make new Chinese acquaintances. They are outgoing at first when they hear I have visited their country, but quiet when I tell them I was there the summer of 1989, saying, "We had to leave earlier than planned." Suddenly, there it is again, the same laugh heard so many times in China. It is as if they are afraid Fishface is in the room. "Oh, ha-ha-ha-ha," they say. "Everything is fine now. You can go back. There is no trouble."

And slowly, painfully slowly, the letters trickle in. The first ones talk of sadness at our leaving, of the routine events of the day. No mention of anything political. And, from our best friends, no word at all. We didn't hear from Daniel after writing him two or three times—finally, we received a card at Christmas, with a funny picture and a cryptic message: "I'll write you later, and THEN answer me."

A few weeks later we heard from a friend: "You want to know about Daniel. I met him one month ago. He is o.k. now. But you had better don't write

to him directly. He told me he had some trouble in June and July last year. He is afraid of writing to you and receiving your letter." She went on to complain about the increased load of boring "political classes" the students were forced take. "I hate them," she wrote.

And, finally, in February, a letter from one of our brave friends who had been active in the movement. He has passed the TOEFL and been accepted at a university in the U.S., but college officials won't release his educational records. Afraid of further trouble, he sent the following words to us through an intermediary:

I'm very pleasure for receiving your Christmas card. It brought great comfort to me. I know there are my friends concerning with me on the other side of the world. We are not lonely.

I had trouble in the past days. I am on their list, and I refused to do what they told me. My health is not good for near two months. Perhaps that was my good luck, because it help me to pass those days. Thank you! Thank America! Because of America our situation is little better.

Though there is no news on news report we know the news about East Europe. I believe that Mr. D will come to China early or late. □

You Missed the Point, Bernie

by Donald G. Smith

My friend Bernie is a socialist. Now Bernie would never admit to this—he likes to say *enlightened liberal*—but everything he favors seems to wind up with government ownership of something, so I cannot see

Mr. Smith is a writer living in Santa Maria, California. He is a frequent contributor to The Wall Street Journal.

much distinction between his label and mine. Perhaps I could be kind and say that Bernie is an enlightened liberal who just happens to favor a socialistic solution to all problems.

One of Bernie's favorite arguments is actually a question: "Where in the U.S. Constitution does it say that we are to have a capitalistic economy?"

The implication, of course, is that we are not legally bound to any economic system, and therefore we should start forming committees at once to nationalize everything from U.S. Steel to the Girl Scouts.

I had always dismissed the question/statement as totally irrelevant and never even gave it the dignity of a serious counterthrust. In recent days, however, I have taken the time to consider the point, and I think that Bernie has really hit on something—an idea that negates every argument ever presented about the benefits of a planned economy.

The Constitution is a document that deals with *political* freedom and says nothing whatever about an economic system. This is highly significant because it presupposes that a free people will work out a way of doing business that is consistent with the principles of political freedom. In short, capitalism was never planned—it just happened. It is the natural and inevitable result of political freedom.

Socialism, on the other hand, is necessarily the result of a planned economy. No society can ever install a socialistic economy without a massive planning effort. It is something that is born on the conference table, the unnatural result of planning boards pushing an economy in a direction that it doesn't want to go. Is it any wonder that the black market flourishes whenever a planned economy exists? The black market is an unplanned phenomenon that moves like the winds and the tides and cannot be legislated out of existence. It is an illegal kind of unbridled cowboy capitalism that exists solely because it is needed and wanted.

Unfortunately, the inevitability of capitalism in a free society is not recognized by people who look at chickens and see ducks. Karl Marx, for example, had no understanding of American capitalism, seeing the world as he did through the eyes of a 19th-century German. Lenin understood even less, always equating Tsarist Russia with capitalism, and the basis of his life's work was buttressed by this gigantic misconception. The man was unable to see any distinction between private ownership in an autocracy and the rights of a free people to go as far as their talents and energies will take them.

In this regard, I have always been quite impressed with a story told by Nikita Khrushchev during his 1959 visit to the United States. Khrush-

chev said that as a small boy in the Ukraine he and some friends made a surreptitious visit to a nearby orchard to help themselves to some fruit. They were caught by the landowner, and all but the small Nikita managed to escape. He was unmercifully beaten by his cruel captor and then violently thrown off the property and left to find his way home, if indeed he could still walk. This was to be Nikita Khrushchev's lifelong impression of private land ownership and, consequently, his concept of capitalism.

One can only imagine how many times this mini-drama was replayed throughout Tsarist Russia; how many times acts of similar cruelty were accepted as the way the world works when people are allowed to own property. None of them—Marx, Lenin, Khrushchev, nor any of their compatriots—could grasp the idea that private ownership in a despotic, oppressive government has no relationship whatever to a game in which anyone can participate.

My old friend Bernie doesn't even have this excuse because he has seen the capitalistic system at work, even benefited from it. Like most American males, he can look back to a boyhood in which he helped himself to a pilfered apple or orange along the way and received no corporal punishment for the transgression. Nor was he ever forced to work the lands or to clean the stables of the local patrol.

With Bernie, I think, it is his sense of neatness that is offended. Socialism is perceived as a desirable thing because it is planned, which means that all of the bases are covered. Socialism is tidy and capitalism, to the Bernies of the world, is an uncontrolled messy thing that is badly in need of some grooming.

The point that is missed, over and over again, is that this is the very strength of the system. It is not planned, it is not the law of the land, and it is not beholden to a central committee. Capitalism is a natural expression of a free people, the normal and inevitable outgrowth of political liberty. It is, in effect, left to us by the Bill of Rights because it is the only economic system that is compatible with these freedoms.

No, it doesn't appear in the Constitution, Bernie, and this is why it works. You, my old and good friend, have missed the point completely. □

The Taproots of Political Corruption

by William H. Peterson

How prevalent has political corruption been over recorded history—and how did it originate? Quite an inkling as to its prevalence and origin can be found in a book written by H. J. Haskell and published by Alfred A. Knopf in 1939. The book is *The New Deal in Old Rome*.

Haskell, a newspaperman with the *Kansas City Star*, was both puzzled and inspired in the late 1930s when he and his wife drove across the Pont du Gard, the stone bridge and aqueduct that soars 165 feet above the river bed near Avignon in southern France. This triumph of engineering and architecture was built by the Romans some two millennia earlier. It still stands, mute testimony to the genius of Rome. Yet it raises the question: What happened to the glory that *was* Rome?

The magnificent Pont du Gard cast a spell on Haskell. Perhaps the spell was of the same sort that fascinated Edward Gibbon when he walked along Hadrian's Wall, which demarcates the northern boundary and defense line of Roman Britain. Gibbon went on to write *The Decline and Fall of the Roman Empire*, the first volume appearing in 1776.

Back to Haskell. He reflected on the possible meaning of the Pont du Gard and asked himself: Just what kind of a civilization had created such an awesome, durable, and most beautiful structure, survived a thousand years, and then disappeared? And, pondered the American journalist further, why the disappearance? Back in the United States, Haskell discussed these questions with Katharine Dayton, a friend and playwright.

The time was the Great Depression, the heyday of the New Deal, of massive interventionist measures following in the wake of Federal Reserve expansion and contraction of the money supply in the late 1920s and early 1930s, and of failed Hoover Administration programs—most notably the Agricultural Marketing Act of 1929, the Smoot-Hawley Tariff of 1930, and the Reconstruction Finance Corporation of 1932. But now a number of New Deal programs had also backfired. The depression dragged on, even though FDR and his New Deal won in 1936 by a larger majority than in 1932. Severe unemployment persisted year after year and even escalated in 1938.

Miss Dayton told Haskell of her conversation with eminent antiquity historian and archeologist James Breasted shortly before he died. She had inquired if he had discovered any New Deals in the ancient world. He responded: "Yes, my dear, I've dug up at least a dozen."

Hence the reference to the New Deal in the title of Haskell's book. In it he argued, as had Gibbon, that it was not the strength of the Germanic invaders that sank Rome but the Eternal City's moral and economic corruption. The corruption arose, Haskell held, from a pattern of majoritarianism (popularism) and interventionism (widespread government interference in a market system).

Such interference is seen in the Roman equivalents of, in New Deal terms, a Farm Debt Conciliation Committee, a Resettlement Administration, a Public Works Administration, a Food Relief Administration, a Home Owners Loan Corporation, an Ever-Normal Granary, and so on.

This potpourri of interventionist measures is frequently shorthanded by historians of Rome as

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

“bread and circuses.” It pushed Rome, Haskell held, into amorality, further intervention, more corruption, bouts of inflation, and eventually into a totalitarian state—all contributing to Rome’s decline and fall.

Amorality? Note how Mises similarly plays on “the standards of morality” in commenting on Rome in *Human Action*:

The marvelous civilization of antiquity perished because it did not adjust its moral code and its legal system to the requirements of the market economy. A social order is doomed if the actions which its normal functioning requires are rejected by the standards of morality, are declared illegal by the laws of the country, and are prosecuted as criminal by the courts and the police. The Roman Empire crumbled to dust because it lacked the spirit of liberalism and free enterprise. The policy of interventionism and its political corollary, the Führer principle, decomposed the mighty empire as they will by necessity always disintegrate and destroy any social entity.

A Timeless How-to Message

Newspaperman Haskell observed that much amorality if not immorality was involved in Roman majoritarianism and interventionism. In this vein, see his references to the *Handbook on Politics* by Quintus Cicero, younger brother of the great Marcus Cicero (B.C. 106-43), leader in the Roman Senate. Marcus was running for the Roman consulship in the latter days of the Roman Republic, and Quintus evidently figured his brother was too principled, too unschooled in the devious ways of politics, to make a winning race. Hence while his blunt handbook was dedicated to Marcus Cicero (just as Machiavelli later dedicated his similar handbook on politics, *The Prince*, to Lorenzo de Medici of Florence), its how-to message seems timeless—relevant to machine politicians today, some 2,000 years later—as well as conducive to corruption.

Look, said Quintus to his brother: As a senator and leading attorney, with many successful cases to your credit, remind your clients of your brilliant services and collect your political I.O.U.’s. Too, since citizens in outlying districts also vote, best swing around the circuit, greet your rural con-

stituents, wish them happiness, caring families, long lives, good health, good crops, and, of course, urge them to vote.

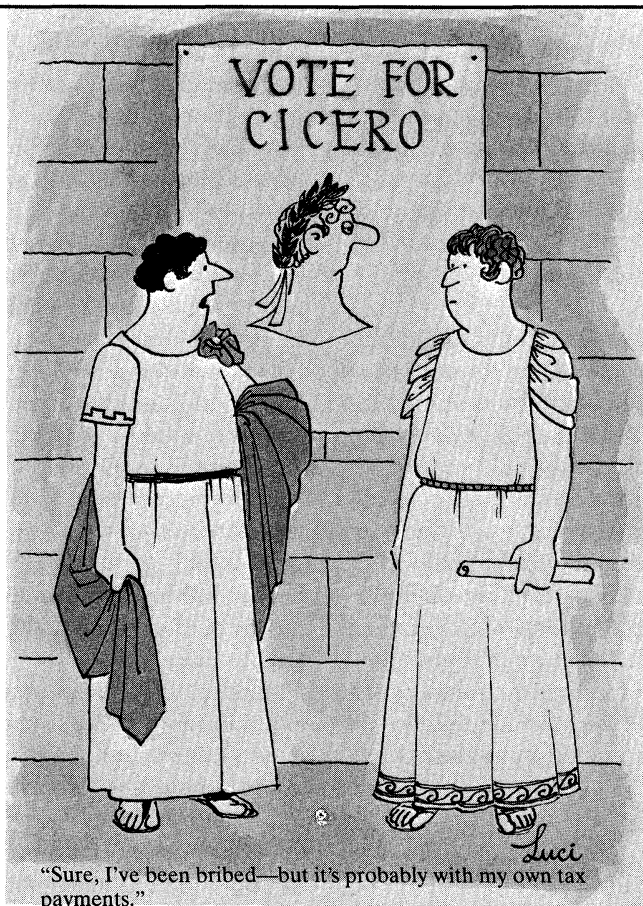
And, of course, with urban citizens as well, kiss babies, embrace old ladies, smile in public, shake hands, slap backs, tell stories, and, above all (or underneath all), gather votes—the politician’s *raison d’être*. Tell the citizens, in the city and in the outlying regions, that they are the salt of the earth, the strength of the country, God’s chosen people. Tell them anything.

Let them personally know, Marcus, how highly you admire them and value their counsel, their friendship, their affection—and their vote. That is, fawn on the voters, butter them up, play the game. As Quintus wrote for his brother, as quoted by Haskell: “One has great need of a flattering manner, which, wrong and discreditable though it may be in other walks of life, is indispensable in seeking office.”

Another thing, Quintus went on, don’t be overly conscientious or careful in your electioneering. Be generous, even lavish, with pledges of booty, bounty, jobs, contracts, public works—of favors you can bestow once in office. “Human nature being what it is, all men prefer a false promise to a flat refusal. At the worst the man to whom you have lied may be angry. That risk, if you make a promise, is uncertain and deferred, and it affects only a few. But if you refuse you are sure to offend many, and that at once.”

Quintus covered all the angles. He wrote: Again, dear Brother Marcus, no need to be reserved or above questioning the honesty and integrity of your opposition. Your rivals for office are certain to resort to bribery and other underhanded tricks. Right? Hence fight fire with fire, Quintus counseled. Try bribery yourself, buy off your enemies, convert them into allies. Too, why not try scandal? “Contrive, if possible,” said Quintus, “to get some new scandal started against your rivals for crime or immorality or corruption, according to their characters.”

This last idea struck home. Catiline, the key rival of Marcus Cicero in the election, was apparently making illicit payments to voters and key officials. But in Senate speeches Cicero went beyond such peccadilloes and accused Catiline of crime after crime, outrage after outrage, including murder, adultery, attempted massacre, attempted incest, and marriage to a daughter whom he had



fathered with a mistress. Demanded Cicero: "*Quo usque, Catilina, abutere patientia nostra?*" [How long, Catiline, will you abuse our patience?]" The accusations, however wild, fell on receptive ears. Catiline lost the election.

The More Things Change . . .

Now, what was really going on here two millennia ago of relevance to us in our own age of political corruption and rather unlimited government? Consider. Cicero's election campaign was all part of a universal game that goes to this hour, a bidding war, a slander war between rival parties and candidates, with each party and candidate trying to out-promise and out-denigrate the other, while the wooed and all-too-frequently-grasping voters swoon over the adoration and public loot showered or to be showered on them.

Historically parties and candidates have long resorted to a campaign strategy of half-truths if not calculated deceptions, artifices, illusions, and other stratagems that many voters, then and now,

only half understand and half suspect of hoodwinkery. But many if not most of the electorate are nonetheless tantalized and corrupted by an election campaign—political gladiators skewering the reputations of their opponents, the temptation of something for nothing, the longing for certainty in an uncertain existence, the wish for security in an insecure world. Many a voter echoes the thought of Oscar Wilde: "I can resist everything except temptation."

So today's campaign tantalizers and tantalizees are part and parcel of the story of corruption. They are not basically different from political contests of yesteryear. Fanfare and knowing winks persist, accompanied by standard political charisma and oratorical flair, by cascades of rhetoric and bombast, by political conventions complete with campaign buttons, ribbons, flags, bunting, and balloons, by parades of marching bands and shiny open cars topped off with the smiling candidates waving at adoring multitudes along a parade route.

All this classic showmanship is at once numbing and mesmerizing, if not confusing, to the elec-

torate. But it is also, on the whole, enthralling, persuasive, and enveloping. As are the political slogans: "Carthage Must Be Destroyed." "A Chicken in Every Pot." "Death to the Huns." "Reunite the Two Germanies." "Peace and Prosperity." "Veni, Vidi, Vici." "Workers of the World, Unite." "Tippecanoe and Tyler Too." "A New Deal." "The Square Deal." "The New Freedom." "The European Community." "The Worker's Paradise." "A New Beginning." "Greater Asia's Co-Prosperity Sphere."

For then in the time of Cicero and now on the eve of a millennium, do candidates tell the truth, the whole truth, and nothing but the truth? Do the voters themselves really believe all that campaign rhetoric and bombast? Many, perhaps most, obviously do. But quite a few of them nudge each other in the ribs and wink an eye. As Haskell commented on the electioneering goings-on in Ancient Rome: "Probably Cicero would have been surprised to know that his election charges [against Catiline] would be taken seriously by posterity."

Haskell concluded his book with an appendix of interventions, of campaign promises, and ploys that went wrong. He called it a "Chronology of Roman New Deal Measures and Other Economic Experiments." Some highlights:

367 B.C.—Licinius Stolo: moratorium on debts.

357 B.C.—Maximum interest rate set at $8\frac{1}{3}$ percent.

342 B.C.—Interest abolished to favor debtors; law soon ignored.

217 B.C.—Monetary devaluation to meet financial stringency in second war with Carthage.

133-121 B.C.—The Gracchi: Resettlement Administration; Public Works Administration; Ever-Normal Granary; two-price system for wheat, sold by the government at 32 cents a bushel (1939 equivalent), well below the market price, to those willing to stand in line.

58 B.C.—Wheat furnished free as a dole.

49-44 B.C.—Julius Caesar: panic in Rome when Caesar crosses Rubicon; flight of capital; collapse in real estate. Remedies: debts scaled down on basis of prewar values; Resettlement Administration, 80,000 taken off relief and settled away from Rome; relief rolls cut in half with means test (320,000 to 150,000); anti-hoarding measures, with compulsory investment in Italian land; Public

Works Administration, work on roads, public buildings, reclamation projects.

29-9 B.C.—Augustus: more extensive Public Works Administration projects; large soldier bonuses; easy-money policy from spoils of Egypt and large coinage of gold and silver from government mines; rising prices; relief rolls, which had expanded after Julius Caesar's death, cut from 320,000 to 200,000.

91 A.D.—Domitian: Agricultural Adjustment Administration, half of provincial vineyards destroyed to stop overproduction of wine.

97-106 A.D.—Nerva and Trajan: Farm Credit Administration, with loans to farmers at half the market rate; government aid to children of poor families; senators required to invest one-third of their wealth in Italian land.

117-211 A.D.—Hadrian and successors: extravagant spending on public works by central government and cities, followed later by heavy expenditures for wars, exhausting both reserves and tax resources.

212-273 A.D.—Heavy taxation and inflation, demoralization of business, breakdown of the middle class.

274 A.D.—Aurelian: relief extended, with bread substituted for wheat and addition of free pork, olive oil, and salt; right to relief made hereditary. Ruinous taxes; galloping inflation.

284-476 A.D.—Diocletian and successors: spiraling taxation; inflation from overvalued currency with skyrocketing prices; Diocletian's ill-fated edict of 301 A.D. mandating wage and price controls under pain of death; totalitarian state; collapse of agricultural production; invasion of Germanic tribes; relocation of capital; end of Western Empire.

The push of Roman intervention and corruption is matched by the surge of Roman inflation. And that surge is reflected in the decline of silver content in the Roman coin of circulation, the *denarius*, from practically pure silver (save for a hardening agent) in the rule of Augustus (44 B.C.-14 A.D.) to practically pure copper (with just a wash of silver) by the rule of Diocletian (284-305 A.D.)

Quod Erat Demonstrandum: Majoritarianism, interventionism, corruption. As simple as one, two, three. Majoritarianism and interventionism make up the taproots of corruption. □

“Socialism Works”

by Evelyn Pyburn

Hidden in the half-light of a seldom-seen nook, “Socialism Works” is scrawled across the cold concrete girders of an overpass in Missoula, Montana.

Considering the untold misery and suffering socialism has brought to so many people around the world, the statement seems appropriately placed.

Considering the glaring contradiction of Eastern Europe, it’s almost inconceivable that the words were written at all; but then, that would be to underestimate the undaunted perseverance of those who believe that their fantasies can supersede reality—of those who believe that it is possible and just to live off the production of others.

“Socialism Works.” For the sake of accuracy, the statement needs a substatement that would in essence say, “*but only as long as it has a capitalistic base to suck dry*”—for it is only the remnants of a capitalistic free market, depleted as it is, that sustain the ever-growing and expanding socialism of the United States. And, as much as freedom lovers might wish to the contrary, the events of Eastern Europe have been brought about, not so much by an intellectual revolution, as by the final draining of the lifeblood of what was the productive sector of those economies.

From all the rhetoric one hears about establishing—not freedom or capitalism—but a “mixed economy,” and with all the pleading for foreign aid, it’s obvious that the upheaval in Eastern Europe has primarily to do with the shedding of a used and wasted host and the casting about for a more vibrant, living one to which the socialists can once again attach themselves.

A mixed economy is nothing more than a variant strain of socialism having grudgingly acknowledged its dependence upon the producers it condemns. A mixed economy—in any country—must, by its very nature, slide inexorably toward the same end as Eastern Europe. Those who advocate it are only asking to repeat the “grand experiment.” They have no interest in freedom, and their avowed love of humanity is false.

Of course, there are those who recognize the root cause of the failure of the grand experiment that wasted the lives of a whole generation of Eastern Europeans, but they are not the “leaders” who are redesigning the future or being quoted by mainstream media—not in those countries and not in this country.

For freedom lovers the events of Eastern Europe are indeed a victory—a victory of truth, of reality, of facts—but it is not a victory of convincing people who don’t recognize facts, who believe that reality is but what they wish, so long as they control the necessary political powers to force other people to do their bidding.

In all its barbarity, socialism is still the dream for the East German woman who on television said that, yes, she wants jobs and food and clothing, but she sees no reason to give up free day care. She doesn’t see that having forcibly expropriated the resources from those who produced them to fund free day care (and social programs *ad infinitum*) is essentially the reason she and everyone else must do without jobs, food, and clothing.

In explaining such attitudes, a friend once said that people can think in such a way because they don’t believe that actions have consequences. Thus they can allow themselves to look at the events of Eastern Europe and fail to understand their meaning—they do not see the events as a consequence of their ideas in action. It allows them to look at a failed socialistic program, lay the blame upon capitalism, and beg for more of the same.

It allows them to witness the events of Eastern Europe and go right on advocating free day care, free housing, socialized medicine, socialized education, guaranteed incomes, and regulated industry in the United States—because they don’t believe that actions have consequences. For them, “Socialism Works” because they say it does. □

Evelyn Pyburn is editor of the Big Sky Business Journal in Billings, Montana, where an earlier version of this article first appeared.

Affirmative Action: The New Road to Serfdom

by Steven Yates

1. INTRODUCTION

For over 20 years, policies calling for “affirmative action” for women and minorities have been part of American political life, and a source of enormous controversy. Advocates say the policies are morally justified, and necessary for the continued advancement of women and minorities in a society long characterized by racial prejudice and gender bias.

In this article I wish to examine this issue anew. Do the claims made on behalf of affirmative action hold up? How much substance is there to the charge that “affirmative action” is a euphemism for reverse discrimination? Moreover, has affirmative action benefited women and minorities in the ways originally intended, or have such policies worked to their detriment in some respects, as well as to the detriment of our organizations? Finally, to what extent is affirmative action compatible with the principles of a free and open society?

There are two aspects to the issue. *First*, many philosophers, legal scholars, and others have tried to defend affirmative action goals and policies on moral grounds alone. I will argue that these defenses as well as the responses to the reverse discrimination charge rest on dubious assumptions, and that sometimes these can be mined from the writings of its advocates themselves. But as it turns out, affirmative action has remained mostly

untouched by such failures. *Second*, affirmative action and related policies like forced busing to achieve “racial balance” in public schools have usually been imposed not as a result of intellectual arguments but through political force (or threat of force), from the upper echelons of government downward, usually through the courts. It is in this sense that affirmative action is a serious threat to a free society.

In the second and third sections, I will review the major arguments. I believe it is important to see where they fail and why. It is also important to understand how affirmative action fails in practice—how it harms its intended beneficiaries in a number of ways. In the fourth section I will turn to the political agenda and show how this was laid in place not as a result of public consensus but through top-down legislation and semantic subterfuge, including what amounts to an official taboo on criticism of what has become an orthodoxy. Finally, in the fifth section, I will argue that affirmative action is actually a species of social engineering, carried out in accordance with a general view of human beings. Accordingly, I will criticize both the assumptions and methods of social engineering as opposed to what I will call the philosophy of social spontaneity, which regards individuals as owners of their own lives and supreme in their own sphere of influence. Only the latter, I conclude, is compatible with a free society.

I do not claim to make a comprehensive statement here.¹ It would be impossible to summarize

Dr. Yates is a professor of philosophy at Auburn University.

concisely all the literature this issue has triggered in the past two decades. However, my aim here is to deal not with details but fundamentals. The implicit reference to F. A. Hayek's *The Road to Serfdom* in my title is deliberate; for I will argue that affirmative action programs, far from leading to a more just society, are a major means by which a well-entrenched collectivism, the core of the social engineer's philosophy, long institutionalized in the legislative and judicial branches of our government and in the universities, is taking us rapidly down the road Hayek has spent his career warning us against.

2. AFFIRMATIVE ACTION: THE MORAL DEBATE

The starting point of the claim that affirmative action is morally justified is clear enough. Our society does have a legacy of discrimination against blacks, other minorities, and women, arbitrarily keeping them out of jobs, restaurants, and good schools, while concentrating power and influence in the hands of white males of European descent. As a result, many members of these groups are educationally and economically well behind white males and show few signs of catching up. Affirmative action's proponents conclude from this that today society has obligations to these groups by offering them special advantages not available to white males. Or to make the point another way, *preferential treatment* of minorities and women is called for, and morally justified.

Arguments defending preferential treatment diverge at this point. Some are *backward looking* in the sense that their point of reference is the legacy of discrimination itself. What may be called the *argument from compensatory justice* holds that because blacks, women, and others were discriminated against in the past and excluded from full participation in the economic life of American society, reparation is owed these groups today. The way to make reparation includes offering them preferential treatment. This, we are told, will "balance the books."

But what of the fact that Title VII of the Civil Rights Act of 1964 explicitly repudiates preferential treatment?

Advocates of this backward-looking approach to affirmative action reply as follows: Simple nondiscrimination is not enough. First, socially

inculcated biases, which are the legacy of generations, are difficult to eradicate and may not even be recognized as such by the perpetrators. Second, most members of past-victimized groups are still far behind most white males in their ability to compete for educational and employment opportunities. Hence even though blacks (to take the most obvious example) are no longer *direct* victims of legally sanctioned discrimination today, their descendents are nevertheless *indirect* victims.²

This is sometimes called the *shackled-runner* argument, in the sense that these "runners" cannot compete effectively today because of "shackles" placed on them by their heritage. Since their immediate ancestors suffered direct discrimination while the white males of the time did not, they were born with disadvantages mostly nonexistent in the dominant white culture. According to the shackled-runner argument, the fact that today's white males did not do the "shackling" does not affect the fact that they were born in an environment free from a history of discrimination, thus suggesting a justification for preferences even if they sometimes lead to a more qualified white male being passed over for a job or promotion. Backward-looking arguments, then, see compensation as a means to justice, and mandate reparation in the form of preferential treatment of members of past-disadvantaged groups as the primary means of compensation.

Forward-looking arguments have as their reference point not past discrimination per se but rather a certain kind of society that presumably would have existed had there been no past discrimination or oppression. In this society the educational, political, and economic influence of all social groups would have been roughly equal, with no one group dominant. We may call this the *argument from social justice*.

The Moral Mandate

For advocates of this position, the moral mandate is not so much to make reparation but rather to increase the strength of these groups to the point where all have equal access to educational facilities and positions of power, and are represented in the work force in proportion to their percentage in the population. Affirmative action programs are then justified on the grounds that they help fulfill these demands of social justice, and

again this holds even when they occasionally result in the selection of a woman or minority job applicant (or candidate for admission to a college or university program) over a white male with superior paper credentials; for it is reasonable that the group which has long been unjustifiably dominant be expected to make the sacrifices.

But wouldn't this last be detrimental to organizations? Not necessarily, it is asserted; it might even be to their advantage. For the larger and more diverse the applicant pool for a desirable position, the more potential talent to draw on and the greater the likelihood of a firm or university being able to hire first-rate employees or faculty members. With regard to universities in particular, long at the center of affirmative action-related controversies, the diversity achieved through preferential faculty hiring and admissions policies should help further one of the aims of the university: the quest to uncover and communicate knowledge, which

(given that "knowledge" is no longer something over which white males of European descent can claim a monopoly) should rightly include perspectives that can be had only from incorporating diverse points of view into the curriculum.

Furthermore, black faculty members can serve as role models for black students, representing examples of black success; in this sense, being black can be considered by itself a bona fide qualification for a certain kind of university position. Consequently, it is maintained, preferential treatment of women and minority groups is practical as well as on solid ground morally.

This completes what is, I believe, a fair statement of the most important arguments of those favoring preferential treatment. Despite their long-standing support in the academic world and endorsement by the courts, there are good reasons for denying that they succeed. Let us consider some criticisms.

3. THE FAILURE OF MORAL ARGUMENTS

The major complaint against preferential policies is that they inevitably lead to reverse discrimination against young white males and hence only perpetuate the very sort of injustice they purport to redress; let us call this the *reverse discrimination counter-argument*. Justice, in this view, requires equal treatment under the law for all citizens. Preferential treatment violates this by going beyond the original, carefully worded provisions in Title VII of the Civil Rights Act of 1964; in practice it violates rather than helps bring about equality of opportunity. Thomas Sowell expresses this as follows: "Equal opportunity" laws and policies require that individuals be judged on their qualifications as individuals *without regard* to race, sex, age, etc. 'Affirmative action' requires that they be judged *with regard* to such group membership, receiving preferential or compensatory treatment in some cases to achieve a more proportional 'representation' in various institutions and occupations."³

Philosopher Thomas Nagel, a long-time defender of preferences, readily concedes that preferential treatment "is a departure from the ideal—one of the values finally recognized in our society is that people should be judged so far as possible on the basis of individual characteristics rather than involuntary group membership."⁴ Nagel therefore

recommends the practice as a temporary measure to be abandoned once its goal of increasing the strength of previously disadvantaged groups is achieved. Nagel maintains that this goal outweighs the complaints of white males who occasionally lose out.

Considerations suggested by the shackled-runner argument indicate, contrary to Sowell, that preferential treatment does not run counter to equal opportunity but is actually a necessary condition for it. What ultimately justifies preferential treatment in the present, continues Nagel, is that it "further[s] a social goal of the first importance," that of the removal of the race- and gender-based caste system that prevailed in the United States prior to the Civil Rights era and which still persists in muted form. According to Nagel, despite the seeming "element of individual unfairness" present, preferential treatment programs do not involve the sense of racially based contempt or gender-based superiority that characterized discrimination in the past; rather, they flow from the mandate of "increasing the social and economic strength of formerly victimized groups."⁵

Will this kind of reply do? There are several reasons for thinking not, and many of Nagel's own remarks indicate serious problems with the

response to the reverse discrimination counter-argument as well as related problems.

Saddling the Beneficiaries

It is often taken for granted that affirmative action has benefited blacks and women in particular, and is said to be needed for other groups as well (e.g., the elderly and the handicapped). But in fact it saddles its alleged beneficiaries with the stigma of having obtained a position not by virtue of abilities or qualifications but because of involuntary group membership.

This can have two immediate adverse results. First, co-workers are apt to regard those workers with a certain amount of skepticism that wouldn't have been there had merit been the major criterion in hiring. This will be all the more so in universities: will a person be in a position to serve as a good "role model" if his students suspect that the only reason for his being there is affirmative action? Second, alleged beneficiaries might come to regard *themselves* with suspicion and lose self-confidence. Nagel summarizes: "Even those who would have made it anyway fall under suspicion, from themselves and from others: it comes to be widely felt that success does not mean the same thing for women and minorities."

In recent years this situation has become much worse. The rise of racial tensions throughout American society and particularly on college campuses during the past several years has been the subject of intense scrutiny. Most observers take the line that such tensions are a by-product of Reagan-era conservative politics which, they allege, were hostile (or, at best, indifferent) to the interests of minorities. They add that racial disturbances on campuses, including "hate speech" and even violence by white students aimed at black students, indicate a residuum of racism that the civil rights movement has so far failed to eradicate. But if one listens to what is being said by the more politically astute of the white students, it becomes clear that their target is not minorities but the preferential treatment of minorities. They see themselves as now being at a semi-permanent disadvantage, and resent the politicizing of universities.

The point is, preferential treatment invariably favors members of some groups at the expense of members of others, and this can hardly help but produce resentment and hostility among those

sacrificed. At least some of the hostility will be aimed at the favored groups. Of course, this is inappropriate: the appropriate target is a policy, not individuals; but most white male victims of preferential policies are not philosophers or policy analysts and will therefore choose the most convenient scapegoat. In this sense, then, too, the policy indirectly brings harm to its intended beneficiaries.

Additional difficulties cast even more doubt on the ability of preferential treatment programs to achieve their stated goals. Nagel notes that in practice "no effort is made to give preference to those who have suffered most from discrimination . . ."⁶ This suggests fatal objections to the shackled-runner argument. Let us assume for the moment that a legacy of racial discrimination is impossible to overcome without preferences. Some runners, then, will be more shackled than others by this legacy, with many not being helped by even the most far-reaching programs.

Who Benefits?

But preferential treatment cannot help blacks who don't have the qualifications even to be considered for a desirable position or college admission. It is more likely to work in favor of those who both happen to be in the right place at the right time and whose qualifications seem to be at least marginal. Consequently, preferential treatment works most in favor of those least handicapped by past discrimination and benefits little, if at all, those presumably most handicapped.

A parallel situation exists for white males. White males who are financially very well off—who we may assume for the sake of argument are the main beneficiaries of past discrimination—can often obtain jobs and promotions through connections and thus circumvent affirmative action policies. On the other hand, white males who themselves come from impoverished or lower-class backgrounds are often in no position to benefit from preferential policies of any kind. Furthermore, these men are usually the ones to be sacrificed since they have minimal resources to fight back.

Finally, "runners" from various ethnic groups can be "shackled" for a variety of reasons, many not involving racial discrimination. Recent emigres from Korea and Vietnam have arrived in the United States unable to speak English and with no possessions other than what they had on their

backs. They might well claim to have worn far heavier “shackles,” but have succeeded in American society nevertheless. Thomas Sowell has argued persuasively that even institutionalized discrimination need not be a barrier to the advancement of members of groups who are sufficiently resourceful.⁷

These considerations all help point the way to a major objection to the moral defenses of affirmative action: their main emphasis is on *groups* or group identity instead of on *individuals* and individual merit. In the world of affirmative action, an individual is not an autonomous agent in his or her own right but a member of a group for classification. Indeed, groups are often seen as moral entities, agents, or victims of morally reprehensible acts by other groups. Thus blacks as a group or women as a group are often deemed victims of discrimination; white males as group are deemed responsible and forced to make restitution.

This point is admittedly not new,⁸ but in my view its strength has never been appreciated. Affirmative action seems inevitably to benefit individuals who typically are not the ones who have suffered the worst forms or even significant amounts of racial or sexual discrimination, and the white males sacrificed are typically too young or economically vulnerable to have had any role in instituting or perpetuating discriminatory practices or to have benefited from them. That there is something seriously wrong with this reification of groups should be evident by noting that despite claims that reparation is owed to groups (e.g., blacks) because the groups were wronged by past acts of discrimination, reparation can only be made to the groups by providing recompense to individual members, with the only criterion frequently being that those receiving the reparation happened to be in the right place at the time.

This brings us to the crux of the issue: do moral categories (rights, obligations, and so on) apply at all to involuntary and mostly unstructured human collectives such as races, genders, and age brackets? Such entities aren't capable of sensation or consciousness. They do not think or act. In other words, they are not agents, where an *agent* is understood as an entity that can set goals, direct its own actions, or be harmed by the actions of others. So if a capacity to act or be acted on is a necessary condition for moral attributes, then the claim that certain groups owe, or are owed, reparation for

past wrongs is unintelligible.

Moral wrongs can be committed only by individuals, and only individuals can be owed reparation for acts committed against them. Given this, we need only add the obvious fact that both the worst perpetrators of racial discrimination in the past and their most maligned victims are no longer alive either to make reparation or to receive such recompense; it is no more just to make today's white males pay reparation than it would be to penalize this year's incoming freshman class for acts committed by last year's graduated seniors. This, I submit, is the main basis of the charge that affirmative action amounts to unjust reverse discrimination against white males.

Some would reply that this doesn't touch the argument from social justice, which doesn't rely on the notion of reparation. But nonetheless this forward-looking argument does depend on the idea of increasing the economic strength of members of groups by virtue of group identity; it still, therefore, treats groups as prior to individuals for the purpose of moral evaluation, making the same mistake as the backward-looking argument.

The Pseudo-Concept of Social Justice

To my mind the idea of “social justice” was shown to be a pseudo-concept by philosopher and libertarian theorist John Hospers. Hospers, following Aristotle, argues that *justice* is directly connected with *desert*; it involves individuals treating other individuals as they deserve, based on their actions. Justice requires, then, that hiring and promotion be done on the basis of individual merit and qualification rather than group membership and entitlement. In this case, “social justice” in practice leads not to justice but to its opposite.⁹

The advocates of “social justice” maintain that the economic strength of members of certain groups ought to be increased. In practice, this can only involve a redistribution of wealth and jobs from those most deserving of them based on qualifications as measured by past performance, to those who are not.

This assumes, of course, another direct connection between being the most qualified for a position and deserving to be hired for it. The theorists of “social justice” have worked mightily to try to break this connection.¹⁰ Usually this involves

pointing out that no one *deserves* to be born with a certain ability. However, it is not so much the having of abilities but what one does with them. It is not abilities as such that lead to desert but rather the volitional, willful exercise of one's abilities; ability without action produces nothing. Some theorists of "social justice" have bemoaned the fact that some people seem to be born with more intelligence and ability than others. But how could matters be otherwise? And does it follow that those born with more intelligence and ability deserve to be penalized for it?

It should be clear by this point that the argument from social justice depends on an essentially

egalitarian view of the human condition, and connects justice with equality, involving entitlements, instead of desert. Though I will defer further discussion of egalitarianism to section 5, it seems pertinent to note at this point that in practice egalitarianism can only lead to what amounts to penalizing the more meritorious while rewarding the less meritorious, given that justice as equality leads to group entitlements instead of reward for the exercise of individual ability; at the very least, no one receives just deserts.¹¹ Thus "social justice" leads not to genuine justice but to injustice, and we may safely conclude that the argument from social justice fails.

4. AFFIRMATIVE ACTION POLITICS: A HISTORY OF COERCION AND INTIMIDATION

The failure of the moral arguments has mattered little to those involved in one way or another in implementing the affirmative action agenda, and a close look at the reasons for this will bring us to the main theme of this article. First of all, the language of this agenda has been vague and equivocal from the outset. Legislators, judges, and bureaucrats have therefore been free to engage in semantic manipulations worthy of an Orwell villain. Secondly, critics of the agenda have often found themselves charged with being racists or of defending a "racist status quo" (even though one of affirmative action's severest critics, Thomas Sowell, is black). Finally, white males alleging reverse discrimination have found that the courts are almost totally indifferent to them; the very existence of reverse discrimination is sometimes denied.

Let us take these in order. The first appearance of the term *affirmative action* was in President Kennedy's Executive Order 10925, where organizations were ordered to "take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin." Lyndon Johnson's better known Executive Order 11246 simply repeated this passage almost word for word. Nowhere in either document was *affirmative action* defined; no policy was delineated; how to "take affirmative action" was not spelled out.

Two possible interpretations surfaced. Either the legislation called for simple nondiscrimination; or, contrary to the original wording of the Civil

Rights Act of 1964, it called for race and gender preferences. Early warning signs that the second interpretation would triumph appeared in 1968 when the Department of Labor expanded on the meaning of *affirmative action* as designating a specific policy for the first time:

A necessary prerequisite to the development of a satisfactory affirmative action program is the identification and analysis of problem areas inherent in minority employment and an evaluation of opportunities for utilization of minority group personnel. The contractor's program shall provide in detail for specific steps to guarantee equal employment of members of minority groups, including, when there are deficiencies, the development of specific goals and time-tables for the prompt achievement of full and equal employment opportunity.¹²

Let us focus on *equal employment opportunity* and *deficiency* (later called *underutilization*). Ensuing guidelines dated February 5, 1970, made it increasingly clear that *equal employment opportunity* was being redefined as *result*:

An affirmative action program is a set of specific and *result-oriented* procedures to which a contractor commits himself to apply every good faith. *The objective of these procedures plus such efforts is equal employment opportunity.* Procedures without effort to make them work are meaningless; and effort, undirected by specific and meaningful procedures, is inadequate. (emphases mine)

The next set of guidelines, dated December 4, 1971, indicated that *underutilization* was to be redefined as lack of *proportional representation*:

An acceptable affirmative action program must include an analysis of areas within which the contractor is deficient in the utilization of minority groups and women, and further, goals and timetables to which the contractor's good faith efforts must be directed to correct the deficiencies and, thus to increase materially the utilization of minorities and women, at all levels and in all segments of his work force where deficiencies exist. . . . [The employer must take] an analysis of all major classifications at the facility, with explanations if minorities or women are currently being underutilized in any one or more job classifications. . . . "*Underutilization*" is defined as having fewer minorities or women in a particular job classification than would reasonably be expected by their availability. . . . (emphasis mine)

In other words, in the guise of providing "equal opportunity," employers now found themselves forced to keep extensive records on the race, and sex, of every employee and every applicant for every position. If there was an imbalance between, say, the percentage of blacks at a particular firm and their presumed availability in the population, a presumption of discrimination was virtually automatic.

Legislators have avoided the unpopular term *quota* like the plague; but it should be clear that what they were mandating was impossible without something like a quota system. The merit system was almost universally subject to legal challenge, since any employee test attempting to specify objective criteria for what counts as merit in job performance at which blacks passed at a lower rate than whites for whatever reason would be taken as *prima facie* evidence of the discriminatory nature of the test. Even literacy tests were challenged under these guidelines. (One thinks of today's embattled SAT.)

This was all in place by the early 1970s, and resulted in the largest restructuring of government policy toward business and education in American history. Federal bureaucracies mushroomed and their intrusion into the marketplace and control over society at large increased. This restructuring

was not accomplished without a certain amount of resistance, both from intellectual critics of affirmative action (e.g., Nathan Glazer and Thomas Sowell, among others) and from the public which has all along passively resisted quota-hiring and forced busing.

But by and large, critics of affirmative action have faced a stone wall similar to that of white males bringing reverse discrimination lawsuits. In his recent study, *Invisible Victims: White Males and the Crisis of Affirmative Action*, Sociologist Frederick R. Lynch documents how affirmative action has been protected from serious criticism in the universities, throughout the federal government, and even in the business community, by a system of informal but nonetheless rigidly enforced taboos, a state of affairs he calls the New McCarthyism.¹³

The New McCarthyism

The New McCarthyism has bred intense pressures not to criticize what has become a received orthodoxy—whether defended with arguments of the sort examined above or simply imposed by force. Critics of affirmative action thus frequently find themselves attacked *ad hominem*. At worst, they are accused of being closet racists and/or sexists. At best, ensuing discussion is diverted from issues and arguments to the presumed ulterior motives of the critics.

This is the case even in the universities, which are staffed by people who in their own areas of expertise would never tolerate this sort of thing. Consider academic philosophy for a moment. Academic philosophers are usually scrupulously careful in their use of language and critical of anyone who isn't. Their training should equip them to detect improper uses of terms and expressions. They can usually spot poor arguments. But "mainstream" academic philosophers have rarely criticized the language of affirmative action legislation—even those specializing in legal reasoning and the philosophy of law, who as it turns out usually support the standard legal impositions.

What emerges from both this and the previous section should be deeply disturbing to all supporters of an open society and a free market. The New McCarthyism has to a large extent prevented open, critical discussion of affirmative action in the universities while allowing the policy to run unchecked, often permitting the hiring of

marginally qualified people to tenurable faculty jobs. And, generally, the means by which affirmative action has been implemented run completely counter to principles in which citizens compete for desirable positions (where what is desirable differs from citizen to citizen and from organization to organization) and in which employers are free to hire on merit and on the basis of their needs rather than according to criteria dictated from the

outside.

Affirmative action, we conclude, is simply incompatible with freedom, whether intellectual or economic, and incompatible with the idea of equal treatment for all citizens under the law. In the next section we will consider some deeply entrenched presumptions of affirmative action which help explain its enormous intellectual appeal.

5. AFFIRMATIVE ACTION AS SOCIAL ENGINEERING

Let us summarize our results so far: (1) All arguments attempting to justify affirmative action fail; (2) the affirmative action agenda has nevertheless been implemented by force (or threat of force), often using verbal subterfuge intended to disguise the coercive element as much as possible. These results suggest that affirmative action is a rather different kind of policy from that envisioned by its well-intentioned intellectual advocates and even by the original architects of the civil rights movement who were agitating for genuine equal opportunity.

Social engineering involves a fairly definite set of commitments and methods, and I submit that we have been looking at a textbook example. The philosophy of social engineering is committed to (1) *collectivism*, understood as the “deliberate organization of the labors of society for a definite social goal,”¹⁴ as a result of which individuals are regarded as subordinate to larger social units including society as a whole, which as we saw above is the case with affirmative action; (2) *social determinism*, which holds that individuals are essentially the products of social and class environments and hence in the last analysis are pawns of forces they are incapable of transcending on their own, a conviction which has allowed “victimology” to become a major growth industry; (3) *egalitarianism*, the doctrine that equality of condition is both a possible and morally desirable state of affairs; and (4) *elitism*, the view that a special group of individuals, usually intellectuals, alone has the knowledge and methods needed to construct a planned social order. I will argue that the position which results from these commitments is ultimately incoherent.¹⁵

Collectivism goes back at least as far as Plato, who saw individuals as imperfect copies of a universal Form: Man. In Plato’s view, the differences

which existed among individuals were accidental; what mattered was what all had in common. In the last analysis, Plato’s vision in the *Republic* was of a utopia in which the interests of individuals were entirely subordinate to those of the whole. While other conceptions of the relationship between the individual and society certainly came out of that milieu, it is fair to say that Plato’s vision has exercised a stronger hold on the political mind than that of any other thinker—it was not without reason that Alfred North Whitehead could refer to the history of Western philosophy as a “series of footnotes to Plato.”

In more recent times, collectivism has drawn impetus from doctrines such as Rousseau’s “general will” and Hegel’s “organic” conception of the state. What it required to achieve its modern form was the application of the mechanistic view of the universe to human beings, leading to the rise of a determinism holding that necessary and sufficient conditions could be specified for every human action (the preferred term became *behavior*). Marx integrated Hegel’s views with determinism and arrived at the materialist conception of history which reduced individual thought, consciousness, and hence motive and action, to class interest. While it would be unfair to accuse our modern social engineers of being full-fledged Marxists, most work from similar determinist premises, which deny that individuals are capable of autonomous action and maintain that they are products of their immediate social environment. The social engineer’s philosophy depends crucially on the view that individuals are products of their environment and therefore malleable in the sense that a redesigned environment will produce a different kind of human being.

What kind of human being—and society—does the social engineer want to produce? The guiding

ethic of the affirmative action agenda seems to be that equality of condition is the most natural and morally desirable state of affairs. Inequalities, where they exist, are to be carefully scrutinized and, if lacking justification, to be minimized through state action redistributing wealth and power aimed at maximizing equality of condition. This justifies measuring equality of opportunity by equality of results, and when the latter is lacking to infer that the former must be lacking as well. Proportional representation and "racial balance" become the only allowable states of affairs, in schools at all levels, in businesses (including business boardrooms), and throughout society at large.

Finally, there is the most basic tenet of the social engineer's world view: that there is a cadre of intellectuals with the necessary knowledge and tools to engage in successful economic planning of this sort on a large scale. This cadre understands human nature, race relations, and socio-economic interaction sufficiently well to produce the blueprint for a new social order in which men and women of different races will all exist and intermingle in harmony.

This, then, is the world view in which affirmative action is most at home. To what extent is it credible?

Collectivism, as we saw earlier, begins to falter on the notion that the groups it reifies are not conscious or capable of sensation, cannot take any form of action, therefore, and (unlike other groups such as corporations) have no internal organization and did not originate from the conscious, volitional actions of their members. The reasons for preferring individualism to collectivism can perhaps be better understood with an analogy.

Consider social insects. Their nature (and evolutionary heritage) is sufficiently different from ours that a kind of collectivism might offer a good description of their interactions. It might make sense to say that a colony of bees is united by a kind of "group mind." But human beings are not social insects. No sense can be made of the view that a human society is governed by a "group mind." There are only individual minds which happen to share language, concepts, and customs, who can sometimes benefit from cooperative actions and at other times from competitive ones, depending on the context. Thus it is not what we have in common which counts in a social context, but rather our individual differences, those fac-

tors that make each of us unique beings. These differences, I submit, cannot be "engineered" out of us.

This requires that we see ourselves as beings who act rather than merely respond causally to stimuli; it requires that determinism be rejected. A careful look at the internal logic of determinism suggests additional problems. We have been speaking of actions, i.e., acts of volition or "free will." An argument for libertarianism in this sense can begin by noting that to the extent determinism is assumed true it applies to its own advocates and yields the result that their advocacy of determinism is itself a causal product. In logic we normally distinguish between the causes of our beliefs and the reasons which support them; such a distinction is necessary because causal processes don't aim at truth (or, for that matter, at anything else). Hence although the determinist may claim reasons for believing determinism, it should be clear that on his own terms some means of accounting for these reasons *as* reasons are barred, and justification for believing determinism superior to alternatives is lost. Rational deliberation and acceptance of a thesis is, by its very nature, volitional and hence free. So if we begin by assuming the truth of determinism, we reach the result that on its own terms there can be no rational grounds for believing determinism to be true.¹⁶ While this may not constitute an absolute refutation of determinism, it certainly seems to render the position pointless.

Incoherent Social Policy

The self-applicability of determinism also yields incoherent results as social policy. If social determinism is true, then the social engineers of whatever stripe are as subject to determinants as anyone else. A successful social blueprint, though, would have to have succeeded at redesigning society as a whole, presupposing some means of access to or control over the determinants of everyone. Now either the social engineers can achieve control over the determinants of their own behavior or they cannot. The former would seem impossible on logical grounds alone; thus the social engineers must exclude themselves and their own activities from their plan. This latter option not only contradicts their starting assumptions, but if pushed far enough quickly takes on overtones of the kind of

technocratic totalitarianism found in, say, Aldous Huxley's *Brave New World*.

Indeed, the very existence of a technocratic elite of social engineers compromises the commitment to egalitarianism, in that there remains a dominant group—the elite. Any attempt to redistribute wealth and power presupposes the existence of at least one agent with the power to plan and carry out the redistribution, and this agent is necessarily “outside” the social order being acted upon. This suggests that egalitarianism is an impossible dream; even as a regulative ideal, it will inevitably tend to concentrate power in the hands of an elite, not distribute it evenly. As the previous section strongly suggests, the implementation of affirmative action has done just this; it has concentrated power in the hands of bureaucrats and Federal judges.

Finally, a more basic assumption animates the social engineer—the view that he alone has the knowledge to construct a blueprint that will better society. But real people are a diverse lot, with an enormous variety of interests, wants, needs, merits, and talents. Says Hayek on this point in a passage worth quoting at length:

... it is impossible for any man to survey more than a limited field, to be aware of the urgency of more than a limited number of needs. Whether his interests center round his own physical needs, or whether he takes a warm interest in the welfare of every human being he knows, the ends about which he can be concerned will always be only an infinitesimal fraction of the needs of all men.

This is the fundamental fact on which the whole philosophy of individualism is based. It does not assume, as is often asserted that man is egoistic or selfish or ought to be. It merely starts from the indisputable fact that the limits of our powers of imagination make it impossible to include in our scale of values more than a sector of the needs of the whole society. . . . From this the individualist concludes that the individuals should be allowed, within defined limits, to follow their own values and preferences rather than somebody else's; that within these spheres the individual's system of ends should be supreme and not subject to any dictation by others. It is this recognition of the individual as the ultimate judge of his ends, the belief that as far as possible his own views ought to govern his actions, that forms the essence of the individualist position.¹⁷

Discord Increases

From this we can see why collectivist policies such as affirmative action are doing more harm than good, even to their alleged beneficiaries, why instead of bringing “social justice” they are only increasing racial discord (and can clashes between feminists and anti-feminists be far behind?). People will allow themselves to be pushed around for only so long; then they will rebel in the name of self-determination, as the civil rights movement itself attests.

This explains, too, why egalitarian policies calling for redistribution of wealth and jobs invariably lead to economic impoverishment. When producers see the fruits of their labor taken from them by force, the incentive to produce disappears. Soon, as production declines, there is less and less wealth to redistribute. This has been the bane of every socialist society in history, and gives us a decisive argument against egalitarianism: when we're all coerced into economic equality (except for the elite, that is), we'll all be equally poor.

Finally, our institutions—especially educational ones—are rapidly showing the results of 20 years of coercive preferential policies (lowered standards and test scores, widespread illiteracy, and so on). Affirmative action and forced busing have already done extensive damage to the schools at all levels. And there are many occupations in which the lowering of standards, which demands for proportional representation inevitably cause, is actually dangerous. Consider an airline that takes demands for proportional representation literally. It will follow that because 15 percent of the population is black, 15 percent of all its pilots and air traffic controllers should be black. If qualifications are regarded as “undeserved” and merit hiring as “discriminatory” in cases like this, the resulting dangers to the public should be obvious.

Thus it is urgent that preferential treatment be rejected, and individualism and the spontaneity of the marketplace replace it. Admittedly this will be easier said than done; many careers ranging from academic to bureaucratic depend on the perpetuation of affirmative action whether or not it helps average women and minorities.

The best thing would be for more women and minorities to express skepticism toward the affirmative action agenda. Intellectual arguments favoring affirmative action for, say, blacks, come



up as empty verbiage for the simple reason that no one knows enough about the situations of all blacks as individuals. Ultimately the conclusion is unavoidable that they, like everyone else, must stop waiting on ineffective statist policies, take matters into their own hands, and rise by their own efforts. It is encouraging to note that more and

more blacks are doing just this. Poll after poll shows their growing suspicion of both white liberals and the black civil rights establishment, with the focal point of their distrust being affirmative action as having produced dependence instead of the sort of economic empowerment that can be had only by individual effort.

6. CONCLUSION: THE FATE OF RACISM IN A FREE SOCIETY

There are still plenty of writers who would respond to the conclusion of the last section with: *but you haven't once seriously addressed the problems of racism and racial discrimination that still exist in American society!* Indeed, one of the legacies of the far left has been the all-too-common view that American institutions are inherently racist, and that free-market capitalism itself helps foster and maintain racist institutions and attitudes. Response to these charges is called for. I will argue that they reflect a misunderstanding of how a free market works, and in particular, how racists will end up at a disadvantage when markets are permitted to function.

Consider two competing businesses operating

under free market conditions; call them B and C. Let us assume that racism prevails at B, and that it has the following results: B refuses to hire black employees at any level other than for common labor (e.g., as janitors); it does not permit them to rise to positions of responsibility. Likewise, B doesn't have any black clientele; its board of directors doesn't carry on significant dealings with blacks. C, on the other hand, has instituted a policy of hiring on the basis of merit and of promotion as part of a uniform reward system. Thus a job applicant's race is considered irrelevant to his or her qualifications; as a result, C employs a number of qualified blacks who were unable to find jobs with B. Likewise, C obtains the black clients whom B

turned away and does business with black enterprises B wouldn't deal with. In these admittedly hypothetical circumstances, it should be clear that B's racism is doing it enormous and perhaps irreparable harm, in that B is losing business to C. In a free market, C is in a position to outperform B; and if the board of directors at B refuses to change its policies, B may eventually face being forced out of business. To sum up, in a free society racist enterprises end up harming themselves more than the targets of their racism.

The Free Market vs. Racism

My thesis, therefore, is that a free market and racism are ultimately at odds with one another, and in a way surprisingly similar to how a free market and affirmative action are at odds with one another. Both give preferences to certain individuals at the expense of other individuals on grounds other than merit.

Under free-market conditions, a firm must seek to hire the best available employees. If it does not do so, it will lose them to competitors. It should not discriminate among its customers; a restaurant owner who refuses to serve blacks will only send them to the competition across the street and reduce his own income. So while a free market may permit private racist attitudes to survive—for not even market forces can regulate thought—bottom-line business considerations will render them impotent.

On the other hand, efforts to end whatever institutional racism still exists by using affirmative action are counterproductive and doomed to failure: (1) they discriminate in reverse against white males, and hence perpetuate the basic injustice of discrimination on the basis of involuntary group identity; (2) this fuels racial tensions by producing resentment on the part of those who lose out; (3) affirmative action further harms its intended beneficiaries by insinuating that double standards are needed for their advancement, suggesting, to my mind, that affirmative action orthodoxy is closer to a kind of racism than its advocates would care to admit; finally and perhaps most important of all, (4) the aims of affirmative action are impossible to realize without massive increases in centralized

state power.

The institutionalization of double standards in such a way that no one could violate them and get away with it would require a massive governmental machinery. This supervision would ultimately lead to a controlled, fascistic economy instead of a free economy.¹⁸ Now to my mind F. A. Hayek has provided the best and most extensive reasons for why supervision and coercive planning of this sort can only lead us down a "road to serfdom." Let us hope that we check our premises before we discover the hard way that the road is a dead end. □

1. For a more complete statement see my *Civil Wrongs*, work in progress.

2. Though some writers challenge the claim that there is today no direct discrimination; cf. Tom Beauchamp, "The Justification of Reverse Discrimination," in *Social Justice and Preferential Treatment*, eds. William T. Blackstone and Robert D. Heslep (Athens, Ga.: University of Georgia Press, 1977), pp. 34-110.

3. Thomas Sowell, *Civil Rights: Rhetoric or Reality?* (New York: Quill Paperbacks, 1984), p. 38.

4. Thomas Nagel, "A Defense of Affirmative Action," reprinted in *Ethical Theory and Business*, 3rd ed., eds. Tom L. Beauchamp and Norman E. Bowie (Englewood Cliffs, N.J.: Prentice Hall, 1988), p. 346.

5. *Ibid.*, pp. 346-7.

6. *Ibid.*, p. 346.

7. Cf. Sowell, *Civil Rights*, pp. 19-20.

8. For an in-depth exchange of views on the subject of groups, individuals, and moral agency see the articles by James W. Nickel, J. L. Cowan, Philip Silvestri, Paul W. Taylor, Michael D. Bayles, William A. Nunn, Roger Shiner, and Alan H. Goldman, all reprinted in *Reverse Discrimination*, ed. Barry R. Gross (Buffalo, N.Y.: Prometheus Books, 1977), pp. 288-347. Cf. also George Sher, "Groups and Justice," reprinted in *Moral Rights in the Workplace*, ed. Gertrude Ezorsky (Albany, N.Y.: SUNY Press, 1987), pp. 253-58.

9. John Hospers, "Justice versus 'Social Justice,'" *The Freeman*, January 1985, pp. 9-24.

10. See e.g., Richard Wasserstrom, "A Defense of Programs of Preferential Treatment," in *Ethical Issues in Business*, 3rd ed., eds. Thomas Donaldson and Patricia H. Werbane (Englewood Cliffs, N.J.: Prentice Hall, 1988), pp. 339-44.

11. This point is developed in more detail in *On Preferential Treatment*, ch. 4.

12. Quoted in Nathan Glazer, *Affirmative Discrimination* (New York: Basic Books, 1975), p. 45. The following quotes are also from Glazer, pp. 47f.

13. Frederick R. Lynch, *Invisible Victims: White Males and the Crisis of Affirmative Action* (Westport, Ct.: Greenwood Press, 1989).

14. F. A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944, 1976), p. 56.

15. For more details cf. *Civil Wrongs* sec. 4, from which the present section is excerpted.

16. For an extended development of this kind of argument see J. Boyle, G. Grisez, and O. Tollefsen, *Free Choice: A Self-Referential Argument* (Notre Dame, Ind.: University of Notre Dame Press, 1976). The authors also do an admirable job of organizing the literature and sorting relevant issues from irrelevant ones.

17. Hayek, p. 59.

18. See Nicholas Capaldi, *Out of Order: Affirmative Action and the Crisis of Doctrinaire Liberalism* (Buffalo, N.Y.: Prometheus Books, 1986), esp. ch. 7, "The Politics of Affirmative Action."

A REVIEWER'S
NOTEBOOK

Basic Communism

by John Chamberlain

To be confronted with the task of reviewing Clarence B. Carson's monumental *Basic Communism* (American Textbook Committee, P.O. Box 8, Wadley, AL 36276, 570 pages, \$29.95 cloth) for a fixed deadline certainly causes mixed feelings. Each section provides pleasurable reading. But to be forced to gulp everything down in a few days is a cruel and unusual punishment. This book should be taken advisedly as a year's project. It is the only way to assure fairness.

As the author of innumerable Cold War period columns, I felt while reading it that I was living my life all over again at a tremendous clip. Carson tells his story from fragmentary beginnings. There was no real Communism until the 20th century. What we had were socialistic Brook Farms, descriptions of "voyages to Icarie," and Fabian Society lecture groups. We had also had the speculations of Marx and Engels, and we had a Russian named Lenin who, in his Swiss hideout, nurtured the idea that the "dictatorship of the proletariat" would necessarily involve seizure of the government of a whole state. Modern Communism, which he and his group of "professionals" imposed on Russia, had perforce to be a one-man show. Otherwise it would deteriorate (Carson uses the word "debacle") into regional enclaves very much as is happening now.

The modern Communists have been doing their best to disguise the mess they have made of Russia. But calculated disinformation can't hide what is happening. Carson doesn't fall for the idea that Stalin (whom Lenin feared for his "rudeness") perverted the course of Marxist-Leninist history. Like Max Eastman, Carson thinks one-man rule was inherent in the Marx-Engels philosophy from

the beginning. It could have been Trotsky or Bukharin in Soviet Russia, or somebody besides Pol Pot and Ho Chi Minh in Indochina, or Che Guevera instead of Fidel Castro in Cuba.

Carson offers good biographical sketches of all his main characters. Before Marx, there were Robespierre and other totalitarians of the French Revolution. They lasted only a few months until Napoleon with his "whiff of grapeshot" stopped the guillotines. Carson stresses the contrasting vistas of the French and Russian revolutions. What Robespierre represented for a few months went on for some 27 years in the Russia of Lenin, Stalin, and Brezhnev.

Under the heading of "The Origin of Communism" Carson deals with dialectical materialism, the class struggle, the labor theory of value, and the idea of revolution itself. Then there is a diversion to explore utopianism, anarchism, and syndicalism. And there is a lengthy section on the history of Russia, its land and people. We get the full gruesome story of the murder of the Tsar and the whole Romanov family.

Lenin had his bursts of common sense. When starvation threatened in 1920 and 1921 he backtracked and proclaimed the New Economic Policy (NEP). Farmers had their own plots. There was a multiplicity of small businesses. With help from the United States, Russians began to eat again. But when Lenin died, Stalin, the clever infiltrator, decided that NEP-men would never be good Communists. After exiling the internationalist Trotsky, and taking over the slogan of "socialism in one country," Stalin instituted his series of five-year plans. Rich farmers (meaning those who could perhaps hire one or two helpers) were pursued as

"kulaks." For the second time in 10 years Russia had a man-made famine on its hands as farming expertise disappeared.

News of the Ukraine famine was suppressed by Walter Duranty of *The New York Times*, who denied there was anything amiss in the Ukraine countryside. But two courageous and able correspondents, William Henry Chamberlin and Eugene Lyons, left Russia in order to write about the famine they had seen with their own eyes.

Carson thinks the murder of Kirov in Leningrad was connived at by Stalin, who needed reasons for his purges and the show trials that shocked the world. Carson mentions "four stages of terror." His authority is Solzhenitsyn, who has made the concept of the Gulag Archipelago known to the West in his remarkable books.

Any ordinary writer would have broken off with the Soviet section of a jam-packed book and called

it a day. But Carson has to deal with the whole international thrust of Communism, with its "two faces." We learn about the creation of front organizations, the provoking of civil wars. There are sub-sections on Fascism in Italy, Nazism in Germany, and anarcho-syndicalism and "republicanism" in Spain. Finally, Carson has to tell us all about Fidel Castro, North Korea, and the whole Third World.

The danger in America, Carson says, comes from "secular humanism." "From the perspective of the rise and spread of Communism in the Twentieth Century," Carson writes, "secular humanism . . . is the undergirding doctrine of an international movement which has had as its object the conversion or conquest of the whole world."

But the worst hasn't happened. Gorbachev may not be our friend, but he obviously doesn't want to go down in history as another Stalin. ☐

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INDEX

THE FREEMAN

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Bettina Bien Greaves

NOTE: In page references, the number preceding the colon designates the month, the numbers following refer to pages. All articles have at least three entries — author, title, and subject — except in a few cases when the title and the appropriate subject coincide. Books reviewed are listed alphabetically by their author(s) on page 480; the names of their reviewers are included in the master index.

A

ACADEMIC freedom at a public university (Lott) 3:112-115
ADVANCE guard of freedom (Barniskis) 4:124-125
AFFIRMATIVE action: the new road to serfdom (Yates) 12:461-472
AGRICULTURE
America needs organic farming — and pesticides (J. Hood) 2:57-58
Building a barn (Lapp) 5:172-175
Crop controls and Indian raids in colonial Virginia (Pecquet) 2:59-60
The grapes of opportunity (Lapp) 3:84-87
AIR bags — more government hot air? (Young) 9:341-342
ALASKA'S *other* oil spill (Jackstadt & Lee) 1:8-11
AMADOR, Jorge
Edwin Armstrong: genius of FM radio. 4:126-130
Rising prices: the market's way of conserving oil. 11:433-435.
See also Book reviews (Perl)
AMERICA needs organic farming — and pesticides (J. Hood) 2:57-58
ANDERSON, Bill
Freedom of speech/freedom of ownership. 9:353
ANIMAL rights
Animal rights are an individual responsibility (Hill) 4:151-156
Environmentalism: freedom's foe for the '90s (Bidinotto) 11:409-419
ANOTHER world (Leshner) 9:354
AQUACULTURE: the birth of an industry (Phillips) 9:343-346
ARBUCKLE, John: entrepreneur, trust buster, humanitarian (Coppin) 5:192-195
ARMENTANO, D. T.
Auto insurance chaos in California. 3:93-94
ARMSTRONG, Edwin: genius of FM radio (Amador) 4:126-130
ART
Art, censorship, and markets (Yates) 3:106-107
Freedom of speech/freedom of

ownership (Anderson) 9:353
"That's already been settled" (Zarbin) 6:233-234
AUTO insurance chaos in California (Armentano) 3:93-94

B

BAIRD, Charles W.
On the right to strike. 10:387-391
Solidarity and labor law reform in the 1990s. 6:224-225
See Book reviews (Kirzner)
BANDOW, Doug. *See* Book reviews (Moskos)
BANKING scandal, great (Sennholz) 11:404-405
BARBARISM, education and the racist road to (Reisman) 10:364-370
BARNISKIS, Andrew E.
The advance guard of freedom. 4:124-125
A tale of two estates. 8:303-304
BEISNER, E. Calvin. *See* Book reviews (Kirk)
BEYOND eminent domain (Ownby) 3:108-110
BIDINOTTO, Robert James
Environmentalism: freedom's foe for the '90s. 11:409-419
See also Readers' forum, 1:33-37
BOEHM, R. W.
School budgets and town meetings. 9:338-339
BOETTKE, Peter J.
Soviet admissions: communism doesn't work. 2:50-56
See also Book reviews (Brzezinski)
BOOM time for state and local government (J. Hood) 11:406-408
BOUDREAUX, Donald J.
Markets and pseudo-markets. 11:421-423
BRODIN, Eric
Sweden: no model for Eastern Europe. 11:426-428
BROWN, David M. *See* Book reviews (Machan; Mencken; Sowell)
BUILDING a barn (Lapp) 5:172-175
BUREAUCRACY Another world (Leshner) 9:354

C

CABLE TV needs competition (Merline) 10:382-386
CAPITALISM
Other side of Adam Smith (Irvine) 2:47-49
You missed the point, Bernie (D.G. Smith) 12:454-455
CAPITALISM and the environment (Machan) 7:249-257
CENSORSHIP, art, and markets (Yates) 3:106-107
CENSUS: eyes of the intrusive state (Johnson) 9:324-327
CHAMBERLAIN, John. *See* Book reviews
CHAOS theory
Two-edged sword of chaos (McGath) 11:429-432
CHARITY, voluntary
John Arbuckle: entrepreneur, trust buster, humanitarian (Coppin) 5:192-195
Politics of compassion (Irvine) 10:374-375
Wealth, freedom and philanthropy (Frumkin) 6:231-232
CHILD care, children
Building a barn (Lapp) 5:172-175
Fostering the system (A. & M. Rogers) 7:268-271
Grapes of opportunity (Lapp) 3:84-87
CHINA
Freeman interview: Wan Runnan (Pruzin) 5:176-182
Kun shou you dou: even a cornered beast will fight (M. Smith) 12:446-454
CHODES, John
Friendly societies: voluntary social security — and more. 3:95-98
CIVIL rights
Affirmative action: the new road to serfdom (Yates) 12:461-472
Military's secret war against racism (Nichols) 7:244-246
See also Individual rights/action
CIVILIZATION and culture, Western
Education and the racist road to barbarism (Reisman) 10:364-370
COERCION/compulsion
Ezekiel's job (Foley) 9:330-334
School budgets and town meetings (Boehm) 9:338-339
What's happened to community spirit? (Payne) 9:328-329
COLE, Julio H.
The writings of Adam Smith. 2:44-46
See also Book reviews (Meiners & Amacher)
COMING push for national health care (Wasley) 1:30-32
COMMUNAL politics in India (Prasad) 1:26-27
COMMUNISM doesn't work, Soviet admissions (Boettke) 2:50-56
COMPARABLE worth: feminism turning to paternalism (McElroy) 10:380-381
COMPETITION vs. monopoly
Cable TV needs competition (Merline) 10:382-386
John Arbuckle: entrepreneur, trust buster, humanitarian (Coppin) 5:192-195
CONSERVATION
Great 19th-century timber heist revisited (Iijima & Shaw) 4:137-141
CONSUMER safety, let the market protect (J. Hood) 4:142-143
CONSUMER sovereignty (Greaves) 6:222-223
COPPIN, Clayton A.
John Arbuckle: entrepreneur, trust buster, humanitarian. 5:192-195
COPYRIGHT
Freeing digital audio (Taylor) 4:131-132
CORRUPTION, political, taproots of (W.H. Peterson) 12:456-459
CROP controls and Indian raids in colonial Virginia (Pecquet) 2:59-60

D

DEKKERS, Fred
The nature of government. 11:436-437

DEMOCRACY

Freedom and democracy are different (Wenders) 8:288-289

Nature of government (Dekkers) 11:436-437

DIGITAL audio, freeing (Taylor) 4:131-132

DiLORENZO, Thomas J.

The genesis of industrial policy. 6:226-230

National service: a solution in search of a problem. 3:99-103

DISASTER relief, federal, saying no to (Irvine) 3:104-105

DOTI, James

Io leggo e scrivo. 8:284-288

The price of chiminelli seeds and Regulation Q. 1:4-7

Roger and Me and free enterprise. 5:196-197

DRUGS and dumbness (Matthew) 4:133

E

"EARMARKED MONEY" illusion (Irvine) 4:149-150

EASTERN Europe: the economic stakes are high (Small) 5:185-187

ECONOMIC development/progress Failures and fallacies of foreign aid (Osterfeld) 2:61-71

Ongoing struggle for liberty: reasons for optimism (Lee & McKenzie) 7:262-267

Social role of private property rights (Smiley) 5:167-168

ECONOMIC planning

Census: eyes of the intrusive state (Johnson) 9:324-327

Genesis of industrial policy (DiLorenzo) 6:226-230

Two-edged sword of chaos (McGath) 11:429-432

ECONOMIC reform

Israel's grassroots libertarian revolution (Lehman-Wilzig) 4:144-148

Soviet economic reforms: an inside perspective (Maltsev) 3:88-92

ECONOMIC wisdom of *A Connecticut Yankee* (Shannon) 6:204-205

ECONOMICS, mathematical

Two-edged sword of chaos (McGath) 11:429-432

EDUCATION and the racist road to barbarism (Reisman) 10:364-370

EDUCATION, college/university

Academic freedom at a public university (Lott) 3:112-115

University with a future (Liggio) 7:273-274

EDUCATION, private

From gangland to corporate America (Granville) 6:213-218

Right kind of social activism (Walter) 7:247-248

ELLIOTT, Nick. *See* Book reviews (Shand)

EMINENT domain, beyond (Ownby) 3:108-110

EMPLOYEE ownership: a rapidly growing threat to a free market (Murphey) 7:258-261

ENTREPRENEURSHIP

Consumer sovereignty (Greaves) 6:222-223

John Arbuckle: entrepreneur, trust buster, humanitarian (Coppin) 5:192-195

ENVIRONMENT and pollution

Aquaculture: the birth of an industry (Phillips) 9:343-346

Capitalism and the environment (Machan) 7:249-257

Private property rights: an endangered species (Kamenar) 5:164-167

ENVIRONMENTALISM: freedom's foe for the '90s (Bidinotto) 11:409-419

EUROPE, Eastern

Eastern Europe: the economic stakes are high (Small) 5:186-187

Message from Eastern Europe (W.H. Peterson) 5:187-191

"Socialism works" (Pyburn) 12:460

Sweden: no model for Eastern Europe (Brodin) 12:426-428

What we should teach the Eastern Europeans (Machan) 1:23-25

EZEKIEL'S job (Foley) 9:330-334

F

FAILURES and fallacies of foreign aid (Osterfeld) 2:61-71.

FAMILY

Building a barn (Lapp) 5:172-175

Manipulating the traditional family (Leithart) 10:376-379

FIRST civil right is safety (Matthew) 9:348-349

FISH farming/ranching

Aquaculture: the birth of an industry (Phillips) 9:343-346

FLAG and freedom: which should we protect? (Mataconis) 2:76-77

FM RADIO, Edwin Armstrong, genius of (Amador) 4:126-130

FOLEY, Ridgway K., Jr.

Ezekiel's job. 9:330-334

The theory of due reparations. 6:209-212

FOLLY of rent control (Maccaro) 1:14-15

FOLSOM, Roger Nils & Gonzalez, Rodolfo Alejo

U. S. trade deficits aren't a problem. 8:310-315

FOREIGN aid

Failures and fallacies of foreign aid (Osterfeld) 2:61-71

Trickle up: a solution to Third World poverty (Sall) 4:134-136

FORESTRY, lumbering, logging

Great 19th-century timber heist revisited (Iijima & Shaw) 4:137-141

Saving a forest: what can we do? (M. Reed) 5:169-171

FOSTERING the system

(A. & M. Rogers) 7:268-271

FREE enterprise

Economic wisdom of *A Connecticut Yankee* (Shannon) 6:204-205

FREEDOM

Ongoing struggle for liberty: reasons for optimism (Lee & McKenzie) 7:262-267

Where are the sons of liberty? (Ream) 10:371-373

FREEDOM and democracy are different (Wenders) 8:288-289

FREEDOM of choice

Drugs and dumbness (Matthew) 4:133

Ezekiel's job (Foley) 9:330-334

FREEDOM of speech/freedom of ownership (Anderson) 9:353

FREEDOM of speech/thought Academic freedom at a public university (Lott) 3:112-115

Strongest man (McGath) 9:335-337

FREEDOM digital audio (Taylor) 4:131-132

FREEMAN interview: Wan Runnan (Pruzin) 5:176-182

FRIENDLY societies: voluntary social security —and more (Chodes) 3:95-98

FROM gangland to corporate America (Granville) 6:213-218

FRUMKIN, Peter

Wealth, freedom, and philanthropy. 6:231-232

FULMER, Richard W.

The Social Security trust fund: "savings" vs. saving. 8:308-309

G

GARNER, Al

Low life. 7:271-272

GENERAL Motors

Roger and Me and free enterprise (Doti) 5:196-197

GENESIS of industrial policy (DiLorenzo) 6:226-230

GLORY be! (Read) 12:444-445

GONZALEZ, Rodolfo Alejo (co-author) *See* Folsom

GORDON, Hal. *See* Book reviews (van Wolferen)

GOVERNMENT isn't living up to its contract (Koopman) 10:392-393

GOVERNMENT, local (city/state) Auto insurance chaos in California (Armentano) 3:93-94

Beyond eminent domain (Ownby) 3:108-110

Boom time for state and local government (J. Hood) 11:406-408

Municipal services: unfair competition from local governments (Tomlinson) 8:305-306

Progressivism comes to Houston (Phillips) 2:72-75

School budgets and town meetings (Boehm) 9:338-339

Strongest man (McGath) 9:335-337

GOVERNMENT regulation/ intervention

Affirmative action: the new road to serfdom (Yates) 12:461-472

Air bags — more government hot air? (Young) 9:341-342

Animal rights are an individual responsibility (Hill) 4:151-156

Aquaculture: the birth of an industry (Phillips) 9:343-346

Cable TV needs competition (Merline) 10:382-386

Genesis of industrial policy (DiLorenzo) 6:226-230

- Great banking scandal (Sennholz)
11:404-405
- Growth of government in the United States (Higgs) 8:290-295
- Mandated airline safety seats won't increase travel safety (Semmens) 9:340-341
- Manipulating the traditional family (Leithart) 10:376-379
- Message from Eastern Europe (W.H.Peterson) 5:187-191
- GOVERNMENT, role of
- First civil right is safety (Matthew) 9:348-349
- Nature of government (Dekkers) 11:436-437
- Rights, law, and morality (Rasmussen) 9:350-352
- GOVERNMENT spending
- Alaska's *other* oil spill (Jackstadt & Lee) 1:8-11
- "Earmarked money" illusion (Irvine) 4:149-150
- GRAPES of opportunity (Lapp) 3:84-87
- GRANVILLE, William, Jr.
- From gangland to corporate America 6:213-218
- GREAT banking scandal (Sennholz) 11:404-405
- GREAT 19th-century timber heist revisited (Iijima & Shaw) 4:137-141
- GREAVES, Bettina Bien
- Consumer sovereignty. 6:222-223
- GROWTH of government in the United States (Higgs) 8:290-295

H

- HELSTROM, Carl. *See* Book reviews (Beito)
- HIGGS, Robert
- The growth of government in the United States. 8:290-295
- HILL, Cherry
- Animal rights are an individual responsibility. 4:151-156
- HOMELESSNESS
- Room with a new view (Lopez) 1:28-29
- HONG KONG, "crown jewel" of capitalism (R.A. Peterson) 1:16-22
- HOOD, David. *See* Book reviews (Sowell)
- HOOD, John
- America needs organic farming — and pesticides. 2:57-58
- Boom time for state and local government. 11:406-408
- Let the market protect consumer safety. 4:142-143
- HOUSTON, progressivism comes to (Phillips) 2:72-75
- HUNTER, Barbara R.
- The myth of public/private "cooperative enterprises." 11:424-425

I

- IDEAS, ideologies
- Advance guard of freedom (Barniskis) 4:124-125
- Education and the racist road to barbarism (Reisman) 10:364-370

- Growth of government in the United States (Higgs) 8:290-295
- Strongest man (McGath) 9:335-337
- IJIMA, T. J. and Shaw, Jane S.
- The great 19th-century timber heist revisited. 4:137-141
- INDIA, communal politics in (Prasad) 1:26-27
- INDIVIDUAL rights/action
- Ezekiel's job (Foley) 9:330-334
- First civil right is safety (Matthew) 9:348-349
- Glory be! (Read) 12:444-445
- Military's secret war against racism (Nichols) 7:244-246
- Rights, law, and morality (Rasmussen) 9:350-352
- Saving a forest: what can we do? (M.Reed) 5:169-171
- Strongest man (McGath) 9:335-337
- What we should teach Eastern Europeans (Machan) 1:23-25
- INDUSTRIAL policy, genesis of (DiLorenzo) 6:226-230
- INSURANCE
- Auto insurance chaos in California (Armentano) 3:93-94
- Friendly societies: voluntary social security — and more (Chodes) 3:95-98
- INTEREST rates and Regulation Q
- Price of chiminelli seeds and Regulation Q (Doti) 1:4-7
- INVESTOR as hero (Irvine) 1:12-13
- IO LEGGO e scrivo (Doti) 8:284-288
- IRVINE, William B.
- The "earmarked money" illusion. 4:149-150
- The investor as hero. 1:12-13
- The last wild children of capitalism. 8:296-299
- The other side of Adam Smith. 2:47-49
- The politics of compassion. 10:374-375
- Saying no to federal disaster relief. 3:104-105
- Taking the train to Metamora. 6:206-208
- ISRAEL'S grassroots libertarian revolution (Lehman-Wilzig) 4:144-148
- ITALY and Mussolini
- Genesis of industrial policy (DiLorenzo) 6:226-230
- Io leggo e scrivo (Doti) 8:284-288

J

- JACKSTADT, Stephen L. & Lee, Dwight R.
- Alaska's *other* oil spill. 1:8-11
- JOHNSON, Erik A.
- The census: eyes of the intrusive state. 9:324-327
- JUSTICE, rule of law
- Theory of due reparations (Foley) 6:209-212

K

- KAMENAR, Paul D.
- Private property rights: an endangered species. 5:164-167
- KIBBE, Matthew B. *See* Book reviews (Williams)

- KOOPMAN, Roger
- Government isn't living up to its contract. 10:392-393
- KORVES, Ross C.
- What makes a market? 9:347-348
- KUN *shou you dou*: even a cornered beast will fight (M.Smith) 12:446-454

L

- LABOR, labor unions, wages
- Comparable worth: feminism turning to paternalism (McElroy) 10:380-381
- Employee ownership: a rapidly growing threat to a free market (Murphey) 7:258-261
- On the right to strike (Baird) 10:387-391
- Patience and property: corporate vs. union management (Lee & Sexton) 8:300-302
- Solidarity and labor law reform in the 1990s (Baird) 6:224-225
- LAND use/management, governmental
- Alaska's *other* oil spill (Jackstadt & Lee) 1:8-11
- Beyond eminent domain (Ownby) 3:108-110
- Municipal services: unfair competition from local governments (Tomlinson) 8:305-306
- Private property rights: an endangered species (Kamenar) 5:164-167
- Progressivism comes to Houston (Phillips) 2:72-75
- Tale of two estates (Barniskis) 8:303-304
- LAPP, Hannah
- Building a barn. 5:172-175
- Grapes of opportunity. 3:84-87
- See also* Book reviews (Bovard)
- LAST wild children of capitalism (Irvine) 8:296-299
- LEE, Dwight R. & McKenzie, Richard B.
- The ongoing struggle for liberty: reasons for optimism. 7:262-267
- _____ & Sexton, Robert L.
- Patience and property: corporate vs. union management. 8:300-302
- _____ (co-author) *See* Jackstadt
- LEHMAN-WILZIG, Sam
- Israel's grassroots libertarian revolution. 4:144-148
- LEITHART, Peter J.
- Manipulating the traditional family. 10:376-379
- LESHER, Richard L.
- Another world. 9:354
- LESSONS in liberty: Hong Kong, "crown jewel" of capitalism (R.A.Peterson) 1:16-22
- LET the market protect consumer safety (J. Hood) 4:142-143
- LIGGIO, Leonard P.
- A university with a future. 7:273-274
- LOPEZ, Steve
- A room with a new view. 1:28-29
- LOTT, John R., Jr.
- Academic freedom at a public university. 3:112-115
- See also* Readers' forum, 7:275
- LOW life (Garner) 7:271-272

M

- MACCARO, James A.**
The folly of rent control. 1:14-15
- MACHAN, Tibor R.**
Capitalism and the environment. 7:249-257
What we should teach the Eastern Europeans. 1:23-25
- MALTSEV, Yuri N.**
Soviet economic reforms: an inside perspective. 3:88-92
- MANDATED** airline safety seats won't increase travel safety (Semmens) 9:340-341
- MANIPULATING** the traditional family (Leithart) 10:376-379
- MARKET** economy
Two-edged sword of chaos (McGath) 11:429-432
What makes a market? (Korves) 9:347-348
- MARKETS** and pseudo-markets (Boudreaux) 11:421-423
- MATACONIS, Douglas**
The flag and freedom: which should we protect? 2:76-77
Misdirected compassion. 8:306-307
- MATTHEW, Scott C.**
Drugs and dumbness. 4:133
The first civil right is safety. 9:348-349
- McELROY, Wendy**
Comparable worth: feminism turning to paternalism. 10:380-381
- McGATH, Gary**
The strongest man. 9:335-337
The two-edged sword of chaos. 11:429-432
- McKENZIE, Richard G. (co-author)**
See Lee
- MEDICAL** care
Coming push for national health care (Wasley) 1:30-32
- MERLINE, John**
Cable TV needs competition. 10:382-386
- MESSAGE** from Eastern Europe (W.H.Peterson) 5:187-191
- MILITARY'S** secret war against racism (Nichols) 7:244-246
- MISDIRECTED** compassion (Mataconis) 8:306-307
- MISES, Ludwig von** — ideas of
Consumer sovereignty (Greaves) 6:222-223
Nature of government (Dekkers) 11:436-437
Perestroika's missing ingredient (Pasour) 219-221
- MONEY, inflation, banking**
Great banking scandal (Sennholz) 11:404-405
- MORALITY/religion**
Ezekiel's job (Foley) 9:330-334
Rights, law, and morality (Rasmussen) 9:350-352
- MUNICIPAL** services: unfair competition from local governments (Tomlinson) 8:305-306
- MURPHEY, Dwight D.**
Employee ownership: a rapidly growing threat to a free market. 7:258-261
See also Readers' forum, 10:393-394

MYTH of public/private "cooperative enterprises" (Hunter) 11:424-425

N

- NATIONAL** service: a solution in search of a problem (DiLorenzo) 3:99-103
- NATURE OF GOVERNMENT** (Dekkers) 11:436-437
- NICHOLS, Lee**
The military's secret war against racism. 7:244-246

O

- OIL**, rising prices, the market's way of conserving (Amador) 11:433-435
- OIL** spill, Alaska's other (Jackstadt & Lee) 1:8-11
- ON THE RIGHT** to strike (Baird) 10:387-391
- ONGOING** struggle for liberty: reasons for optimism (Lee & McKenzie) 7:262-267
- ORGANIC** farming — and pesticides, America needs (J. Hood) 2:57-58
- OSTERFELD, David**
The failures and fallacies of foreign aid. 2:61-71
- OTHER** side of Adam Smith (Irvine) 2:47-49
- OWNBY, Lee**
Beyond eminent domain. 3:108-110
See also Readers' forum, 7:274-275

P

- PASOUR, E. C., Jr.**
Perestroika's missing ingredient. 6:219-221
- PATIENCE** and property: corporate vs. union management (Lee & Sexton) 8:300-302
- PAYNE, James L.**
The real case against taxes. 5:183-184
What's happened to community spirit? 9:328-329
- PECQUET, Gary M.**
Crop controls and Indian raids in colonial Virginia. 2:59-60
- PERESTROIKA'S** missing ingredient (Pasour) 6:219-221
- PERSON, Lawrence.** See Book reviews (Shelton)
- PETERSON, Robert A.**
Lessons in liberty: Hong Kong, "crown jewel" of capitalism. 1:16-22
- PETERSON, William H.**
The message from Eastern Europe. 5:187-191
The taproots of political corruption. 12:456-459
See also Book reviews (Block)
- PHILLIPS, J. Brian**
Aquaculture: the birth of an industry. 9:343-346
Progressivism comes to Houston. 2:72-75
- PLAYING** hard ball (Pyburn) 3:111
- POLITICAL** action/pressure
Coming push for national health care (Wasley) 1:30-32

- Strongest man** (McGath) 9:335-337
- Taproots** of political corruption, (W.H.Peterson) 12:456-459
- POLITICS** of compassion (Irvine) 10:374-375
- POVERTY**, government programs and Misdirected compassion (Mataconis) 8:306-307
- PRASAD, Rayasam V.**
Communal politics in India 1:26-27
- PRICE** of chiminelli seeds and Regulation Q (Doti) 1:4-7
- PRICES/pricing**, and price controls
Crop controls and Indian raids in colonial Virginia (Pecquet) 2:59-60
Price of chiminelli seeds and Regulation Q (Doti) 1:4-7
Rising prices: the market's way of conserving oil (Amador) 11:433-435
- PRIVATE** property
Aquaculture: the birth of an industry (Phillips) 9:343-346
Capitalism and the environment (Machan) 7:249-257
Freedom and democracy are different (Wenders) 8:288-289
Low life (Garner) 7:271-272
Markets and pseudo-markets (Boudreaux) 11:421-423
Perestroika's missing ingredient (Pasour) 6:219-221
Saving a forest; what can we do? (M.Reed) 5:169-171
Tale of two estates (Barniskis) 8:303-304
See also Land use/management
- PRIVATE** property rights: an endangered species (Kamenar) 5:164-167
- PRIVATE** property rights, social role of (Smiley) 5:167-168
- PROGRESSIVISM** comes to Houston (Phillips) 2:72-75
- PRUZIN, Daniel R.**
Freeman interview: Wan Runnan. 5:176-182
- PSEUDO-MARKETS**, markets and (Boudreaux) 11:421-423
- PYBURN, Evelyn**
Playing hard ball. 3:111
"Socialism works." 12:460

R

- RACIAL** minorities
Affirmative action: the new road to serfdom (Yates) 12:461-472
Education and the racist road to barbarism (Reisman) 10:364-370
From gangland to corporate America (Granville) 6:213-218
Military's secret war against racism (Nichols) 7:244-246
Right kind of social activism (Walter) 7:247-248
- RASMUSSEN, Douglas B.**
Rights, law, and morality. 9:350-352
- READ, Leonard E.**
Glory be! 12:444-445
- REAL** case against taxes (Payne) 5:183-184
- REAM, Norman S.**
Where are the sons of liberty? 10:371-373

REED, Michael
 Saving a forest: what can we do?
 5:169-171
 REISMAN, George
 Education and the racist road to
 barbarism. 10:364-370
 RENT control, folly of (Maccaro) 1:14-15
 RIGHT kind of social activism (Walter)
 7:247-248
 RIGHTS, law, and morality
 (Rasmussen) 9:350-352
 RISING prices: the market's way of
 conserving oil (Amador) 11:433-435
 ROGER and Me and free enterprise
 (Doti) 5:196-197
 ROGERS, Ann and Michael
 Fostering the system. 7:268-271
 ROME, ancient
 Taproots of political corruption
 (W.H.Peterson) 12:456-459
 ROOM with a new view (Lopez) 1:28-29
 RUSSIA See U.S.S.R.

S
 SAFETY regulation
 Air bags — more government hot air?
 (Young) 9:341-342
 Mandated airline safety seats won't
 increase travel safety (Semmens)
 9:340-341
 SALL, Barbara
 Trickle up: a solution to third world
 poverty. 4:134-136
 SAVING a forest: what can we do?
 (M.Reed) 5:169-171
 SAVINGS and investment
 Social Security trust fund: "savings"
 vs. saving (Fulmer) 8:308-309
 SAYING no to federal disaster relief
 (Irvine) 3:104-105
 SCHOOL budgets and town meetings
 (Boehm) 9:338-339
 SELF-IMPROVEMENT
 Glory be! (Read) 12:444-445
 Room with a new view (Lopez) 1:28-29
 SEMMENS, John
 Mandated airline safety seats won't
 increase travel safety. 9:340-341
 SENNHOLZ, Hans F.
 The great banking scandal. 11:404-405
 SEXTON, Robert L. (co-author) See
 Lee
 SHANNON, Russell
 The economic wisdom of A
Connecticut Yankee. 6:204-205
 See also Book reviews (Aganbegyan;
 Bhagwati; Hough)
 SHAW, Jane S. (co-author) See Iijima
 SMALL, Gary V.
 Eastern Europe: the economic stakes
 are high. 5:185-187
 SMILEY, Gene
 The social role of private property
 rights. 5:167-168
 SMITH, Adam — ideas of
 Other side of (Irvine) 2:47-49
 Writings of (Cole) 2:44-46
 SMITH, Donald G.
 You missed the point, Bernie. 12:454-
 455
 SMITH, Marcella
Kun shou you dou: even a cornered
 beast will fight. 12:446-454
 SOCIAL reform/engineering

Affirmative action: the new road to
 serfdom (Yates) 12:461-472
 Comparable worth: feminism turning
 to paternalism (McElroy) 10:380-381
 Fostering the system
 (A. & M. Rogers) 7:268-271
 Manipulating the traditional family
 (Leithart) 10:376-379
 SOCIAL role of private property rights
 (Smiley) 5:167-168
 SOCIAL Security trust fund: "savings"
 vs. saving (Fulmer) 8:308-309
 SOCIAL Security, voluntary
 Friendly societies: voluntary social
 security — and more (Chodes)
 3:95-98
 SOCIALISM, "soft" (Fabian welfarism)
 Message from Eastern Europe
 (W.H.Peterson) 5:187-191
 "SOCIALISM works" (Pyburn) 12:460
 SOLIDARITY and labor law reform in
 the 1990s (Baird) 6:224-225
 SOVIET admissions: communism
 doesn't work (Boettke) 2:50-56
 SOVIET economic reforms: an inside
 perspective (Maltsev) 3:88-92
 SPORTS
 Municipal services: unfair competition
 from local governments
 (Tomlinson) 8:305-306
 Playing hard ball (Pyburn) 3:111
 STOCK market
 Investor as hero (Irvine) 1:12-13
 Last wild children of capitalism
 (Irvine) 8:296-299
 STRONGEST man (McGath) 9:335-337
 SUBSIDIES
 Art, censorship, and markets (Yates)
 3:106-107
 Myth of public/private "cooperative
 enterprises" (Hunter) 11:424-425
 Playing hard ball (Pyburn) 3:111
 Politics of compassion (Irvine) 10:374-
 375
 "That's already been settled"
 (Zarbin) 6:233-234
 SWEDEN: no model for Eastern
 Europe (Brodin) 11:426-428

T
 TAKING the train to Metamora
 (Irvine) 6:206-208
 TALE of two estates (Barniskis) 8:303-304
 TAPROOTS of political corruption
 (W.H.Peterson) 12:456-459
 TAXATION
 Boom time for state and local
 government (J. Hood) 11:406-408
 Growth of government in the United
 States (Higgs) 8:290-295
 Manipulating the traditional family
 (Leithart) 10:376-379
 Real case against taxes (Payne) 5:183-
 184
 School budgets and town meetings
 (Boehm) 9:338-339
 TAYLOR, Jeff A.
 Freeing digital audio. 4:131-132
 "THAT'S already been settled"
 (Zarbin) 6:233-234
 THEORY of due reparations (Foley)
 6:209-212
 THIRD world
 Failures and fallacies of foreign aid

(Osterfeld) 2:61-71
 Trickle up: a solution to third world
 poverty (Sall) 4:134-136
 TOLERANCE
 Ezekiel's job (Foley) 9:330-334
 TOMLINSON, Bill
 Municipal services unfair competition
 from local governments. 8:305-306
 TRADE, international
 U. S. trade deficits aren't a problem
 (Folsom & Gonzalez) 8:310-315
 TRANSPORTATION
 Air bags — more government hot air?
 (Young) 9:341-342
 Mandated airline safety seats won't
 increase travel safety (Semmens)
 9:340-341
 Taking the train to Metamora (Irvine)
 6:206-208
 TRICKLE up: a solution to third world
 poverty (Sall) 4:134-135
 TWAIN, Mark — ideas of
 Economic wisdom of A *Connecticut*
Yankee (Shannon) 6:204-205
 TWO-EDGED sword of chaos
 (McGath) 11:429-432

U
 UNIVERSITY with a future (Liggio)
 7:273-274
 U. S. HISTORY (pre-Revolution,
 colonial)
 Crop controls and Indian raids in
 colonial Virginia (Pecquet) 2:59-60
 Where are the sons of liberty?
 (Ream) 10:371-373
 U. S. SUPREME COURT (misc.
 decisions)
 Flag and freedom: which should we
 protect? (Mataconis) 2:76-77
 Military's secret war against racism
 (Nichols) 7:244-246
 On the right to strike (Baird) 10:387-
 391
 Where are the sons of liberty?
 (Ream) 10:371-373
 U. S. TRADE deficits aren't a problem
 (Folsom & Gonzalez) 8:310-315
 U.S.S.R.
 Consumer sovereignty (Greaves)
 6:222-223
 Perestroika's missing ingredient
 (Pasour) 6:219-221
 Soviet admissions: communism
 doesn't work (Boettke) 2:50-56
 Soviet economic reforms: an inside
 perspective (Maltsev) 3:88-92
 What makes a market? (Korves)
 9:347-348

W
 WALTER, Edward
 The right kind of social activism.
 7:247-248
 WAN Runnan, *Freeman* interview
 (Pruzin) 5:176-182
 WASLEY, Terree P.
 The coming push for national health
 care. 1:30-32
 WEALTH, freedom, and philanthropy
 (Frumkin) 6:231-232

WENDERS, John T.
Freedom and democracy are different
8:288-289
WHAT makes a market? (Korves)
9:347-348
WHAT we should teach the Eastern
Europeans (Machan) 1:23-25
WHAT'S happened to community
spirit? (Payne) 9:328-329
WHERE are the sons of liberty?
(Ream) 10:371-373
WOMEN
Comparable worth: feminism turning

to paternalism (McElroy) 10:380-381
WRITINGS of Adam Smith (Cole)
2:44-46

XYZ

YATES, Steven
Affirmative action: the new road to
serfdom. 12:461-472
Art, censorship, and markets. 3:106-107

YOU missed the point, Bernie
(D.G.Smith) 12:454-455
YOUNG, Anthony
Air bags — more government hot air?
9:341-342
YOUTH corps
National service: a solution in search
of a problem (DiLorenzo) 3:99-103
ZARBIN, Earl
"That's already been settled." 6:233-234
ZONING
Progressivism comes to Houston
(Phillips) 2:72-75

BOOK REVIEWS

(Reviewer's name in parentheses)

AGANBEGYAN, Abel. *Inside Perestroika: the future of the Soviet economy* (Shannon) 10:396-397
ALLEN, William R. *The midnight economist: meditations on truth and public policy* (Chamberlain) 1:38-39
AMACHER, Ryan C. (co-ed.) *See* Meiners
BANDOW, Doug. *The politics of plunder: misgovernment in Washington* (Chamberlain) 11:438-439
BEITO, David T. *Taxpayers in revolt: tax resistance during the great depression* (Helstrom) 4:158-159
BHAGWATI, Jagdish. *Protectionism* (Shannon) 1:39-40
BLOCK, Walter (ed.) *Economics and the environment: a reconciliation* (W.H.Peterson) 9:359-360
BOVARD, James. *The farm fiasco* (Lapp) 9:356-357
BRYAN, Frank & McLaughry, John. *The Vermont papers: recreating democracy on a human scale* (Chamberlain) 4:157-158
BRZEZINSKI, Zbigniew. *The grand failure: the birth and death of communism in the twentieth century* (Boettke) 3:117-119
CARSON, Clarence B. *Basic Communism* (Chamberlain) 12:473-474
FECHER, Charles A. (ed.) *See* Mencken
GOODMAN, John C. & Marotz-

Baden, Ramona. *Fighting the war of ideas in Latin America* (Chamberlain) 10:395-396
HESSEN, Robert. *Breaking with communism: the intellectual odyssey of Bertram D. Wolfe* (Chamberlain) 9:355-356
HOUGH, Jerry F. *Opening up the Soviet Union* (Shannon) 2:79-80
KIRK, Russell. *Economics: work and prosperity* (Beisner) 6:238-239
KIRZNER, Israel M. *Discovery, capitalism, and distributive justice* (Baird) 8:318-320
MACHAN, Tibor. *Individuals and their rights* (Brown) 6:236-238
MAROTZ-BADEN, Ramona (co-author) *See* Goodman
McCLAUGHRY (co-author). *See* Bryan
MEINERS, Roger E. & Amacher, Ryan C. (eds.) *Federal support of higher education: the growing challenge to intellectual freedom* (Cole) 6:239-240
MENCKEN, H. L., *The diary of* Charles A. Fecher, ed. (Brown) 7:277-279
MINER, Craig. *Grede of Milwaukee* (Chamberlain) 3:116-117
MOSKOS, Charles C. *A call to civic service: national service for country and community* (Bandow) 5:199-200
NISBET, Robert. *The quest for community* (Chamberlain) 8:317-318

NOZICK, Robert. *The examined life* (Chamberlain) 5:198-199
PERL, William R. *The Holocaust conspiracy: an international policy of genocide* (Amador) 7:279-280
SCHALL, James Vincent. *Religion, wealth and poverty* (Chamberlain) 6:235-236
SHAND, Alexander. *Free market morality: the political economy of the Austrian School* (Elliott) 11:439-440
SHELTON, Judy. *The coming Soviet crash: Gorbachev's desperate pursuit of credit in western financial markets* (Person) 9:357-358
SITHOLE, Ndabaningi. *The secret of American success: Africa's great hope* (Chamberlain) 2:78-79
SOHAR, Ezra. *Israel's dilemma: why Israel is falling apart and how to put it back together* (Chamberlain) 7:276-277
SOWELL, Thomas. *Choosing a college: a guide for parents and students* (D.Hood) 3:119-120
———. *Preferential policies: an international perspective* (Brown) 10:397-399
van WOLFEREN, Karel. *The enigma of Japanese power* (Gordon) 4:159-160
WILLIAMS, Walter E. *South Africa's war against capitalism* (Kibbe) 10:399-400