THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
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4 **The Economic Way of Thinking, Part 4** *by Ronald Nash*
An examination of capitalism, socialism, and so-called mixed economies.

8 **Mr. Dickens Was Right** *by Ridgway K. Foley, Jr.*
The sad state of the law in twentieth-century America.

13 **Should the Government Kill People to Protect Their Health?** *by Robert Higgs*
While innovative medical goods await FDA approval, people who could have benefited from their use suffer and die unnecessarily.

18 **What Is Government Waste?** *by William H. Peterson*
When government tries to be all things to all people, it inevitably wastes resources.

20 **The Moral Aspect of the Protective Tariff** *by David Starr Jordan*
Protectionism perverts our theories of government, and introduces the idea of class enrichment through legislation.

23 **We Need Free Trade in Deed as Well as Word** *by Gary M. Galles*
Since the founding of the United States, free trade has been demoted from a central organizing principle to one that now mostly commands lip service.

26 **Shipwrecked in New Jersey** *by Robert A. Peterson*
How the 1990 luxury tax on yachts devastated an industry.

29 **The Space Program: No Prize** *by Frederick Giarrusso and Gary C. Hudson*
If there is to be a true industrial revolution in space commerce, we must open new markets.

32 **The Best Alternative** *by Roger M. Clites*
Some helpful advice to defenders of the free market.

34 **A Level Playing Field** *by Robert Zimmerman*
By recognizing and rewarding individual differences, a free society encourages us all to be the best we can be.

36 **The Case for Homeschooling** *by Roy Lechtreck*
Those who choose to teach their children at home should be free to do so.

40 **Book Reviews**
John Chamberlain reviews *The Politics of Power* by Russell Kirk; *Green Delusions: An Environmentalist Critique of Radical Environmentalism* by Martin Lewis, reviewed by Doug Bandow; *On Liberty, Society, and Politics: The Essential Essays of William Graham Sumner* edited by Robert C. Bannister, reviewed by John Attarian; *The Catholic Ethic and the Spirit of Capitalism* by Michael Novak, reviewed by Ronald Nash; *The Market, Competition and Democracy: A Critique of Neo-Austrian Economics* by Stavros Ioannides, reviewed by Israel M. Kirzner; and *The Creators: A History of Heroes of the Imagination* by Daniel J. Boorstin, reviewed by Raymond J. Keating.

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PERSPECTIVE

Economic Warnings from Canada

Promoters of "free" national health care constantly urge Americans to look north of the border for answers. That is indeed a healthy exercise, as long as you extend the investigation beyond health care.

Consider, for example, the province of Ontario, the hub of Canadian manufacturing and finance. In 1990, when Eastern Europeans were casting off their socialist chains, the people of Ontario elected a government of the New Democratic Party (NDP), a member of the Socialist International.

The NDP quickly announced plans to raise an additional one billion dollars a year by establishing a "minimum tax" for "big business." In the best Orwellian tradition, the socialists established the "Fair Tax Commission" to study the move. But their major initiative, also popular in the United States, was to reclassify the middle class as "the wealthy."

In May 1993, the NDP announced the largest single tax increase in Ontario's history: $1.6 billion in new levies. The socialists also slapped a sales tax on automobile insurance, a mandatory big-ticket item for most citizens.

Ontarians pay a provincial tax rate of 58 percent of their basic federal income tax. But there is a catch. Because the increase, up from 55 percent is retroactive to January 1, the rate for the rest of 1993 was a stiff 61 percent. Further, for those earning over $51,000 a provincial surtax recently rose from 14 percent to 20. For those earning over $67,000 there is an "additional tax-on-tax" that rises to 10 percent from four.

All this comes in a time of recession, when government perks remain high. Remo Mancini was elected to Ontario's Provincial Parliament in 1976. In July 1993 he retired at the ripe age of 41 with a $48,000 annual pension for the rest of his life. Meanwhile, the province's bagmen were looking for still other pockets to pick.

Also in July, the NDP began hinting that the province would start taxing charitable contributions at a rate of five percent. The news provoked cries of outrage from some Canadians, who generally like big government but are now beginning to realize its cost and alter their behavior accordingly.

There have been several regional tax revolts, and some predict a national grassroots push like that of California in 1978. Instead of cash increases, Canadians are beginning to ask for more vacation time and other non-taxable benefits.

As noted in the Canadian newsweekly, *Maclean's*, the Toronto-based BarterPlus connects people interested in swapping services. In two years, the organization has more than doubled its membership. "Everything the province does to slow the economy seems to make our phones ring all the more," said BarterPlus president Michael Caron. True to form, the government has imposed a tax on barter services.

Some Canadian economists peg the country's "underground economy" at up to $100 billion a year. Canadians increasingly shop in the United States, where their dollar goes farther, even with an unfavorable exchange rate.

"The effects of a steadily higher taxation is a disaster for the middle class and a potential disaster for society," Nicole Morgan, professor of public policy at Queens University in Kingston, Ontario told *Maclean's*. With the middle class being depleted by taxation, said Morgan, "you can already see the trends to an increase in violence. It doesn't take that much for the social fabric to crumble."

By all standards, Canada should be one of the world's premier economic powers. It is the largest country in the world, with a highly trained workforce and broad industrial base, with every conceivable mineral and natural resource, abundant hydroelectric power, an excellent transportation system, warm-water ports, on both coasts, a tradition of domestic tranquillity, and no foreign policy entanglements. But instead of growing prosperity Canada currently suffers from recession, high unemployment, and a deficit worse than that of the United States on a per-capita basis. The lessons for the United States could not be clearer.

The Canadian experience confirms that state greed remains insatiable. It is that greed that surely underlies many of our own social problems and increasing violence. Statism and its inherently high taxes can reduce even naturally rich countries to economic basket cases. To use a socialist term, the state is guilty of "parasitism."

Canadians often complain that they are being Americanized but in some key areas the reverse seems true. Canada has long maintained government ministries for multiculturalism and has practiced official bilingualism for decades. These are the very policies which the forces of political correctness are pushing for America, along with statist health care and national service.

If Americans adopt Canadian policies they will surely get the same results: recessions, frustration, and increased social tensions. Americans should reject expensive and failed statist models and return to their proven tradition of the free market, limited government, and individual initiative.

—K. L. BILLINGSLEY

Sincere Tyrants

Of all tyrannies a tyranny sincerely exercised for the good of its victims may be the most oppressive. It may be better to live under robber barons than under omnipotent moral busybodies. The robber baron's cruelty may sometimes sleep, his cupidity may at some point be satiated; but those who torment us for our own good will torment us without end, for they do so with the approval of their own conscience.

—C. S. LEWIS

The Consent of the Governed

To commit violent and unjust acts, it is not enough for a government to have the will or even the power; the habits, ideas and passions of the time must lend themselves to their committal.

—ALEXIS DE TOCQUEVILLE

THE FREEMAN
IDEAS ON LIBERTY

THE ECONOMIC WAY OF THINKING

PART 4

by Ronald Nash

Sooner or later, any introduction to the economic way of thinking will have to discuss the major economic systems: capitalism, socialism, and the mixed economy. My brief analysis of the idea of the market in the third part of this series provides a helpful way of getting into our subject for this month. One way of thinking about capitalism is to see it as the economic system that recognizes the importance of the market and that seeks to protect free market exchanges from harmful governmental interference and control. In its classic sense, socialism is the name we give to that economic system that seeks to replace the freedom of the market with a group of central planners who exercise control over essential market functions. There are degrees of socialism in the real world. But basic to any form of socialism is distrust of or contempt for the market process and the desire to replace the freedom of the market with some form of centralized control. So-called mixed economies (another name is interventionism) differ from socialist economies only in degree.

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The Two Means of Exchange

An excellent way of clarifying the essential difference between capitalism and socialism is noting that there are basically only two ways in which anything may be exchanged. Economist Walter Williams calls them *the peaceful means of exchange* and *the violent means of exchange*.

The peaceful means of exchange may be summed up in the phrase, "If you do something good for me, then I'll do something good for you." When I place an order in my local McDonald's, I am in effect saying that if the store does something good for me (gives me the food I'm requesting), then I'll do something good for it (give it my money). When capitalism is understood correctly, it epitomizes the peaceful means of exchange. The reason people enter into a market exchange is because they believe the exchange is good for them. They take advantage of an opportunity to obtain something they want *more* in exchange for something they value *less*. Capitalism then should be understood as a voluntary system of relationships that utilizes the peaceful means of exchange.

But exchange can also take place by

means of force and violence. In this violent means of exchange, the basic rule of thumb is: "*Unless* you do something good for me, I'll do something *bad* to you." This is the operating principle for thieves and robbers, and, some would add, for the Internal Revenue Service as well. It is also the controlling principle for socialism.

Socialism means far more than centralized control of the economic process. Socialism requires the introduction of coercion into economic exchange in order to facilitate the goals of the elite who function as the central planners. Even if we fail to notice any other contrasts between capitalism and socialism, we already have a major difference to consider. One system (capitalism) stresses voluntary and peaceful exchange, while the other system depends on coercion and violence.

An Objection

Socialists in the West often object to the last point. (Of course, the multitudes who suffered under socialism in Eastern Europe and the former Soviet Union know the point is true.) Many socialists in nations like the United States would like us to believe that there is a form of socialism, not yet tried anywhere on earth, where the controlling ideas are cooperation and community; and where coercion and dictatorship are precluded. Either these people are confused or they have a secret that they want kept from the rest of us. These utopians ignore the fact that however humane and voluntary their socialism is supposed to become after it has been put into effect, it will still take massive amounts of coercion and theft to get it started. Voluntary socialism is a contradiction in terms. Whatever else socialism is, it means a centralized control of the economy made possible by the use of force. Socialism epitomizes the violent means of exchange.

Additional Features of Capitalism

As we have seen, capitalism is a system of voluntary relationships in which people exchange on the basis of the peaceful means of exchange. But we can add more detail to this general picture. For one thing, capitalism is not economic anarchy. It recognizes several necessary conditions for the kinds of voluntary relationships it recommends. One of these is the existence of inherent human rights, such as the right to make decisions, the right to be free, the right to hold property, and the right to exchange what one owns for something else. It is encouraging to hear Boris Yeltsin and other former Marxists in Russia declaring that they now recognize the fundamental importance of these rights.

Capitalism also presupposes a system of morality. It does not encourage people to do anything they want. There are definite limits, moral and otherwise, to the ways in which people should exchange. Capitalism should be regarded as a system of voluntary relationships within a framework of laws which protect people's rights against force, fraud, theft, and violation of contract. "Thou shalt not steal" and "Thou shalt not lie" are part of the underlying moral constraints of the system. Economic exchanges can hardly be voluntary if one participant is coerced, deceived, defrauded, or robbed.

There is no mystery as to why existing national economies fall short of the capitalist ideal. Deviations from the market ideal occur because of defects in human nature. Human beings naturally crave security and guaranteed success, values not found readily in a free market. Genuine competition always carries with it the possibility of failure and loss. Consequently the human preference for security leads people to avoid competition whenever possible, encourages them to operate outside the market, and induces them to subvert the market process through behavior that is often questionable and dishonest. Most often, this subversion of the market finds people seeking special advantages from government, which is one of the unavoidable consequences of socialist and interventionist economies.

The best way to mitigate the effects of evil in the human heart and the subsequent pursuit of unlimited power is to disperse and decentralize power. Because of its reliance on markets, capitalism is the only one of the three economic options that decentralizes economic power. The necessary reliance of socialist and interventionist economies upon state power leads inevitably to the greater consolidation of economic and political power in the hands of a few. The combination of a free market economy and limited constitutional government is the most effective means yet devised to impede the concentration of economic and political power in the hands of a small number of people. Every person's ultimate protection against coercion requires control over some private spheres of life where he can be free. Private ownership of property is an important buffer against any exorbitant consolidation of power by government.

What About "Monopolies"?

But, some will ask, doesn't capitalism lead to monopolies, the concentration of wealth and power in the hands of a few private individuals and companies? The truth is that it is not the free market that produces monopolies; rather it is governmental intervention with the market that creates the conditions that encourage monopolies. The only real monopolies that have ever attained a high degree of immunity from competition achieved that status by governmental fiat, regulation, or support of some other kind. Governments create monopolies by granting one organization the exclusive privilege of doing business or by establishing *de facto* monopolies through regulatory agencies whose alleged purpose is the enforcement of competition, but whose real effect is the limitation or destruction of competition. More attention needs to be given to the ways in which America's infamous nineteenth-century "robber barons" were aided by special privileges granted by government.

Why Socialism Fails

The miserable performance of socialist economies is no accident. There is a fundamental reason why socialist economies do not work, and that is because *they cannot work*. The reason socialism can never work is because it is an economic system that makes economic calculation impossible. Without free markets to set prices, without the constant stream of information supplied by changing relative prices in a market economy, socialists can never attune production to human wants. Without free markets and the vital information they supply, economic activity becomes chaotic and results in drastic inefficiencies and distortions. The great paradox of socialism is the fact that socialists need capitalism in order to survive. Unless socialists made allowances for free markets, which provide the pricing information that alone makes rational economic activity possible, or monitored the pricing information available from capitalist economies, socialist states would have collapsed more quickly than they did. Anyone who doubts this can quickly learn the truth by visiting countries like Russia or Cuba.

The Mixed Economy

Many people are attracted by the possibility of an economic system that would fall somewhere between capitalism and socialism, that would—they think—combine the "best elements" of each. Interventionism or the mixed economy results from the mistaken belief that governmental intervention in the economy can successfully achieve good results while still falling short of the total controls that characterize a socialist system. An interventionist economy is supposed to be a workable third alternative to the freedom of a market system and the total state control of a socialist system. The state, interventionists believe, interferes with the market process in order to attain some desirable social goal, such as a more "equitable" distribution of wealth or jobs or positions. For anyone wanting an example of an interventionist economy, one need only look at the U.S. economy. For those seeking examples of how interventionist economies fail, one need only look at the U.S. economy.

In reality, interventionism turns out to be a system in which government interferes with the normal operation of the market in order to alter the terms of trade in ways that benefit some at the expense of others. Interventionism occurs when one group invites government to enter the process and change the rates at which exchanges take place. This may assume the form of price controls or tariffs or other forms of coercion. Of course, advocates of interventionism never explain that this is what interventionism really is. Instead, they talk in lofty moral terms about the importance of certain social goals and how those goals can only be attained if government intervenes in ways that will counterbalance the selfishness of some in order to bring about the good of all. But in the long run, interventionism always results in the large majority of people being worse off. Interventionist controls fail because whenever government intervenes in the market (as through rent controls in New York City, for example), private owners and entrepreneurs react in ways that thwart the objectives of the politicians and those they are trying to advantage. The exorbitant price of housing and the substandard condition of the housing that's left for the poor are inevitable by-products of liberal politicians playing interventionist games with the housing market.

But whenever liberal economists and politicians are confronted by the failures of interventionist economic controls, they always have a predictable response. The failures of the mixed economy are judged to show that previous controls did not go far enough; what is necessary is more interference with the market, not less. In other words, it is always the market process and never interventionism that receives the blame for failure. Through this remarkable sleight of hand, past failures are never regarded as grounds for abandoning interventionism. Rather the mistakes of the past are used as justification for even more controls in the future. More attention should be given to the clever but immoral way in which liberals and radicals blame capitalism for what are in truth the failures of economic interventionism.

Free Exchange versus Coercion

The alternative to free exchange is coercion and violence. Capitalism is a mechanism that allows natural human desires to be satisfied in a nonviolent way. Little can be done to prevent human beings from wanting to better their lot in life. What capitalism does is channel that desire into peaceful means that benefit many besides those who wish to improve their own situation. □

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MR. DICKENS WAS RIGHT

"'If the law supposes that,' said Mr. Bumble . . . , 'the law is a ass—a idiot.'"

—*Oliver Twist* (1838)

by Ridgway K. Foley, Jr.

Charles Dickens' disdain for law and lawyers was well known, well founded, and sharply pervasive. Mr. Tulkinghorne and Uriah Heep provide spirited examples of wretched men performing vicious acts, and even Sidney Carton displays unpleasant and unlovely traits despite his heroic martyrdom for his beloved. The system fared no better: *Bleak House* portrays the epitome of greed, delay, and destruction in a juridical system conceived to afford speedy justice. Thus, when the great nineteenth-century novelist urges the unfortunate Mr. Bumble to utter his dictum of frustration, readers 150 years later recognize the depth and ferocity of Dickens' contempt and concern.

English law and the English legal system *had* deteriorated into little pockets of malevolence, spite, and injustice in the first half of the nineteenth century. Dickens' early days as a reporter and observer, and his father's experience with the tender mercies of debtors' prisons, may have colored the writer's opinion, but those experiences, observations, and feelings were neither incorrect nor necessarily overstated.

Are we able to discern any significant improvement in things legal and judicial a century and one-half later? Is the law approaching the goal of just resolution of disputes in a free society, or is it still "a ass, a idiot"? On my first day in Property class thirty years ago, a little Boston-Irish professor with a droll sense of humor addressed us thus: "Gentlemen. Dickens says that the law is an ass; try not to make it more of an ass than it already is." Unfortunately, my generation did not heed Richard Kelley's wry wisdom: we and the rest of the American political/legal/social structure have created an ass of gargantuan proportions, one which shows scant signs of going on a diet of rationality and good sense.

Do I overstate my case? I think not, and my suspicion is fueled more by experience and observation than by rough "lawyer jokes" which have recently replaced "blonde jokes" and "Polish jokes" as the enlivener of dull parties. To support my thesis, I dredge the following three examples not so much from a fevered or fertile mind, as from the dregs of the daily and legal press (augmented by courthouse gossip) where they reside for all to see but few to contemplate.

First case. In a drug-infested urban neighborhood pockmarked by commonplace gunfire, a denizen of a rented house sometimes used for the illicit drug trade fires at his enemy. He misses his target, but the bullet strikes and kills a sleeping baby in a neighboring home. The nineteen-year-old gun-

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man—owner of a record of violence stretching back almost a decade—expresses the usual remorse, pleads guilty to manslaughter charges, and receives a prison sentence of eighteen months, soon to be shortened by overcrowding and putative good behavior. Restitution? Don't be silly! He has spent every dollar he can beg, borrow, or steal (did someone mention work?) on his form of high living and self-destruction.

The grieving parents of the unintended victim vent their understandable anger by a lawsuit—against the absent and uninvolved owner of the property from which the fatal shot was fired. Amid allegations of "landlord's liability" and high moralizing about "duties to society," let us look at the real world.

Assume that the owner knew that his property might be used for illegal activities. Could he refuse to rent to tenants who disobeyed the law? Of course not! Could he dispossess tenants who had been convicted of a crime? Haven't you heard about anti-discrimination laws that force us all to love even the unlovable and dangerous? Could he have complained to the police? As a matter of fact, he had in this case, as had his neighbors, all to no avail. After all, the police receive scant help from the community and virtually none from the legislative, judicial, and other political branches of government. Indeed, in many blighted urban areas, the politicians and police have invented a fools' gold called "community policing," which recognizes the failure of the state to carry out the single task for which it is (theoretically) fitted.

In fact, the landlord could do nothing to prevent the crime, yet he was chosen to pay for the wrongs of another, evil deeds the law absolutely barred him from preventing. And, by the way, why did the victim's parents avoid legal responsibility? Why didn't they complain to the authorities about the drug house, if drug house it was? Why didn't they organize community cleanup and neighborhood watch programs? Why didn't they move from a danger zone? Why didn't they purchase first-party insurance covering life, health, and disability?

Second case. The scene shifts downtown to City Hall. Actually, "City Hall" constitutes a mere figure of speech in most of our metropoli: government buildings abound, costing untold millions to maintain. In any event, a city planner bent on the city business of planning ordinary folks out of house and home mounts a city vehicle and, while driving down a city street in a decidedly and habitually reckless manner, runs over an elderly woman who is insufficiently fleet of foot to avoid the careening car.

Outraged, the victim's ancient spouse and her surviving grandchildren bring an action against the city planner and his employer, the city, for wrongful death caused by his negligent acts committed in the course and scope of his city employment.

Guess who pays? All of you who selected "Uncle Pungle" a/k/a innocent, hardworking, and sober taxpayers, step up and claim your gold star!

Does the drunken planner pay? Don't ask silly questions in class. Chances are his assets are shielded by law and, in any event the city has furnished him with "first dollar" liability insurance coverage. He doesn't even pay any premiums. Another city-owned vehicle will be furnished to him while the accident damage is repaired. He will draw his city pay—generally in excess of the market rate for comparable services—during discovery, trial preparation, and trial. The city-paid insurance will provide the lawyer and the legal defense and, if the victim's family receives a final judgment, the insurance policy will pay the indemnity. If the judgment exceeds the policy limits, the city will make up the difference.

But surely, the unreconstructed ("deconstructed" might be more apt in the land of political correctness) will say, this careless and reckless city planner will at least suffer the loss of his position or some strict employment-related penalty. Visit the real world. In most venues, it is highly unlikely that any municipal administrator would try to punish for such an incident. Any attempt at discipline, even of a habitual offender, will meet with legal barriers which protect public-employee rights and virtually assure that no diminution of salary or loss of position can occur. In addition, powerful union support will tether any supervisor so bold as to chastise the errant planner. In short, his position remains secure, his pension vested, his power untrammeled.

As for the employer-city's vicarious liability, it is identical—with one significant exception—to that which plagues the private businessman or woman under the failed doctrine of *respondeat superior* (the employer, or "master" in the common law, is responsible for the civil wrongs of his employee, or "servant," committed within the course and scope of his employment). The employer must bear the burden of all liability for his employees' actions which are related to the workplace—in most instances even if those actions are intentional and malevolent.

There is one marked difference between public and private employers in this circumstance: *The public body does not pay any of its own money to recompense a wrong.* Thus, the public employer does not even suffer a deterrent akin to that which encourages the private employer to take more care. Public institutions produce nothing; they take and receive; they do not create and produce. "Public funds" constitutes a misnomer: All funds, assets, and property owned by a public institution derive from value created by individual effort and coercively removed from the creative individual. Thus, when the city buys insurance for the reckless planner, and when it pays indemnity for his actions, it is using funds taken by compulsion from the unwilling and uninvolved citizenry; since it possesses no property of its own, it cannot expend its property in payment of any debt or judgment. Thus, the costs of the wrongful death in this example are visited upon men and women who have no role in the cause of the accident and no choice in the matter of payment.

Third case. A brouhaha periodically arises concerning governmental funding of artistic endeavors under the auspices of various and sundry arts commissions. There exist many of these fund-spenders, at virtually every level of government. They masquerade under manifold brands and appellations, and many of them receive significant endowments from the federal government. They share a common attribute: They are governmental or quasi-governmental bodies possessing the power of compulsion.

Each intermittent flap exhibits a common thread. Angry senators or councilors rant and rave across the aisle: Senator Tweedledee objects to the payment for obscene, vulgar, prurient, and blasphemous sculptures and drawings; Senator Tweedledum arises ponderously in favor of "freedom of expression" and the need for "diversity." When the forces of semi-decency obtain a beachhead, the arrogant administrator or director of the commission walks out with great fanfare, proclaiming victory for the forces of reaction. He proceeds directly to the lecture tour and/or publishes a book, pontificating in public about those who decry absolute license, seething because he feels that he has been mistreated and misunderstood, and moaning that culture has been cast backward into darkness.

Judging by newsprint and television, few if any constituents grasp the fundamental issue which demonstrates the vapidity of Tweedledee, Tweedledum, and the administrator/director: *No government has any legitimate business spending a sixpence on any kind of "art," or upon any like project!* I personally agree that much of what is currently at issue could not be said to represent "art" in any traditional sense, and that a great deal of it is odious. But that is not the point: The point is simply that anyone who wishes to draw dirty pictures should be permitted to do so, but he most decidedly should do so without forcing you, or me, or anyone else to support his enterprise. The vaunted right to free expression does not encompass the right to compel others to fund that expression.

Of course, the artistic imbroglio will not end here, precisely because no one in authority will center on the crucial issue. Often, some disgruntled "artists," peeved that their "work" has been passed over for prizes and payment, sue the sponsoring or responsible governmental body for recompense. All too often, these cases are settled and, as in the instance of the negligent city planner, the unhappy but hardly starving artist will be paid with monies taken by compulsion from unwilling and innocent taxpayers.

Why Has the Law Regressed?

A parade of horribles is just a horrible parade unless we make meaning out of it. Why has the law declined and deteriorated from a promise of justice to an object of scorn? Why, in a time of "great progress," if we believe the pundits, has the law regressed or at least failed to improve since Mr. Dickens wrote *Bleak House* and *Oliver Twist*?

Since the law writ large has become a bit of a bad joke, perhaps we can find a glimmer of an answer in the comic strips. In his clever satire "Pogo," Walt Kelly occasionally had his little swampland creatures announce that, "We have met the enemy, and they is us!" I suggest that we commence our quest for the answer to our inquiry from that guidepost. Perhaps we can pass the fault around like a piece of birthday cake.

"Law," in the sense under consideration, refers to "positive law," rules and orders issued by a sovereign state, controlling or sanctioning its inhabitants. It remains to another day to analyze "Law" in its Natural Law meaning, and to measure the positive law against the Natural Law and the promise of the common law. For purposes of this exposition, we limit law to its positive law connotation since it is there that evil dwells.

Far from being some majestic projection from above, law arises from, and reflects, the society it governs. In its best sense, it develops to serve the needs and desires of that society, and it performs the useful functions of settling disputes, channeling conduct, establishing necessary rules of order, and preventing/punishing aggression. Law is not some arcane and mystical god apart from the inhabitants of a state; it is born and bred by those very inhabitants, and it partakes of the failures and successes, the evils and the promises, of that society. Given that fact, Pogo's aphorism seems appropriate: the law is an ass because we whom it is to serve have caused it to be an ass, and have fed it sufficient rubbish that it has grown into a very grand ass.

Examine some of the trash which sustains this law which we now deride.

First, a prevalent behavior of envy and greed prevails throughout all the land: Envy of the successes of another and his just rewards, and a greedy predilection to take by "legal force" that which another created and possesses. The vast majority in the United States covet constantly: they covet their neighbor's wife, his automobile, his home, his job, his income, his success. They envy him those things, and they have found a neat little way to take them away from him, and to bring him down a peg in the bargain. They gather with like-minded envious and greedy souls, they gain control of the political apparatus, and they pass laws which enable them to take from others that which they covet. If the owner objects, the law will sanction him: after all, you can't argue with the law. And, of course, it is much simpler to do evil deeds anonymously, under the mask of the law.

Second, the concomitant decline and disintegration of any substantial moral standard has turned the Western World topsy-turvy. Commandments eight and ten of the Decalogue have long admonished us not to steal or covet; most of the world's long-standing religions have similar tenets. Now it is fashionable to steal and covet constantly, although we do not call it that when we operate under the shadow of the law. The abolition of any serious standards calls to mind a need to invoke the curse from the service of commination (a recital of Divine threats against sinners) in the traditional *Book of Common Prayer: "Cursed is he that removeth his neighbor's land-mark."*

But the deconstruction and disintegration of moral values devour far more than some old-fashioned rules against theft and envy. Rather, the Occidental world more and more resembles those parts of the Middle and Far East in the accepted vision of human worth. The Western tradition val-

ued—at least by lip service—each individual human being. Each man, woman, and child was a creature of intrinsic worth, and each life was a gift never to be taken lightly. In the United States, for example, we fought our bloodiest and most costly war in an attempt to eradicate the legal concept that one man might *own* another! Thus, the essence of human nature, the ability to choose meaningfully, was revered and protected by the law. This is no longer so. Some odd concept of an organic social order has become an overriding good to which mere individuals may be sacrificed with impunity, for the "greater good of society" of course. Individual human life declines in value with the deconstruction of classical moral values and traditional standards.

Third, man's inability or unwillingness to reason has increased with frightening speed. At a time when know-nothings prattle about "the best educated society in the history of the world," far too many of us refuse to make the effort to think for ourselves. It is much easier, in a culture dominated by fools and drugs, to leech off the past for material wants and to absorb the output of a national television addiction in place of cognitive activity. The result is frightening: Prereflective thinkers pass on misinformation or disinformation until it becomes adopted and cherished as common wisdom. No one dares or cares to tell the emperor that he forgot to put on his trousers. Society begins to resemble the mob to which it can so easily degenerate: Each person or sector repeats the lie of common wisdom in more shrill and grim tones, until the din becomes unbearable and any who would argue the issue is damned as a knave or a fool. And, in a society quickly losing its grip on the essential worth of the individual, it is a short hop to casting dissenters into the pit, or burning them at the stake, or, as is more likely today, to "re-educating" them by use of drugs, electric shock, peculiar group therapy, and other revisionist training spectres. Nothing like a little shunning, mockery, or torture to abort dissent or protest.

In summary, the law reflects its society. In a world gone mad with concepts of egalitarianism and entitlement, it is small wonder that the legal system has substituted grab bags and histrionics in place of any concept of equal treatment and reasoned justice. In a nation which has inculcated generations with an abhorrence of personal responsibility, it would be surprising indeed if the law imposed liability only upon causative actors possessing a real opportunity to alter the course of destiny and avoid harm to another.

Given this state of affairs, one might pray that the literary wraith of Mr. Dickens would bring forth a late twentieth-century version of *Oliver Twist* or *Bleak House* and thus ridicule us into recognition that the law—and our society—has become something base, homely, and impure. But would we read and heed the lesson of such a scribe? □

THE FREEMAN
IDEAS ON LIBERTY

Should the Government Kill People to Protect Their Health?

by Robert Higgs

If you were suffering from a serious disease, would you prefer (a) that you and your doctor decide how to treat your ailment, selecting from all existing medical goods the ones that offer the best combination of benefits and risks, or (b) that you and your doctor select from all medical goods except those—probably the most promising ones—that a low-level government employee in Rockville, Maryland, has decided to withhold from you? The answer is obvious. Rational people would never consider themselves better off because their range of choice had been arbitrarily limited.

Yet such restriction of consumer choice, affecting both patients and their physicians, fetters consumers at all times in the United States. The Food and Drug Administration (FDA) alone decides whether a newly devised medical good (either a drug or a device) may be sold. Many potentially beneficial goods remain on the shelf for a decade or more while their manufacturers traverse the rigid and elaborate testing process required by the FDA before it will approve marketing. While innovative medical goods run the bureaucratic gauntlet, people who could have benefited from their use suffer and die unnecessarily.

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Flawed Rationales

Defenders of the government's actions insist that, without the FDA's regulations, greater harm would occur. Consumers would suffer from the toxicity or adverse side effects of unsafe products, or they would squander their money on useless remedies. Consumers can avoid these injuries if they are permitted to use only medical goods that have met high standards of safety and efficacy by passing successfully through the FDA's required testing. In testimony before a Congressional committee an FDA official said:

> The allegation has been made that the cost to our society to prevent a thalidomide-type tragedy far exceeds the benefits of a regulatory system developed to prevent such a tragedy. We disagree. We believe that benefits which accrue to society be-

> cause of our regulatory system are worth the cost and far outweigh any risks.[1]

The statement, which expresses the agency's standard line, is remarkable in at least five ways.

First, it uses the most notorious medical tragedy of modern times to illustrate what, presumably, the FDA's regulation routinely prevents. The presumption is indefensible. Except in a freakishly unlikely case, one may not reasonably assume that an unrestricted manufacturer would sell a medical good giving rise to a "thalidomide-type tragedy." Besides their ethics, manufacturers have good financial reasons, including product liability judgments and loss of consumer confidence, to be careful about what they place on the market.

Second, the statement stands alone, without any attempt to demonstrate that the lives saved and the suffering prevented exceed the lives lost and the suffering endured as a result of the FDA's regulation. It is merely a naked declaration, which the audience presumably should accept because it emanates from the self-proclaimed "experts."

Third, the statement speaks of the benefits and costs of the regulation as if they were experienced by society at large rather than by specific individuals who differ enormously in their personal valuation of the costs and benefits and in their willingness to bear risk. It rests upon the unspoken assumption that a single rule should apply in all cases, mocking the actual heterogeneity of people's preferences and medical conditions.

Fourth, the statement confidently declares "*we* disagree" and "*we* believe" while describing the balance of benefits and costs experienced by others. But only specific individuals can possibly know whether the benefits *to them* outweigh the costs *to them*. Neither the benefits nor the costs can be objectively assessed by third parties; nor may the benefits and costs experienced by many individuals be aggregated into total or "social" valuations and thereby made comparable. There is no common unit of account in which the aggregation may be made. Who knows how to measure the depth of one person's fear, the breadth of another's relief?

Fifth, the statement presumes an answer—the wrong answer—to the question posed by AIDS activist and FDA critic Martin Delaney: "Who should decide which risks are acceptable—the bureaucracy in Washington or the patient whose life is on the line?"[2]

The Regulator's Incentives

The people who make decisions at the FDA respond to incentives just as people do elsewhere. The bureaucrats prefer to advance in their careers; they do not want their incompetence or blameworthiness to be exposed. In their circumstances, FDA examiners may err in two different ways: Type I error, the examiner does not approve a product that is safe and efficacious; Type II error, the examiner approves a product that is not safe or efficacious. Naturally the examiners want to protect themselves from criticism arising from their commission of errors.

The examiners' incentives to avoid a mistake, however, differ greatly for the two types of error. As a former FDA inspector described the situation:

> Any time you approve a new drug you're wide open for attack. If the drug turns out to be less effective than the original data showed, they can nail you for selling out to a drug company. If it turns out to be less safe than anybody expected, some congressman or a newspaper writer will get you. So, there's only one way to play it safe—turn down the application. Or at least stall for time and demand more research.[3]

Because of such demands for more research, new drug applications now commonly consist of two or more volumes of summary data and as many as 100 volumes of raw data—sometimes more than 100,000 pages altogether.[4] Although such heavyweight requirements help an FDA examiner to "play it safe," they often result in much avoidable suffering and many deaths among the patient population awaiting access to the good.

Unfortunately, the news media, members of Congress, and self-described consumer advocates almost never hold the bureaucrats responsible for these "invisible" or "statistical" deaths. Hence the cost of a single bureaucrat's career insurance may be, and in some cases surely has been, tremendous sacrifice of human health and life.

Lives Saved, Lives Lost

Consider, for example, that from 1963 to 1973 "the FDA's doors were essentially closed to cardiovascular drugs,"[5] even though cardiovascular disease was the leading cause of death in the United States and rapid advances were occurring during those years in pharmaceutical therapies. Beta-blockers, an especially valuable class of drugs, awaited FDA approval for a decade after they were first used abroad. Dr. William Wardell, a professor of pharmacology, toxicology, and medicine at the University of Rochester, estimated in 1979 that a single beta-blocker, alprenolol, which had already been sold for three years in the strictly regulated Swedish market, could have saved more than 10,000 lives a year in the United States.[6]

Other examples given by Wardell include "years of delay in the availability of at least four respiratory drugs (metaproterenol, terbutaline, cromolyn sodium, and beclomethasone inhaler)" that caused "severe disadvantages to many asthma sufferers" as well as a "six-year lag in the availability of valproate, in particular, and the continued absence of nitrazepam" that "substantially reduced the treatment options for epileptic patients."[7] Lithium carbonate, an effective drug for the treatment of manic-depressive disorder, was used in 40 countries before its approval by the FDA.[8] A 1980 study by the U.S. General Accounting Office (GAO) examined 14 therapeutically important drugs introduced in the United States between 1975 and 1978. The GAO analysts found that only one of the 14 had become available first in the United States. For the others the lag in availability ranged from two months to 13 years.[9]

Astonishingly, the FDA has given little or no weight to foreign evidence of product safety and efficacy. Nearly all new drugs and devices have been forced to pass through the same rigid, expensive, and time-consuming testing procedure in the United States even though a product might already have been used successfully for years elsewhere.

Economists Henry G. Grabowski and John M. Vernon of Duke University have made many studies of the pharmaceutical industry. Considering the results of their own research along with the findings of other studies comparing the experience of various countries, they concluded that "U.S. citizens have experienced sizable forgone health benefits from regulatory-induced delays in obtaining beneficial new drugs while obtaining relatively modest benefits in the form of less exposure to drug toxicity."[10]

Perhaps the most damaging consequence of the FDA's regulation since 1962, when the testing requirements were made much more rigid, elaborate, and time-consuming, is the slowdown in the rate of innovation. In view of the high costs of securing FDA approval to market new products, many manufacturers conclude that otherwise promising R & D projects will not be profitable. As a result beneficial new drugs and devices are never created. Suffering and death that might have been prevented continue unabated. Of course, since the innovations never come into existence, hardly anyone appreciates that they have been sacrificed on the altar of regulation.

Destroying the Rule of Law

The "rule of law" means much more than the requirement that the legislature authorize an exercise of power by the executive branch of government. As classical liberals understand it, the rule of law requires that the law be clear and understandable, that penalties for violations be predictable, and that the law be applied equally to everyone, including members of the government. The FDA's actions, though broadly sanctioned by legislation, fail to satisfy these criteria. In stark violation of a genuine rule of law, the FDA's actions are frequently arbitrary and capricious—sometimes even blatantly unconstitutional, as when they restrict freedom of speech and the press.

In the medical device industry, where the FDA has conducted a jihad during the past two years, manufacturers remonstrate that their cited violations of the agency's Good Manufacturing Practice (GMP) regulations often arise because the regulations are vague: "Even companies that genuinely try to comply fully with US GMPs can find themselves cited for violations."[11] Companies whose products are esteemed by customers have been forced to stop production because their paperwork did not satisfy the regulators.[12]

The Health Industry Manufacturers Association (HIMA) has complained that the FDA "has not made clear the type of data it wants to see."[13] Therefore, companies must make a series of information submissions, hoping that something will satisfy the regulators. Sometimes the FDA requests one type of study, then changes its requirement and requests another type after the company has completed the first one.[14] HIMA director Alan Magazine describes the device approval process as "a giant guessing game."[15]

Supplicants can expect no reliable guidance by asking the FDA what is required. The agency does not respond to inquiries expeditiously; when it does respond, the response often lacks substance. Moreover, after years of countermanding the informal advice given to regulated parties, it recently announced that it would no longer be bound by its own formal advice.[16] Indeed, the head of the FDA's Drug Surveillance Branch has stated:

> We used to say that if a company made certain changes, then we would probably not take any action. Now, we won't. Now, even if they make the changes, they might end up in court. We want to say to these companies that you don't know when or how we'll strike. We want to eliminate predictability.[17]

That a "civil servant" would make such a statement is stunning.

Recourse to the courts, which is costly, time-consuming, and full of uncertainty, holds little promise of protection in view of what Wardell has called "the extreme vulnerability of the industrial firm that argues with the FDA."[18] Without a search warrant, the FDA may inspect a company's plant and records at any time. Because the regulations are so numerous and so often vague—eight volumes of the *Code of Federal Regulations* contain those currently in force—inspectors can always find "violations" if they want to. In short, the agency possesses the power to destroy a company at will—to retaliate for past resistance or to make an example—by closing down the firm's operations or seizing its property.

So much for a genuine rule of law.

The Ugly Face of Paternalism

There is a place for paternalism. It is in the family, where young children are incapable of making wise decisions for themselves and where a parent, linked to the children by bonds of love and responsibility, may normally be relied upon to decide what is best for them. But when paternalism becomes a form of government, when the individual freedom and responsibility of competent adult citizens are suppressed in favor of exclusive decision-making by a central planning board, no one should expect a healthy outcome.

For more than half a century, Americans have been forbidden to make important decisions regarding their own health, decisions upon which each individual's life and death depend. Of course, we have been assured by those who wield the power that they act only in our best interest. But anyone who makes even a superficial study of the FDA, its regulations, and its congressional overseers quickly discovers that the official line is far from the truth. This government agency, like all the others, is a political institution, swayed by the ceaseless quest of its leaders for position, publicity, power, privilege, and perquisites, all associated with a big budget and a far-reaching agenda.

It is a mistake to suppose that the FDA acts—or even attempts to act—so that, all things considered, suffering and loss of life are minimized. Instead, responding to the asymmetrical incentives created by the reactions of the news media, certain members of Congress, and so-called consumer advocates, FDA officials systematically strive to avoid Type II errors while disregarding Type I errors. Not relishing the negative publicity sure to follow their approval of medical goods that later cause harm—even relatively slight harm—they adopt the role of obstructionists, requiring ever more stringent, expensive, and time-consuming testing before allowing goods to reach the market. That avoidable suffering and death routinely occur while they drag their feet and protect their careers does not sway them, because hardly anyone holds them accountable for the harm caused by their Type I errors.

But change may be in the wind. Lately, in the wake of the AIDS epidemic, politically organized and media-savvy people have begun for the first time in large numbers to indict the agency for its one-sided policies and to make their voices heard. Martin Delaney, Jim Corti, and their comrades, by immense efforts, finally induced the FDA to hasten the availability of promising new drugs to AIDS sufferers.[19] The *Wall Street Journal*, with its huge and influential readership, has made its editorial and opinion pages available to critics of the FDA. There James P. Driscoll, representing Direct Action for Treatment Access, charged that the FDA "condemns people with AIDS and cancer to die waiting." Woodrow Wirsig, an Alzheimer's activist, reproached the agency because "it cannot act on drugs used safely and effectively in Europe for decades" and thereby "dooms thousands to unnecessary suffering and death."[20] Dr. William W. O'Neill, director of cardiology at a Michigan hospital, lamented that "many patients are being harmed because we are unable to treat them with devices that can be potentially lifesaving."[21] Perhaps eventually such voices will reach beyond the *Journal* to be heard and heeded in Congress.

Until then, however, the deadly toll will continue to mount. The FDA will go on causing untold suffering and thousands upon thousands of unnecessary deaths—killing people to protect their health. □

1. Quoted by David Seidman, "The Politics of Policy Analysis," *Regulation* (July/August 1977), p. 31.
2. Quoted by Jonathan Kwitny, *Acceptable Risks* (New York: Poseidon Press, 1992), p. 211.
3. Quoted by Milton Silverman and Philip R. Lee, *Pills, Profits, and Politics* (Berkeley: University of California Press, 1974), p. 251.
4. Henry G. Grabowski and John M. Vernon, *The Regulation of Pharmaceuticals: Balancing the Benefits and Risks* (Washington: American Enterprise Institute, 1983), p. 23; David Leo Weimer, "Safe—and Available—Drugs," in *Instead of Regulation*, ed. Robert W. Poole, Jr. (Lexington: Lexington Books, 1982), p. 250; Seidman, "The Politics of Policy Analysis," p. 25.
5. William Wardell, "More Regulation or Better Therapies?" *Regulation* (September/October 1979), p. 26.
6. *Ibid.*, pp. 28, 33.
7. *Ibid.*, p. 27.
8. Silverman and Lee, *Pills, Profits and Politics*, p. 244.
9. U.S. General Accounting Office, *FDA Drug Approval—A Lengthy Process That Delays the Availability of Important New Drugs*, HRD-80-64, May 28, 1980, p. 68.
10. Grabowski and Vernon, *The Regulation of Pharmaceuticals*, pp. 46–47.
11. *Clinica* 544, March 24, 1993, p. 14.
12. Bruce Goldfarb and Doug Wolfberg, "Feds Focus on Medical Devices," *Journal of Emergency Medical Services* 17 (July 1992), pp. 45–47; Rami Grunbaum, "Physio-Control Pushes to Revive Itself," *Puget Sound Business Journal* 13 (October 23–29, 1992), pp. 1, 45; *Clinica* 529 (December 2, 1992), pp. 13–15.
13. *Clinica* 543, March 17, 1993, p. 13.
14. *Clinica* 521, October 7, 1992, p. 12.
15. "F.D.A. To Toughen Testing of Devices," *New York Times*, March 5, 1993, p. A18.
16. *Clinica* 528, November 25, 1992, p. 12.
17. Quoted by Murray Weidenbaum, "Pharmaceutical Regulation and Productivity Challenges," *Occasional Paper 113* (St. Louis: Center for the Study of American Business, September 1992), p. 3.
18. Wardell, "More Regulation or Better Therapies?," p. 27.
19. The full, fascinating story is told by Kwitny, *Acceptable Risks*.
20. Statements of Driscoll and Wirsig as printed on the editorial page of the *Wall Street Journal*, February 16, 1993.
21. O'Neill, letter to the editor, *Wall Street Journal*, March 9, 1993.

THE FREEMAN
IDEAS ON LIBERTY

What Is Government Waste?

by William H. Peterson

Is the "waste tax" a tool for coming to grips with runaway federal spending?

The waste tax is a newly advanced idea of Citizens Against Government Waste (CAGW), a non-partisan nonprofit Washington-based educational organization with 500,000 members led by syndicated columnist Jack Anderson and businessman J. Peter Grace of W. R. Grace & Company. CAGW sees government waste as a kind of an unlegislated tax—a heavy, counterproductive tax, in the hundreds of billions of dollars each year.

The waste-tax idea should generate discussion in America. Just how do you define government waste? How do you know it when you see it? *Waste* as a verb is defined in *Webster's Ninth New Collegiate Dictionary* as "to spend or use carelessly . . . to allow to be used inefficiently or become dissipated." But do these definitions mean that a government which is careful or efficient— admittedly unusual qualities in any government—cannot at the same time still be wasteful? Consider, for instance, the federal government efficiently computerizing its vast Social Security operations. Or serving as the benign protector of jobs by carefully stopping or impeding foreign goods at customs points in ports and terminals. No waste in either example?

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CAGW's case against government waste is well taken. Its waste-tax idea can provide a helpful public perception of the deficit problem. In the early 1980s Mr. Grace served as President Reagan's chairman of the Private Sector Survey on Cost Control, popularly known as the Grace Commission. In 1984 the Commission came up with 2,478 cost-cutting recommendations, the implementation of which would have saved taxpayers an estimated $424.4 billion over three years and prevented the buildup of trillions of dollars of additional national debt by the year 2000. President Reagan pushed these recommendations but Congress permitted only some of them. So the waste tax grows.

But government itself has been growing in real terms and well beyond the rate of population growth ever since the New Deal, notwithstanding various attempts to leash this dangerous dog. The Grace Commission seems to have been modeled after two earlier Hoover Commissions. President Truman appointed ex-President Herbert Hoover to chair a waste-finding Commission on the Organization of the Executive Branch of the government in 1947–1951. And President Eisenhower named Hoover to head up a second commission for the same purpose from 1953 to 1955. Splendid studies made news as they spouted forth from both Hoover Commissions. But to little avail. Like Topsy, government just grows. And grows wastefully.

What is waste? Consider Milton Friedman's Washington "iron triangle" of organized interests, affected bureaucrats, and overseeing legislators perpetuating all manner of wasteful schemes—schemes such as paying farmers not to farm, continuing to maintain military bases that the Defense Department itself says are unneeded, or spending "only" $500,000 to convert the North Dakota home of late bandleader Lawrence Welk into a national shrine (although Congress did back off that last boondoggle after a public uproar).

Still, do the official and unofficial views of government waste go far enough, especially in the face of a $4 trillion national debt? Isn't there guidance on waste in Thomas Jefferson's thought that that government is best which governs least, in Thomas Paine's thought that society performs for itself almost everything which is ascribed to government?

What Is ROGIS?

With 32 out of the last 33 federal budgets in deficit and virtually no prospect of getting a tourniquet on the ongoing hemorrhage of red ink, does it not make sense to at least contemplate getting hold of waste through not only cost-cutting and the waste tax idea but through a redefinition of government itself? At a time when government takes on program after program, with national health insurance looming, is it not time to discuss and tackle the proper role of government in society, the acronym of which is ROGIS (role of government in society)?

ROGIS should figure big in Washington, but it doesn't. Is there a politician anywhere who asks: Why government in the first place? What is its purpose, especially in the light of the U.S. Constitution? Is it really the purpose of government to manage timber forests and "save" the spotted owl? To establish minimum wages and maximum hours? To achieve "balance" in the workplace in terms of representation by blacks, women, Hispanics, and assorted other groups? To look after small business? To care for the homeless? To institute rent control? To dispense pensions and medicine to the elderly? To issue food stamps? To run schools? To put up public housing? To foster, however inadvertently, an underclass? To aid the Hottentot and practically the rest of the Third World? To serve as a global policeman in a New World Order? And so on. Aren't there alternative ways, including privatization, to accomplish these ends?

Waste is essentially a function of overblown government, of the state playing god, of being all things to all Americans, of misusing its taxing power to demand and command wealth—and thereby inevitably messing up, wasting resources, expanding the deficit.

So shouldn't we talk up ROGIS and ask ourselves: Didn't our Founding Fathers come up with a fine social compact of government, i.e., the checked and balanced U.S. Constitution, and try to seal its *limited* nature with the Ninth and Tenth Amendments? Weren't these two strategic amendments largely undone especially in the twentieth century by liberal U.S. Supreme Courts who construed the Constitution as a "living document"? And isn't there wisdom in the vision of Jefferson who, in his First Inaugural Address (1801), called for: "Still one thing more, fellow citizens—a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned." □

THE FREEMAN
IDEAS ON LIBERTY

THE MORAL ASPECT OF THE PROTECTIVE TARIFF

by David Starr Jordan

Every argument for and against the protective tariff has been stated a thousand times. There is nothing new to be said. But at the bottom of every argument remains the necessary recognition of its primal iniquity. The fundamental idea in American polity is that of a square deal to all men, each standing on his own feet, with exclusive privileges or governmental aid to no man and to no class of men. Inequality before the law, entail, primogeniture, church control of state, state control of church, class consciousness, and class legislation were evils in English polity which our fathers would not tolerate. On account of these they left England. They chose the hardships of Plymouth Rock and later the hazards of war rather than to put up with any of them. If there is one American idea or ideal to be segregated from the rest it is this of equality before the law. And it is this ideal which is violated absolutely and continuously in the theory and in the practice of the protective tariff.

The protective tariff is a device for enhancing the home price of the articles it covers by a tax on commerce, by forcing the body of citizens to pay tribute to producers at home. To these the State in futile fashion tries to guarantee "a reasonable profit." These producers may be capitalists or directors of industry, or they may be the laborers who contribute effort only, without responsibility for the way in which effort may be applied. It matters not whether capitalists or laborers, either or both actually profit at your expense or mine or that of foreign producers. The protective tariff intends that they should thus profit, at least to a reasonable degree. But in the theory of our republic it is no part of the State to guarantee to any one "a reasonable profit," nor to protect any one from a reasonable loss. its function is to see fair play and freedom of operation. It is a breach of the principle of equality before the law that the State should do anything more. To guarantee any one a reasonable profit is to do so at the expense of the rest. The theory is one of injustice, whatever its result in practice. In practice, whatever is gained on the one hand is lost on the other. Even if we could force foreigners to pay the tariff taxes, which is sometimes possible, their capacity as buyers is correspondingly decreased. International trade is barter, and every burden it carries works a corresponding loss to both parties in the transaction. Moreover, as a matter of fact, the protective tariff yields little gain to the laborer, because continued immigration brings him new competitors and because he

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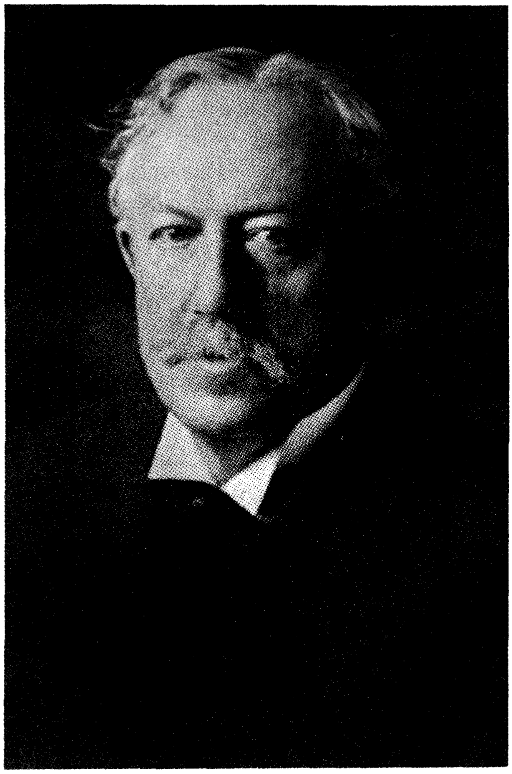
is in his turn one of the general public who suffer from the commerce tax. If wages are raised by the tariff, so is the cost of living, and the cost of living comes first. For the director or employer of labor, the case is, on the whole, not much better, because the cost of his product is enhanced by the tariff taxes on everything which enters into his process of manufacture. In so far as a tariff is successful in gaining profit, it is so because it is virtually prohibitory. That the evils of prohibitory tariffs are so little felt by us is due to the fact that our country is a world in itself, with untaxed trade throughout a district comprising nearly a third of the specialized production area of the globe. Yet within this favored area, with all its vast range in competition, it is possible sometimes to monopolize production in some particular direction. Such a monopoly we now call a trust. To the development of such monopolies the tariff naturally lends itself, though it would be unfair to declare it to be the parent of all trusts. It is enough to recognize that its general purpose is the same—the development through legal means of industrial and economic monopoly, of the enrichment of a class or of a group of classes at the expense of the citizens at large. This is theoretically contrary to American polity. If the principles of our republic in regard to "equal justice to all, exclusive privileges to none," are right, then the theory and the practice of the protective tariff are wrong. That it works through the method of indirect taxation disguises but does not justify its injustice.

The prohibitory tax on importable products is said to have brought its justification in the ultimate lowering of price of the articles concerned. The same claim is made in behalf of the trusts, and much evidence is brought forward in both cases to justify this claim. But the real cause of the reduction in price is seldom traceable to the trust or the tariff. Doubtless, for example, iron is cheaper in this country under a high tariff than it once was without the tariff. But the cheapening of all metals, protected and unprotected, is held to depend on the advance of the science and the arts of metallurgy. The cheapening of gold, a metal out of the range of tariff, is due to improved processes of contraction, and the change threatens to subvert the monetary basis of the world's credit and trade. Metals which have been cheapened in the United States have been similarly affected in England. It is not clear that the tariff in this matter holds any important relation of cause to effect. Nor would the general policy of taxing one group of men, or even one generation for the benefit of the next, be justified if it were so.



David Starr Jordan

The Greater Evil

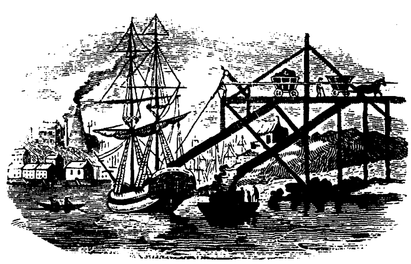
The tariff is defended on the ground of the value to the growing nation of the advancement of infant industries—of the development of diversified economies. We may not deny the importance of such development. We may admit that at many places and for definite periods there has been a financial gain to the community at large, through taxing the farmer to build up the manufacturer. We may admit that nation building has been hastened by it. But for all that it is not politically right nor just to do this, for the gain to one has gone with loss to others. The policy in practice assumes the form of a vested right which becomes in time a vested wrong. But even if we admit the past value of protection, the greater evil comes when we cannot let go. Around these vested rights other conditions grow up, and a change of any sort works havoc with related or associated interests. Justice to the new interests becomes possible only by the perpetration of varied forms of injustice. To touch the tariff in any way now sends a shock through the financial world, throughout the body politic. Tariff revision in our day is therefore an operation which can be based on no principles. It is a blind rush among various choices of evils. To put revision in the hands of friends of the tariff means still suppression of reform, the further extension of the evil itself. To put revision into other hands means a commercial crisis. And sooner or later commercial crisis must come. The only permanence lies in making tariff taxation like other taxation, a non-respecter of persons, its sole function that of raising revenue. Justice is always blind, knowing nothing of indirect or ulterior advantages.

Historically, the theory of the infant industry has proved fallacious. There are in America today no infant industries. These infants have grown more rapidly than the nation has. Our huge industrial combinations overshadow the world. Just as in their alliance they dominate us, in similar degree they have the whip hand over other nations. If anything American can take care of itself, it is our infant industries. Yet these organizations demand the tariff as a necessity of existence as insistently as ever they did. They exact tribute from all of us, because they can get it. The lull in the self-assertion just at present is due to the handwriting on the wall, not to any lessening desire to be fed at the public expense.

The actual injury to American prosperity traceable to the tariff may not be enormously great. It has doubtless been exaggerated. It lends itself to exaggeration. It makes us angry when we think of it, and wrath carries always a magnifying glass. Its greatest evil is moral, not economic. It lies in the perversion of our theories of government, the introduction of the idea of class enrichment through legislation.

National Meddling with Individual Rights

Doubtless much of the prosperity of the United States is due to the protective tariff—the prosperity of some of us. But in like degree the non-prosperity of some of us, some of the very same persons, for that matter, is due to the same national meddling with individual rights. The apparent prosperity of any community could be greatly enhanced by taking property away from half the people to put it into the hands of the others who know better how to use it. Some of this sort has lain at the foundation of British polity. It is the theory by which nobility and aristocracy justify themselves. It is not the theory of democracy. It is not the principle on which our nation was founded. Thus, behind all discussion of sources and means of prosperity the fact remains that democratic justice, that fundamental equity between man and man, can never be realized in America so long as any trace of the protective tariff remains on our statute books. It is another illustration of the truth that "they enslave their children's children who make compromise with sin." This law applies to economic lapses, to time-serving legislation, as well as to moral sins. □



THE FREEMAN
IDEAS ON LIBERTY

We Need Free Trade in Deed as Well as Word

by Gary M. Galles

Much of the economic success of the early United States was due to the fact that the Constitution not only restricted the federal government's ability to hurt some citizens for the benefit of others (e.g., the takings, tax uniformity, due process, and equal protection clauses), but also abolished states' attempts to take advantage of each other through restrictions on interstate commerce (the famous commerce clause). The result was the world's largest free trade zone. Everyone benefited, as neither the state nor federal government could impose extra burdens on mutually beneficial trades just because shipments originated across a state border.

Since then, despite the overwhelming empirical and logical evidence in its favor, free trade has been demoted from a central organizing principle for our society to one that now mostly commands lip service. Free trade, whether it is GATT, NAFTA, or some variant being discussed, still wins all the rhetorical battles. This is understandable because, after all, those countries with freer trade enjoy more personal freedoms and grow faster, and it is at heart nothing more than the simple, self-evident proposition that people who participate in voluntary trades must expect to benefit as a result, regardless of one's trading partner's citizenship.

However, when it comes to actual policy details, even moves touted as toward free trade (e.g., NAFTA) are replete with restrictions (compare the length of NAFTA with how much space it takes to say "All trade barriers between the signatories will be eliminated according to the following schedule.") Here, free trade is sacrificed to the political power of concentrated producer interests, as politicians claim to favor it in general, but oppose it in each particular case for some other reason, so free trade becomes "fair," "balanced," or "managed" trade in practice.

Why do politicians and their supporters claim to favor free trade, yet are so easily drawn to "but this, that, and the other" excuses for protectionism? Because virtually everyone favors a one-sided, narrow, self-interested commitment to free trade.

Each of us supports fewer restrictions on our ability to advance our own welfare. This means we want free trade when it comes to selling our own output, deciding how to produce that output, and for those who

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would sell their output to us, because such changes benefit us through higher sales prices and lower costs. However, it also leads almost everyone to support restrictions on their competitors, because that also benefits them. The difference is that both parties involved gain from freer trade, but the beneficiaries of restrictions gain at an even greater cost to others, who are forced to make do with inferior alternatives as a result.

Needed: A Commitment to Principle

We talk of commitment to free trade, but resort to restrictions in practice because our commitment to narrow self-interest exceeds our commitment to principle. There is always something, whether it is the trade deficit, unemployment in a particular industry, self-sufficiency, or national defense, which provides political cover for such self-serving actions.

Much of our soaring "free trade" opposition to others' restrictions (and free trade rhetoric is one of our leading exports) springs not from commitment to its demonstrated social benefits, but because those eased restrictions will line our pockets, and free trade sounds better than "gimme money." But when free trade threatens the wallets of protected interest groups, support for American restrictions to assure "fair" or "balanced" trade or environmental quality suddenly blossoms, because that also sounds better than "gimme money."

Free trade creates wealth. We should favor opening others' markets, because that would benefit both their consumers and more efficient American producers, by breaking the political strangle-hold of their protected domestic producers. But free trade is beneficial for Americans just as it is for others, and helping uncompetitive American companies cheat American citizens by restricting their access to foreign products they prefer convicts us of the same crime we indict others for.

Until we teach people that free trade creates wealth from otherwise latent human abilities and that the cumulative effects of the myriad of largely obscure restrictions make almost every person worse off (those most wrapped in the government's protective cocoon, such as labor unions, which have been given monopolistic power through labor laws, may force stiffer competition, but to call the reduction of unwarranted restrictions "unfair" would strain the meaning of the word), we will never even distantly approach the ideal of free trade. But, in Richard Weaver's immortal phrase, "Ideas have consequences." It is only by conforming our ideas to the truth, and by defending that truth wherever it is challenged, that free trade and liberty in general stand even a small chance of being reinvigorated. □

THE FREEMAN
IDEAS ON LIBERTY

SHIPWRECKED IN NEW JERSEY

by Robert A. Peterson

I grew up in a town where yacht-making was the chief industry. Indeed, boat-building has been a South Jersey specialty for hundreds of years. The first ships were built with cedar from local cedar swamps, then dragged down nearby streams to be launched on the Mullica, Maurice, and Great Egg Harbor Rivers. By 1776, the Delaware Valley, including South Jersey, was the nation's leading shipbuilding area, outstripping even New England. In the 1900s entrepreneurs like Charles Leek started making pleasure crafts and sport-fishing yachts for the wealthy. Within a 20-mile radius, four major boat companies emerged: Pacemaker (now Ocean Yachts), Post Marine, Viking Yachts, and Egg Harbor Yacht. Thirty miles distant was another major boat-builder, Silverton Yacht.

As children, we benefited from the yacht companies' presence in many ways. Sure, many of our parents worked there, but more important to us was the discarded wood pile. We could go there and pick out pieces of teak, mahogany, and other expensive woods to build our tree houses, clubhouses, and go-carts. Even the five o'clock whistle served us, telling us it was time to end our play in the fields and go home for dinner. And of course we were all excited when one of our favorite comedians, Jerry Lewis, came to town to pick out his own yacht. I didn't understand it at the time, but essentially what Lewis was doing was employing about 30 South Jersey blue-collar workers—paying their insurance bills, feeding their children, and paying their mortgages—for over a month. Lewis, in turn, had made his money by mass-marketing his acting skills, bringing laughter and relaxation to some of those same blue-collar workers who watched him on television at night.

As I grew older, I came to realize more and more the important role the boat-building industry played in our area. In the 1960s, the Pacemaker Yacht Company employed more people than the electric company. Thus, a product that only the rich could afford was fueling the better part of our local economy.

Many local people got their first work experience in a boat factory. Here they learned a trade without having to burden the taxpayer in a job-training program or publicly supported vocational school.

The boat companies also fulfilled a crucial role in training future entrepreneurs and businessmen. Not everyone wants to spend his life working for someone else; millions of Americans want to go out on their own and create their own businesses. But in order to do that, they need start-up money, marketable skills, and solid work experience. For years, the boat companies have provided those goods. The owner of Anchor Custom Upholstery, for example, learned his trade at a boat factory. P. J. Reinhard, a local

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carpenter's shop, first made cabinets for yachts. They have since expanded into other mill work. Kauffman-Wimberg Insurance, a 40-year-old insurance firm, got its start when it obtained the insurance contract for one of the boat companies shortly after the insurance firm was started. Many local electricians, plumbers, and other skilled workers picked up their first tools and learned their trades at the boatyard. Today, they are independent businessmen in their own right—spin-offs from the yacht-making industry. Other businesses were either created or prospered as they served the needs of the people who worked on the boats. My father has an independent auto repair shop, and many of his customers over the years were boat-builders. Money in their pockets meant money in my father's pocket. And that meant money in my pocket, which I used to help pay for college.

Trickle-Down Philanthropy

Money from the wealthy who bought Egg Harbor-built yachts trickled down in many other ways. Jack Leek, who owns Ocean Yachts, has been a one-man charitable foundation. Sharing the profits made by selling his yachts all over the world, he has donated generously to his church, to Rutgers University, to the Atlantic City Medical Center (where he paid for the emergency room), to the community athletic association, and to Ducks Unlimited.

The physical plants themselves have provided the community with tools and capital equipment that have often been used to help local civic and charitable organizations. At churches and schools, podiums, benches, and other furniture were made by boat carpenters who had permission to stay after work and use some of the big equipment.

Thirty years ago, our church had to expand its main sanctuary. But how could we duplicate the large beams on the ceiling so that the new section would look the same as the original sanctuary? The only place in town that had the equipment to make such a beam was one of the boat factories. Fortunately, one of our church members, a master carpenter, got permission to use the equipment and the beams were replicated. Even the curtains in the private school where I teach were made by school mothers from discontinued bolts of cloth that were once used on some of the world's finest yachts. When I teach my economics course, I'm continually reminded of the benefits of "trickle-down economics."

In addition to sponsoring Little League teams, the presence of the boat factories made it easy to conduct fund drives for local charities as well as organize people for the Red Cross blood drive. Ocean Yachts and Egg Harbor Yacht, for example, would let their workers go home early if they agreed to give blood that afternoon. In the early 1980s, the Red Cross typically received 250 pints of blood at each drive. Last year, with the boat factories almost at a standstill, it collected only 60 pints of blood.

With so many benefits "trickling down" to middle-class and poor Americans, it's hard to understand why Congress would seek to destroy the boat-making industry. Yet that's exactly what it did in 1990 when, according to a *Wall Street Journal* report, "Congressional Democrats [were] eager to show they were being tough on the rich." A ten percent tax was added to the cost of luxury yachts. Since a yacht today costs anywhere from $100,000 to $200,000, this means that at least $10,000 had to be paid to the government before a potential buyer could get his first whiff of salt air. With the economy already heading for trouble, this was the proverbial straw that broke the camel's back. Ocean Yachts in Weekstown trimmed its workforce from 350 to 50. Egg Harbor Yachts entered Chapter Eleven bankruptcy, going from 200 employees to five. Viking Yachts dropped from 1,400 to 300 employees. According to a Congressional Joint Economic Committee Study, the boat industry nationwide lost 7,600 employees within one year. As Bob Healy, president of Viking Yachts explained on NBC News, "Every six or seven years, you have a down cycle. You might be off 20 percent, 30 percent, or 40 percent at maximum. Our industry is off 90 percent nationally."

Despite all the talk about stimulating the economy, and the clear evidence that both the luxury taxes and higher taxes in general have pretty much destroyed the yacht-making industry, the tax did not generate any significant revenue, and has only cost taxpayers money by forcing workers onto the government dole. Congress originally estimated that the luxury tax on boats, aircraft, and jewelry would raise $5 million in taxes a year. Instead, the Treasury has lost $24 million through lost income-tax revenues and higher unemployment and welfare payments.

It's important to realize that yacht-making has been—and could be once again—one of America's premier industries. It's something that we Americans do well. South Jersey, crisscrossed by rivers and surrounded by water on three sides, has a comparative advantage in yacht-building. Not only do South Jerseyans have a long heritage of boat-building, but the South Jersey launching docks are close to such major population centers as Philadelphia and New York City. A prospective buyer can leave New York in the morning, take a test drive on the Atlantic Ocean at noon, and be back in New York for dinner that night. Many yachts are exported overseas, as both wealthy Japanese and Europeans acknowledge the skill of our South Jersey craftsmen. This is not an obsolete buggy-whip making industry that needs government subsidies to exist, but a high-tech industry that should be able to thrive as long as men go down to the sea in ships. (The technology involved in making fiber-glass yachts with state-of-the-art navigational equipment and creature comforts destroys the notion that there are certain key high-tech firms that should be targeted for government help. Today, high-tech is involved in everything from making better potato chips to making a safer yacht.)

It should also be noted that jobs traditionally created by South Jersey's boat-making entrepreneurs are exactly the kinds of jobs that today's government officials would like to create, but can't. A teenager with no college education can go to a boat company and get a job that provides full benefits as well as on-the-job training. He's also in an industry that promises employment well into the future and has and can adapt to changing technology. As a "light industry," yacht-making represents little threat to the environment; in fact, the invention of the fiber-glass hull years ago makes using tropical woods like mahogany no longer necessary or cost-effective. Finally, it's an industry that could expand and hire more workers if more people could afford to buy yachts—which is indeed what would happen if we became a low-tax, high-growth society. Just before the luxury tax was passed, Ocean Yachts had opened up a research and development division to build smaller yachts. The idea was to make it possible for more upwardly mobile companies and individuals to afford an Ocean Yacht; once hooked, they would eventually trade up to Ocean's larger yacht. Today, thanks to high taxes, that research and development building stands idle.

It's been over three years since the luxury tax was passed, and the boat industry is still reeling from excessive taxation and government-induced recession—a casualty of the socialist rhetoric that "trickle-down economics doesn't works."

The 1993 budget finally repealed the luxury tax, but it was the result of a political deal rather than an acknowledgment of what really makes the economy work. At the same time Congressmen and Senators were voting to repeal the luxury tax, they were voting in new taxes against the rich. Since the repeal of the luxury tax was a political deal rather than an economic one, look for continued attacks against America's most productive citizens.

The story of the destruction of South Jersey's yacht-making industry poignantly illustrates what happens when policy-makers try to apply the socialism they learned in college to real world situations. Not just the yacht-making industry—but all American industry—would benefit from lower taxes and less government intervention. Until then, boat-builders and other workers will continue to be shipwrecked here in America. □

THE FREEMAN
IDEAS ON LIBERTY

THE SPACE PROGRAM: NO PRIZE

by Frederick Giarrusso and Gary C. Hudson

Science writer Dr. Jerry Pournelle claims, "The three great failures of socialism in the 20th century are Soviet agriculture, U.S. education, and NASA." A review of NASA's performance reveals the aptness of the last third of his remark.

NASA controls all aspects of the civil space program in the United States. Fifteen billion dollars filter through NASA each year to fund shuttle launches, space station designs, and one of the largest and least cost-effective bureaucracies to grace our land. To most people, NASA *is* the U.S. space program.

The very term "space program" is problematic, however. A program implies a single, concerted effort, usually by government, to perform some task. Typically, this effort is at odds with a capitalist system, in which profit and individual motivations dictate performance.

Imagine where California would be if its exploration and settlement had occurred under the federal government's "Gold Rush Program." Suffice it to say, San Francisco's football team might well have been called the "'98ers."

We have all seen the failures of a command economy in the rest of the world; why is it so difficult to recognize those failures when they occur within our own borders? When a command economy allocates resources, it changes the incentives of the people involved—otherwise there would be no need for the "command"; it would simply be an economy. When a government agency dictates development in a particular industry, it changes the incentive system in that field. The result is profound inefficiency. The lack of an appropriate incentive system can lead to some interesting—and expensive—results.

Consider the pressure suits worn by our astronauts. NASA estimated the cost of designing a new space suit for the planned space station at about $350 million—manufacturing costs not included. These suits are expected to withstand 5–8 psi of internal pressure in a relatively innocuous environment.

Space suits are similar to the rigid, deep-ocean suits worn by divers. While maintaining a single atmosphere environment for the diver, deep ocean suits must withstand external pressures of over 500 psi, as well as operate in a corrosive environment. In addition, they must be very durable. Minor leaks in an astronaut's space suit would not necessarily kill the astronaut; such failure in a deep ocean suit would certainly doom the diver.

The International Hard Suits company of Vancouver, B.C., manufactures the state-of-the-art one-atmosphere diving suit, the Newtsuit®. The suit is available for approx-

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imately $400,000 each, and is presently in full production for military, scientific, and commercial use.

NASA, on the other hand, would have to make over 875 space suits at no cost to justify the expense of their own design. Instead, NASA would expect to make only a handful of suits, with significant manufacturing costs. Although such an existing supplier of space suits would have been more cost-effective, NASA chose to contract out for a new design—essentially to reinvent the wheel. This represents a minimum of $345 million down the drain; $1.38 for every man, woman, and child in the United States, thrown away. And that's just the space suits.

Costs Continue to Soar

Then there is the story of the Saturn 1B, an expendable rocket. The Saturn 1B cost $3.4 billion to develop and $156 million per flight to operate. It was able to lift about 40,000 pounds into orbit. However, rather than continue to use the Saturn 1B, NASA spent ten times as much money to develop a vehicle that cost twice as much to perform the same job.

The Space Shuttle represents no great payload improvement over the Saturn 1B. Like the Saturn, the Shuttle is able to lift 40,000 pounds into orbit. Yet it cost $34.7 billion to develop and, by NASA's own rather low estimate, $301 million to operate, per flight. As of 1990 the Shuttle had flown 44 flights, for a total cost of $55 billion. For that same $55 billion, the Saturn 1B could have flown 350 flights, placing in orbit ten times the total Shuttle payload to date (all figures are in constant 1986 dollars).

But what about all of that valuable research performed on the Shuttle?

Put another way, for approximately $5 billion the Saturn 1B could have placed the same amount of payload in orbit as the Space Shuttle has. With the remaining $50 billion, the taxpayers could have purchased outright the top ten laboratories and research universities in the world and performed all the research they wanted. Or funded the National Science Foundation for 25 years.

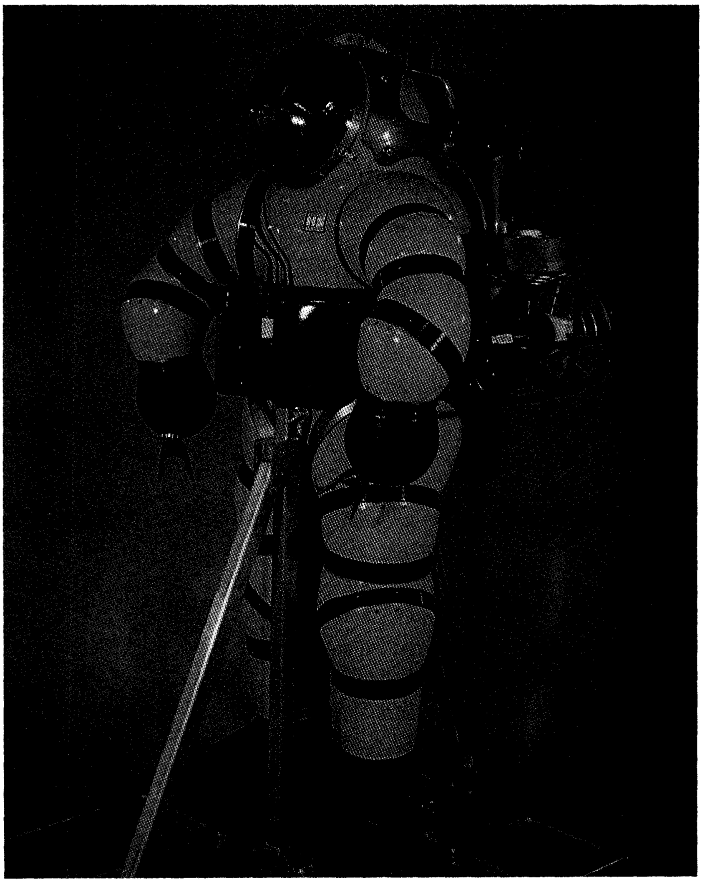
On top of that, the Space Shuttle is considered so unreliable that another branch of the federal government, the Department of Defense, has recently opted to boost its satellites using Titan rockets—a technology developed three decades ago.

The problem with NASA is less NASA itself than the mentality that suggests the United States should even have a "space program." Capitalism works. Free markets work. Command economies fail and they fail in the most expensive manner possible. If we agree that space development is a worthwhile goal, then the question becomes how best to get there.

There are at least two options. Assuming a continuing drive for some form of federally funded space effort, the maximum leverage of taxpayer dollars might come from a system of prizes. In combination with this approach, tax incentives for investment and tax breaks for profits earned from commercial space ventures could stimulate the flow of significant private dollars for high-risk projects. We should recognize that the free market has been distorted by tax policy which inhibits investment in high-risk, high-payoff industries. Indexing capital gains, or better still, following the Japanese lead and eliminating all tax on long-term investments would be a useful start. While we prefer a hands-off policy, these options would help to undo the decades-old damage of the present space program.

Burt Rutan, designer of Voyager, which circled the globe unrefueled in 1986, has suggested an incentive-based system to develop one NASA/USAF project: the National AeroSpace Plane (NASP). To date, more than a billion dollars has been spent for this plane, with the expectation that ten billion dollars might be spent on the actual manufacturing and flight tests. Rutan's suggestion is to take out an ad in *Aviation Week*, at a cost of a few thousand dollars, offering a billion-dollar prize to the first company to fly a plane coast-to-coast in under an hour—NASP's ultimate goal.

This idea is far from new; using just such



INTERNATIONAL HARD SUITS

Instead of using the technology already developed in International Hard Suit's Newtsuit, NASA chose to contract out for a new design—essentially to reinvent the wheel.

an incentive system the British Crown established a prize for the means of discovering the longitude of a sailing vessel. A similar competition for $25,000 prompted Charles Lindbergh to make his famous solo flight across the Atlantic in 1927. Prizes work to stimulate innovation. An incentive would encourage companies to compete in a cost-effective manner and, where appropriate, to team together to overcome common problems and share risks.

To date, the conventional attempt to commercialize space activities has been a failure. Most firms participating in this much ballyhooed effort are simply selling their products to the same old buyer: the U.S. government. If there is to be a true industrial revolution in space commerce, we must open new markets. The record of our government in creating such markets is dismal.

Which federal government manager would envision, for example, that space tourism might well become a ten billion-dollar annual global market in just fifteen years? Dr. Patrick Collins of the Japanese National Aerospace Laboratory has suggested just that—and you can be certain Japanese firms are listening. A recent visit to Shimizu Corporation, the largest construction company in the world, elicited color brochures depicting space hotels, lunar settlements, and "space weddings." Whether such visions are practical or not, this example serves to illustrate that, as with so much else, federal government policies have forced innovation and vision away from our shores. It is past time to change the way we address the promise of the space frontier. We should scrap policies that inhibit our ability to profit from this opportunity.

We won't get to the high frontier with a modern-day "Gold Rush Program." But we might get there with a modern-day gold rush. □

THE FREEMAN
IDEAS ON LIBERTY

The Best Alternative

by Roger M. Clites

Those of us who advocate the free market are regularly frustrated in attempts to discuss economic issues with people afflicted with the anti-capitalistic mentality. In many such situations about all we can do is try to part on amicable terms. After all, it's all but impossible to reason away prejudice.

However, occasionally I do encounter a mind that is not completely closed. In that case I usually can get my ideas heard and considered if I establish an identity of interests. That is, I try to show my challenger that we are seeking the same goal, and differ only as to the means of attaining it.

In the case of the person who challenges, "I'll bet you are one of those people who think that we should not have the Federal Reserve System" a helpful response might be, "My desire is to have such things as a currency that retains its value so that savings, life insurance policies, and other investments do not lose their value over time." If the challenger pauses before replying, I might add: "And I'd like to see an economy without frequent severe downturns." Sometimes this will lead him to respond with an open mind. It won't always do so but most times it will achieve a much more favorable response than does a simple statement to the effect that yes, we should do away with the Federal Reserve System.

The same type of response can be used in many other economic discussions. I once received a telephone call from a woman who described the working conditions of Mexicans who were employed in plants just south of the Rio Grande. I told her that I assumed she was concerned about the welfare of those Mexicans from the way she described the situation in which they lived and worked. She assured me that she was. I replied that the Mexicans must see their current arrangement as their best alternative. This seemed to baffle the woman so she digressed onto other semi-related matters.

After two or three minutes, she began talking about Mexicans "taking jobs from Americans." I reminded her that initially she had expressed her concern about the living standards of the Mexicans. But now it seemed that she was willing to sacrifice the best alternative of those people whom she considered to be exploited for the interests of some better-off Americans. She replied that this "wasn't fair." When I asked how this was unfair she said that I kept talking about alternatives and the Mexicans were taking away the Americans' best alternatives. I suggested that perhaps trying to compete with the low-paid Mexican workers was not the better alternative for Americans. I was somewhat surprised, but pleased, when she replied that she would "have to think about that" before she hung up.

Friendly Persuasion

Sometimes it may not be possible to open the mind of a challenger but if a discussion is taking place where others are present it

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may be possible to persuade some of those others of the validity of one's point.

I once attended a meeting in which a young man was insisting that people should not have to do a certain dirty, dangerous job. Of course he overlooked the fact that the lives of other people could not attain their present levels of comfort if that job were not done. In fact, the job happened to be essential to our overall way of life.

I asked him why people accepted that kind of work. He responded that it was all they could get. I suggested that perhaps it could be described as "the best they can get." He literally shouted, "What's the difference?" I pointed out that he was proposing to take from those people their best choice. Unable to cope with this reasoning he began to babble about "people in three-piece suits." At this point I commented to those nearby that I guessed that the man recognized the correctness of my point since he felt compelled to "shoot the messenger." Another man spoke up and said that previously he would have probably agreed with the young man but that now he saw that to prohibit the work in question would hurt those who did it as well as the consumers who would be denied the service being supplied. Several other people nodded their heads in agreement and the young man bolted from the room muttering a curse!

Before we judge that fellow too harshly we should explore what led him to his way of thinking. In many cases people who disdain a certain type of work project their own judgment about it onto those who engage in it. A few years ago a sociologist entered into a study of men who collected residential trash. One of his basic assumptions was that they hated their work. He soon learned, much to his amazement, that they found it quite interesting. For example, one trash collector told the sociologist that he knew many things about the people whose trash he collected. To illustrate this he pointed out that the people who lived in one corner house held a "big booze party" every Saturday night, as indicated by the quantity of liquor bottles in their trash immediately thereafter. He knew similar, though less colorful, things about everyone on his route.

Different Standards

Failure to realize that other people may have different standards and value judgments than they have often leads some people to become needlessly concerned about the condition of other people. This is often due to lack of experience in their own lives. Perhaps I am fortunate that I have worked in a steel mill, on house construction, and in wheat fields in order to finance my academic training. Someone who has had his or her education financed solely by parents, scholarships, and other such sources may have had the best alternative for preparing for his or her own life taken away by people with perfectly good intentions.

I once heard a psychology professor say, "People do what they want to do." It may be the lesser of two or more evils but they choose to do what they prefer, given their alternatives. If it can be gotten across to well-meaning people that they are harming, not helping, those who are less fortunate a few of those well-intended people may begin to understand the superiority of voluntary action over coercion. □

THE FREEMAN
IDEAS ON LIBERTY

A Level Playing Field

by Robert Zimmerman

I am far from a wealthy individual. Despite the wonderful stories you hear about filmmakers drinking piña coladas by the swimming pool and having their grapes peeled for them, the movies do not necessarily make you rich. If I had to define my financial class, where I stand in the great rankings of monetary success, I would personally place myself as lower middle class.

In other words, I get by, pay my bills, do the creative work I like, and try to live a decent life.

Being self-employed (a difficult thing to do in our modern corporate word), I have had to pay for my own health insurance. When I realized I needed to do this, I got out the yellow pages, made a few phone calls, and found an insurance company that had a policy I liked and was reasonably priced. Because this is a form of insurance, I did this at the very beginning of my self-employment. I realized that no company would give me a policy if I waited until I was sick. Many people in our society do not do this, and when they do become ill, they cannot get an insurance company to accept them. As tragic as this is, it is the consequence of their own decision to save the cost of insurance when they were healthy.

I did not want to be placed in this situation. The whole idea behind insurance is to obtain it in advance of disaster. I made the calls, I found a policy, and I paid the bills. I recognized that in a truly free society, there are consequences for my actions, and I needed to act to avoid the worst consequence.

The state legislators of New York, also aware of the tragic consequences of not buying health insurance in advance of illness, decided in July 1992 simply to outlaw these consequences. As my own State Assemblyman said, "We needed to level the playing field, so that the millions of middle class people who didn't have health insurance could get it."

The subsequent law requires all insurance companies to charge everyone the same rate, regardless of age, health, sex, or occupation. It also forbids all health insurance companies from refusing anyone a policy. In other words, not only are we all created equal, we are all created identical, and the insurance companies are required to make believe that there are no differences between us.

Now, according to supporters of the bill, health insurance will be available for everyone at the same cost. According to the State Insurance Superintendent Salvatore Curiale, "people might have to pay a little more, but it won't be a significant amount more."

Within six months of its passage, 10 of the 18 major health insurance companies in New York decided to leave the state. Some decided to refuse to take any additional customers, while others canceled all policies. Of the remaining companies, all have said that they will have to increase their fees, doubling or tripling them.

My own insurance company decided to

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remain in New York, but it sent me a letter, explaining that because of this new law, my monthly rate would be increased from $120 to $300.

If this is only a little increase, I wonder what our politicians think a big increase would be?

We now have a level playing field: *No one* can afford health coverage. This monthly bill is certainly beyond my means, and I am sure it is beyond the means of most middle-class people as well.

And since the law forbids insurance companies to refuse anyone, there is no longer an incentive to buy health insurance in advance of an illness. Since a 25-year-old woman in perfect health would pay the same as a 68-year-old man with serious cancer problems, the 25-year-old might as well wait as long as possible before buying the insurance.

Without a pool of healthy customers paying the cost for the sick customers, the whole concept of insurance becomes unprofitable. This is why more than half the insurance companies have left the state, and why eventually, because of this law, private health insurance will sooner or later become unavailable in New York.

Good and Bad Consequences

We supposedly live in a free, capitalistic society, which used to recognize that life is tough, challenging, and requires thought and courage to get through it with success. Some of us are more intelligent, more handsome, or more beautiful, while others are cursed with ugliness, stupidity, or foolishness. Often we make poor decisions that do us more harm than good. And, regardless of any law, there are always good and bad consequences for all our actions.

Yet, we are also afforded the wonderful opportunity to make the most of what we have, regardless of life's obstacles, to never give up, to make of our lives as much as we can. Even in the most adverse situations, where the world is trying to destroy us, we can still stand tall and proud and try to do right for ourselves and for our loved ones. This approach to life will at least make us noble and great, even amidst failure.

By recognizing and rewarding the individual differences among us, a free society encourages us all to be the best we can be. It encourages us to use our individual talents and abilities at their highest level, because we know that if we choose poorly or without thought we will have to face the bad consequences on our own.

The thinking and philosophy that supports this insurance law in New York denies this premise. By making believe that everyone is identical and requiring the insurance companies to ignore the good and bad differences between us, the law only encourages laziness, foolishness, and failure by everyone. If you have the foresight to buy health insurance before you really need it, you are punished with higher rates. Those who don't plan ahead and buy it in the last second are rewarded with bargain rates.

Worst of all, because this law attacks the truth that we are all different with different situations, trying to do the best we can, it attacks the foundation of our free society. Without any incentive to be the best we can be, the consequences will surely be the same here as they were in the Soviet Union and in all socialist countries. Health care, once easily available at reasonable prices in New York State, will soon become less accessible and more poorly administered.

This is not a prediction, for I have already observed these very things happening in New York since the law was passed. In trying to eliminate the small, bad consequences of certain individuals' foolish decisions, the New York State legislature has created a situation where a truly large and terrible consequence will descend upon the heads of all its citizens. □

THE FREEMAN
IDEAS ON LIBERTY

THE CASE FOR HOMESCHOOLING

by Roy Lechtreck

If it is not broken, don't fix it.
If it is broken, fix it.
But if it cannot be fixed, replace it.

The public schools are beyond repair. If it is not practical to replace the current system, then at least let those alone who wish to homeschool. Hassle them not. Instead, encourage them and help them.

That may sound pretty revolutionary and, some will say, un-American. But more and more parents are homeschooling their children. The best-seller *Megatrends* states that a million children are being taught at home, but that is probably an exaggeration. Yet several authors estimate that 250,000 families engage in homeschooling.

Advocates of homeschooling argue that all past attempts at reforming the public school have failed. Decentralization, open classrooms, a return to the basics, values clarification, and an emphasis on counseling and programs directed toward the potential dropout, are but a few of the recent attempts to put Humpty-Dumpty together again. Schools were even turned over to private corporations without any appreciable changes.

Parents who homeschool their children have three basic complaints against public schools: the lack of academic rigor, the number of maladjusted graduates, and the anti-religious atmosphere. Homeschool advocates claim that homeschooling overcomes these problems. They argue that no matter whether the educational philosophy one holds is that schooling prepares for life or schooling is life, the homeschooled do better. Proponents also claim that private schools are nearly always similar to public schools, so the fundamental criticisms of public schools apply to private schools also, although to a lesser degree.

There are two ways to look at the arguments for homeschooling: by personal case histories[1] and by scholarly analysis. Although the true merit of homeschooling probably is best told as a series of case histories, this paper will examine the many studies done on various aspects of homeschooling.

Before we do so, however, we ought to look at the legal situation. Almost every state permits some type of homeschooling. The stringent rules against it have usually fallen when challenged in court, unless the challenge was based on the claim that the state may impose no regulations whatsoever on any homeschool. Existing state laws generally demand that homeschool children have a certain number of hours of schooling per year, and require parents to keep records of what is being done. These records

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are to be inspected by the public school authorities.

Academic Performance

Let us now see how homeschooling compares to the public schools in academic performance. According to a study in Alabama, elementary-age homeschooled children performed at comparable levels to public school children. Furthermore, the level of education of the teacher-parent was not related to the performance of the children, and children of parents without teacher certification did as well as those who had a certified teacher-parent.[2]

Borg Hendrickson, in *Home School: Taking the First Step* points out other studies which say basically the same thing:

• Home-tutored children scored higher on standardized achievement tests than did their peers in the Los Angeles public schools and also made significant gains in maturation and social growth.

• A survey showed that the majority of 2,000 homeschooled children from various backgrounds achieved notable academic, attitudinal, and motivational progress.

• Homeschooled children in Arizona scored at above-average levels on standardized achievement tests in the mid-1980s.

• During the first half of the 1980s homeschooled children in Alaska consistently outscored their public school peers on standardized achievement tests.

• 76.1 percent of Oregon's homeschooled students scored above average on achievement tests in 1986.

• A 1987 comparison of Western Washington homeschooled students' achievement test scores with national norms showed that, with the exception of grade 1 math scores at the 49th percentile, the homeschooled students at each grade level scored above the 50th percentile in all subjects.

• In 1986, homeschooled students in grades 2, 3, 6, and 8 in Tennessee outscored public school students consistently. In national comparisons, the homeschooled students scored in the top 3% in math, top 4% in spelling, top 1% in listening skills, and top 6% in environmental knowledge.

• Documentation by the Washington Public Instruction Department showed across the board higher performance by homeschooled students over public school students.[3]

These successes usually occur with only three hours of instruction each day. The teacher-parent, of course, has numerous texts, workbooks, videos, and materials to choose from, and when several families form a support group, an inexperienced parent can usually find answers to problems from other members of the group. The children have the almost undivided attention of the teacher without the distractions of a classroom. Homeschooled children also are much more likely to go to libraries, art, history, and science museums, and attend lectures and special events. (Several families which homeschool will often engage in these activities together.)

The suggestions of educational reformers that teachers be better prepared, that classes be smaller, and that more money be spent will not bring about any substantial improvement in academic achievement, according to George Leonard. He says that the cause of poor education is the nature of the public school today, and only drastic restructuring will work.

One argument of Leonard's that can be used to promote homeschooling is that human beings learn at different rates. Individualized education then can be much more effective than group education.

A second argument is that "a certain amount of self-confidence and self-respect is an essential precondition to learning. Yet by and large, school is set up to humiliate publicly those who, for whatever reason, are unable to come up with the right answer when called upon."[4]

A third premise of his is that "the effectiveness of any learning experience depends on the frequency, variety, quality, and intensity of that interaction."[5] Homeschooling would obviously be the best form of interaction.

The child, Leonard continues, is a "learning animal, sure and simple. . . . By the time our children start to school, almost all of them have completed one of the most spectacular learning tasks on this planet: The mastery of spoken language with no formal instruction whatever. . . . They have enjoyed a feast of high-intensity interaction with their teaching environment, which in this case comprises all the adults and other children around them."[6]

Social Adjustment

None of the above comes at the expense of good social adjustment. Negative, not positive, socialization is the end product of most regular schooling, according to homeschool advocates. The drastic increase in crimes perpetrated by pupils against teachers, pupils against pupils, and teachers against pupils is an indication of a system that has lost sight of its goals or cannot achieve them. How can children be properly socialized in an atmosphere of fear and chaos? Peer dependency is also an example of negative socialization. It often prevents students from maturing, developing their own individual personalities, developing a moral code separate from that of the group, becoming self-reliant, and developing an acceptable work ethic. One wonders about the viability of a system wherein most admit to cheating regularly and trying to get by with as little effort as possible.

Another aspect of negative socialization, according to many scholars and homeschool advocates, is the school's emphasis on competition. A student is not regularly encouraged to do his best, but just to be better than someone else. Nor is he encouraged to cooperate with others. It is impressed upon him daily that progress has come about by competition. Cooperation is considered utopian, cultish, or trivial. This, however, is a serious misinterpretation of history, free enterprise, and human nature, as very ably pointed out by Alfie Kohn in *No Contest: The Case Against Competition.*[7]

The glorification of sports in high school is another type of negative socialization. Sportsmanship is fine, but when students are given passing grades to stay on the football team and taught that winning is the only reason for playing, our priorities are misplaced. Also, the emphasis on attracting the opposite sex and having the latest in videos and cassettes places a premium on pleasure—a selfishness destructive of friendships and sound judgment. Many argue that the negative socialization in public schools produces a population lacking in those civic virtues necessary for the survival of a democracy.

After reviewing the literature on homeschooling and socialization, Brian Roy writes that "the available empirical data suggest that homeschooled youth are doing at least as well as those in conventional schools in terms of affective outcomes . . . . [In] values, attitudes, and socialization of home-schooled youth, no tangible evidence was identified that they are inferior to conventional school youth in these areas."[8]

Religious Beliefs

Regarding the third complaint against public schools, that they are anti-religion, homeschool advocates take the position that they cannot bring up their children in their own faith and send them to public schools where that faith is challenged or mocked. If adults have a hard time keeping a faith in the face of ridicule, how much more difficult will it be for a child?

Schools can be said to be anti-religion in at least two ways: by attacking religion directly, in history, literature, psychology, and biology textbooks and library books, or by ignoring religion and thereby letting children think it is unimportant. It is interesting that schools are more willing to allow a student to pass a biology course without dissecting a frog than they are willing to allow a student to substitute some other assignment for a chapter of a textbook promoting the idea that man is different from an ape only in the number of nerve endings in the brain and its chemistry. Sex education is also a big problem, for many such courses say or imply that being sexually active is nothing to be ashamed of and everything is okay as long as one practices "safe sex." As for history, there is little about the positive role religion has played at times in world affairs. In psychology books, sin is often presented simply as sickness. (Hitler was not evil, just insane!) The anti-religion of some literature is more subtle. Many fundamentalists object to certain four-letter words, but that is minor compared to the glorification or acceptance of evil portrayed in some novels, essays, or poems.

Courses in values clarification implicitly deny that there are moral guideposts which we ought to follow. Instead of pointing out what moral codes are necessary for society to function, and the demands placed on us by the requirements that we observe others' rights (as, for instance, spelled out in the Declaration of Independence), the values-clarification approach looks at everything from the viewpoint of a child's supposed need for self-satisfaction. The question "What must you do to be a good citizen?" has been replaced by "What personal desires do you need to fulfill to be happy?"

Parents vs. Bureaucracy

Homeschool advocates are *not* conducting an assault against the public schools. All they ask is that the public school system recognize that they are sincere in their beliefs and to leave them alone as much as possible. Their number will never be large enough to pose a threat to any regular school teacher's job or education budgets. Homeschoolers say, "Our students are as well educated and as well adjusted as yours, if not more so. So just let us be."

In many cases, in fact, homeschooling may be the only sensible way of educating children. This is especially true of families who move around a lot and families with children with exceptional abilities or disabilities.

The defense of homeschooling is not necessarily an attack on public school teachers. Most homeschoolers would probably argue that it is not the teachers but the system that is at fault.

In the recent book *Politics, Markets, and American Schools*, John Chubb and Terry Moe claim that public school bureaucracy is the major culprit. After making allowances for tax revenues, size of school, economic and social background of the pupils, and many other factors, Chubb and Moe argue that the most effective schools are the less constrained schools. Too many supervisors and too many rules spoil the process.[9]

In preparing this article, I was fortunate to meet a lower-middle income, homeschooling couple from central Alabama, who have been homeschooling their two children (now 14 and 11 years of age) for six years. Both children have traveled alone to visit relatives in Germany. The elder had a $500 bank account at the age of 12. Both have won numerous prizes in local contests. In a letter to me, the mother mentioned what is probably her greatest satisfaction as a home-school parent: "I feel that if anything . . . were to happen to my husband and myself, John and Angela would be left with the basics of survival and enough sense to make it through life knowing what hard work is. . . . They are happy children and know how to make the best of just about every situation." □

1. David Williams, Larry Arnoldsen, and Peter Reynolds, *Understanding Home Education: Case Studies in Home Schools*—Conference Paper, April 1984 (New Orleans, La.: American Educational Research Association, 1984).
2. C. J. Daane and Jennie Rakestraw, "Home Schooling: A Profile and Study of Achievement Test Results in Alabama," *ERS Spectrum*, Spring 1989.
3. Borg Hendrickson, *Home School: Taking the First Step* (Kooskia, Idaho: Mountain Meadow Press, 1989), pp. 10–11.
4. George Leonard, "The End of School," *The Atlantic*, May 1992, p. 26.
5. *Ibid.*
6. *Ibid.*
7. Alfie Kohn, *No Contest: The Case Against Competition* (Boston, Mass.: Houghton Mifflin, 1986).
8. Brian D. Roy, *A Comparison of Home Schooling and Conventional Schooling with a Focus on Learner Outcomes* (Corvallis, Ore.: Oregon State University, 1986), doctoral dissertation.
9. John Chubb and Terry Moe, *Politics, Markets, and American Schools* (Washington, D.C.: Brookings Institution, 1990).

A REVIEWER'S NOTEBOOK

THE POLITICS OF POWER

by John Chamberlain

The Greeks had a word for it: "Nothing in excess." Centuries later, Edmund Burke used the word prudence. He believed in a conciliatory approach to Britain's relations with America on the one hand and Ireland on the other. Thus it could be seen that Russell Kirk has had good literary forebears for his book, *The Politics of Power* (Intercollegiate Studies Institute, Bryn Mawr, Pa., 304 pp., $19.95 cloth; $8.95 paperback).

Kirk has a genuine passion for order: He has orderly listings of ten conservative principles, ten conservative events, and ten conservative books. It would have offended his sense of order to have had to settle for nine or eleven books, or six or twelve events.

Kirk is against the Behemoth State in any form whatever. It forces centralization in decision-making. Variety disappears. As a disciple of the Swiss-German economist Wilhelm Roepke, Kirk is an enemy of the "cult of the colossal." Roepke says we must find our way back to the humane scale in both economics and politics.

A Michigander, Russell Kirk is well acquainted with the gigantism of the automobile industry. Henry Ford thought that his Model T would restore the humane scale. It would allow a worker to go to work in the morning and return home to raise soybeans or whatever in the afternoon.

But the Model T failed in its mission.

The great set piece of Kirk's book turns out to be what happened in Detroit, Kirk's hometown before he moved to Piety Hill in a rural area. He grew up near the railroad tracks leading out of Detroit. All his life he has had to go in and out of the automobile city. The decline of the automobile business had its reflex: the city, struggling with joblessness, became a mugging center with murders common every corner. Only the foolhardy dared to go out.

Kirk has a scunner on the word "ideology." To become an ideologue is to him, equivalent to making a pact with the devil. It may be admitted that ideology is not a pretty word. But most people use it loosely, as an object of search. To have settled with a philosophy, putting ideas together in a bundle does not mean that one can never change one's mind.

Luckily, Kirk is a prime storyteller. He recreates the atmosphere of Tennessee agrarianism with a beautiful character portrait of Donald Davidson, who refused to go through New York City on his way to his summer home in Vermont. His picture of Detroit in decay is hereby recommended to Jack Kemp, the man who wants to bring business to the inner city.

One can forget the semantics of Kirk's approach while delighting in his storytelling power. So read him for this and the searing section on Detroit's collapse. Don't worry about the book's title. □

Green Delusions: An Environmentalist Critique of Radical Environmentalism

by Martin Lewis

Duke University Press, Durham, N.C. • 1992 • 288 pages • $24.95

Reviewed by Doug Bandow

George Bush wanted to be the environmental president, but even his heavy-handed regulatory policies did not satisfy the environmental lobby. Now we have the environmental vice president, for whom conservation seems to be a religious duty, and a bevy of left-wing Clinton appointees, for whom cost appears to be no object. The result is likely to be a concerted attack not only on business, but on the entire market system.

Indeed, what makes future prospects so frightening is the fact that an important segment of the environmental movement is fundamentally antagonistic to modern society. These eco-radicals, as Martin Lewis, a professor at George Washington University, calls them, "concur in one central proposition: that human society, as it is now constituted, is utterly unsustainable and must be reconstructed according to an entirely different socioeconomic logic."

Lewis, a mainstream environmentalist, doesn't much like "anti-environmentalists" like Julian Simon and Dixy Lee Ray, who "present a comforting vision to those who shudder at the thought of the sacrifices that will be necessary to ensure the ecological health of the planet." But he also recognizes the existence of "a much less visible ideological threat at work as well, one that masquerades under the mantle of environmentalism itself." Thus, Lewis devotes *Green Delusions* to explaining and debunking several important strains of radical environmentalism.

There are, for instance, the Deep Ecologists. The "moderates" merely want to radically downsize human activity; the true radicals, whom Lewis calls "primitivists," are characterized by "blatant misanthropy and glorification of violence." A bit more positive towards humanity are quasi-classical leftists—the eco-anarchists and eco-Marxists. They differ from traditional Marxists in believing that economic growth cannot continue forever even under Communism, but still focus more on economic than environmental issues. Then there are the eco-feminists, many of whom, writes Lewis, "are actively reviving the goddess-centered cults that they believe once allowed humans to live in harmony with nature." Despite the presence of Marxists, many members of this odd amalgam are neither left nor right, but instead are simple authoritarians who are not just unconcerned about human freedom, but actively oppose it.

Lewis ably dissects the logical fallacies behind all of these philosophies. The radical position that primal peoples exemplified the proper harmony with nature, Lewis writes, is "so exaggerated as to verge on intellectual fraud." Moreover, he argues, small can be ugly as well as beautiful. Even more important, he recognizes the virtues of free choice. For instance, although he doesn't care for urban living, he acknowledges that "there is nothing intrinsically wrong with such a personal decision."

Similarly, Lewis is no technophobe, pointing out that scientific advances can help better protect the environment. Nor does he see population growth in the Third World as an unmitigated disaster. And he dismisses environmentalist tirades against capitalism by pointing to the environmental devastation in the former Soviet Union and Eastern Europe. "As is now abundantly clear, Marxism's record is dismal on almost every score, be it economic, social, or environmental. These failures cannot be dismissed as errant quirks; Marxian regimes have come to power in numerous countries, and everywhere the results have been disheartening."

For all of the strength of Lewis' analysis, he remains committed to an activist state to combat what he believes to be very serious environmental problems. What he wants is "guided capitalism," where "a new alliance of moderates from both the left and the right" press for "the environmental reforms necessary to ensure planetary survival." Of course, government's past guidance has seldom proved to be fiscally or environmentally sound.

Still, *Green Delusions* offers an important call for ecological sanity. And Lewis, coming from the moderate left, has more credibility than, say, Julian Simon in debunking the nostrums of the eco-radicals. Given the threat to liberty posed by the current administration and the more extreme environmentalists, people like Lewis could end up proving to be important allies of those who believe in individual liberty and fiscal responsibility as well as environmental protection. □

Doug Bandow, a contributing editor of The Freeman *and a Senior Fellow at the Cato Institute, is the editor of* Protecting the Environment: A Free Market Strategy *(Heritage Foundation).*

On Liberty, Society, and Politics: The Essential Essays of William Graham Sumner

edited by Robert C. Bannister

Liberty Fund, Indianapolis, Ind. • 1992
424 + xiii pages • $30.00 cloth
$7.50 paperback

Reviewed by John Attarian

Few thinkers suffer more at the hands of leftist statists than William Graham Sumner, routinely depicted as a heartless Social Darwinist and a reactionary bigot opposing social reform. Now that the activist government his critics craved has bogged in deficits and failures, Sumner deserves reconsideration.

This collection of 33 of Sumner's essays, some previously unpublished, facilitates that reappraisal, handily drawing together such important pieces as "The Forgotten Man," "Republican Government," "The Argument Against Protective Taxes," "Liberty," and "The Absurd Effort to Make the World Over."

Unbiased reading of Sumner dispels the left's caricature. In "The Forgotten Man" he does *not* oppose helping the unfortunate. What he *does* oppose is glossing over the fact that all aid comes at the expense of the "forgotten man"—the ordinary, thrifty, industrious, virtuous, law-abiding citizen. "Socialism" firmly defends private property—but sharply distinguishes liberty married to responsibility, which Sumner vigorously upholds, from license, which he condemns.

Some essays are especially timely. "Republican Government" warns that in assuming "a high state of intelligence, political sense, and public virtue" in the citizens, republican government demands too much of human nature. "The citizen must know how to obey before he can command, and the only man who is fit to help govern the community is the man who can govern himself." Our "greatest danger," though, is from special interests: They are organized and highly motivated, while the people are "ill-informed, unorganized, and more or less indifferent. There is no wonder that victory remains with the interests. Government by interests produces no statesmen, but only attorneys." Hence, he warns in "Democracy and Plutocracy," government intervention against business is unwise. Reformers will not wield government power forever; business will seek that power in self-defense, and resort to "all the vices of plutocracy," corrupting both business and government. All too true.

Repeatedly, Sumner argues that capital accumulation makes civilization possible. What harms capital drags down civilization. Our overregulation and tax-borrow-and-spend dissipation of capital and their harmful impact on our national life make Sumner again look far wiser than his critics.

"The Argument Against Protective Taxes" demolishes arguments for tariffs and exposes the heart of protectionism—indeed, of all redistribution:

> **A** wants protection, that is, he wants **B**'s money. **B** does not want to let him have it. **A** talks sentiment and metaphysics . . . all there is in it is that he wants **B**'s money. . . . He is then moved to scorn at **B**'s sordid love of money. . . . For him to want **B**'s

money is patriotic. It is "developing our resources." It is noble. For **B** to want to keep the same money is mean. I insist upon the matter being stated in the most crass and vulgar way, just because that is all there is of it when the humbug is all eliminated.

Indeed one suspects that the real reasons for the left's animosity toward Sumner are his intolerance of humbug and sloppy thinking and his commonsensical, tough-minded insistence on hard truths: "There is no such thing on this earth as something for nothing"; "advantages are won at the cost of limitations"; imaginations must submit to facts. For Sumner, "the social order is fixed by laws of nature"; attempts to evade them are doomed and harmful. The schemes of socialists and other reformers are actually revolts against a reality unmindful of their yearnings. "They say that political economy is a dismal science and that its doctrines are dark and cruel. I think the hardest fact in life is that two and two cannot make five."

Unfortunately, Sumner's realism is rooted in philosophical materialism: an economic determinism as relentless as that of Marx and Engels. Drawing on Malthus, he argues that all social life derives from the ratio of population to land. A sparse population makes for democracy, peace, and prosperity; a dense population breeds land hunger, war, inequality, and aristocracy. In his materialism he sometimes manifests contempt for ideas; doctrines are "Nothing but rhetoric and phantasms"; ideals are "phantasms" with "no basis in fact." And, having exploded the facile doctrine of inevitable progress, and lapsed from his early Christianity, the materialist Sumner has nowhere left to go except into pessimism; and the last, prophetic essays ooze gloom.

But if Sumner misses the Christian hope that Parson Malthus held out in his much misunderstood theory of population, he has tremendous merits nonetheless. His hard-headed realism is an all-too-rare antidote to the half-baked wishful thinking pervading liberal and socialist discourse. His unbending integrity makes him brave enough to denounce the wildly popular Spanish-American War ("The Conquest of the United States by Spain") and to uphold liberty against the tide of statism. This volume is an excellent introduction to a keen, vigorous, and courageous mind. Its valuable foreword, judicious selection of essays, and reasonable price make it ideal for reaching the large audience Sumner deserves. □

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The Catholic Ethic and the Spirit of Capitalism

by Michael Novak

The Free Press • 334 pages • $24.95

Reviewed by Ronald Nash

Michael Novak's name is familiar to most readers of *The Freeman*. For both old friends and new acquaintances, this newly published collection of recent Novak essays is worth reading.

Novak's title is an intentional play on the title of Max Weber's 1904 book, *The Protestant Ethic and the Spirit of Capitalism.* According to Weber, capitalism has important religious foundations, derived in large part from what Weber believed to be essential characteristics of Calvinism or Protestantism. Novak's version of capitalism is different from Weber's. Where Weber saw primarily individualism and calculation, Novak offers a vision marked by opportunity, cooperative effort, social initiative, creativity, and invention. Novak insists he is using the word "catholic" in two senses: (1) with a capital "C," where the word refers to Roman Catholic in opposition to Weber's "Protestant"; and (2) with a small "c," where the word refers to a broader definition of Christianity than Weber's.

When Novak talks about a Catholic ethic (capital "C"), he has three distinct things in mind: (1) The Roman Catholic approach to social ethics to be found in the thought of Pope Leo XIII and Pope Pius XI. Novak covers this material in part one of his book, examining in the process the years between

1891, when Leon XIII issued his *Rerum Novarum*, to 1931. (2) The significant work of John Paul II from 1978 to the present, but with special emphasis on his 1991 encyclical, *Centesimus Annus*, issued on the centennial of *Rerum Novarum*. Novak's exposition and analysis of the 1991 encyclical constitutes part two of his book. (3) The third aspect to Novak's "Catholic Ethic," though he is too polite to say so, is his own considerable contributions to Roman Catholic social thought, especially in the last ten to fifteen years. Part three of his book contains three chapters that show off some of Novak's reflections on such issues as poverty, ethnicity, race, and other social problems in contemporary American life.

Novak's book succeeds in spite of a possible problem that sinks many similar projects. Because most of the chapters are previously published essays, the trick is fitting them together in a way that produces a unified theme. The careful reader will detect a few cracks in the project; but to make something of this fact would be uncharitable quibbling. One final observation is in order: Novak's "catholic ethic" (small "c") contains nothing that would exclude Protestant and Jewish defenders of capitalism. □

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The Market, Competition and Democracy: A Critique of Neo-Austrian Economics

by Stavros Ioannides

Edward Elgar Publishing Company, Aldershot, Hants, England • 1992 • xiii + 194 pages
$59.95

Reviewed by Israel M. Kirzner

Thoughtful Marxist economists have often, it appears, been fascinated by Austrian economics. Some 70 years ago Nikolai Bukharin (the eminent Marxist economist, who had attended Böhm-Bawerk's famous Seminar, and who was later to be executed by Stalin) perceptively pronounced Austrian economics (among all the schools of economic theory then on the stage) to be the principal intellectual enemy of Marxism. In the present volume we find a thoroughgoing exposition of modern Austrian economics together with a searching critique of it from the vantage point of "democratic socialism" (p. xi), reflecting the author's explicit acceptance of the Marxist perspective on the market system (see pp. 9–10). As such the volume will be of considerable interest to Austrian economists on several counts.

One source of interest will be that an obviously highly intelligent Marxist scholar has taken note of the developments in Austrian economics during recent decades, and has judged them to be of sufficient importance to warrant a careful and lengthy analysis and critique. This reflects, one may surmise, the judgment that the Austrian criticisms of neoclassical orthodoxy and the newer articulations of the Austrian understanding of markets and market processes, offer fresh threats to the older socialist criticisms of the market.

A second source of interest for Austrian economists will be the author's substantive exposition of modern Austrian economics (i.e., those late twentieth-century developments in the Austrian tradition which have sought to elucidate and elaborate the contributions of Mises and Hayek—whose portraits appear on this book's dust-jacket.) Dr. Ioannides has carefully examined a wide (if not quite exhaustive) range of Austrian writings. He has provided a lucid and largely accurate account of Austrian positions on perhaps the entire span of economists' concerns. Austrian economists would do well to read his exposition, not only for the clarity and sensitivity with which he so often accurately lays out Austrian arguments, but also for an appreciation for those points in his exposition where he unaccountably appears to have gone astray.

A third—but admittedly baffling and frustrating—source of interest for Austrian economics consists in the Marxist-inspired critiques of the Austrian positions, with which Ioannides concludes each chapter. It is as if, two-thirds of the way through each chapter, the author suddenly donned Marxist spectacles and henceforward sees only fog where, up until that moment, he had clearly seen and understood the Austrian concerns and insights. Certainly these Marxist-inspired critiques, frustrating though they certainly must be for Austrians, offer valuable material for anyone desiring to identify the presumptions which permit the Marxist perspective to "see" economic facts and relationships so differently from the way those same facts and relationships appear to others.

The brief review will not seek to cover all points upon which an Austrian must be inclined to pronounce Ioannides' expositions inaccurate and his critiques unfair (or, at any rate, incomprehensible to a non-Marxist). We choose one example—but a centrally important example—of a puzzling interpretation of the Austrian position on one issue, and one example—again, a centrally important one—of what seems an unfair critique by the author of the Austrian position on a second issue.

Throughout the volume the impression is conveyed that the Austrian critique of government interventionism rests primarily on an Austrian "conception of economic phenomena as being fundamentally indeterminate" (p. 7). Because of this "fundamental indeterminateness" assumption held by Austrians, the author maintains, an "observer of economic phenomena can never predict the outcome of market processes and, consequently, the results of . . . intervention upon them" (p. 8). It is *this* consequence of the Austrian view, we are given to understand, which undergirds Austrian condemnations of interventionism. Now, if Ioannides meant by "fundamental indeterminateness" merely the unpredictability of market outcomes, as a practical matter, an Austrian might accept this as indeed one element—but certainly *not* the only or even primary element—in the Austrian critique of government intervention. But Ioannides rather clearly seems to be attributing to Austrians not only the view that market phenomena are unpredictable, but also that these phenomena are inherently and intrinsically indeterminate. For Ioannides the term "fundamental indeterminateness" is used (p. 80) to describe the position of the late Professor Ludwig Lachmann in his denial of any overriding stabilizing forces in markets (due to the fundamental subjectivism of individual expectations which drive the decisions taken during the market process). Since Ioannides recognizes (pp. 78–79) that Lachmann's position is by no means the dominant position among modern Austrians (since both Mises and Hayek emphatically recognized powerful stabilizing tendencies within markets), it is puzzling to read his assertions linking Austrian concerns about intervention to their alleged commitment to the doctrine of "fundamental indeterminateness." Certainly Austrians could marshal arguments quite distinct from those advanced by neoclassical theorists, against government intervention, which arguments do *not* rest on any "fundamental indeterminateness" premise—or even upon any de facto unpredictability of market outcomes.

As our example of what appears an unfair criticism of Austrian economics, we take Ioannides' insistence that Austrian economics suffers from a serious weakness in that it cannot provide what Ioannides considers to be a truly "dynamic" economics. This is a theme which recurs in the critical portions of chapters throughout the book. It is a theme which underlies Ioannides' assertion (p. 174)—forming a central conclusion of his book—that Austrian theory must, because of its alleged "static" character, fail to perceive how the true dynamics of the market tend to produce predictable results (in regard to property ownership distribution) which are sharply at variance with the Austrian view of the market as a system free of coercion. It is this theme, in fact, which permits Ioannides to satisfy himself concerning the "authoritarian"(!) "character of neo-Austrian theory."

This bizarre conclusion is reached by emphasizing the role of capital in the dynamics of the market process: "the process which is of paramount importance for the understanding of social dynamics is the reproduction of capital, which in turn determines the reproduction of society itself" (p. 172). The ultimate "failure" of Austrian economics for Ioannides rests, it is thus apparent, on his question-begging *assumption* of the validity of a Marxist "objective" dynamics of capital-using processes of market production (i.e., a dynamics which arbitrarily rejects Austrian insights concerning the subjectivism of the decisions made by consumers in regard to the possibilities of saving and consumption). Only on the basis of this assumption is he able to identify as a weakness what *he* terms the "static" character of Austrian economics. Nowhere, except by assertion, does Dr. Ioannides *establish* the possibility of dynamic regularities, in regard to the capital structure of the market system, that might operate regardless of the subjective time-preferences of market participants.

These deeply disturbing aspects of Ioannides' critique of Austrian economics certainly underscore the ideological motivation which drives the entire book. If, in spite (or, as suggested earlier, partly because) of this, the volume retains substantial interest for Austrian economists, this must be judged a tribute to the quality of those passages in each chapter in which Ioannides has endeavored honestly to set forth the central ideas of Austrian economics within its own—rather than the Marxist—framework. □

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The Creators: A History of Heroes of the Imagination

by Daniel J. Boorstin

Random House • 1992 • 811 pages • $30.00

Reviewed by Raymond J. Keating

In *The Creators* historian and former Librarian of Congress Daniel J. Boorstin celebrates the individual's power of creation and imagination, literally across the span of human history. Boorstin's fine writing and intriguing insights—devoid of any ideological hyperbole—refresh the reader.

Boorstin illustrates how the creative nature of man often has had to overcome substantial obstacles, while being bolstered under alternative circumstances. For example, theological teachings have long influenced views about and incentives for creativity. Boorstin observes about Buddhisim: "If there was a creator, it was he who had created the need for the extinction of the self, the need to escape rebirth, the need to struggle toward Nirvana. The Lord of the Buddhists was the Master of Extinction. And no model for man the Creator." In a chapter entitled "The Uncreated Koran," the author concludes, "For a believing Muslim, to create is a rash and dangerous act."

Other beliefs nurtured man's creative nature. Boorstin states: "Across the world, the urge to create needed no express reason and conquered all obstacles. Still the West, whose unusual hospitality to the new was rooted in many causes and many mysteries, found added incentives in the vision of a Creator-God and a creator man." Throughout *The Creators*, Boorstin masterfully communicates the awe-inspiring creativity of man—in such realms as architecture, painting, sculpture, music, and, of course, the written word—whether reinforced or undermined by theological or cultural beliefs.

The author presents a wide variety of innovators and innovations. For example, in terms of architecture and building, Boorstin notes how the ancient Egyptians have survived through "their indestructible original works"—the pyramids. Meanwhile, the "Greeks survive through styles and motifs." Boorstin touches upon major architectural developments from these ancients to the "Gothic architecture of light" all the way up to the present day skyscraper.

In the world of music, Boorstin introduces the reader to Gregorian chants, and from there moves forward to touch upon the great composers, including Bach, Haydn, Mozart, Beethoven, Verdi, Wagner, and Stravinsky. The chapters covering Verdi and Wagner are representative of much of the book. Not only are the respective contributions of these great composers explored, but so are the personal lives, contrasts, and competition between these two contemporaries.

To say that Boorstin explores innovations in the written word fails to do justice. Theologians, historians, philosophers, essayists, biographers, novelists, poets—Boorstin reflects upon numerous literary arenas and developments. Again, he deftly ties together the personal lives, philosophies, and writings of great literary figures, such as Augustine, Dante, Shakespeare, Ben Franklin, Dickens, Whitman, Melville, and T. S. Eliot—naming but a few.

Seeking to write a history of heroes of the imagination is an epic undertaking. In the end, what Daniel Boorstin has achieved is an epic history of man's ability to create and innovate in the arts. Whether they were exploring the world around them, the self within, or both, these individuals examined in *The Creators* somehow influenced the world through their work. Some did so immediately, such as Dickens as reflected by his great popularity in his time. Others posthumously, like Melville, whose *Moby Dick* "twentieth-century readers would pour their own frustrations and ambiguities, making it one of the most popular vehicles for the modern self."

Still others influenced both their contemporaries and all posterity, with Shakespeare being among the most prominent. Boorstin notes what many in the so-called arts community today would deem a dichotomy: "For Shakespeare the claims of immortality were not pressing, it was more urgent to please contemporary London playgoers. . . . Within his twenty-year London career he had produced the poems and plays that made him the idol of English literature. The English-speaking community in all future centuries would be united by familiarity with 'the Bible and Shakespeare.'"

Interestingly, Boorstin's "Epilogue" touches upon the modern art of film-making. He makes a fundamental point that Shakespeare understood, but still many modern-day artists do not: "[T]he public had become the patron and had to be pleased."

There seem to be few historians today poised to meet the arduous criteria of both current "popularity" or respect, combined with the scholarship and writing abilities that withstand the tests of time. It is clear, however, that with such an auspicious effort as *The Creators*, in addition to a long list of previous triumphs, Daniel J. Boorstin shall prove to be more than just a temporal success. □

Mr. Keating is New York director of Citizens for a Sound Economy.

Coming Next Month...

- **"The Pharmaceutical Industry: Problem or Solution?" by Doug Bandow**
- **"Environment and Free Trade" by Jo Kwong**
- **"The New York Asbestos Debacle" by Tim Brown**
- **"School Violence" by John Hood**

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
FEBRUARY
1994
VOL. 44
NO. 2

52 **The Economic Way of Thinking, Part 5** *by Ronald Nash*
Understanding the importance of incentives.

55 **The Pharmaceutical Industry: Problem or Solution?** *by Doug Bandow*
Before the federal government ''reforms'' pharmaceuticals, it needs to recognize that drugmakers constitute one of America's most successful—and beneficial—industries.

61 **Environment and Free Trade** *by Jo Kwong*
Some after-NAFTA observations on the environmental impact of broader trade.

66 **Davis-Bacon: Jim Crow's Last Stand** *by John Frantz*
An analysis of the continuing discriminatory effects of the Davis-Bacon Act.

71 **Federal Transit Subsidies: How Government Investment Harms the U.S. Economy** *by John Semmens*
A case study.

75 **Private Highways in America, 1792–1916** *by Daniel B. Klein*
Knowledge of our toll-road heritage may help encourage today's budding toll-road movement.

80 **Human Rights Around the Globe** *by Tibor R. Machan*
Some philosophical observations on rights, freedom, and cultural differences.

81 **Jury Nullification: Cornerstone of Freedom** *by Roger Koopman*
Today's jury system bears little resemblance to the system established by the Founding Fathers.

83 **The Unseen Costs of Family Leave** *by Robert A. Sirico, CSP*
The Family and Medical Leave Act has, in effect, increased the costs of hiring women.

85 **School Violence** *by John Hood*
Can safety and security be restored?

91 **The New York Asbestos Debacle** *by Tim Brown*
Environmental hysteria in the nation's largest public school system.

93 **Book Reviews**
The Rise and Fall of Leftist Radicalism in America by Edward Walter, reviewed by David Osterfeld; *A Retrospective on the Bretton Woods System—Lessons for International Monetary Reform*, edited by Michael D. Bordo and Barry Eichengreen, reviewed by Robert Batemarco.

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PERSPECTIVE

Welfare Spending

Before 1962, three out of every four dollars in federal aid to the poor went to them directly, in cash. Today, the numbers are almost reversed. Most federal aid and local welfare spending goes to the "welfare industry" rather than directly to poor people.

In Milwaukee County, Wisconsin, for example, only 37 percent of total welfare spending goes directly to poor people. The rest either ends up in government programs or goes to service providers who are supposed to design programs to help the poor. As a result, antipoverty spending in the county was $1.038 billion in 1988. That was $10,793 for each poor person, or $32,379 for a family of three—well above the poverty line. Yet the poverty rate in the county has not gone down.

—EXECUTIVE ALERT

Private Property

Gain all you can by common sense, by using in your business all the understanding that God has given you. It is amazing to observe how few do this; how men run on in the same dull track with their forefathers. But whatever they do who know not God, this is no rule for you. It is a shame for a Christian not to improve upon them, in whatever he takes in hand. You should be continually learning from the experience of others, or from your own experience, reading and reflection, to do everything you have to do better today than you did yesterday. And see that you practice whatever you learn, that you make the best of all that is in your hand.

—JOHN WESLEY

The Government and Inspiration

In his monograph, "Edison," published by the Newcomen Society in 1948, General David Sarnoff, then president of RCA, said:

> The Government is to be congratulated for the encouragement which it is giving to

the advance of science through the scientific training of young men and women in colleges, universities, and research institutions throughout the country. If out of the thousands of young men and women who are now pursuing scientific studies, there emerges one Edison, then the millions of dollars being devoted to their training will be well worthwhile.

It has been over 40 years since this pronouncement and still no Edison has emerged—at least not from the government-funded universities. It is well known that Edison (February 11, 1847–October 18, 1931) was not happy in school. He was taught at home because the publicly funded teachers found him untrainable.

Edison claimed that genius is 99 percent perspiration. His former employee and lifelong competitor, Nikolai Tesla, said that if Edison were tasked to find a needle in a haystack, he would examine each straw in turn until he found the needle. This can be taught. Meticulous, grinding, repetitive labor is very much a part of most schoolwork. Yet the other one percent, the inspiration, cannot be taught. Without that spark of genius, there is no way to know what a "haystack" is, and why finding a "needle" would be exciting.

Since 1985, I have worked as a community college teacher and a corporate trainer. I can show proof positive that I have helped people learn to use technology. Yet, I cannot imagine any way that any teacher in any school can "train" someone to be an Edison. A million smart young people cannot be collected into a single mastermind. Edison was a once-in-a-century genius who cannot be created by government fiat.

—MICHAEL E. MAROTTA

Benefits of Deregulation

Deregulation of the airline, railroad, and trucking industries in the late 1970s and early 1980s has decreased costs to consumers. And despite claims that more competition would encourage risk-taking, the safety records of all three industries have significantly improved.

Airlines. Since the passage of the Air Cargo Deregulation Act in 1977 and the Airline Deregulation Act of 1978:

- Fares are an estimated 18 percent lower than they would have been under regulation, giving consumers an annual benefit of more than $10 billion.
- Air fares have fallen (in real, inflation-adjusted terms) by more than 20 percent since 1978.
- Accident rates have fallen by 48 percent since 1978.

Railroads. The Staggers Rail Act of 1980 allowed railroads to reduce operating costs and reduce rates to consumers. As a result:

- Shippers save between $3.5 billion and $5 billion a year.
- Railroad accidents have declined 70 percent since the late 1970s.
- Although operating revenues have fallen, expenses have declined even further, making it more profitable for railroads to operate.

Trucking. The Motor Carrier Act of 1980 eliminated the barriers to entry, price discrimination, and price fixing that had characterized the interstate trucking industry since 1935. As a result:

- Between 1980 and 1992, the number of carriers increased from about 18,000 to more than 48,000 and the total number of jobs in the industry increased about 30 percent.
- Savings to the economy are estimated to be $7.8 billion a year.
- The fatal accident rate per 100 million vehicle miles shrank 40 percent between 1978 and 1989.

The trucking industry still is governed by other federal regulations, the elimination of which could save about $28 billion annually on logistical costs. State de-control could bring additional savings of $12 billion per year.

—MELINDA WARREN
"Government Regulation and American Business"

THE FREEMAN
IDEAS ON LIBERTY

The Economic Way of Thinking

Part 5

by Ronald Nash

We are now half-way through our eight part introduction to economics. During the course of this essay and the three to follow, we will examine four important principles of the economic way of thinking.

One of the more valuable things I've learned in life is the importance of viewing economics not so much as a set of doctrines or conclusions, but as a distinctive way of thinking. The principles that underlie the economic way of thinking are not difficult to grasp; they are often matters of common sense. Anyone who is unaware of these principles will not only have difficulty understanding why some things are true in economics, but also why people behave the way they do.

I will introduce the first principle of the economic way of thinking with two accounts of human behavior that don't seem to make much sense, until analyzed in light of our first principle. I will follow my examples with a brief explanation of this principle and then show how understanding that principle can help us understand human action that at first glance appears bizarre or irrational.

Dr. Nash, a contributing editor of The Freeman, *is professor of philosophy at Reformed Theological Seminary in Orlando. His many books include* Poverty and Wealth *(Probe Books) and* Beyond Liberation Theology *(Baker Books).*

How Not to Fly from California to the East Coast

A year ago, a friend and I found ourselves at the John Wayne Airport in Southern California, waiting to board planes that would take us back to our homes on the East Coast. Being a rational person, I of course would be changing planes in Dallas, en route to Orlando. I assumed that my friend would be doing the same. To my great surprise, he told me that he would be making his connecting flight in Minneapolis!

Not wishing to appear impolite I decided not to ask him why he was doing something so irrational. But I hoped my friend would make it since he would find the Minneapolis airport suffering from a midwinter blizzard.

What Not to Order for Breakfast at Bob Evans

Ordinarily, I enjoy eating breakfast at Bob Evans's restaurants. I usually order fried eggs, over medium, with crisp bacon, wheat toast, and coffee. But on a recent Friday, I entered a Bob Evans and while waiting for the waitress, surveyed the food on the plates at adjoining tables. The lady to my left had a big stack of pancakes plus a side order of that great bacon. The fellow behind me had the bacon and eggs. But when the waitress came for my order, I requested a bowl of oatmeal. Not only that, I asked her to hold the brown sugar; I would use artificial sweetener. A bit later, the waitress noticed the tears dropping into the oatmeal and asked if my "breakfast" was all right.

A week later, I walked briskly into the same Bob Evans and without even looking at the menu ordered my bacon, eggs, toast, and coffee. There were no tears that day!

What Was Going on Here?

All of us have seen others behave in ways that seemed irregular, unusual, or even irrational. No doubt, most of us have acted in ways that other people have found peculiar; I know I have.

However, students of the Austrian school of economics know that whenever people are acting, that is, behaving in ways that reflect conscious thinking and choices, their actions are always a function of several factors: (1) the unavoidable fact of scarcity in life; we can never have everything we want. (2) the need to make choices; because we cannot have everything we want, we must choose among available options, and (3) the subjective ranking we place upon the choices open to us. Whenever people act (as opposed to simply responding to stimuli), they are always choosing the option that ranks highest in their personal scale of values at that time.

In cases where it is impossible for someone to have both A and B, a person's choice will reflect the relative value he places upon A and B. People's actions, then, are a reflection of their value scales. Their choices are made in order to help them secure the alternatives that accord more closely with their values.

The value that different people place upon different economic goods (such as having oatmeal for breakfast or changing planes in Minneapolis in the dead of winter) varies from person to person. *I* would never change planes in Minneapolis when flying from Southern California to Orlando. Possibly *you* would never order oatmeal in a Bob Evans restaurant. People's value scales are personal and different. It would be highly unusual ever to find two people who ranked every economic good in precisely the same way.

What's important to understand is that while a person's behavior may appear strange or even irrational to someone else, that action is not irrational to that person. In some way, it makes good sense to one person to change planes in Minneapolis or to have oatmeal one day and then bacon and eggs a few days later.

All of this brings me to the major question of this little essay: *Is there a principle of the economic way of thinking that explains the apparently odd behavior in our two examples?* There is.

The Importance of Incentives

One principle draws attention to the importance of incentives. The greater the benefits people expect to receive from an alternative, the more people are likely to choose that option. The greater the costs expected from an alternative, the fewer people are likely to select it. If we understand what makes human beings tick, we can make general predictions as to how individuals or groups of individuals will respond to changes in their economic situation—in particular, how they will respond to new incentives.

Let's look first at what I regard as my utterly rational selection of oatmeal for breakfast. What I didn't state earlier was the fact that the following Friday I was scheduled for one of an ongoing series of blood tests. About a week before each of these tests, I begin altering my eating habits. Some people might think I'm simply trying to fool my doctor so he won't prescribe new medication or perhaps give me a stern lecture. If that were true, I might well be guilty of being irrational in a different sense of the word. But my action would still be rational in the sense that I was behaving in a way to help achieve an important goal. My action a week later when I ordered my usual bacon and eggs reflected the fact that I had had my blood test and could celebrate the good results.

But what about my strange friend who changed planes in Minneapolis? As I pondered his peculiar behavior on my own flight to sunny Dallas, I remembered that he used to live in Minneapolis. Is it possible that he retains some strange obsession with Minneapolis, such that he breaks out in hives unless he visits the place every so often? I ruled that out. Were friends going to meet him for a brief visit at the airport? Since the city was suffering through a blizzard, that seemed unlikely. Then I saw the light!

During all the years he had lived in Minneapolis, the airline he had to fly most often was Northwest. A rational man such as he undoubtedly had a frequent-flyer account with Northwest. The explanation for his apparently bizarre choice was now obvious: He had to change planes in Minneapolis in order to add mileage to his Northwest account. He ranked that high enough in his personal scale of values to incur other costs, such as the possible inconvenience of bad weather in Minneapolis. Incentives matter! If you give people incentives that match their present ranking of values, they will likely select options that reflect those incentives. In my friend's case, he chose Northwest Airlines over American or Delta. In my case, I chose oatmeal over eggs and bacon.

Are the Politicians Listening?

It seems all too apparent that American politicians do not know much about economics. It also seems obvious that they are uninformed about the principles of the economic way of thinking. In this case, they show an obstinate disregard for the importance of incentives when they frame public policy.

When our society establishes programs that provide unemployed people with benefits that approximate or even exceed what they would earn working (after taxes), one can safely predict that many of these people will choose not to work. When a welfare program provides incentives for unmarried women who become pregnant to remain unmarried, we should not be surprised when the illegitimacy rate begins to increase. When minimum wage laws give employers incentives not to hire unskilled employees, we should not be surprised when the rate of unemployment for such workers goes up.

In economics, you get what you pay for. If you give people incentives to do A rather than B, the number of people who choose A—all other things being equal—will increase. Of course, this principle holds lessons for more than just politicians. If we reflect more on what makes us tick, our own actions will become clearer to us. We'll also gain new insight in how to have a more positive influence on the choices made by others. □

The Role of Incentive

IDEAS ON LIBERTY

Incentives explain so many of life's events: why higher prices call forth greater supply and why lower prices do not; why racism is tempered in a free market wherein profit-seeking businessmen search for the best labor at the lowest cost; why students work harder in a class where excellence is rewarded and failure is penalized; why capitalist economies do better than socialist economies; why some people quit working and go on welfare; and so forth and so on. . . .

Incentive—nothing less than the interest one has in his own improvement—will mold the future just as surely as it shaped the past.

—LAWRENCE W. REED

THE FREEMAN
IDEAS ON LIBERTY

The Pharmaceutical Industry: Problem or Solution?

by Doug Bandow

In his State of the Union speech President Bill Clinton warned that his entire economic program could fail if Congress did not approve serious health-care reform. Alas, his economic program could also fail if Congress approves the wrong sort of health-care reform. The result could be a simultaneous medical failure and fiscal disaster.

Unfortunately, the administration is moving in the wrong direction with a tax- and regulation-heavy reform proposal. One of the reasons that it is more likely to hurt than help is the fact that its proponents seem as interested in punishing supposed villains as in improving the lives of patients. Doctors and insurance companies have long been popular targets of populist wrath; so, too, have been pharmaceutical companies. For instance, during the 1992 presidential campaign President Clinton promised to "stop drug price gouging." His wife's task force had little more regard for the drugmakers, complaining of their "sins of the past," including charging thousands of dollars a year for some drug therapies. Worried one industry lobbyist, "administration officials have made a political calculation that they need to go to war with us."

Task-force members responded to analysts who spoke of market-oriented health-care reforms by arguing that the marketplace would not limit prices "of single-source drugs for which there is no therapeutic equivalent," as if the purpose of patents was something other than allowing inventors to earn a generous reward for their labors. But the President apparently shied away from formal price controls because of opposition from even liberal Democratic legislators. Still, his program would hit the industry with measures very much like price controls: Medicare would demand a 17 percent (up from 15 percent in the initial draft) rebate on prescribed drugs, the Secretary of Health and Human Services could further bargain down prices and refuse to allow the purchase of drugs deemed to be overpriced, an "Advisory Committee on Breakthrough Drugs" would collect confidential industry information and assess the "reasonableness" of drug prices, and the overall health-care plan would press people into managed-care insurance plans that would limit access to pharmaceuticals.

Congressmen, too, have been pressing for controls over prescriptions and prices. For

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Doug Bandow is a Senior Fellow at the Cato Institute and this month's guest editor of The Freeman.

instance, Senator David Pryor (D-Ark.), chairman of the Special Committee on Aging and a close friend of President Clinton, has long used his committee to demand limits on pharmaceutical prices. He testified before the President's Task Force on Health Care Reform, complaining that "manufacturers can essentially set the launch price, without the health care system having any idea of whether the price is 'fair' or even 'reasonable'." Yes, continued research and development is important, he acknowledged, but "that does not mean—as a matter of public policy—that the manufacturer should be able to charge whatever the market will bear." Indeed, he argues, the companies will gain an unwarranted windfall from the Clinton program's inclusion of pharmaceuticals, which, in his view, alone warrants regulating the industry.

Other Congressional critics of the drug industry include Representatives Sonny Montgomery (D-Miss.) and Pete Stark (D-Cal.), and Senators Byron Dorgan (D-N.D.) and Edward Kennedy (D-Mass.). For instance, Representative Montgomery has proposed limiting the prices of drugs purchased by Veterans hospitals. Representative Stark, supported by the American Association of Retired Persons, has suggested creating a U.S. equivalent of the Canadian Patented Medicine Prices Review Board to slow drug price increases. Senator Dorgan wants to cut pharmaceutical tax credits and create a Prescription Drug Policy Review Commission. Senator Kennedy hopes to force drugmakers to provide their products for lower prices to entities funded under the Public Health Service Act.

Even some doctors contend that pharmaceutical prices are too high. Columbia University's Paul Meier, a consultant to the Food and Drug Administration, says that "There's a limit to how much we should play the market." As he explains, "If someone who finds a pill that would save babies from some dreadful fate says, 'I'm charging an outrageous amount but it's worth it,' I would say that's morally corrupt." How to set a "fair" price? Dr. Peter Arno of New York City's Montefiore Medical Center proposes establishing prices based on those of comparable products or drugs in other nations.

In short, the average American could be forgiven for thinking that the drugmakers deserve to be damned. Yet all the attention being given to pharmaceuticals seems odd, given their relatively small role in the health-care crisis. Prescription drugs account for roughly eight percent of total health-care expenditures, half that of three decades ago and *far lower than in most European countries*. The average consumer doesn't know that, however, because the government covers a smaller share of drug costs in America, meaning that consumers pay more of the expense directly and therefore complain more vociferously to their elected officials. In fact, this goes a long way to explaining why President Clinton and many Congressmen are so busy attempting to develop well-publicized "solutions" to the nonproblems in this area.

A Successful Industry

Before the government "reforms" pharmaceuticals, it needs to recognize that drugmakers constitute one of America's most successful economic industries: U.S. firms developed roughly half of the drugs marketed worldwide during the 1970s and 1980s. According to the General Accounting Office, pharmaceutical companies are only one of the 11 high-tech industries that it studied which did not lose ground internationally during the 1980s, but rather "maintained their strong position over the decade." Between 1973 and 1986, American firms accounted for ten times as many drug patents as Germany and Japan, 16 times as many as Great Britain, and 20 times as many as France. Research and development spending has grown fifteen-fold from 1970, to more than $9 billion. R & D also rose significantly as a percentage of revenues during the 1980s—at a time when companies are being accused of price-gouging.

Moreover, while drugs may be expensive, the lack of drugs is also expensive. That is, drugs often replace higher-priced medical operations and treatments. Actigall dissolves gallstones, for instance, and thereby saves an estimated $2 billion annually precisely *because* 350,000 patients use it. Surgery for ulcers usually runs more than $25,000, while taking medication may run just $1,000 annually; the resulting savings totals at least $3 billion, even more including the economic gain of workers not incapacitated by surgery. Medicine for arthritis and osteoporosis permits some elderly patients to avoid institutionalization. Patients who spend $300 a year on drugs to treat angina can thereby avoid coronary bypass surgery running $40,000 or $50,000. The beta-blocker Timolol reduces the number of second heart attacks by 16 percent and saves about $2 billion every year. The Battelle Institute estimates that for just eight leading diseases between 1968 and 1989 drugs saved 671,000 lives and $83.8 billion.

Thus, a drug's price tells us nothing about its value. Explains Dr. Herbert Gladen at the Baltimore VA Medical Center, "higher-priced drugs may actually be more cost-effective if they have greater efficacy, wider therapeutic range and are less costly to prepare and administer." Indeed, because even expensive prescription drugs are so cost-effective, limitations on their use actually increase total medical expenses. A 1988 Louisiana State University study, for instance, warned that if Medicaid, the joint federal-state program for lower-income people, restricted drug coverage, overall costs were likely to rise between 4.1 and 15.5 percent. Just such an attempt by New Hampshire to limit the number of prescriptions for Medicaid recipients caused an upsurge in doctors' visits, hospitalizations, and nursing home admissions. The legislature dropped the ill-considered regulations within a year.

Are Drug Prices too High?

Are drug prices nevertheless too high? Senator Pryor, for instance, complains that pharmaceutical prices rose far more swiftly than the general inflation rate during the 1980s. Drug prices are higher here than in other nations, he contends, and new drugs are extraordinarily expensive. "While these new drugs helped to reduce hospital stays, and in many cases avoided more costly medical interventions," he acknowledges, "there was no indication that the prices for these drugs had any relationship to their costs of production and development, or were priced reasonably."

However, one should always be skeptical of the partisan use of statistics, since, when tortured, they will confess to anything. Warns Robert Goldberg of the Gordon Public Policy Center, the Bureau of Labor Statistics has failed to incorporate such changes as the greater availability of generics into its figures, meaning that the reported drug-price index may be inflated by as much as 50 percent. In any case, for most of the 1960s and 1970s drug-price increases remained *below* the overall inflation rate, as well as the cost of medical care. As inflation waned in the 1980s drug prices followed the overall trends but fell less quickly.

Moreover, by the mid-1980s generic substitutes for brand-name drugs were entering the market more quickly as a result of legislation passed in 1984 speeding the FDA approval process. While this step reduced the cost of older medications, it had the opposite effect on new releases. Firms found the effective life span of their brand-name products to be shorter, forcing them to focus more on the introduction of new products, which typically cost the most, and *charge more when the drug was released in order to recoup development costs.*

Moreover, the price hikes of the 1980s are not carrying over into the 1990s as competition has intensified. "The market for drugs has changed dramatically since 1981, particularly in the last three years," reports Robert Goldberg. According to the Boston Consulting Group, industry-wide average discounts had quadrupled to 16 percent in 1992 over 1987. New drug prices in 1991 and 1992 were 14 percent lower than comparable products in the past. Some of the cuts were drastic—36 percent for new heart drugs, for instance. HMOs, hospitals, and drug mail-order firms were also gaining an increasing share of drug sales and simultaneously winning discounts of up to 30 percent from list prices. And the pressure for price-cutting will increase as larger number of drugs lose their patent protection. Observes Dr. Goldberg, "by 2000, 200 drugs with $22 billion in sales will be off patent."

In any case, politicians today are likely to do no better than those who tried over the past several thousand years to set "reasonable" prices for any number of goods and services. Prices respond to supply and demand, not moral fervor. There is no objective standard by which Senator Pryor or anyone else can call one price reasonable and another unreasonable. Nor is there anything about the market that gives participants the power to "price-gouge."

After all, the market is competitive—there are some 22 major drug firms, and no company has more than a 7.2 percent share. (The industry was even more fragmented in 1962, before more stringent federal regulatory standards, passed in the aftermath of thalidomide-induced birth defects, drove smaller companies out of business. The new FDA "regulations created pronounced economies of scale for drug innovation, which steadily increased over time," reports author Terree Wasley.) The only way a firm can gain "monopoly" power is by developing a good product protected by a patent. Patents, however, are required to induce firms to spend money on research and development. After all, the average cost of developing a drug runs $359 million, according to the Office of Technology Assessment (OTA).

High Costs of Federal Approval

Much of this expense is due to the federal drug approval process. Companies must convince the FDA that prospective products are not only safe but effective; separate applications, which typically run 100,000 pages long, are required for different treatments by the same drug. Since 1962 both the total cost of bringing drugs to market, and the length of time devoted to testing and review, effectively cutting a product's patent protection, have more than doubled. In 1984 Congress passed a measure extending drug patent lives, but that step only ameliorated, rather than solved, the problem.

The costs of a process that averages 12 years would be high enough for any industry. But, notes Michael Ward, staff economist at the Federal Trade Commission, "the very nature of the lengthy drug development process makes the pharmaceutical industry susceptible to harm from unnecessarily stringent regulations."

Most importantly, the risks involved are enormous. Pharmaceutical companies find many more dry holes than gushers: 70 percent of new drugs *that reach the market* are estimated to lose money. Most never get beyond the research stage. There are typically 30,000 to 45,000 medical articles on drug therapies a year. Government patent grants for drugs usually range between 2,000 and 4,200 a year; companies list about half that number as investigational new drugs with the FDA. Another half fall out by Phase Three of the testing process and companies end up filing applications for barely 80 to 250. The FDA then approves between 20 and 60. Concludes Ward, "In all, firms will market about one out of a hundred of the products for which they have developed patents."

Studies suggest that the 1962 amendments have had little impact on the introduction of ineffective drugs—companies don't like duds because they don't make money if their products don't work—but have reduced the rate of introduction of new drugs by two-thirds and the speed with which they enter the market by one-half. The United States has also lost some of its edge over other industrialized states, which permit the sale of safe and effective drugs still prohibited by Washington. Because patients suffer when they receive no medicine as well as when they receive bad medicine, on net the tightened federal controls have made more Americans sicker and allowed others to die.

Even so, some critics argue that the drug companies are making too much money. A

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widely cited OTA study contended that "returns to the pharmaceutical industry as a whole over the 12-year period from 1976 to 1987 were higher by 2 to 3 percentage points per year than returns to nonpharmaceutical firms, after adjusting for differences in risk." Average industry profits ranged between 13 and 14 percent during the 1980s.

This rate of return hardly seems unreasonable given the very high risks of both failure and regulation, which Robert Goldberg believes the OTA has underestimated. In any case, this level of return is probably not sustainable, given the increasing competition within the industry and cost consciousness of consumers. In particular, OTA's future estimates overlook how dramatically generic products have been eroding brand-name drug prices over the last decade.

Moreover, Dr. Steve Wiggins, an economics professor at Texas A & M University, suggests that "a common misstep by industry critics is to rely on accounting data to measure industry returns" when such figures are "unreliable because accounting conventions require the expensing of research and development." Wiggins contends that compared to the cost of capital, drug company returns look far from impressive. He compares the industry's capital costs, which ran from 15.1 to 17.2 percent between 1980 to 1990, with an estimated return of between 13.5 and 16 percent, which, he says, indicates "competitive returns."

Research and Development

It is also important to recognize that the industry's profits were largely channeled into research. Last year the drugmakers spent more on R & D, $12.6 billion, than they earned in profit, $10 billion. Industry R & D grew by a 15 percent compound annual rate in the 1980s. As a percentage of sales industry, R & D approaches 17 percent, nearly twice that for the rest of the health-care industry and treble that for the electronics industry. Even the OTA acknowledged that its "findings on returns to pharmaceutical R & D and to the industry as a whole explain why R & D expenditures have risen so fast throughout the 1980s. Investors followed the promise of high returns on future innovations." But ignored by the OTA is the fact that a lot of this money, as much as one-third, according to Dr. Goldberg, is going into biotechnology, which is riskier than traditional drug research.

What does all this money produce? The Boston Consulting Group points to a score of new drugs expected to be approved later this decade to combat AIDS, allergies, Alzheimer's, asthma, arthritis, cancer, depression, diabetes, glaucoma, herpes, hypertension, obesity, strokes, and many more diseases. With these conditions costing untold lives and an estimated $400 billion a year, it seems foolish to begrudge the pharmaceutical industry a healthy return on its investment. Critics should be celebrating the industry's success rather than carping about an allegedly "excessive" percentage or two of profits.

Unfortunately, new federal restrictions would simultaneously raise the industry's cost of capital and reduce its rate of return, forcing firms both to cut R & D and distort their research efforts. Companies would skew their efforts to products that would more easily win regulators' approval for price increases and also shift money to unregulated investments, *such as marketing*, that would involve less risk and a better return.

The form of price controls wouldn't matter. All would hurt patients—not by denying them access to current therapies, since those drugs are already on the market, but by discouraging new treatments from appearing. The cost to patients of losing new medicines could be staggering. Between 1975 and 1989 American firms developed half of the 66 top drugs introduced in the marketplace. French enterprises, in contrast, created just three. The most important difference between the two nations is government policy. Observes P.E. Barral, "In France, the calibre of pharmaceutical research is seen as having deteriorated, because severe price control has encouraged French companies to give priority to small therapeutic improvements which are useful in price negotiations. Such systems tend to stifle originality and induce risk aversion." At the same time, drugs accounted for 16.7 percent of French health expenditures, twice America's level. Moreover, per capita spending on drugs is almost three times as high in France.

Health-care reform should involve a search for answers, not villains. In the case of pharmaceuticals, the system is working: A highly competitive industry is leading the world in the discovery and marketing of new treatments and cures. Although drugmakers have an incentive to invest heavily in R & D, pharmaceuticals account for a lower proportion of total medical expenditures than in socialized systems, while at the same time helping to hold down overall medical expenses. If the administration and Congress nevertheless put ideology before prudence and tighten controls over the drug industry, they risk killing the golden goose that has provided so many benefits for so many patients. □

THE FREEMAN
IDEAS ON LIBERTY

Environment and Free Trade

by Jo Kwong

Environmental activists, who typically take a unified stance on major issues ranging from global warming to endangered species protection, experienced an unusual split with regard to the North American Free Trade Agreement (NAFTA). Generally speaking, environmentalists divided between those who were convinced that free trade would lead to greater damage to the environment, and those who believed that freer trade would stimulate national economies, ultimately creating more resources to help protect the environment.

NAFTA brought these two positions into stark conflict. Most vocal was the anti-NAFTA environmental lobby. The Sierra Club, Friends of the Earth, and Public Citizen, among others, argued that NAFTA would provide an opportunity for U.S. companies to migrate to Mexico and escape more rigid American environmental laws. Larry Williams, international program director for the Sierra Club, cautioned that the flight of factories from the United States to Mexico: "would increase pollution loading levels on the continent and would trigger pressures within the United States to lower environmental standards to improve competitiveness in order to stop the flights."[1]

This thinking, however, is flawed on several counts. First, there is little historical evidence of polluting industries migrating to countries where environmental standards are lax. While many developing countries are experiencing rapid industrial growth, this reflects the economic stage that they are going through, rather than environmentally induced migration. Polluting industries which spend heavily on controls remain concentrated in the developed countries. Ironically, it was the closed, protectionist countries—particularly in the former Communist world—that became pollution havens.

Environmental regulations pose a negligible factor on migration decisions because they typically comprise less than 4 to 5 percent of total costs. Other factors may easily overwhelm such a modest cost savings: On my last trip to Mexico City, several people indicated that problems like unstable telephone service are of far greater concern than environmental considerations in making location decisions.

Moreover, irrespective of the level of regulation, companies are fearful of liability arising from environmental accidents. A firm's desire to protect its reputation in its home market weakens the temptation to cut environmental costs—companies are sensitive to the demands of "green" consumers in export markets.

Another common environmentalist objection to reducing trade barriers is that doing so will inhibit harmonization of environmental, health, and safety standards regarding production processes. For example, in a highly publicized case involving yellowfin

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tuna imports, environmental activists ran newspaper advertisements with the headline "SABOTAGE! of America's Health, Food Safety and Environmental Laws." The ads argued that "the only thing free about free trade is the freedom it gives the world's largest corporations to circumvent democracy and kill those 'pesky' laws that protect people and the planet." The activists were furious about a GATT ruling against a U.S. ban on tuna imports from Mexico, imposed because the United States alleged that Mexican fishing boats kill too many dolphins. Yet, according to the *Journal of Commerce*, the U.S. killing rate was significantly greater than that of Mexico: "In 1988 the US fleet caught 70,000 tons of yellowfin tuna and killed 19,000 dolphins; in 1990 the Mexican fleet caught 120,000 tons of yellowfin tuna and killed only 16,000 dolphins."[2] Thus, this controversy provides a better example of economic protectionism than environmental destruction.

Other allegations by the U.S. environmental lobby illustrate how politics has overtaken science in the making of domestic law. Activists warn, for example, that foreign nations might use pesticides that are banned in the United States. Therefore, trade restrictions are necessary. However, the United States greatly overregulates most pesticides: many are banned even if the residues found in food are minuscule and threat to human health is virtually nonexistent. Much of this is a result of the Delaney Clause, a provision of federal food safety law, which states that "no additive shall be deemed to be safe if it is found to induce cancer when ingested by man or animal." Much has changed since the clause was added in 1958, particularly the ability to detect minute chemical residues measured in parts per million, even parts per billion. Thus, the law now bans all sorts of products that would have been considered perfectly safe in 1958.

Such draconian rules are inefficient in America; in poorer, Third World nations they could prove to be downright fatal. DDT is a case in point. U.S. environmental activists, not satisfied with banning the substance in America, are still trying to ban it elsewhere around the world. To this day, serious controversy persists about whether DDT really poses a serious environmental danger. The World Health Organization, the U.S. Surgeon General, and the National Science Foundation have been unable to document many of the charges raised against DDT over the decades.

In contrast, the harm to human health from the ban on DDT has been very real. In just two decades of DDT use, malaria deaths in India were cut by 98 percent, raising the average life span by 18 years. In the nearly 20 years since the ban, malaria death rates have soared. Similar trends have been observed in Sri Lanka, Bangladesh, Burma, and Thailand. Thus, the environmental benefits of the DDT ban may have been far outweighed by the human costs.[3]

As this case suggests, many environmentalist arguments against trade reflect more emotion than rational analysis. In fact, with freer trade it is probable that Mexican ecological, health, and safety standards would evolve towards U.S. standards, rather than vice versa. One reason is that most international companies have universal policies in place regardless of where they are operating. They don't set lower standards for operations in less developed countries. In this way Mexico's environment would be enhanced by opening up trade.

Furthermore, companies typically expect rising environmental standards in developing-country markets, so they tend to introduce state of the art technology initially. One GATT report published early last year cited cases in which firms gain a competitive edge by investing first in clean technologies.

A Conflict of Visions

If the environmental arguments against freer trade are so flawed, why are they nevertheless held so tenaciously? One reason is the intellectual framework of many environmental activists. Broadening trade runs against the environmental vision, particularly that of local self-reliance and a return to a simpler, low-technology world.

Consider the argument of David Morris of the Institute for Local Self-Reliance: "Most people believe that a global economy is the only path to a higher standard of living as well as the inevitable next step in economic evolution. The economic emphasis on imports and exports continues to guide our thinking even when we can see that it endangers the survival of humans and other species."

In his view, the "key to achieving a Green future . . . is localizing the world economy."[4] The problem with this quaint way of thinking is that it ignores elementary economic concepts. For instance, as long as trade is voluntary, both partners benefit; otherwise they wouldn't trade. The buyer of a shirt, for example, values the shirt more than the money spent, while the seller values the money more. Trade makes the world economy more efficient by allowing nations to capitalize on their strengths.

Of course, Morris accepts trade within his local region, but where does he draw his trade boundary lines? If it makes sense for Morris's butcher and baker to trade in their region, how about trading with the community next door? Morris's vision makes no rational sense, but retains enormous emotional appeal.

Another point that should interest environmentalists is the fact that opening economies to the competitive global marketplace forces nations to become more efficient and waste fewer resources. For instance, in the Soviet Union every barrel of crude oil consumed produces $253 of GNP; the corresponding outputs for the United States, western Germany, and Japan are $341, $420, and $639, respectively. Similarly, Swedish sawmills use 98 percent of a tree in timber production whereas Malaysian mills use only 40 percent. The sort of waste and inefficiency evident in more closed economies is responsible for much of the environmental degradation of the world today. Competition, which forces technological improvements and the modernization of plants and equipment, can vastly enhance environmental quality.

Freer trade would boost environmental amenities in other ways. For instance, much of the current pollution on the U.S. side of the border results from crowding on the other side, largely as a result of the *maquiladora* program. That program gives special tariff treatment to Mexican industries that import U.S. products for assembly and re-export. It originally required Mexican firms to locate along the border in order to receive the program's benefits. While these restrictions have been eased, others remain which encourage firms to remain in the border area. Free trade would reduce today's artificial incentive for border crowding.

The bulk of the environmental improvements are most likely to occur in Mexico. Companies operating in developing countries bring new technologies to market and, for reasons mentioned earlier, are likely to adhere to American standards. In addition, Mexican companies would find they have to adhere to standards acceptable to U.S. consumers in order to successfully export. Just the promise of free trade is already encouraging U.S.-Mexico cooperation on the cleanup of their common boundary. Before NAFTA, U.S. activists largely ignored environmental problems in Mexico. Now, the two countries are hammering out details on the Border Plan, the most comprehensive attempt to cooperate on cleanup.

Perhaps the biggest reason for environmental gains in Mexico from freer trade, however, would result from increased economic prosperity. To some environmentalists, this seems backwards. Many argue against trade because it encourages industrialization, which in turn, is blamed for pollution. Yet the experience of Western developed countries is just the opposite. Over the long term, emissions eventually fall, even as economic growth continues to increase. Several years ago, Hoover research fellow Mikhail Bernstam detailed what he calls "the environmental split of the 1970s and 1980s"—a divergence between consumption and pollution involving Western market economies and the socialist world. He found that resource use and discharges began to decline rapidly in those nations with competitive markets, even as economic growth continued. In contrast, during the same two decades, consumption and environmental disruption were rapidly increasing in the USSR and European socialist countries even though their economies slowed down and eventually stagnated.[5]

Bernstam's conclusions are borne out by other studies as well. Gene Grossman and Ann Krueger examined air quality in urban areas of the developed and developing world. Their analysis related the level of pollutants to the level of the nation's per capita GDP. They found that concentrations of sulfur dioxide have risen with incomes at low levels of per capita income; fallen at higher levels of per capita income; and leveled off when per capita income reached about $5,000 (1988 U.S. dollars).

The basic point is that countries must be rich before they can be clean. As societies become wealthier, they attach a greater value to environmental quality. Ecological prosperity is a luxury that only developed nations can afford. Trade enables countries to become richer, and, as the studies suggest, this in turn reduces pollution.

Free Market Environmentalism

Another interesting finding of the Bernstam study was that the strictness of government environmental regulation does not correlate with the drop in pollution. If anything, he writes, there is a slight *negative* correlation. Far more important in determining emission levels is an economy's incentive structure. Thus, as we discuss markets and trade within North America, we should consider using markets in natural resources to foster incentives for environmental stewardship.

Free market environmentalism is premised on the idea that the failure to apply markets has led to many of today's environmental problems. Air, water, and land pollution are often the worst on common property resources such as those owned by the government. In these cases, no one is responsible for seeing that resources are used efficiently and adequately protected.

This is the essence of the standard textbook concept called the "tragedy of the commons," whereby users of communal land will use the property as intensively as possible, since they gain little benefit from conserving the resource. Users of communal grazing lands face the incentive to boost personal gains by overgrazing the land at public expense. In contrast, users of private land face the incentive to consider the costs of maintaining the pasture at varying intensities of grazing. Of course, many people object that the owners will exploit the land for profit, caring little about environmental preservation. However, property rights give even an uncaring owner a financial incentive to preserve his land, since overgrazing will lead to both economic ruin and environmental devastation. By maintaining the property, he maximizes both.

Unfortunately, the standard approach to environmental problems in the United States has been regulatory rather than market oriented. But most major environmental initiatives, such as Superfund, the Endangered Species Act, and the Federal Water Pollution Control Act, have fallen far short of their goals. Most have been extremely expensive and relatively ineffective. Some have even created severe disincentives for people to preserve the environment. Consider the Endangered Species Act, intended to protect plants and animals that are experiencing serious population declines. Under the Act, it is a federal crime to use land in a way that endangers the habitat of protected plants and animals. Once an endangered species shows up on private property, the landowner is no longer free to use the land without federal approval. Some owners have lost millions of dollars after the discovery of protected wildlife on their property. As a result, many now discourage natural habitat and destroy any protected species that they find—the "shoot, shovel, and shut-up" strategy.

Such problems are no stranger to Mexico. As Roberto Salinas, Executive Director of the Centro de Investigaciounes Sobre la Libre Empresa in Mexico City, writes, "the lack of property titles in rural farming areas has forced peasants to turn to burning the rich forests in southern Mexico in search of new arable land." As Mexico confronts its many environmental problems, hopefully its leaders will consider more efficient market-oriented conservation strategies. They are more likely to do so as part of a freer economic and trade regime.

Summary

In the end, anti-free trade environmentalists need to address the evidence and, equally important, rethink their warped vision of the future, a "shallow ecology" that, intentionally or not, aims at protecting the health and affluence of people in the developed countries. Argues Roberto Sanchez, an environmental specialist at the Colegio de la Frontera Norte, a research institute in Tijuana, environmental changes will only occur "if the American environmentalists give up some of their romantic notions and let [Mexico] find its own way." Environmentalists may "want to save the planet, but it is not the same planet on their side of the border as it is on [Mexico's]. They can afford to defend the environment for its own sake. Our people must use the environment to survive."[6]

Trade negotiations, including but not limited to NAFTA, present unique opportunities to coordinate trade with environmental policy. The evidence is overwhelming that opening markets will provide both economic and environmental prosperity for all parties. It is the poverty of a closed economy, not free trade, that threatens ecological degradation around the globe.

Moreover, free market environmentalism provides a means for advancing both economic and ecological ends. It uses rather than suppresses the powerful incentives embodied in property rights and voluntary trade to better protect environmental and natural resources. As environmental concerns grow in importance in the global economy, so too will debate over this alternative vision. □

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2. *Journal of Commerce*, October 28, 1991, p. 5a; November 5, 1991, p. 8A.
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4. David Morris, "The materials we need to create a sustainable society lie close to home," *The Utne Reader*, November/December 1989, p. 84.
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Natural Controls

IDEAS ON LIBERTY

Since natural laws govern the forces of life that created this universe in which we live, all of those laws are in harmony with each other. If man can learn more about them, and use them in his human and economic relations, he will learn to live in peace with his fellow men, and in harmony with his environment. . . .

As defined by one economist, economics is the science of making scarce materials go around. If we let it work, the natural system of economic law will provide that the scarce resources of earth continue to meet human needs.

It is when man intervenes to upset the workings of economic nature that he begins to have troubles. It is when he tries (always without success) to repeal natural laws—by artificial trade barriers, price controls, production quotas, inflationary policies, and other means—that we find ourselves destroying our natural resources and our environment.

—C. R. Batten

THE FREEMAN
IDEAS ON LIBERTY

DAVIS-BACON: JIM CROW'S LAST STAND

by John Frantz

The ugliest and most disturbing events in American history have usually been linked with state-sponsored or sanctioned racism: Incidents of police brutality, symbolized by the Rodney King trials. Slavery. The *Dred Scott* decision. The post-Civil War Jim Crow laws. School segregation.

Today, however, most people like to believe that their government fairly represents the interests of everyone, regardless of race. Unfortunately, the states and the federal government still discriminate against blacks, but this state-sponsored racism has taken on more subtle forms. Thus while great strides have been made since the Jim Crow era, some relics remain. One of them is the Davis-Bacon Act.

Davis-Bacon, passed in 1931, requires private contractors to pay "prevailing wages" to employees on all construction projects receiving more than $2,000 in federal funding. The Secretary of Labor is charged with conducting surveys of a region's wages and setting rates for up to 100 various classifications of workers. Most often, the "prevailing wage" corresponds to the union wage, especially in urban areas, where union membership tends to be higher. The Davis-Bacon Act covers approximately 20 percent of all construction projects in the United States and affects more than 25 percent of all construction workers in the nation at any given time.

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The Act was passed in order to prevent non-unionized black and immigrant laborers from competing with unionized white workers. The discriminatory effects continue, as even today minorities tend to be vastly under-represented in highly unionized skilled trades, and over-represented in the pool of unskilled workers.

Davis-Bacon restricts the economic opportunities of low-income individuals in a number of ways. Minority contracting firms are often small and non-unionized, and cannot afford to pay the "prevailing wage." The Act also requires contractors to pay unskilled laborers the prevailing wage for any job they perform, essentially forcing contractors to hire skilled tradesmen, selecting workers from a pool dominated by whites.

Thus, the Davis-Bacon Act constitutes a formidable barrier to entry into the construction industry for unskilled or low-skilled workers. This is especially harmful to minorities because work in the construction industry pays extraordinarily well compared to that for other entry-level positions, and could otherwise provide plentiful opportunities for low-income individuals to enter the economic mainstream.

In November 1993, the Institute for Justice, a Washington, D.C., based public-interest law firm, filed suit challenging Davis-Bacon constitutionality, as part of the Institute's litigation program to help restore judicial protection of "economic liberty"—the basic right to pursue a business or profession free from arbitrary government regulation.

The History of the Davis-Bacon Act

Prior to the enactment of the Davis-Bacon Act, the construction industry afforded tremendous opportunities to blacks, especially in the South. In at least six southern cities, more than 80 percent of unskilled construction workers were black. Blacks also represented a disproportionate number of unskilled construction workers in the North, and constituted a sizable portion of the skilled labor force in both parts of the country.

This was so despite the fact that most of the major construction unions excluded blacks, and that blacks faced widespread discrimination in occupational licensing and vocational training. These unions felt seriously threatened by competition from blacks, and favored any attempt to restrict it.[1]

The co-author of the Act, Representative Robert Bacon, represented Long Island. Bacon was a racist who was concerned lest immigration upset the nation's "racial status quo." In 1927, he introduced H.R. 17069, "A Bill to Require Contractors and Subcontractors Engaged on Public Works of the United States to Comply With State Laws Relating to Hours of Labor and Wages of Employees on State Public Works." This action was a response to the building of a Veterans' Bureau Hospital in Bacon's district by an Alabama contractor which employed only black laborers.

Representative William Upshaw, understanding the racial implications of Bacon's proposal, stated: "You will not think that a southern man is more than human if he smiles over the fact of your reaction to that real problem you are confronted with in any community with a superabundance or large aggregation of negro labor."[2] Over the next four years, Bacon submitted 13 more bills to regulate labor on federal public works contracts. Finally, the bill submitted by Bacon and Senator James Davis was passed in 1931, at the height of the depression, with the support of the American Federation of Labor. The Act required that contractors working on federally funded projects over $5,000 pay their employees the "prevailing wage." The law was amended in 1935, reducing the minimum to $2,000 and delegating the power of determining the "prevailing wage" to the Department of Labor. The Department's regulations governing the determination of wages, remained basically unchanged for five decades and equated the prevailing wage with the union wage in any area that was at least 30 percent unionized. In practice, the "prevailing wage" was almost universally determined to be the same as the union wage.

The debate over Bacon's bills betrayed the racial animus that motivated passage of the law. Representative John Cochran stated, "I have received numerous complaints in recent months about southern contractors employing low-paid colored mechanics getting work and bringing the employees from the South."[3] Representative Clayton Algood similarly complained, "That contractor has cheap colored labor that he transports, and he puts them in cabins, and it is labor of that sort that is in competition with white labor throughout the country."[4] Other derogatory comments were made about the use of "cheap labor," "cheap, imported labor," "transient labor," and "unattached migratory workmen."[5] While supporters of the Act intended to disadvantage immigrant workers of all races, they were particularly concerned with inhibiting black employment.

Supporters of Davis-Bacon were also full of anti-capitalist rhetoric. Representative McCormack said of Davis-Bacon, "It will force the contractor who heretofore has used cheap, imported labor to submit bids based upon the 'prevailing wage scale' to those employed. It compels the unfair competitor to enter into the field of fair competition."[6] This rhetoric of "fairness" dominates much of the contemporary debate over Davis-Bacon, as well.

Two important modifications have recently been made in the way that the Davis-Bacon Act is enforced. In 1982, the Department of Labor altered the basis for determining the prevailing wage, deciding to equate the union wage with the "prevailing wage" only in places where the construction industry was 50 percent unionized. This change has had little effect on minority-owned firms' ability to secure contracts because union membership tends to be much higher in urban areas, where large minority populations reside.

The Department of Labor has also attempted to alter its regulations to allow contractors to hire a limited number of unskilled "helpers" to work on Davis-Bacon projects for less than the prevailing wage. This change, which was to go into effect on February 4, 1991, would help to diminish some of the discriminatory effects of the Act, but Congress has so far prevented the Department from enforcing it. Moreover, labor unions are now pressuring Congress and the Clinton Administration to repeal the changes. Similarly, while President Bush suspended the Act in South Florida, coastal Louisiana, and Hawaii in October of 1992 following Hurricanes Andrew and Iniki, President Clinton reversed course upon entering office.

Last year Senator Hank Brown (R-Col.) sponsored legislation to repeal the Davis-Bacon Act. A similar bill was introduced in the House by Representative Tom DeLay (R-Tex.). Both proposals have attracted congressional co-sponsors, but, not surprisingly, have failed to attain majority support.

Effects of the Davis-Bacon Act

The Davis-Bacon Act imposes tremendous economic and social costs—at least $1 billion in extra federal construction costs and $100 million in administrative expenses each year. Industry compliance costs total nearly $190 million per year. Repeal of the Act would also create an estimated 31,000 new construction jobs, most of which would go to members of minority groups.

Davis-Bacon's impact on the ability of minorities to find work in the construction industry has been particularly devastating. The Department of Labor's initial set of regulations did not recognize categories of unskilled workers except for union apprentices. As a result, contractors had to pay an unskilled worker who was not part of a union apprenticeship program as much as a skilled laborer, which almost completely excluded blacks from working on Davis-Bacon projects.[7] This effectively foreclosed the only means by which unskilled blacks could learn the necessary skills to become skilled workers.

As a result, while black and white unemployment rates were similar prior to passage of the Davis-Bacon Act, they began to diverge afterwards. This problem persists today. In the first quarter of 1992, the black unemployment rate was 14.2 percent, even though the overall national rate was only 7.9 percent.

The racial difference in unemployment rates is especially pronounced in the construction industry. According to a recent study by the National Urban League, in the fourth quarter of 1992, 26.8 percent of all blacks involved in the construction industry were jobless compared to only 12.6 percent of white construction workers.[8]

Despite recent racial progress, Davis-Bacon continues to inhibit minority economic progress in several ways. For instance, union apprenticeship programs, even if they no longer discriminate, still strictly limit the number of enrollees and impose arbitrary educational requirements on potential applicants, thereby excluding the most disadvantaged workers.[9]

Moreover, unskilled workers must be paid the same wage as a skilled worker, forcing the contractor to pay laborers considerably more than the market value of their work. For example, in Philadelphia, electricians working on projects covered by the Davis-Bacon Act must be paid $37.97 per hour in wages and fringe benefits. The average wage of electricians working for private contractors on non-Davis-Bacon projects is $15.76 per hour, with some laborers working for as little as $10.50 per hour.

Thus, even minority, open-shop contractors have no incentive to hire unskilled workers. Ralph C. Thomas, former executive director of the National Association of Minority Contractors, stated that a minority contractor who acquires a Davis-Bacon contract has "no choice but to hire skilled tradesmen, the majority of which are of the majority." As a result, Thomas said, "Davis-Bacon closes the door in such activity in an industry most capable of employing the largest numbers of minorities."[10]

The paperwork a contractor must fill out pursuant to Davis-Bacon contracts also discriminates against small, minority-owned firms. Many do not have personnel with the necessary expertise to complete the myriad forms and reports required.

As a result of all these factors, the Davis-Bacon Act prevents rural and inner-city laborers and contractors from working on projects in their own communities. Ironically this is one problem Davis-Bacon was intended to prevent. Bacon said during debate over the Act, "Members of Congress have been flooded with protests from all over the country that certain Federal contractors on current jobs are bringing into local communities outside labor," and "that the government is in league with contract practices that make it possible to further demoralize local labor conditions."[11]

Such a claim could easily be made today by inner-city and rural contractors. Yale Brozen, an economist at the University of Chicago, found that the "prevailing wage" for the Appalachian region of western Pennsylvania is set at the same level as that of Pittsburgh, despite the fact that the wages normally paid by the rural contractors are only half the levels of union contractors in Pittsburgh. The same is true of inner cities, where small, minority-owned, open-shop firms are forced to pay union wages when working on Davis-Bacon projects, because of the high concentration of unionized workers in other parts of the city.

As a result, rural and inner-city contractors are deterred from seeking Davis-Bacon contracts because they cannot afford to pay the higher wages to their employees and larger and more highly unionized firms are encouraged to seek out such contracts. The result makes it clear that the government is in fact "in league with contract practices" that "demoralize local labor conditions," only now at the expense of minorities rather than whites.

The results of this practice were clearly demonstrated in Los Angeles. In the parts of the city where the riots occurred, the rate of unemployment for black workers is 27.6 percent. Despite an ample supply of local labor to help rebuild the city, Davis-Bacon has and continues to freeze out local unskilled minority workers from those available jobs. In contrast is the situation in South Florida and coastal Louisiana, where the suspension of Davis-Bacon created 5,000 to 11,000 jobs.

In addition to this statistical evidence, individuals involved in the construction and renovation of low-cost public housing have testified as to the disastrous effects of the Act. When Ralph L. Jones, president of a company that manages housing projects for the Department of Housing and Urban Development, gained control of a pair of dilapidated 200-unit buildings in Tulsa, Oklahoma, he intended to hire many of the building's unemployed residents to help restore the property. But the Davis-Bacon Act required him to pay everyone working on the project union wages, forcing him to hire only skilled laborers, very few of whom were minorities.

Mary Nelson, director of Bethel New Life, Inc., a social service organization located in Chicago, has found that Davis-Bacon adds up to 25 percent to her total costs and frequently prevents her from hiring unskilled, low-income workers to work on projects renovating the public housing that they themselves live in. Elzie Higginbottom, builder of low-income housing in Chicago's South Side, has had similar problems. Davis-Bacon requires him to pay carpenters (defined by the Act as someone who hammers in a nail) $23 per hour. As a result, he complained, "I've got to start out a guy at $16 per hour to find out if he knows how to dig a hole. I can't do that."[12]

Conclusion

The constitutional challenge to Davis-Bacon is a cornerstone of the Institute for Justice's program to restore economic liberty as a fundamental civil right. The Institute is challenging Davis-Bacon on the grounds that it is racially discriminatory, since it was passed to discriminate against blacks and immigrants, and as a result, violates the equal protection guarantee of the Fifth Amendment. The courts need only look to the legislative and administrative history of the law to determine that racial discrimination was among its purposes. The courts could also void the Davis-Bacon Act for impinging on the right of individuals to pursue employment opportunities, thereby violating the Fifth Amendment's due process clause. The Institute for Justice has brought together a unique coalition of plaintiffs to challenge the law. Complainants range from individual minority contractors, who have either lost opportunities to successfully acquire government contracts or who have gone out of business altogether because of the application of Davis-Bacon, to resident-management corporations who because of the law have been unsuccessful in their attempts to involve public-housing residents in rebuilding programs at their own developments.

Borne of racial animus, the Davis-Bacon Act has undermined the efforts of economic outsiders to find employment in the construction industry for more than six decades. Given the influence of organized labor over Congress and the extent to which the Clinton administration's support of NAFTA alienated this key constituency, it is highly unlikely that either branch will risk further undermining union support by pursuing reform or repeal of the Davis-Bacon Act. Thus, the only avenue that remains open is the judiciary. The courts should bury this relic of the Jim Crow era. □

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1. Johnson, "Negro Workers and the Unions," *The Survey*, April 15, 1928.
2. *Ibid.*, p. 3.
3. *Employment of Labor on Federal Construction Work*, Hearings on H.R. 7995 and H.R. 9232 Before the House Committee on Labor, 71st Congress, 2nd Session, March 6, 1930, p. 26–27.
4. *Rates of Wages for Laborers and Mechanics on Public Buildings of the United States, 74 Congressional Record* 6504, 6513, (1931).
5. *Ibid.*, pp. 6515-6520.
6. *Employment of Labor on Federal Construction Work*, p. 6516.
7. *Ibid.*, p. 4.
8. National Urban League, *Quarterly Economic Report on the African American Worker*, Fourth Quarter, 1992, Table 7 (presently unpublished).
9. John Gould and George Billingmayer, *The Economics of the Davis-Bacon Act*, (Washington, D.C.: American Enterprise Institute, 1980), p. 62.
10. Testimony by National Association of Minority Contractors before House Subcommittee on Labor Standards of the Committee on Education and Labor, Sept. 30, 1986, p. 3.
11. *Employment of Labor on Federal Construction Work*, p. 6511.
12. Patrick Barry, "Congress's Deconstruction Theory," *The Washington Monthly*, January, 1990, p. 11.

Why Does Davis-Bacon Persist?

IDEAS ON LIBERTY

The harmful effects of the Davis-Bacon Act do not seem to impair its popularity. They are interpreted away and placed on the doorsteps of capitalism. The American public does not suspect the Davis-Bacon Act, the Norris-LaGuardia Act, or the Smoot-Hawley Tariff Act of having played an ominous role in the Great Depression. It lays the blame instead on mysterious failings of the private-property order and the profit motive. It does not suspect labor legislation of causing unemployment, especially among minorities. Instead, the public is persuaded that white middle-class racism, especially among employers, is responsible for the unemployment plight.

To raise the income of labor by legislative fiat or union coercion is the very essence of interventionism. In the eyes of the American public, to raise wages is virtue, to take from employers is morality. In the world of reality, however, inexorable economic principles contradict such notions and point up the inevitable consequences of policies based on these notions. In economic life, principle must prevail in the end.

—HANS F. SENNHOLZ

THE FREEMAN
IDEAS ON LIBERTY

Federal Transit Subsidies: How Government Investment Harms the U.S. Economy

by John Semmens

It has been asserted by some that part of what is needed to revitalize the U.S. economy is more government investment. There is, of course, a superficial plausibility to this assertion. Every dollar the government spends becomes somebody's income. The people working on government-funded projects do have jobs. The purchases government makes result in revenues for some businesses. All of this is formalized in the Gross National Product (GNP) wherein every monetary transaction that takes place is tallied as one measure of the economy's health.

If we are to make an intelligent assessment of the potential impact of a prospective increase in government investment, though, we will need to do more than rely upon the superficial plausibilities. After all, throwing money out of the windows of the U.S. Mint would also provide a superficially plausible stimulation of the U.S. economy. People would catch the windblown currency and spend it on something. This spending would become someone else's income. It would support jobs. It would even show up in GNP statistics. However, few, save Keynesian diehards, would tout currency tossing as a legitimate government investment program.

A traditional first step in analyzing any investment is to examine the historical performance record. Since one of the most frequently mentioned public sector investments is increased public transit subsidies, perhaps it would be worth our while to investigate the historical performance of federal aid for transit. While there is no guarantee that future performance would duplicate past performance, many professional investors regard historical informa-

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Table 1
Impacts on the U.S. Economy of Alternative Investments
($ in Billions)

	Public Transit	Corporate Tax Cut	Capital Gains Tax Cut	IRA: Treasury Bills	IRA: S&P 500 Stocks
Amount Invested	$61.5	$61.5	$61.5	$61.5	$61.5
Current Value	$10	$100	$160	$130	$250
Impact on GNP	$40	$400	$650	$500	$1000
# Jobs	800,000	8 mil.	13 mil.	10 mil.	20 mil.
Federal Taxes	$8	$75	$120	$100	$190

Sources: *Economic Report of the President* (January 1993)
Statistical Abstract of the U.S. (1992)
Transit Fact Book (American Public Transit Association)

tion as indicative of what to expect in the future.

The proponents of government investment in public transit are hardly modest in the claims they make for the economic benefits to be gained from such investments. For its part, the American Public Transit Association (APTA) boasts that every dollar spent on public transit generates three to five dollars of additional economic activity. In 1984, the APTA issued a report entitled *National Impacts of Transit Capital and Operating Expenditures on Business Revenues*. This report asserted that every dollar spent on rail transit produced $3.15 in added business revenue. For every dollar spent on bus transit, the APTA report estimated that an additional $3.50 in business revenue was generated.

In 1991, another APTA report—*Transportation Spending and Economic Growth: The Effects of Transit and Highway Expenditures*—claimed even more robust returns from transit outlays. In this case, for every dollar spent on transit an estimated $5.20 in additional economic activity was alleged to result.

These impacts of three and five to one certainly sound impressive. It is easy to see how some people could become enthusiastic about this seeming fount of prosperity. However, it is important to remember that all expenditures of money generate similar ripple effects through the economy. Whether putting our money into public transit is a good or a bad investment depends upon the return we get on the investment. Before we rush to plow more billions into transit it might be wise to compare this particular investment to alternative ways the same money could have been invested.

Looking at Investment Alternatives

The figures shown in Table 1 indicate the potential returns the U.S. economy might have experienced if the tax dollars that went into public transit had been invested differently. For this analysis, I have assumed that the $61.5 billion that the federal government has invested in public transit between 1965 and 1992 would have been put into any of several obvious alternatives. The annual federal cash flow into transit over this time period is assumed to have been directed instead into each of the four alternatives portrayed in the table.

The "amount invested" is the same $61.5 billion for each alternative. The "current value" is the estimated current value of the assets for each investment alternative as of the end of 1992. The "impact on GNP" is the estimated 1992 amount of economic activity that has been (or would have been) added to GNP by each investment alternative. The "# jobs" is the estimated number of employment opportunities that could be supported by the economic activity generated by each investment alternative in 1992.

The "federal taxes" are the estimated additional tax revenues accruing to the federal government during 1992 as a result of the economic activity generated by each investment alternative.

The "public transit" investment option is, of course, the actual government investment made during this time period. The "corporate tax cut" investment option assumes that the amount spent on transit would have been "spent" on corporate tax relief (for example: an investment tax credit or a cut in corporate income taxes) and that this money would have been invested in business assets earning average rates of return. The "capital gains tax cut" investment option assumes that the amounts spent on transit subsidies would have been "spent" on reducing the capital gains tax and that this money would have been invested in the stocks comprising the Standard & Poor's 500 stock index. Dividends were not assumed to be reinvested. The "IRA: treasury bills" investment option assumes that the amount spent on transit would have been "spent" by allowing tax-free investing by individuals and that these individuals selected a very conservative investment strategy of buying three-month treasury bills. The "IRA: S&P 500 stocks" investment option assumes the same tax-free investing by individuals, but that they buy stocks. In this case, dividends are assumed to be reinvested.

The comparison of these investment alternatives is quite startling. The contributions to the U.S. economy made by public transit are pathetically meager compared to any of the alternatives. Even the least favorable private sector investment alternative could have had an incremental impact on the U.S. economy ten times the size of that the actual public transit investment has had. If any of these alternative paths had been chosen, GNP would have been larger, more people would have jobs, and the federal deficit would have been lower.

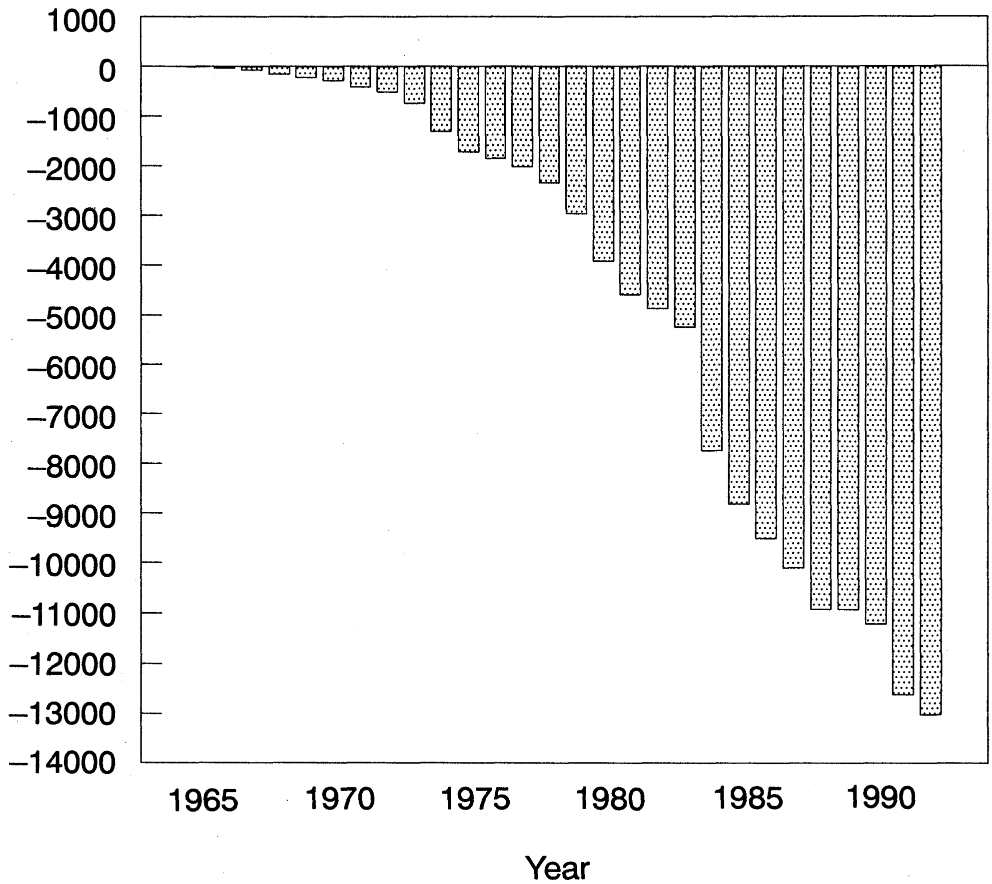
Recent statistics indicate that there are about 9 million persons classified as unemployed. The implication of our analysis of hypothetical investment alternatives is that unemployment problems would have been greatly reduced had the government made different investment decisions. The more lucrative returns of the alternative investments would have created more job opportunities. More people would have been attracted into the workforce. Wages would likely have risen. The additional capital that would have been available would likely have improved labor productivity. So, even if it does seem improbable that the economy could sustain an additional 20 million jobs, as the "IRA: S&P 500 stocks" option implies, it is obvious that the employment environment would be far more favorable than it now is.

The projection of a lower federal deficit is predicated on the assumption that all other expenditures remain the same. This probably tends to understate the favorable impact that a different investment decision would have had. Surely, the more robust employment environment that could have existed would be expected to reduce government outlays for unemployment compensation and welfare. Likewise, the higher tax revenues that the government would have received would also have reduced borrowing costs. These factors could have lowered the deficit even more than the additional tax revenues projected in Table 1 would imply.

Profits Instead of Deficits

The reason why each of the prospective investment alternatives would have produced much better results for the U.S. economy than the transit investment that was made is that each alternative would have earned a profit. Public transit does not earn a profit. As a whole, it cannot even cover its operating costs from passenger revenues. A glance at a graph of the aggregate public transit operating results from 1965 to 1992 (see Figure 1) shows a trend of deepening annual deficits. The losses suffered by public transit mean that the value of the outputs of the investment are worth less than the cost of the inputs. What this means is that the money invested in public transit is *consumed*. The investment cannot sustain

FIGURE 1
ANNUAL PUBLIC TRANSIT DEFICITS
(IN MILLIONS OF DOLLARS)



Source: Transit Fact Book (American Public Transit Association)

itself independent of continual infusions of new capital.

The superior performance of the alternatives comes from the compounding of profits made on the capital invested. These profits mean that the value of the outputs of the investment exceed the cost of the inputs. Consequently, the money invested grows with each increment of profit. The process of making a profit on an investment enables one to end up with more wealth than he had when he started. Greater wealth, of course, would make the U.S. economy stronger and better able to meet the material needs of more people.

The last gasp of a defense on behalf of money-losing government investments like public transit is that a needed service is provided. Unfortunately, the fact that public transit is subsidized makes it impossible to determine the need for the service. The fact that we do not ask the consumers of public transit to pay what it costs to provide the service denies us any objective measure of need. It is probable that a substantial portion of the so-called need for transit would dissipate if taxpayers were not paying over 60 percent of the cost of every transit ride.

While the need for money-losing transit has been undemonstrated and exaggerated, the need for the products and services that would have been provided by the forgone alternatives is easily overlooked. The fact that consumers of unsubsidized products and services produced by the private sector do pay the full costs is proof that a need has been fulfilled. The voluntary payment by willing consumers is an objective measure of need. So, not only has the federal government's 27-year investment in public transit lost money, it has also prevented trillions of dollars worth of needs from being fulfilled.

The federal government's investment in public transit currently amounts to around $3 billion per year. This is a relatively small amount of spending. But as we have seen, the cumulative economic cost of annually pouring a small amount of money into profitless transit operations in the past has had a huge opportunity cost for the U.S. economy. To place the total negative impact of excessive government spending in perspective, consider that the Grace Commission estimated that there was $140 billion per year in unnecessary federal spending. As this process of waste continues year after year the compound effect on the U.S. economy has to be devastating.

The inability of the federal government to contain its appetite for bad investments has been a disaster of major proportions. The competitiveness of U.S. businesses, the standard of living of the population, even the health, safety, and welfare of the American people have been enormously harmed by the inferior investment choices policymakers have made over the last generation.

When we see what could have been and compare it to what is, we are observing a government performance worthy of shame, not repetition. Unless we want to repeat and intensify this shame, it is clear that more government investment is exactly what we don't need. □

Private Highways in America, 1792-1916

by Daniel B. Klein

Fifteen years ago only technology aficionados and laissez-faire idealists entertained the notion of private highways. Today, however, public officials and entrepreneurs are struggling to make the notion a reality. Four private highway projects are underway in California and many other states are following suit.

The notion of private highways, which would seem fantastic to our parents, was commonplace to our great-great-grandparents. Initiated in the 1790s in the growing Republic, these roads stimulated commerce, settlement, and population. During the nineteenth century more than 2,000 private companies financed, built, and operated toll roads. States turned to private initiative for much the same reason they are doing so today: fiscal constraints and insufficient administrative manpower. Knowledge of our toll-road heritage may

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Table 1
Turnpike Incorporation, 1792-1845

State	1792–1800	1801–10	1811–20	1821–30	1831–40	1841–45	Total
New Hampshire	4	45	5	1	4	0	59
Vermont	9	19	15	7	4	3	57
Massachusetts	9	80	8	16	1	1	115
Rhode Island	3	13	8	13	3	1	41
Connecticut	23	37	16	24	13	0	113
New York	13	126	133	75	83	27	457
Pennsylvania	5	39	101	59	101	37	342
New Jersey	0	22	22	3	3	0	50
Virginia	0	6	7	8	25	0	46
Maryland	3	9	33	12	14	7	78
Ohio	0	2	14	12	114	62	204
Total	69	398	362	230	365	138	1552

Source: Klein & Fielding, *Transportation Quarterly* (1992)

help encourage today's budding toll-road movement.

The Turnpike Heyday, 1800-1825

Once the state of Pennsylvania chartered a private company in 1792 to build a road connecting Philadelphia and Lancaster, rival states felt impelled to follow. Private initiative was the only effective means of providing new highways, because state and county finances were almost nonexistent and town resources were meager. Private control and user fees were bold steps, but once taken, states could only continue to move forward. In an age before the canal and railroad, legislators were willing to test community and political custom to get highways built.

The turnpikes were financed by private stock subscription and set up to pay dividends. Built with a surface of gravel and earth, turnpikes were usually 15 to 40 miles in length, and cost $2,000 per mile to build. They were massive undertakings and relied on widespread investment from the community. Stock purchased was more like a contribution to community improvement rather than a business investment. Some travelers objected to the idea of paying tolls, particularly to a corporate monopoly. Legislators, often suspicious of corporate motives, wrote extensive (and economically debilitating) restrictions into company charters, specifying conditions for construction, maintenance, and toll rates, and toll collection.

The progress of turnpike incorporation is shown in Table 1. Only Pennsylvania, Virginia, and Ohio subsidized their turnpike companies; New York chartered the most turnpikes. The opening decade of the nineteenth century saw the most charter activity, though roughly one-third of the companies chartered failed to construct a single mile of roadway.

The unprofitability of turnpikes soon became obvious. The vast majority of turnpikes paid only very small dividends or none at all. First, toll evasion was rampant, as people would circumvent tollgates—a practice known as "shunpiking." Second, many roads were built in advance of settlement and travel demand was low. Third, legal restrictions and regulations, limiting both toll rates and countermeasures to shunpiking, hamstrung the turnpikes' abilities to improve their financial situation.

But poor financial returns did not necessarily mean unfruitfulness. Even an unprofitable turnpike stimulated commerce, raised land values, and aided expansion. Therefore, community leaders resorted to a fascinating array of tactics to boost the turnpike cause despite the sad prospects for

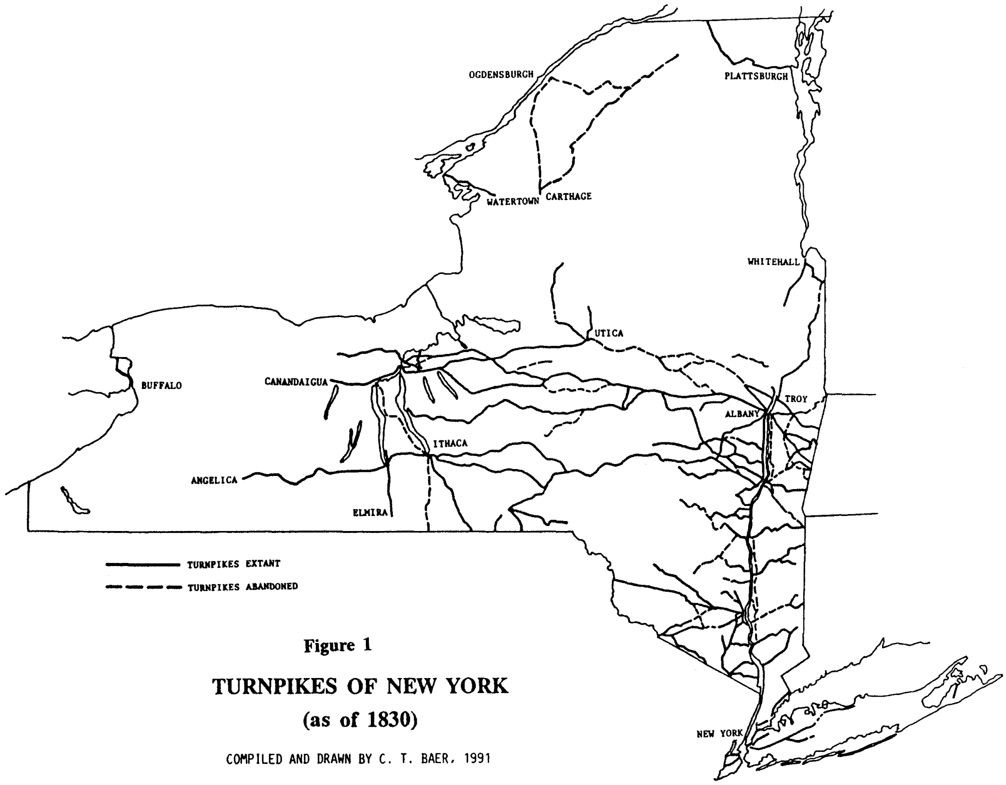

Figure 1

TURNPIKES OF NEW YORK

(as of 1830)

COMPILED AND DRAWN BY C. T. BAER, 1991

dividends. Supporters used newspaper appeals, town meetings, door-to-door solicitations, and correspondence to apply social pressure. In this way as in others, American communities relied on voluntarism, as so elegantly described by Alexis de Tocqueville, to meet local needs. The result in terms of turnpike construction in New York is shown in Figure 1.

Canals, Railroads, and Spur Turnpikes, 1826-1845

In the late 1820s canals began competing with many of the major turnpikes. Railroads joined in a bit later. Between 1825 and 1845 turnpike mileage dropped considerably. At the same time, however, the canals and railroads changed the patterns of trade and development, and stimulated new demands for shorter toll roads that would serve as feeders. Table 1 shows that turnpike activity by no means ceased with the advent of canals and rails.

Plank Road Fever, 1847-1853

High hopes for a new kind of short feeder road were placed in the idea of plank roads, organized like turnpikes but surfaced with wooden planks. Plank surfacing promised a smooth, inexpensive alternative to turnpikes, which sometimes resembled a river of mud. Plank road fever struck in the late 1840s and thousands of miles of plank roads were constructed.

Civil engineers and enthusiasts predicted that plank roads would last eight years before needing to be resurfaced. Beginning in 1847, rural Americans financed and constructed plank roads in massive numbers. Table 2 shows total incorporation for sev-

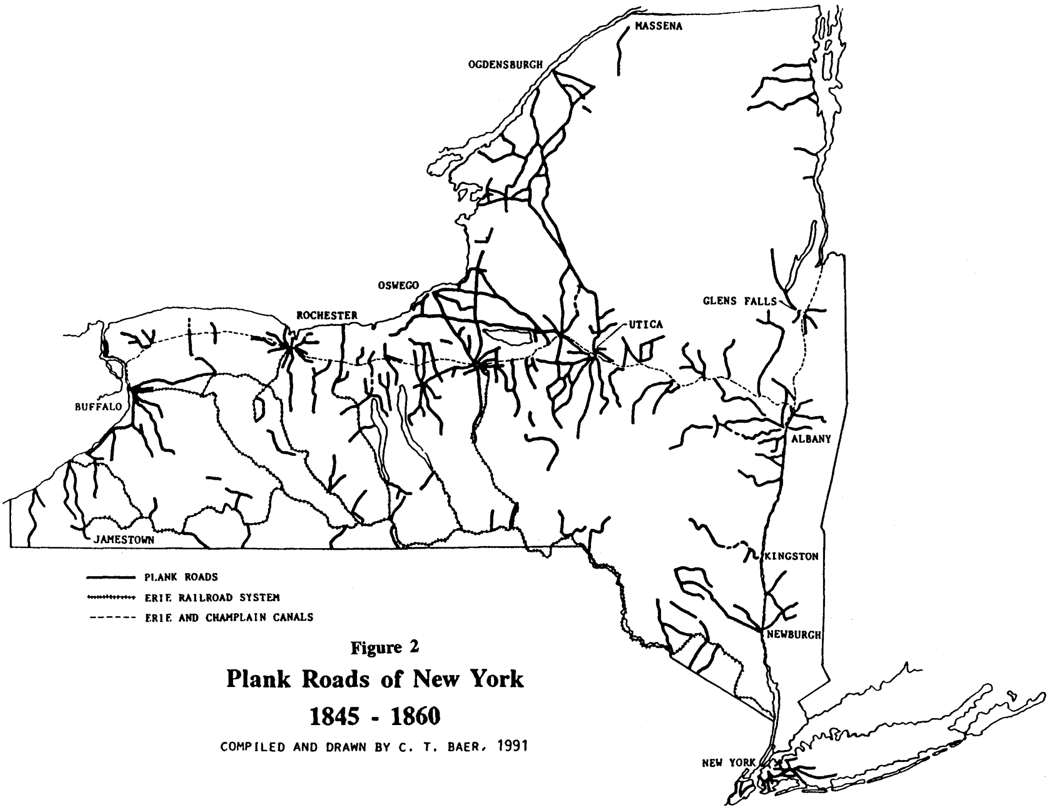

Figure 2
Plank Roads of New York
1845 - 1860
COMPILED AND DRAWN BY C. T. BAER, 1991

eral states. Figure 2 shows the plank road system in New York.

But the planks wore out twice as fast as predicted—usually within four years. The movement ended as suddenly as it had begun. Most plank road companies folded, while others converted their operations to gravel turnpikes.

Toll Roads in the Far West, 1850-1890

The toll road idea endured to the end of the century. Discoveries of gold, silver, copper, and other minerals in California, Colorado, and Nevada sparked rushes of newcomers. Even before statehood for Colorado and Nevada entrepreneurs organized their own toll road enterprises to serve the mining communities, and some got rich in the process. Well over 360 toll roads were constructed in California, Colorado, and Nevada alone. This experience indicates that private initiative can provide infrastructure for economic development—so long as government respects people's liberty to do so.

The Good Roads Movement and the End of the Toll Road, 1890-1916

By the end of the nineteenth century, state and county governments had grown in capabilities and new agencies began setting goals for centralized highway management. Independent private toll roads were not thought appropriate in the era of progressive governance, and most of those remaining were bought out or shut down. Observed a county board in New York in 1906:

> The ownership and operation of this road by a private corporation is contrary to public sentiment in this county, and [the] cause of good roads, which has received

Table 2
Plank Road Incorporation by State

State	No.	State	No.
New York	350	Georgia	16
Pennsylvania	315	Iowa	14
Ohio	205	Vermont	14
Wisconsin	130	Maryland	13
Michigan	122	Connecticut	7
Illinois	88	Massachusetts	1
North Carolina	54	Rhode Island	0
Missouri	49	Maine	0
New Jersey	25		

Notes: Ohio is through 1852; Pennsylvania, New Jersey, and Maryland are through 1857. Few plank roads were chartered after 1857.

Source: Majewski, Baer & Klein, *Journal of Economic History* (1993).

so much attention in this state in recent years, requires that this antiquated system should be abolished. . . . That public opinion throughout the state is strongly in favor of the abolition of toll roads is indicated by the fact that since the passage of the act of 1899, which permits counties to acquire these roads, the boards of supervisors of most of the counties where such roads have existed have availed themselves of its provisions and have practically abolished the toll road.

Conclusion

In 1991 Congress passed the Intermodal Surface Transportation Efficiency Act (ISTEA), which changed the 75-year policy against toll roads. It permits the use of federal funds on toll roads, including ones designed, constructed, and operated by private groups. It sheds the old requirement that states repay federal funds if the facility is transferred to private control. Although highway financing should be strictly private, ISTEA greatly improves the present system, which relies on unpriced highways built and operated by government. Under ISTEA, America might begin to rediscover the effectiveness of private management and the economic virtue of user charges. With new electronic technologies of toll collection, toll roads make more sense than ever.

As we enter the potentially new era of privately managed highways, the historical experience with toll roads offers some important lessons. First, private operation is more flexible, creative, and motivated to serve than government control. In the nineteenth century, private road companies consistently out-performed their public-sector alternatives. Second, private roads will not be constructed without the prospect of private gain. If governments over-regulate or renege on their promises, private road development will not occur. Finally, infrastructure is an economic good best left to private action.

Private roadways have always made philosophical sense. Now even many public officials understand that they make economic sense as well. □

If Men Were Free to Try

IDEAS ON LIBERTY

How could roads be built and operated privately? I do not know. This is a subject to which none of us directs his creative attention. We never do think creatively on any activity pre-empted by government. It is not until an activity has been freed from monopoly that creative thought comes into play. . . .

—John C. Sparks (1954)

THE FREEMAN
IDEAS ON LIBERTY

Human Rights Around the Globe

by Tibor R. Machan

It is interesting that so many people find the humanities, especially philosophy, irrelevant. People have always resisted philosophy. In our time it is often the so-called practical professionals who regard thinking about the great questions a waste of time and would rather handle problems piecemeal, on the spur of the moment, with no consideration of the big picture.

Yet no sooner does someone attempt to defeat philosophy than philosophy tends to win. Philosophy is, after all, trying to make sense of the world, of seeking, with spirit and determination, to attain wisdom, to live the examined life. And even those who set out to deny its value get trapped by philosophy—their denial is itself an attempt to reach wisdom, namely, that seeking wisdom isn't wise, so it's wiser to give it up!

This was evident at the June 1993 international human rights conference held in Vienna, Austria, where the assembled heads of governmental and non-governmental organizations debated human rights. One of the most troubling topics of the conference was what human rights are. When we speak of human rights, are these conditions that everyone everywhere ought to enjoy? Should these same basic conditions be protected by governments everywhere in the world? Or are human rights one thing for people in one part of the globe and another for those in another part?

Many leaders of Third World countries—where various types of dictatorships still flourish—argue, predictably, that human rights should not be understood the same way in Western democracies and their own societies. Why? Because their societies, they say, require greater regimentation, more state interference, and pervasive government planning in order to survive. This really means, of course, that because those in power in such societies have goals and purposes that require subjugating others, they don't believe that the concept of human rights—to liberty, autonomy, full political participation, civil rights, religious worship, freedom of the press—should apply.

There are, of course, cultural differences that should be honored. But they do not concern rights, which are basic principles of human community life. Cultural differences are valid only where they include peaceful practices, customs, mores, etiquette, styles, and tastes. Different cultures often exhibit certain prominent temperaments that prevail in a society. The Scandinavians are often more quiet and collected than Latins. The Finns are more melancholy than the French. Verbosity, reticence, even shyness can be matters of temperament, the kind of benign difference that is important for an individual's life. And there is much diversity in the arts of different cultures, based on

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different histories, climates, and other factors.

But human rights are based on universal human attributes. Indeed, universal human rights concern the basic freedoms that people ought to have protected so as to make peaceful choices for themselves in all walks of life. And it is only if such rights are given full protection that the valuable differences based on the highly diverse circumstances in people's lives can be fully exploited and realized. □

JURY NULLIFICATION: CORNERSTONE OF FREEDOM

by Roger Koopman

"The Jury has the right to judge both the law and the fact in controversy." That statement was penned not by some modern-day political theorist, but by John Jay, first Chief Justice of the United States Supreme Court. It did not reflect some quaint or offbeat ideology, but rather, the consensus of opinion at the founding of our nation. Our Founding Fathers understood that the constitutional republic they had crafted was a fragile thing. Without the proper safeguards, it could in time fall prey to tyranny masquerading as law. They recognized that one of the most essential of safeguards was the power vested in the common citizen through the jury box.

If our nation's founders were able to come back today and witness the instructions that judges lay upon the juries, they would react with horror at the emasculation of our once-proud jury system. Indeed, it bears little resemblance to the system they established, precisely because its most essential ingredient—the individual, independent juror—has largely disappeared. The juror is instructed to accept the letter of the law without question, and apply no moral judgment to his decisions. To the nation's founders, today's jury system would appear as nothing more than a ghost of its former self.

They would wonder how we managed to stray so far from the original pattern they instituted and why, as a result, America has chosen to place her freedoms in such obvious peril. Our forefathers, it seems, understood far better than we that for a nation to remain free, sovereign power must rest in the people themselves. They designed the jury system to act as a constant check on the excesses of government and the abuses of unjust law. Individual jurors acknowledged that they had not only the authority, but the moral responsibility to acquit just men who ran afoul of unjust law.

Throughout the history of our republic, there have been many instances of juries that stood firmly for justice in the face of illegitimate law. They commonly refused,

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for example, to enforce the British Navigation Acts against the colonists and later, the Fugitive Slave Act against the abolitionists. American history would have been written much differently if the juries of the past functioned like the juries of the present. Sadly, a modern-day jury would toss those abolitionists in jail, not because we now believe in slavery, but because juries today are consistently misinformed from the bench about their essential role in securing justice, and are thus rendered impotent in the defense of freedom. They are instructed to determine the facts, apply the law, and go home.

The "Fully Informed Jury"

It is ironic, then, that proposals to require juries to be informed of their vested powers are characterized as "radical." There is nothing radical about recognizing the wisdom of our Founding Fathers and reestablishing those sound principles of justice which we have allowed, through carelessness and neglect, to slip away. The so-called "fully informed jury" is at the bedrock of our republic.

It is important to recognize that this concept does not create any "new" powers, rights, or privileges. It merely asserts those jury powers and rights that have long existed. Simply stated, the proposal requires that juries once again be apprised of their inherent right to judge not only the facts of a case, but the law itself as it relates to that case.

As a practical matter, fully informed juries would result in little or no change in the great majority of all jury decisions. But in the few cases where juries asserted themselves and to some degree judged the law itself, they would help both secure justice and maintain a free society. Over time, if juries consistently "nullified" certain statutes by refusing to convict defendants, juries would be sending a powerful message to the legislative branch. The "sovereign" (the people) would have spoken, making an unjust law unenforceable and dramatically demonstrating that the law should be amended or repealed.

Jury nullification could also act some day as a vital defense against oppressive federal laws criminalizing behavior that is no crime. Consider if, for example, Congress voted to ban gun ownership. Ninety percent of those living in my home state of Montana would instantly become "law-breakers," yet none would be viewed by their neighbors as having committed any "crime." If Montana juries were informed of their true powers, it would be impossible to convict a Montanan who was simply exercising his Second Amendment rights. But this kind of check on abusive governmental power requires that juries be well informed.

Of course, juries could refuse (and occasionally have refused) to enforce just laws. But such cases are likely to be rare since most people agree on the government's basic duty to protect life, liberty, and property.

Once "informed juries" started cleansing the system of unpopular and repressive laws, two changes would begin to take place among the people themselves. First, people's respect for law itself (something that has declined in recent years, largely because of the mischief caused by so much bad law) would be regenerated. Second, people's moral senses would be sharpened by their increased individual responsibility to preserve our freedoms. We would become, once again, a vigilant people, more keenly aware of the abuse of government power, jealous of our liberties, sensitive to the moral and philosophical prerequisites of freedom.

America's founders did not place their trust in a "professionalized" judiciary, controlled by lawyers, judges, and organized interests that make their living from government. They had a deep and abiding faith in the people themselves, and placed the ultimate power of the courtroom in the citizens' hands. Isn't it time that we returned to this fundamental principle of our republic? □

THE FREEMAN
IDEAS ON LIBERTY

THE UNSEEN COSTS OF FAMILY LEAVE

by Robert A. Sirico, CSP

Young women interviewing for jobs in the past year may have noticed potential employers looking carefully at their ring fingers. No, it's not an example of sexual harassment. Rather, employers are growing more skeptical of hiring (and promoting) young married women of child-bearing age.

Employers have long taken sex into account when hiring workers. The turnover rate for women is higher than for men, since a woman is more likely to leave her job to have a baby, or move when her spouse is transferred. Thus, companies were already less likely to hire and promote women.

But the Family and Medical Leave Act, which went into effect in July 1993, has *increased* the costs of hiring women. The law requires companies with more than 50 employees to grant full-time workers employed for one year 12 weeks of unpaid leave in any 12-month period. Employees can take this leave for birth or adoption of a child, or serious personal or family illness. And companies are legally bound to give workers their jobs back—or an equivalent position—when they return. Employers know that women of child-bearing age are most likely to take advantage of this government-mandated benefit. Thus, the "benefit" is another reason for firms to choose another candidate for a job.

Consider what Tama Starr, president of the ArtKraft Strauss company, told *The New York Times*: "If you are an employer, you will look at a young woman and say, 'Can we really entrust her to do crucial responsibilities that no one else can do because she's going to take three months off?' " Starr's answer to the economically logical, if politically incorrect, question: "You protect women so they can nurture babies and that's very nice, but you keep them at the lower end of the pay scale." Put bluntly, it is a lot easier to find temporary help to replace a clerical worker than a professional.

Some women have already felt the negative effects of the legislation. A spokesman for "Nine to Five," the National Association of Working Women, complained that their Long Island branch recently received 22 phone calls from pregnant women who believed they had been fired by employers seeking to get them out of the way before the law took effect. Sex discrimination is illegal, of course, but it is not always irrational. Employers are usually going to follow market dictates, since that's why they are in business. To root out rational sex discrimination would require the government to police virtually every employment decision in the country.

Obviously, for fear of lawsuits if nothing else, companies cannot simply stop hiring women. But business can try to hire women who seem least likely to take advantage of the new law. These days, an acknowledged

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lesbian would be a better bet than a blushing new bride. Similarly, a single woman over 35 is a more attractive candidate for a job or promotion since statistically she is less likely to marry and have children than her younger counterparts.

Thus, pro-family groups should have led the fight against family-leave legislation. Unfortunately, however, many believed the liberals' claim that family leave really was good for the family. Isn't it "pro-family" for employers to give women 12 weeks off to have kids? Not when the government mandates it, creating a powerful incentive for women with professional aspirations to remain not only childless but also single.

Government intervention in the name of the family didn't begin with this legislation and, unfortunately, won't end with it. The next step, demanded by many family-leave advocates, will be to require companies to give employees paid leave—something that would dramatically increase the disincentive to hiring women. And if the inconvenience of children is keeping women from being company workers, politicians are likely to push for increased subsidies for and regulation of day care, if not federally run centers.

Moreover, the Family and Medical Leave Act must be considered in the context of other laws that restrict the labor market. Labor Secretary Robert Reich, for example, wants to raise the minimum wage and index it to the rate of inflation. If an employer can't afford to pay up, he will have to let workers go. And if Congress passes the administration's health-care plan, businesses will have additional heavy expenses to bear.

Poor economic conditions, largely resulting from misguided federal fiscal and monetary policies, in conjunction with ever-higher rates of taxation, have forced many mothers to work even when they would prefer to remain home with their children. The government's first priority, then, should be to help relieve the financial pressure on women to work. At the same time, it should drop measures that artificially inflate the costs of hiring mothers. Officials should allow women to negotiate their own contracts, making the choice of salary levels and benefits that best meet their own needs and that of their families.

Many politicians have paid lip service to reversing the breakdown of the family. Federally mandated family leave was one of their answers. But the family is a natural product of a free society and needs no special privileges from government to thrive. American families would be better off if government undid the damage it has previously caused, instead of "helping" by passing ever more counterproductive measures like family leave. □

Personal Freedom and Individual Responsibility

IDEAS ON LIBERTY

Few of us seem to want to keep government out of our personal affairs and responsibilities. Many of us seem to favor various types of government-guaranteed and compulsory "security." We *say* that we want personal freedom, but we *demand* government housing, government price controls, government-guaranteed jobs and wages. We *boast* that we are responsible persons, but we *vote* for candidates who promise us special privileges, government pensions, and government subsidies.

Many of us are drifting back to that old concept of government that our forefathers feared and rejected. Many of us are now looking to government for security. Many of us are no longer willing to accept individual responsibility for our own welfare. Yet personal freedom cannot exist without individual responsibility.

—DEAN RUSSELL

THE FREEMAN
IDEAS ON LIBERTY

SCHOOL VIOLENCE

by John Hood

When politicians talk about education issues, they often mention such topics as school spending, teacher quality, parental involvement, and the curriculum. But when *teachers* talk about education issues, they almost always zero in on the topic that most concerns them: school violence. In talking to teachers around my home state of North Carolina, I have found this to be universally true. Teachers bring it up—whether it's retelling a "horror story," complaining about school boards and lawyers protecting students from punishment, or simply observing that students "aren't what they used to be."

The public seems to share teachers' concerns about escalating violence in our schools. Remember the film *Lean on Me*? Despite carping from the education establishment—made up, to a large extent, of psychologists, consultants, professors of education, and professional activists—the film, which presented a story of one principal's tough stand against school violence, captured the imagination of movie audiences. A less successful but arguably better film, *Stand and Deliver*, dealt with the motivational and instructional techniques of Los Angeles math teacher Jaime Escalante, who used humor as well as "tough love" to teach calculus to a class of poor, sometimes violent teens. Other movies on gang life, teenage violence, and the drug subculture have also scored with audiences, while public opinion polls have found great concern about discipline and violence issues. Again, the public perception, at least, is that things "aren't what they used to be."

And the evidence is that they aren't. Violence in schools is up. Discipline is less predictable and not uniformly enforced. Students are, according to most teachers, more difficult to keep quiet, harder to teach, and deficient in basic personal and behavioral skills. Yet educational activists tend to focus more on opposing discipline practices they abhor—such as corporal punishment and expulsion—than on addressing the problem. In fact, today's public educators are probably incapable of dealing effectively with school violence and discipline problems. To do so requires rethinking how education is organized and the proper relationship between pupil and teacher, and more generally, between pupil and school.

Defining the Problem

No one keeps comprehensive statistics about school violence, but the numbers we do have are distressing, to say the least. Young people, who represent about 20 percent of the population, account for over 40 percent of reported crimes—and almost half of the youths charged with serious offenses are under 15. Some researchers suggest that the level of violent crime perpetrated by juveniles is three times greater today than it was in 1960. Many of these acts are

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committed at school, some with guns or other dangerous weapons.

A 1987 survey by the U.S. Department of Health and Human Services found that more than a third of eighth and tenth graders said they had been threatened with some sort of violence while at school. Fourteen percent reported being robbed and 13 percent said they had been attacked within the past year. Another report, by the National School Safety Center, found that:

- Almost 300,000 students are attacked in schools every month.
- Over 2 million students are the victims of theft.
- Approximately 5,200 secondary school teachers are physically attacked at school in a month's time, while 6,000 per month report extortion or robberies against them.

A few states have generated more recent numbers. A 1992 survey by North Carolina's Task Force on School Violence found that 59 percent of school systems reported an increase in violent behavior over the previous five years. School superintendents also reported marked increases in the prevalence of guns, knives, and other weapons at school. During this same time period, the number of reported arrests of young people 15 years old or younger for violent offenses doubled.

While these crime and violence numbers are shocking, by far the most pervasive problem is not *criminal* behavior per se, but a destructive and painful pattern of misbehavior, threats, and disrespect directed toward teachers and principals. This problem is harder to quantify, because no crime report is generated, but teachers have noticed a change in student behavior over the last 30 years or so. *Instructor* magazine columnist Adele M. Brodkin began to call attention to the problem with a series of interview features in 1990. Brodkin asked Wendy Jacobs, a fifth- and sixth-grade teacher in Caswell County, North Carolina, what teachers find most challenging about teaching today's children. "That's easy," Jacobs replied, "the biggest challenge is dealing with discipline. We have to contend with disruptive behavior, fighting amongst the kids, shouting, physical and verbal abuse, acting silly, being disrespectful of the teacher—all sort of behavior that can take so much of a teacher's time and energy."

William C. Lane, Jr., an assistant principal at Dunbar Middle School in Ft. Myers, Florida, says that the process of gaining control over the classroom is in fact "the cornerstone" of education and "an integral part of an effective school." Older teachers who remember a time of stronger discipline and fewer problems with students are especially vocal about the change in their perception of child behavior. A July 1989 survey by the American Federation of Teachers reported that over 80 percent of AFT officials around the country considered teenage violence a bigger problem today than in the past. Charles H. Wolfgang, a professor of early childhood education at Florida State University, tells of meeting a former English teacher of his at a neighborhood mall and proudly announcing that he, too, had become a teacher. "The twinkle I recalled as being ever-present in her warm blue eyes seemed to be missing," Wolfgang remembers. "As I spoke to her of our shared profession, her body stiffened and she responded in a cold tone of voice. 'I retired last year, thank God! I am glad to have gotten out of teaching. Students have changed. They certainly aren't interested in learning! And there are just too many discipline problems.'"

In fact, surveys for *Phi Delta Kappan* (a prominent education magazine) by the Gallup Organization have consistently ranked violence and discipline problems as one of the major reasons why public-school teachers leave the profession—a finding buttressed by the fact that private schools, which generally pay lower salaries and offer fewer benefits to their teaching staff, often receive plenty of applications from public-school teachers. The flight of good teachers from public schools can't be explained only by increasing safety concerns, but violence is undoubtedly an important factor in many cases. In *Policy Review*, Ben Wildavsky reported the case of Tom Masty, a teacher at a South Florida middle school. In Masty's first 10 weeks at the school, he wrote over 300 referrals for student misconduct. He confiscated weapons, broke up fights, and struggled to maintain control over his classroom. He quit shortly afterward.

Why Violence Is Increasing

Obviously, the wave of American school violence in many ways reflects underlying social trends. Crime generally has increased over the last several decades as well, so it's not surprising that violent and criminal behavior has risen in schools.

An important explanation of the rise in school violence can be found in changes in the American family. As the traditional two-parent model has given way to escalating numbers of single-parent families, children have often been put at risk, neglected, abused, and marginalized, resulting in discipline problems at school. One study of children with teenaged mothers found they were more likely to exhibit behavioral problems such as running away, fighting, stealing, and smoking than were children of older mothers. A 1989 study of children whose parents have divorced noted that five years after their parents broke up, only 34 percent of the children were clearly doing well at school. The remainder exhibited significant behavioral and academic problems. Many school administrators report that the majority of students suspended or expelled in their schools have either been sexually or physically abused or have a high incidence of substance abuse in the family.

While many of these social trends are partially or completely out of the reach of public policy, some government activities—such as the welfare system and punitive taxation of families—put pressure on families. Researchers such as Charles Murray and Mickey Kaus have identified at least some link between federal welfare payments and undesirable behavior. By subsidizing broken families, welfare can rob children of the stable home life they need to develop into healthy, well-adjusted teens.

But blaming the entire problem of school violence on social trends and family breakup would be a mistake, since it would ignore the crucial role of the school in setting rules of behavior and enforcing them. School policies do affect student behavior, as the experience of inner-city Catholic schools and other private schools demonstrates. Not surprisingly, students respond to credible promises of punishment and come to respect authority when it is exercised constantly and uniformly.

Unfortunately, the modern public school in America is ill-suited to develop a realistic response to school violence. A host of administrative decisions, court rulings, and legislative actions have created such a maze of regulations that school principals and teachers are often unable to exercise meaningful control over their schools. Furthermore, the prevailing "ethos" in the education establishment—made up of researchers, administrators, and bureaucrats—is suspicious of many forms of punishment, and exhibits a fixation with "sensitivity training" and building self-esteem among students.

Legal Restrictions and School Discipline

A range of school disciplinary measures, ranging from public embarrassment to expulsion, have been successfully challenged in court. In the 1975 case *Goss* v. *Lopez*, the U.S. Supreme Court decided that the due process clause of the Fourteenth Amendment gave students the right to receive oral or written notice of the charges against them and, if they deny the charges, an explanation of the evidence and a chance to tell their side of the story. While no formal hearing was required for short-term suspensions, the Court suggested that more formal procedures might be required to impose longer suspensions or expulsions. While suspension remains an important response to acts of violence by students, these procedural limitations have made administrators more hesitant to use them.

Restrictions on suspension and expulsion are especially troubling because of the great damage that violent and disruptive students can do to the educational process. These students not only disrupt the classroom, thus making it difficult for other students to learn, but also generally weaken the authority of teachers and administrators. "This type of student," writes education researcher Kurran Heston, "has a negative effect on everyone around him or her." It's in the interest of the majority of students that schools be able to quickly eject such students from class. "Eighty to ninety percent of the kids in a classroom are good kids," Oakland, California, schoolteacher Ruth Meltsner told *Policy Review*. "A small number are impossible and you spend all your time dealing with them."

Other decisions have further limited school disciplinary practices. Indeed, Heston notes that since 1950, "schools have been placed under the jurisdiction of the courts, whereas the court may decide it is necessary to step in regarding discipline." James S. Coleman, who has conducted landmark studies comparing public and private school students, argues that "the growth of student rights constitutes a fundamental change in the relation of the school to the student, which had been that of trustee for parental authority." This has been replaced, Coleman says, by a relation in which the student "is regarded as having full civil rights."

Extending civil-rights protection to unruly students has created an unworkable, and sometimes absurd, situation in public schools. "The due process system assumes bad faith on the part of teachers," says Bruce A. Miller, special counsel to the American Federation of Teachers, "but teachers aren't lawyers—they have to have some freedom of action." Sociologist Jackson Toby agrees, and observed that a generation ago it was possible for principals to rule schools autocratically, to suspend or expel students without much regard for procedure. While some injustices occurred, the administrators were able to avoid significant violence and discipline problems. "Student assaults on teachers were punished so swiftly that they were almost unthinkable," Toby wrote.

But it is not only the most stringent disciplinary actions that are subject to judicial negation. Consider, for example, the commonsensical idea that teachers and principals should be able to reduce student grades as a punishment for constant misconduct or violence. Several courts have struck down grade-reduction policies, treating grades earned for academic performance as a constitutionally protected "property interest."

Applying the Criminal Justice Model to Schools

A number of other actions—ranging from locker searches to dress codes—are frequently challenged by students, parents, politicians, and judges. Applying the criminal justice model to the school situation reflects a strange sense of priorities. Fascinated with whether or not an administrator has "probable cause" to search a locker—which is, after all, the property of the school and not the student—these critics prevent administrators from controlling the availability of weapons and drugs on school grounds. (Of course, administrators have at times gone too far—initiating strip searches without reasonable cause, for instance. Thus, schools must remain ultimately accountable for their decisions.)

Even a modest policy such as a dress code can help reduce discipline problems and even violence at school. So-called "gang" clothing often sparks conflict between students, while valuable jewelry or athletic shoes become the objectives in robberies and thefts. Such restrictions are obviously unthinkable in adult society, but the school environment is—or, at least, should be—different.

Not only are school policies found to violate students' so-called constitutional rights, but school officials are also potentially liable for civil damages. Naturally, administrators act increasingly warily when disciplining students. Classroom safety and student performance have deteriorated as a result.

How the Education Establishment Views Discipline

Surveying the academic literature on school violence and discipline will leave the average person with an almost irresistible urge to alternately laugh and cry. When you see such article titles as "Should Students Be Punished?" and "Multicultural Classroom Management," you know you've entered a world of make-believe, divorced from the reality of dangerous classrooms and disruptive students. "The case against punishment has been steadily growing," wrote John Martin Rich, a professor of education at the University of Texas at Austin. "Critics claim that [even] nonphysical punishment can damage relationships, create resentment, and compel rather than encourage obedience. Moreover, punishment may promote school absenteeism, dropping out, school vandalism, and excessive anxiety." Education "experts" hated the film *Lean on Me* because they thought it sent an overly simplistic message about the efficacy of discipline and expulsion to reduce violence and increase student achievement. "Its popularity shows how badly the public can be deceived when offered easy solutions to its fears of teenagers, blacks, Hispanics, drugs, and crime," wrote one particularly excitable professor in *Education Week*. "In fact, the public support [Joe] Clark has gained for his tough-guy antics may well demonstrate the fragility of democracy."

The self-esteem craze is particularly amusing. Over the past couple of decades, programs to boost self-esteem among students have proliferated in many school systems. "The litany of statistics about self-destructive tendencies such as substance abuse, crime, and suicide must surely be seen as a signal from young people that many do not find much about themselves to like," wrote education professor James A. Beane in *Educational Leadership*, a prominent journal. Beane argues that enhancing self-esteem in school will, in addition to addressing behavioral and academic problems, "extend the idea of personal development beyond coping with problems and into personal efficacy or power, which, in turn, may lead toward action," thereby helping to "build the personal and collective efficacy that helps us out of the morass of inequity that plagues us."

Beane and others assume that a lack of self-esteem leads to crime and substance abuse. In fact, violent students are often fixated with themselves and quite comfortable with their actions—*and continue to commit crimes because they think they won't be punished.*

Other education "experts" contend that school violence stems from racial and cultural inequities and therefore cannot be effectively combatted by disciplinary efforts. Herbert Grossman, a teacher at San Jose State University, wrote in *Contemporary Education* that the population of the United States is rapidly becoming less "EuroAmerican." As a result, he says, fewer students respond positively to and profit from classroom management techniques "that have been designed with EuroAmerican middle-class students in mind." Grossman advocates "cultural sensitivity" when operating classrooms containing racial minorities. What about misbehavior and discipline? Grossman questions whether minority students can be expected to "sit in a quiet and controlled manner."

Education "experts" often argue that discipline is used in a discriminatory manner, and that attempts to combat school violence are merely smokescreens for punitive actions against minority students. Prejudice, Grossman writes, "drives many minority and working-class students to actively resist both their teachers and the system by purposefully misbehaving." Prejudice, he continues, "may also contribute to the unnecessary suspension of so many African-American, Hispanic, and working-class students." In conclusion, Grossman asserts that "the elimination of teacher prejudice is one of the most important steps educators can take to reduce disciplinary problems with minority students."

Both the self-esteem and multicultural fixations represent a fundamental challenge to the role of punishment and discipline in deterring school violence. Even more radical theorists enjoy some following in the education establishment, which has traditionally included radicals whose view of incorrigible students and nonconformists was more positive than negative. They're the kind of people who refer to the 1992 riots in Los Angeles as a "rebellion." In the school context, they view strong action against violent students as punishing society's victims, rather than addressing crime's so-called "root causes."

Toward Solutions

Radical theorists like these would present little threat to sound school administration if it were not for the current structure of American education. A system of publicly owned, controlled, and regulated schools, staffed by public employees and subject to the control of outside public authorities, is incapable of withstanding today's assault against punishment and common sense. Similarly, the legal restraints and requirements that have been placed on the administration of school discipline and security measures exist because of school's public nature.

In some districts, to be sure, violence has become so common that traditional obstacles to security measures have been overcome. A number of schools have banned gang clothing and insignia, as well as opaque book bags. San Diego's school system got rid of lockers, which resulted in inconvenience for students but also reduced gun crimes, robberies, and graffiti. Programs to encourage positive behavior and involve parents are great, says San Diego school police chief Alex Rascon, but in the meantime "the answer is to lock the campuses down. Have everyone enter through one door, sign in, and have permission to see a teacher ahead of time." Good security, Rascon adds, is inconvenient "but we just cannot dilly-dally around with the way things are now." It's unfortunate, however, that conditions have to escalate to crisis level before school administrators are given leave to take basic steps to reduce the threat of violence.

Private schools, by comparison, often maintain strict and uniform regulations that result in few incidents of violence or disruption, even in inner cities or other areas where crime is an integral part of the surrounding neighborhood. Private schools mete out not only more effective, but in many students' minds, fairer discipline, according to James Coleman: "This suggests that the legalistic approach to ensuring fairness in discipline may be less effective than other approaches . . . [and] may indeed be counterproductive for effectiveness of discipline."

In a private school setting, the role of the student is not that of "citizen" (to use the Supreme Court's term) with constitutional rights. Rather, the relationship with teacher and administrator is an economic one; if school personnel no longer believe they can handle a violent student, they do not have to continue providing him with educational services. In addition, private schools are often smaller, less bureaucratic, and, frankly, better able to keep kids interested in learning—all of which contribute to a greater sense of safety and security.

Thus, to address the epidemic of school violence in America, we will have to reconsider the governance of schools themselves. Any other measure—from peer counseling to handgun control—will ultimately fail without a fundamental change in the relationship between student and school. Schools must discipline, but they will be free to do so only when released from the political constraints of the present system. At the same time, they must be held directly accountable to parents and students (their customers) if punishment becomes capricious or excessive. In short, we must adopt a private model for education. The intellectual and psychological development of all our children—and, some cases, their lives—depend on it. □

THE FREEMAN
IDEAS ON LIBERTY

The New York Asbestos Debacle

by Tim Brown

In August 6th of last year a bomb went off, sending shockwaves throughout the New York City public school system. The explosion, which subjected millions of parents and schoolchildren to fear, anxiety, and emotional distress, was not set by terrorists, but by politicians. It was the result of a national climate of environmental hysteria and an urban political system that could not rationally deal with three words—possible asbestos contamination.

The day before, special investigators from the City's School Construction Authority Inspector General's office called the State Department of Education in Albany to ask if they could see the asbestos management plans for each of the 1,069 New York City public schools. Without warning, investigators showed up 20 minutes later armed with service revolvers and search warrants. What they found, as they pored over thousands of documents, was that the school reports: "in addition to being incomplete and inaccurate, are so confusing and poorly organized that even an expert would have difficulty in determining specifically where asbestos is present in a particular school. For the ordinary concerned parent or teacher, the reports are incomprehensible."

The next day New York Mayor David Dinkins held a press conference and ordered every New York City public school closed pending a reinspection for asbestos contamination. Operation Clean House had begun.

The New York asbestos saga really began in 1986 with the passage of the Asbestos Hazard Emergency Response Act (AHERA) which mandated that local governments survey all schools to inventory and identify asbestos-containing material. New York's original inspection process began in 1988 and was conducted by a 53-member Asbestos Task Force, under the School Construction Authority. The inspections were originally to be completed in October 1988, but the task force asked for an extension until May 1989. As of February 1989, only 630 inspections had been completed; at least 300 inspection reports were filed within the last few days of the deadline. Task force inspectors allegedly fabricated reports to indicate that inspections had taken place when in fact they had not.

By 1990 construction workers and building inspectors were reporting the discovery of damaged, exposed asbestos during school renovations in places that had been declared free of asbestos. Only in 1993 was the Inspector General's office asked to investigate, however, after which city officials panicked.

Then they mismanaged the ensuing public communications effort. In fact, the actual risk of asbestos exposure to children was extremely low. The city's acting Health Commissioner, Dr. Benjamin Chu, said that there was no evidence that students and staff

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had been exposed or harmed, and there "is really no basis for alarm now." Even the Inspector General's report that set the stage for Operation Clean House admitted that "Although the AHERA reports may be completely unreliable, it does not necessarily follow that every school is unsafe or must be closed." But the mayor's precipitous school closings left parents convinced that their children had been at risk. And the government would not release any specific information on which schools had been found to contain damaged asbestos, until after the particular school had been cleaned up, further reducing the city's credibility: John C. Fager, co-chairman of the Parents Coalition for Education, said that "Parents are totally in the dark . . . not informing them is just inviting more fear and hysteria."

However, city officials, too, were obviously in the dark. Contrary to popular assumptions, neither AHERA, nor Environmental Protection Agency regulations, nor state environmental laws required closure of all the schools. After all, the schools remained open during the original AHERA inspections. Rather, like so many environmental issues, asbestos in schools is a political rather than scientific issue.

Mugged by Reality

But even the politicians eventually had to give in to reality. With only a handful of trained and certified asbestos inspectors, their original Herculean goal of visiting 35 schools a day was never realistic. As the deadline neared, and the pressure to open the schools on time increased, inspectors faced the same deadline pressures as the first asbestos task force. With 18 days to go only 197 schools had been inspected, leaving 743 to go. Something had to give. The new Schools Chancellor, Ramon C. Cortines, declared that all schools would open on September 20 except for a handful in which asbestos would be sealed or removed. As Cortines admitted, "If we had known what we know now on the 9th of September we might have made a decision to open [the schools on time]."

Obviously, the actual risk posed by asbestos did not change throughout this process, but rather, remained somewhere between hundreds and thousands of times lower that other everyday hazards facing schoolchildren. Scientists agree that the mere presence of asbestos does not pose a hazard if the asbestos is encapsulated—in wall plaster, for instance. Only if asbestos is damaged so that the fibers are exposed to the air is a person likely to inhale asbestos particles, and even then, a very large concentration of airborne asbestos is necessary to pose a health risk. Yet, the city never attempted to measure airborne asbestos contamination, the only empirical evidence upon which to base a decision. In mid-September, a group of 17 scientists criticized city officials for not taking into account the wealth of scientific data available on asbestos.

As it turns out, samples taken after the school closings revealed particle levels below the Occupational Safety and Health Administration standards, much lower than safe limits, and *even lower than ambient outside levels*. The latter should come as no surprise. A $4 million EPA review of asbestos data, including a survey of 170 schools published in 1991 by the Health Effects Institute-Asbestos Research, found indoor asbestos levels to be lower than that outside buildings.

Unfortunately, the asbestos scare reflects a larger pattern: the routine politicization of the environment in areas ranging from Alar to global warming. Off the record, even New York city officials admitted that closing the schools was less a scientific necessity and more a political remedy to mollify irate parents who had lost confidence in the school system.

In the end, the schools reopened. Along the way asbestos contractors made some money, parents were frightened, politicians postured, and scientists struggled to be heard. But while the New York schools seemed to get back to normal, the public remains as vulnerable as ever to new attacks of environmental hysteria—perhaps involving lead poisoning, perhaps ozone depletion, or perhaps something else. □

BOOKS

The Rise and Fall of Leftist Radicalism in America

by Edward Walter

Praeger Publishers, Westport, Connecticut
1992 • 194 pages • $45.00

Reviewed by David Osterfeld

Edward Walter's *The Rise and Fall of Leftist Radicalism in America* is, in the author's words, "a defense of liberal democracy and the United States as its foremost practitioner" from the onslaught of the leftist radicals, whose attacks he views as "devious, unfair, and unprincipled."

What united the numerous strains of leftist radicals, says Walter, is not their vision of an alternative society but their uncompromising opposition to free market capitalism and, consequently, the United States. The primary reason that intellectuals, serious artists and writers as well as many in academe, harbor such resentment against American society, the author claims, is that, in contrast to, say, Europe where intellectuals are at least respected if not handsomely compensated, they see themselves as being neglected and even derided by the American mass media which, in its quest for profit, panders to the lowest common denominator. The irony is that while the anti-American mindset of some intellectuals stems from their feeling of being unjustly ignored, they actually have a significant, long-run impact on American attitudes and beliefs emanating from their strategic position as educators.

It is mainly for this reason, believes Walter, that a stable, prosperous, and open nation such as the United States finds itself beset with chronic, fundamental, and general opposition.

What most disturbs the author is the radical leftists' unscrupulous, even Machiavellian, tactics, which Walter does a superb job of documenting. As Walter puts it, a moral principle "was hired like a cab to get the radical leftists to the destination they desired . . . and dismissed . . . when it would take them elsewhere. The destination was all that mattered." The radical leftists hated America because it was capitalist, and thus intrinsically immoral; they embraced the Soviet Union since it was "anti-capitalist and anti-American" and therefore morally sacrosanct. The task was to defend the Soviet Union by adopting whatever "moral principles" the situation called for.

Walter examines the abuse of such terms as "liberty" and "democracy" running throughout radical leftist literature. Massive violations of civil liberties in the Soviet Union were rationalized by American leftists such as Roger Baldwin, founder of the American Civil Liberties Union, who claimed that there were two kinds of liberty, economic and civil. The latter was more important than the former and since some violations of the former were necessary to achieve the latter, they were justified. America, by contrast, was a system based on the economic serfdom of capitalism.

And Yale sociologist Jerome Davis contended that although America may have political democracy, that was of little consequence since it did nothing to prevent "industrial autocracy." By contrast, although the Soviet Union was "politically dictatorial," that was unimportant in light of its democratic economic institutions. By such sophistries, Walter shows, radical leftists were able to posture as champions of liberty and democracy while simultaneously justifying political tyranny.

Walter appropriately describes the radical left's track record as "shameful." Stalin's liquidation of millions of kulaks, or middle-class farmers, because they resisted agricultural collectivization was justified as necessary in order to eliminate the reactionary elements blocking the transition to Communism. A good end, pronounced Walter Duranty, Moscow correspondent for the *New York Times*, "justifies any means however cruel." The treatment of tens of thousands who were executed or imprisoned during the

Soviet show-trials of the 1930s was defended on the ground that the accused had not proven their innocence, thereby endorsing the legal principle that one is guilty until proven innocent. Moreover, radical leftists argued in a moral asymmetry of breathtaking proportions, Americans had no right to take the Soviets to task since the convictions of Sacco and Vanzetti in the 1920s showed that the United States was just as bad. And besides, said writers like Corliss Lamont, Soviet oppression was made necessary by the imperialist threat of Western capitalism, thereby placing responsibility for Soviet police state tactics in American hands and conveniently exonerating the Soviet Union.

Yet, radical leftists repudiated these propositions when it suited them. During the McCarthy period in the early 1950s, radical leftists like Lamont defended the First Amendment rights of free speech and press on the ground that they were categorical guarantees, repudiating their earlier utilitarian position that an important end justifies the abridgment of rights. Congressional loyalty investigations were condemned because they violated the traditional presumption that individuals "are not guilty until evidence proves their guilt." And the traditional American legal system, guaranteeing rights for the accused, was suddenly seen as not so bad after all.

Walter convincingly demonstrates that both the abuse of language and the misuse of ethical principles have been hallmarks of leftist radicalism down to the present. Although far from commendable, the record of the South Vietnamese governments during the Vietnam war was far superior to the record of either the government of North Vietnam during the war or the government that replaced it following the war. And while hardly admirable, the record of the Shah of Iran, by any reasonable reckoning, was much better than that of the Ayatollah. Yet, in both cases, it was the former that was vilified and excoriated by the radicals while the latter was applauded and given every benefit of the doubt until there was no doubt left, at which time leftists turned their attention to other matters, such as El Salvador. The only explanation for such behavior, believes Walter, is the radical left's hatred for capitalism and their desire to weaken U.S. foreign policy.

Walter is far from a mere cheerleader for America. He readily acknowledges that the United States made mistakes and at times these were serious. Vietnam is a case in point, and he is certainly no fan of McCarthy. But since policies are made by human beings and human beings are fallible, mistakes are to be expected in every society. What Walter stresses, however, is both the self-corrective character of liberal democracy, where wrongs can be peacefully corrected and the victims recompensed, and the fact that *only* societies in which free markets have flourished and natural rights have been respected have succeeded in improving the material positions of all its members.

The Rise and Fall of Leftist Radicalism in America provides the reader with engaging reinterpretations of the major events in twentieth-century America. Walter's interpretations are compelling largely because, in contrast to the Machiavellian tactics of the leftist radicals documented in his book, his key terms are so carefully defined and consistently applied. □

The late David Osterfeld was a professor of political science at St. Joseph's College in Rensselaer, Indiana.

A Retrospective on the Bretton Woods System—Lessons for International Monetary Reform

edited by Michael D. Bordo and Barry Eichengreen

The University of Chicago Press • 1993
690 pages • $75.00

Reviewed by Robert Batemarco

What constitutes the ideal international monetary system? To this reviewer, and presumably most readers of *The Free-*

man, it would be a system which could not be manipulated by governments and central bankers, thus subject to neither inflationary expansions nor deflationary collapses. Its various currencies would all be fully convertible into a base money that would be free of exchange rate risks which might impede the free flow of goods and capital between nations. Indeed, under the ideal system, exchange between people in different nations would be no more complicated than trade between people in different states.

A Retrospective on the Bretton Woods System makes obvious just how far we are from achieving this ideal and showcases many of the attitudes responsible for our current problems. The volume consists of twelve papers plus two panel discussions at a conference held under the auspices of the National Bureau of Economic Research on the twentieth anniversary of the breakdown of the Bretton Woods par value system.

The standard interpretation of the international monetary system parallels the standard interpretation of Keynesian economics, which, as this volume often reminds us, inspired Bretton Woods. Just as Keynesianism was thought to have "saved" capitalism by removing the balanced-budget constraint which had prevented governments from dealing with the otherwise intractable problem of the business cycle, so the Bretton Woods system was seen as "restoring" the liberal international trading system by uncoupling international and domestic policymaking. The rapid pace of growth of global output and trade in the post-war period through 1973 is usually trotted out as evidence to this effect, although several contributors at least consider the possibility that the Bretton Woods system was not responsible for that performance. In fact, the shortcomings of both Bretton Woods and the system's underlying Keynesian theories prevented either from lasting a whole generation. A large part of *A Retrospective* discusses the factors which led to the system's demise.

The book is divided into three main sections, dealing with Bretton Woods's origins, operations, and legacy, plus a conclusion. The initial article, written by editor Michael Bordo, traces the evolution of the Bretton Woods system from its initial arrangements through its inglorious replacement by floating exchange rates in 1973. Bordo weaves a wealth of historical and statistical detail into a coherent narrative. He also compares the macroeconomic performance of the system with the classical gold standard, the interwar gold exchange standard which degenerated into a free-for-all of floating rates, and the post-Bretton Woods set-up.

Bordo's characterization of Bretton Woods as exhibiting "the best overall macro performance of any regime," including the gold standard, rests on his judgment that price stability should be accorded lower priority than per capita growth of real GDP. It also leads him to find it paradoxical that the Bretton Woods system was so short-lived (the U.S. shut the gold window, effectively ending the par value system, only thirteen years after the European currencies achieved *de facto* convertibility).

He believes part of the solution to this paradox to be the occurrence of events—particularly the rapid recovery of Europe from the war and the subsequent replacement of a dollar shortage with a dollar glut—which the Bretton Woods planners could not foresee. He attributes the rest to either flaws in the system or inappropriate policies by member countries, especially the United States. He points, for example, to the built-in instability of any gold exchange standard plus the fact that capital mobility made it too costly for nations to adjust their exchange rates in the way permitted by the system. As inappropriate policies he cites America's inflationary course taken after 1965 and the failure of countries with a dollar surplus to adjust. I question this dichotomy between systemic flaws and bad policies: a system which metes out no effective penalty for bad policies is for that reason a flawed system. Maurice Obstfeld makes this same point in his paper, noting that "a well-designed system should provide incentives that ensure successful operation." Bordo himself admits that Bretton Woods was, in some ways, a failure. Except for deflation, he writes, "the problems of the interwar system that Bretton Woods was designed to avoid re-emerged with a vengeance."

Despite providing some rather incisive analysis of the problems with Bretton Woods' attempt to devise a workable international monetary system, the book's authors are by and large enamored of fiat money and the right of nations to inflate their currencies at their own pace. Among the most egregious examples of this viewpoint are Bordo's and Obstfeld's citing as a problem the failure of countries with surplus dollars to adjust (i.e., to inflate as rapidly as their trading partners), Genberg's and Swoboda's calls for a world currency and central bank, and Garber's statement that "There need be no inherent problem with a fiat monetary system with one country's central bank providing the liquid funds."

The one common denominator of these views is that the international monetary system must never permit the slightest hint of deflation. Thus, any kind of true gold standard, in which gold actually circulates as money and constitutes reserves into which all other forms of money are convertible, is anathema to the volume's contributors. Keynes himself described the system put in place at Bretton Woods as "the exact opposite of [a gold standard]." The aversion to gold might be defensible if the uninterrupted inflation which has characterized the last sixty years (with gold demonetized for the last twenty) had freed us from the business cycle. The record, however, clearly shows that the business cycle has continued, with neither gold nor deflation anywhere in sight to shoulder the blame.

Ultimately, the international monetary system set up at Bretton Woods was an attempt to shield nations from the consequences of irresponsible fiscal and monetary policies, in sharp contrast to the pre-war gold standard, which penalized such behavior. Bretton Woods did this by using exchange rate devaluations in an attempt to short-circuit the mechanism that normally triggers the slumps that follow inflationary booms. To the extent that governments and central banks *believed* that such a strategy would succeed, they were encouraged to engage in more inflationary policies. But since the laws of economics prevent nations from escaping boom-induced slumps, countries ended up with more downturns as well.

The primary value of *A Retrospective* lies in laying out enough facts about the Bretton Woods system to permit readers to draw this conclusion. The book's greatest failing lies in the reluctance of its contributors to make the same judgment. Instead, they stubbornly adhere to the belief that the problem is not with politically managed currencies, but rather only with the particular framework of management which was developed at Bretton Woods. □

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THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
MARCH
1994
VOL. 44
NO. 3

100 The Economic Way of Thinking, Part 6 *by Ronald Nash*
Scarcity forces us to make choices.

104 The Double-Edged Sword of Multiculturalism *by E. Calvin Beisner*
People concerned about the quality of American higher education need to understand the meaning of multiculturalism—and be prepared to respond appropriately.

113 To Repair the Culture, Free the Market *by Llewellyn H. Rockwell, Jr.*
Rescuing society from the disastrous consequences of state planning and impaired markets.

118 Our Own Mad Clockwork *by Robert Zimmerman*
Answering questions about the establishment of slavery in America may help us to spot the beginnings of a parallel evil in our own time.

124 Inside the Federal Hurting Machine *by James L. Payne*
Political discourse about spending programs overlooks the human inconvenience and suffering inflicted by taxation.

129 Government Redistribution Impoverishes the Poor *by Dwight R. Lee*
Transfer programs reduce economic growth by discouraging productivity and encouraging dependency.

131 How Much Money? *by Bettina Bien Greaves*
What individuals want is not more money, but more purchasing power.

134 Capitalism: An Alternative for Inner-City Gangs *by Ralph Reiland*
Instead of the failed remedy of welfare handouts, why not try the market?

136 Freedom versus Fear *by John Attarian*
Much of today's colossal government intervention in the free market can be traced to fear of life and its mishaps.

141 A Needful Blessing for the Tsar *by Phil Trieb*
Keeping the government out of our lives.

143 Strikers and Scabs *by Charles W. Baird*
The dangers of prohibiting employers from hiring permanent replacement workers in economic strikes.

145 Correction, Please! *by Mark Skousen*
In the first of his monthly *Freeman* columns, Professor Skousen takes a look at paradigm shifts in Paul Samuelson's thinking.

148 Book Reviews
Raymond J. Keating reviews George Gilder's *Recapturing the Spirit of Enterprise* and the revised edition of *Wealth and Poverty*; *Kindly Inquisitors: The New Attacks on Free Thought*, reviewed by Jonathan H. Adler.

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PERSPECTIVE

A Lesson From the Past

Admiral H. G. Rickover was eccentric, an iconoclast, often at odds with his peers and superiors in the Navy. But his perfectionism gave us our nuclear propulsion Navy. Our first nuclear submarine, *U.S.S. Nautilus*, went into service in January 1955. The Polaris fleet followed in 1960. Rickover named them for patriots beginning with George Washington and including Daniel Boone, Will Rogers, George Washington Carver, and others. Why this disregard for Navy tradition of naming submarines for marine life? Despite the demands of his profession Rickover had two avocations: history and the education of American youth. By naming the Polaris fleet for patriots he sought to keep their names and deeds before the public, especially young Americans. He wrote a book, *Eminent Americans: Namesakes of the Polaris Submarine Fleet*, in which his wife assisted in the biographical research.

His interest in American history was renewed in 1974 by a newspaper article recalling the destruction of the battleship *Maine*. The journalist questioned again whether the sinking was due to an external or an internal explosion and quoted the Chief of the Navy's Bureau of Steam Engineering as saying that the explosion was in one of the ship's ammunition magazines. The admiral decided to review the findings of the Board of Inquiry and other relevant information, and to apply modern technological analysis to determine the probable cause of the explosion. Navy technical laboratories performed tests and experiments for him. After relating the tests to the written record, he concluded that there was insufficient evidence to support the Board of Inquiry's conclusion that the *Maine* was destroyed by an external mine. Moreover, there was now significant evidence of the likelihood of an internal explosion. Two related factors supported this: the bituminous coal used by the Navy often caught fire in the coal bunkers due to spontaneous combustion, and only a thin steel wall separated some of the bunkers from the ship's ammunition storage.

Had modern technological analysis been available and applied in 1898 the meaning of "Remember the *Maine*" could have been significantly different. Admiral Rickover stated the lesson as follows: ". . . we can no longer approach technical problems with the casualness and confidence held by Americans in 1898. The *Maine* should impress us that technical problems must be examined by competent and qualified people; and that the result of their investigation must be fully and fairly presented to their fellow citizens." Now, almost two decades later, his further warning bears repetition and emphasis: "With the vastness of our government and the difficulty of controlling it, we must make sure that those in 'high places' do not, without most careful consideration of the consequences, exert our prestige and might. Such uses of our power may result in serious international actions at great cost in lives and money—injurious to the interests and standing of the United States."

The admiral was thinking of military consequences, but his words are applicable in a broader spectrum, namely science and technology in government. Had his methodology been applied by government agencies concerned with our ecology and environment we would not have had the unscientific, unwise decisions regarding alar, asbestos, PCB, dioxin, and "acid rain," to name but a few, that have been so detrimental to our national economy.

— WM. J. ELLENBERGER
Escondido, California

To the Editor:

In "Sexual Harassment: What Is It?"—*The Freeman*, June 1993, Wendy McElroy says that "Racism is difficult to define, yet few people would deny its existence." She is too kind. For it is easy to define "racism" in such a way that it becomes a word for a kind of obviously unacceptable behavior. "Racism" is thus to be defined as advantaging or disadvantaging people for no other and better reason than that those people happen to be members of one particular racial set.

Difficulties and confusion arise because so many people want both to commend positive discrimination and quotas as anti-racist, notwithstanding that these are in the sense defined paradigmatically racist; and to denounce various individuals and institutions as racist notwithstanding that these individuals and institutions have not been guilty of that obviously obnoxious form of behavior.

Yours faithfully,
ANTONY FLEW

The Rule of Law

The internal effects of a mutable policy are still more calamitous. It poisons the blessings of liberty itself. It will be of little avail to the people that the laws are made by men of their own choice if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood; if they be repealed or revised before they are promulgated, or undergo such incessant changes that no man, who knows what the law is today, can guess what it will be tomorrow. Law is defined to be a rule of action; but how can that be a rule which is little known, and less fixed?

—THE FEDERALIST

A New *Freeman* Feature: Mark Skousen's "Correction, Please!"

Mark Skousen's monthly *Freeman* column, "Correction, Please!" makes its debut on page 145, settling into a regular spot preceding the book review section. Read him each issue for a lively rebuttal of popular myths and fallacies in today's media.

THE FREEMAN
IDEAS ON LIBERTY

The Economic Way of Thinking

Part 6

by Ronald Nash

Last month, I pointed out the value of approaching economics as a way of thinking, not as a set of doctrines and theories. I also explained how there is nothing terribly complicated about the economic way of thinking, once certain fundamental principles are understood. While much of this material turns out to be a matter of common sense, people who are unaware of these principles will have trouble understanding why some things in life are true.

In Part Five, I dealt with the first of these principles of the economic way of thinking: *Incentives matter*! When you give people incentives to do A rather than B, the number of people who choose A rather than B will increase, all other things being equal.

Every Choice Involves Some Cost

This essay will deal with the obvious fact that every choice carries a cost. Because human beings live in a world marked by scarcity, nothing is free. Every economic good has a price in the sense that before anyone can obtain it, he must sacrifice something else. It is impossible to get A (some economic good) without giving up B (some other economic good).

The economic principle in view here is often expressed in such old sayings as: "You can't have your cake and eat it too" and "There is no such thing as a free lunch." The unavoidable fact of scarcity forces us to make choices in which we sacrifice some things in order to obtain others.

Ranking Our Options

Economics studies the ways in which people attempt to satisfy their wants with the resources at their disposal. It is concerned with how people choose to bridge the gap between what they have and what they want. Because our resources are never sufficient to satisfy all of our wants, we have to make choices about how to use our resources so as to supply the wants that we judge to be most important.

As human beings seek ways to get the most out of their limited resources, they are forced to rank their available alternatives. This ranking will reflect the individual's own personal order of values. Everyone has a scale of values by which his needs, wants,

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and goals are ranked in order of the importance and urgency he attaches to them. Even though we may be unconscious of the process, we all engage in a constant ranking of the relative value to us of things we want but do not possess and of things we possess but might be willing to trade for something else.

Several things follow from the fact that people place different values on things. For one thing, if person A values x (some economic good) more highly than person B does, A will be willing to sacrifice more in order to secure an additional unit of x. Moreover, since person B values x less than A does, B may be willing to trade some quantity of x to A in exchange for something else that B desires more. It would be difficult for market exchanges to occur in a community where everyone placed precisely the same value on everything.

Not only do value scales differ from person to person, the value scales of individual persons are constantly changing. As people's interests, wants, and information change, their preferences change. The things that a person puts forth the greatest effort to secure at any given moment are those that rank highest on his personal scale of preferences at that moment and in those circumstances.

Obviously, then, economic value is subjective. The reason people choose one economic good over another is not grounded on any objective value inherent in the good itself. Their choices reflect the value they impute to the good at the moment they make the choices.

Cost Versus Money Cost

Economic choices are geared towards maximizing benefits and minimizing costs. It should be clear that the word *cost* has more in view than the mere outlay of money. The more someone believes he is likely to benefit from an action, the more likely he is to act in that way. Greater benefits make a choice more attractive; higher costs make it less attractive and make it less likely that someone will select the most costly option.

This analysis of economic choice entails neither materialism nor selfishness. It does not assume that human beings seek only money or material goods or their own welfare. There are times when the welfare of others ranks higher in our scale of values than our own well-being. There are occasions when we willingly incur significant money costs because the possibility of giving up something other than the money in question is viewed as too high a cost.

Some people want certain goods for the express purpose of being able to use them for the well-being of others. Some regard many things as more important than paper and metal money. Some people give a higher priority to serving others than to serving themselves. Their economic choices will reflect these priorities.

Opportunity Cost

In every economic choice, something is gained; but something else must be sacrificed. What economists call *opportunity cost* is the subjective value of the highest ranked option or opportunity that someone forgoes in order to obtain some good. Most people think of the cost of some good solely in terms of the money they must surrender in order to acquire it. Such thinking confuses money price with cost.

If I had not used scarce resources to acquire A, I could have used them in other ways. Suppose, in this case, that of all the available options, one alternative (call it B) is my first preference to A. But when I decide to acquire A, I forgo the opportunity to acquire B. My sacrifice of B then is the opportunity cost of my buying A. Since people's value scales differ, it follows that different people who acquire A will have varying opportunity costs. For one person, the opportunity cost of buying a large screen television set might be a vacation in Monument Valley, Utah. For another person, it might be a large donation to starving children in Somalia. It is important therefore to recognize that the cost of anything involves more than money cost; it is actually the cost of forgone opportunities.

An Example

Several months ago, I accepted an invitation to speak to a civic organization in a large city. I agreed to speak because the affair was an opportunity to introduce a number of influential people to a subject I care about, family choice in education. On the day I accepted the invitation, there was nothing else on my schedule, so my opportunity cost amounted to several hours of lost time, time that I probably would have spent completing my new book.

But a few days before my date with the civic organization, a friend called to invite me to play golf at a well-known country club. Unfortunately, the golf date conflicted with my scheduled meeting with the Kiwanians. I was faced with an either/or situation: either play golf at a very special course or speak to the Orlando Kiwanis Club. At the risk of offending some Kiwanians, I have to admit that I really did prefer the golf match. Nonetheless, I told my golfing friend that I had another commitment.

Some might think the example conflicts with my earlier observations about how we always choose the highest ranked alternative in our scale of values. It seems clear that I ranked that round of golf higher than speaking to the Kiwanis Club. Does my decision not show that the option I selected was not the thing I valued most at the time? The reason it does not rests on the fact that there was something else that ranked higher in my scale of values that day than either the Kiwanis meeting or the golf match, namely the importance of keeping a promise *and* the opportunity to represent the cause of school choice before an important audience.

What did it cost me to speak at that Kiwanis meeting? Originally, I thought my opportunity cost would only be a few lost hours that I could have spent working on a book. That was no big deal. But now, it was the loss of a coveted round of golf. This cost was serious enough to elicit an "Ouch"! But obviously I also thought that the opportunity cost of breaking a promise and abandoning an opportunity to represent an important cause would be even more severe.

There is nothing unusual about my decision. Every reader of this essay has done similar things many times in his or her life. In my case, my understanding of the notion of opportunity cost aided my understanding of myself and the reasons for my final decision. It is easy to see, however, how someone not familiar with the principle of opportunity cost—the part of the economic way of thinking that is the topic of this article—might have difficulty sorting things out.

Introducing Children to the Notion of Cost

Children and, for that matter, many teenagers can be helped through an understanding of the concept of opportunity cost. Some parents mistakenly give in to every request or demand of their children. When parents do this, they incur opportunity costs for themselves; they make sacrifices. Why shouldn't children learn that choices always involve costs? I recognize that this can be overdone with small children. But as children mature, understanding how scarcity requires choices and how choices involve costs may help them mature more quickly and become more responsible.

Many people in their teens and twenties demonstrate a total lack of acquaintance with this subject. It is natural to wonder how many of the foolish and immature things young people do result from their inability to recognize the true costs of their actions. It also seems highly likely that one reason many adults behave in equally foolish ways is that they also have not learned to recognize the true costs of their decisions.

Even though I spent close to thirty years teaching in a large state university, I am now a professor in one of the ten largest theological seminaries in the world. I introduce the students in my ethics classes to the principles of the economic way of thinking. To the future ministers in my classes, I strongly suggest that they can find some valuable preaching material in the notion of opportunity cost. Jesus once told about a wealthy farmer who cared only for the accumulation of more wealth and who failed to realize that the opportunity cost for his pattern of living was the loss of his soul. It would be an interesting experiment for some to go through the Bible and identify the serious consequences that befell certain well-known individuals in Scripture who failed to recognize the true costs of their bad decisions.

But this essay is not a sermon. It is simply an introduction to an extremely important principle of the economic way of thinking. Realizing that all our choices entail costs that often go unrecognized might prove to be one of the important lessons we learn in life. □

A Lesson in Liberty

Just a few years ago our family read the *Little House on the Prairie* series by Laura Ingalls Wilder. Though living outside of town on a claim, Laura and her family were wakened one Fourth of July in the pre-dawn darkness by gunpowder exploding under the town blacksmith's anvil. Ma wasn't interested in the main attraction of the day—horse races—and baby Grace was too young, so Pa, Laura, and Carrie made the trip to town for the simple celebration. After a quick and light lunch the festivities began with a speech recalling the struggle to obtain their liberty and a public reading of the Declaration of Independence. (Laura and Carrie knew it by heart—quite a commentary on old and new educational systems.) But after the reading an eerie silence fell over the crowd, almost a holy hush, which was broken courageously and spontaneously by Pa's singing "My country, 'tis of thee, sweet land of liberty. . . ." Everyone joined in, recognizing the appropriateness of the song for the occasion. As the song ended the crowd scattered away, but the last lines of the song, combined with the prior reading of the Declaration, gave Laura a life-changing lesson in what it means to be free: "Long may our land be bright, with freedom's holy light, protect us by Thy might, Great God, our King."

Laura realized God was America's king and that Americans don't obey an earthly king, but are free. But since no king controlled her father, he had to control himself. She realized as she grew older her parents wouldn't be controlling her any longer either, and that she would have to live a moral life on her own. She had to be self-governed, and keep God's law, the only thing that she felt gave her the right to be free.

—MARTY MATTOCKS

THE FREEMAN
IDEAS ON LIBERTY

The Double-Edged Sword of Multiculturalism

by E. Calvin Beisner

Multiculturalism is a movement that has swept college and university campuses around the United States during recent years. Rooted in egalitarian democracy, the civil rights movement, and affirmative action personnel and admissions policies, it builds on the victim mentality that grips much of America, constructing from it a new vision for education—and with it, new visions of history, science, economics, and all other academic disciplines. People concerned about the quality of American higher education need to understand the movement and be prepared to respond appropriately.

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Let us begin with some defining. In this context, when we speak of *culture*, we mean the concepts, habits, skills, art, instruments, and institutions, of a given people in a given period. Very nearly we equate the word with *civilization*, though I think we have in mind things more particular, on a more humane scale, when we speak of culture.

It is no accident, as T. S. Eliot pointed out in 1946 in *Notes Towards the Definition of Culture*, that the words *culture* and *cultivate* share the same root, *cultus*, and that this Latin word derived from a verb, *colere*, that meant both to worship and to till the soil. "In the beginning," writes Russell Kirk, following Eliot's lead, "culture arises from the cult: that is, people are joined together in worship, and out of their religious association grows the organized human community. Common cultivation of crops, common defense, common laws, cooperation in much else—these are the rudiments of a people's culture. If that culture succeeds," he adds, "it may grow into a civilization."[1] At the very core of culture is religion, with its concepts of God and of transcendent morals, concepts so powerful that they shape every other element of culture, for good or ill.

It is clear what we mean by prefixing *multi-* to *culture* to make *multiculturalism.* The prefix reminds us that we have more than one culture in mind—indeed, many cultures. What is not immediately clear in our use of the word *multiculturalism* is what we mean by the suffix *-ism*. The suffix may, according to the dictionary, denote a variety of things. It may denote (a) the act, practice, or result of something—e.g., terrorism is the act or practice of terror; clearly this is not what we have in mind by the word *multiculturalism*. The suffix may denote (b) the condition of something's or someone's existence—e.g., barbarism is the condition of barbarity or a barbarian. Although there might be some of this idea in the use of *multiculturalism* (which, by the way, is too recent a word to be included in the 1987 edition of Webster's *Collegiate* dictionary)—some writers do use it simply to point to the fact that the American scene is multicultural, i.e., characterized by many cultures—this also is not the primary idea in mind in writings about multiculturalism. The suffix may also denote (c) action, conduct, or qualities characteristic of something—e.g., patriotism is the conduct or quality of a patriot. This begins to come closer to what multiculturalists—and critics of multiculturalism—have in mind. *Multiculturalism* in part denotes conduct befitting, or at least allegedly befitting, a multicultural society. But the primary sense in which writers on multiculturalism seem to use the word is (d) a doctrine, theory, or principle of something—e.g., atomism, in political philosophy anyway, is a theory that denies social cohesion and community and sees people instead as unconnected atoms.

To speak of multiculturalism, particularly in academic circles, is to speak of a doctrine or dogma—a set of beliefs—about our society and how we ought to educate its people. If all we mean by *multiculturalism* is that we recognize and want to teach truths about the many cultures of humanity, certainly there can be no harm in that. Indeed, that is what a good liberal arts education has done for generations. It is what used to be done tolerably well in secondary school courses on geography, history, civics, and cultural anthropology, back in the days when my parents went to school. And indeed I have a strong, intuitive sense that the urge toward a different kind of multiculturalism today is rooted partly in an educational vacuum left behind by the excision of most of the substance of such courses during the pedagogical upheavals of the 1960s and 1970s, when such courses tended to be replaced by an ill-defined "social studies."

A Movement Spawned by Poor Education?

My intuition, to enlarge on it a little, is this: That many Americans schooled chiefly in the 1960s and later learned little about the cultures of the world through our schooling. We also learned little about the American culture, since American geography, history, civics, and cultural anthropology were generally no better taught than foreign—a fact documented, for example, in E. D. Hirsch's *Cultural Literacy*. What we did learn of American culture came chiefly by our experience of American contemporary popular culture: radio, television, and the consumer world of the malls. Quite understandably, we didn't like much of this "American culture." So it was not surprising when, upon tasting other cultures, many of us uncritically embraced them as alternatives to what we knew of American culture. We knew too little of either American or foreign cultures to judge either maturely; we could neither appreciate the really noble aspects of any culture, nor despise the really ignoble aspects.

People ill schooled—or perhaps better, hardly schooled at all—in geography, history, civics, and cultural anthropology, but acquainted with the worst of their own culture, got tastes of other cultures through direct personal contact, or through books or other media, and those tastes awakened a hunger they hadn't known was there.

I did a little anecdotal research to test this intuition while I was writing this essay. I asked my mother—who was visiting at the time—whether she thought the multiculturalist urge might be so rooted. I asked her to reflect on her own schooling and to compare it with mine. She agreed. (Such agreement makes one glad to honor his parents!) She pointed out that when she and my father were growing up, such studies acquainted them with many cultures all around the world—an acquaintance that both served them well and grew when, in the 1950s, they were sent by the U.S. Department of State to work in the diplomatic corps in Calcutta, India.

Imagine the comfort I felt when I found my intuitions about this confirmed not only by my mother but also in some of my dear mentor's own writing! In one of his most recent books, *America's British Culture*, Dr. Kirk writes:

> Six decades ago, when this present writer was enrolled in a public grade school not far from great railway yards outside Detroit, nobody thought of demanding multiculturalism: we already possessed that in our school. In geography class, we learned a great deal about the cultures of five continents; we were very interested. Many of us, a few years later, enrolled (during high school) in three years of history: ancient, modern, and American. At least half of us took two years of language, either Latin or French, with corresponding instruction about Roman civilization or French culture; some pupils finished four years of foreign language. Our intelligent courses in English and American literature helped to redeem us from what T. S. Eliot called "the provincialism of time." We were much aware of diversity in the world and in our own country.
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> Today the radical multiculturalists complain, or rather shout, that African, Asian, and Latin American cultures have been shamefully neglected in North America's schools. In that they are correct enough. In many primary, intermediate, and high schools nowadays—aye, in colleges, too—the offering in the discipline of history amounts only to a whirlwind "Survey of World History" (with Good Guys and Bad Guys occasionally pointed out by the teacher, amidst the violent dust storm), and perhaps a year of American history, often ideologically distorted. As for geography, that virtually has gone by the board; at least one famous state university, a few years ago, swept away altogether its department of geography. . . .
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> Sixty years ago, most school pupils were taught a good deal about the people and the past of Bolivia, Morocco, China, India, Egypt, Guatemala, and other lands. They even learnt about Eskimo and Aleut cultures. Nowadays pupils are instructed in the disciplines of home economics, driver education, sex education, and the sterile abstractions of Social Stu[dies]. Formerly all pupils studied for several years the principal British and American poets, essayists, novelists, and dramatists—this with the purpose of developing their moral imagination. Nowadays they are assigned the prose of "relevance" and "current awareness" at most schools.[2]

In short, our lack of understanding of Western culture leaves us susceptible to the twin errors of idolizing and demonizing it, and our lack of understanding of other cultures leaves us susceptible to the same errors regarding them. For our parents, it was no shock to discover things both laudable and condemnable about their own and other cultures. (Some who have heard me say this have responded that their parents could think of nothing in America to criticize because their education had not equipped them for critical thinking. I doubt that. I think it more likely that their parents could and did criticize—but lacking the utopian mindset of my generation, they understood that one may accept as tolerable a culture that falls short of perfection.) For the children of the sixties, seventies, and eighties, most of whom never seriously studied geography or the history of Western or any other civilization, a narrow acquaintance with our own contemporary culture—dominated by thirty or more hours per week of television viewing, by an intolerable substitute for education in our schools, by the entertainment of mindlessness and protest, and by the high cult of the suburban shopping mall, a chance encounter with an astonishing element of a foreign culture can engender a sudden and uncritical enchantment with things foreign.

Varieties of Multiculturalism in the Academy

But let me come back, now, to the question of what the word *multiculturalism* denotes in common usage. Leaving aside the unobjectionable desire to restore a well-rounded education about the geography, history, civics, and cultures of many lands and peoples, I want to distinguish three kinds of multiculturalism.

Ethnic Inclusiveness and Self-Esteem

The first is rather mild, at least in its initial demands. In an article titled "In Defense of Multiculturalism," Nathan Glazer points out that "as currently used, the word 'multiculturalism' is something of a misnomer. It suggests a general desire or need for students to have something in the curriculum that relates to their own ethnic traits, if these exist, or to those of their parents or ancestors. I don't think this desire is particularly widespread among many ethnic groups," he continues. " 'We are all immigrants' is nice rhetoric, but in fact we are not all immigrants. Some of us came in the last decade, some of our parents came long before that, many millions of us have only the haziest idea of how many ancestors came from where. Since 1980 the census has included a new question, 'What is your ancestry?' The great majority of respondents report two, three, or more ancestries. Tens of millions simply insist on being 'American,' and nothing else."[3] (As a percent of both current population and annual population growth, immigration was much higher throughout the 1840s through 1920s than it has been at any time during the last four decades. Presumably, if immigration trends have been the chief cause of the rise of multiculturalism, we should have expected to see multiculturalism rise seventy years ago, when immigration was at its highest rate, proportionally, in American history.)

Glazer points out that this desire for an ethnically inclusive curriculum seems neither to have arisen from the increased immigration of recent years nor to be shared by the Asian and Hispanic persons who comprise most immigrants.

> But if it is not the new immigration that is driving the multicultural demands, what is? Multiculturalism in its present form derives basically from black educators. It is one of the longest settled elements in the American population that makes the sharpest case for multiculturalism. Asians, who make up half of current immigrants, are not much concerned. Nor are Spanish-speaking immigrants from Central and South America. Puerto Ricans and Mexican-Americans do tend to support bilingual education and the maintenance of the Spanish language. But they are definitely junior partners in the fight for multiculturalism.
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> I'm convinced that were it not for the pattern of poor achievement among blacks in the schools, the multicultural movement would lose much of its force. . . . Multiculturalism, and one of its variants, Afrocentrism, is presented to us by black educators and leaders as one of the means whereby this deficiency may be overcome.[4]

The claim of this milder form of multiculturalism is that by acquainting students with the cultures of their ethnic heritage, educators can help to build the students' self-esteem. Better self-esteem, in turn, will enable the students to achieve more in schooling.[5] But there are three major problems with the claim.

First, it fails to ask, let alone to answer, the question, "If these students' learning skills are so crippled by low self-esteem that they need their self-esteem raised to enable them to learn more, how are they supposed to learn about their ethnic heritage in order to raise their self-esteem?" It seems the disease must be cured before the medicine can be taken successfully—in which case, what good is the medicine?

Second, as Lynn Cheney put it, "Education is about the pursuit of truth, and one of the characteristics of multiculturalism gone wrong is that it turns education into something else—a procedure for making people feel good, for example; a way of building self-esteem. . . . Turning education into therapy invites distortion and half-truth into the curriculum. Education is not primarily about self-esteem. It is about learning to seek evidence, to evaluate information, to weigh conflicting opinions."[6]

Third, there simply is no evidence linking high self-esteem to high academic achievement, or low self-esteem to low academic achievement. In fact, as Diane Ravitch pointed out in an exchange of articles with multiculturalist Molefe Kete Asante, "In the most recent international assessment of mathematics, Korean children had the highest achievement and American children had the lowest achievement. When the students were asked whether they were good in mathematics, the Koreans had the lowest score, and the Americans had the highest score. In other words, the Americans had the highest self-esteem and the lowest achievement; the Koreans had the lowest self-esteem and the highest achievement."[7] What seems to correlate best with academic achievement is lots of hard academic work, and in at least some cases low self-esteem seems to promote rather than to suppress hard work.

The self-esteem argument for multiculturalism, however, can only succeed if it is assumed that what students will learn about their own ethnic heritage is laudable. Granting, for the sake of argument, that there is any connection between awareness of ethnic heritage and self-esteem, it must be admitted that discovering that one's ancestors were in charge of Jewish concentration camps in Hitler's Germany would not be likely to promote self-esteem. No, in order for the self-esteem version of multiculturalism to work, students must learn that their ethnic heritage is good—overwhelmingly good. And this in turn leads to the tendency among many multiculturalists to highlight whatever good they can find in cultures, to overlook bad traits, and even to fabricate history if necessary to create a better impression than real history seems to suggest. Such is the case, for instance, with much of what is called Afrocentric history, which claims that all the best in human history has come from Africa, that Greek culture was largely derived from Egyptian, and that Egyptian culture was black—a highly dubious claim historically.[8] Thus does a commitment to multiculturalism even of the mild variety prostitute the discipline of history to the cause of self-esteem and ideology.

Racial and Ethnic Limits to Thought?

The second way in which *multiculturalism* is used implies that race and ethnicity have an unavoidable effect on how people think and on the values they embrace, or even are capable of embracing. We cannot expect black students to learn well in curriculum shaped chiefly by Western culture because that culture doesn't fit the black mind. This form of multiculturalism Diane Ravitch, in her article "*E Pluribus Plures*," calls "cultural particularism."[9] The racial and ethnic determinism asserted in cultural particularism works in two directions: it imprisons people in their ancestral heritages, and it bars them from full participation in the culture in which they find themselves, particularly if it is American. As several critics pointed out, this is simply racism by another name and equally repulsive morally. From a Christian perspective, it runs contrary to the Biblical teaching that all people share equally in the image of God.

An Attack on Western Civilization

The third way in which the word *multiculturalism* is used is, I think, most objectionable. In a very insightful article on multicultural education in the arts, University of Illinois professor of cultural and educational policy Ralph A. Smith, who sympathizes with many of the multiculturalists' concerns, writes,

> In a global context, "multiculturalism" in arts education suggests the study of the arts of all civilizations, Western and non-Western. In the national context of the United States, the term usually implies that greater attention should be paid to the cultural expressions of ethnic and minority groups. But if this were all that multiculturalism denoted today, there would be no major issue, for, increasingly, volumes on the history of art are histories of world art and school textbooks are being rewritten to reflect the contributions to American life of groups previously given little or no consideration.
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> What makes multiculturalism a matter for serious concern is its transformation into an extreme ideology whose purpose is to undermine the significance of Western civilization by claiming that Western traditions, because of their pervasive racism, sexism, and elitism, are the cause of most of our modern problems. An increasing number of writers, for example, now believe that considerations of ethnic origin, class, and gender are more important in making policy decisions for arts education than the historical influence or artistic excellence of works of art.[10]

Smith cites Roger Kimball's observations about the underlying agenda of multiculturalism:

> Implicit in the politicizing mandate of multiculturalism is an attack on the idea of a common culture, the idea that, despite our many differences, we hold in common an intellectual, artistic, and moral legacy, descending largely from the Greeks and the Bible, supplemented and modified over the centuries by innumerable contributions from diverse hands and peoples. It is this legacy that has given us our science, our political institutions, and the monuments of artistic and cultural achievement that define us as a civilization. Indeed it is this legacy, in so far as we live up to it, that preserves us from chaos and barbarism. And it is precisely this legacy that the multiculturalist wishes to dispense with. Either he claims that the Western tradition is merely one heritage among many—and therefore that it deserves no special allegiance inside the classroom or out of it—or he denies the achievements of the West altogether.[11]

It appears, from reading both multiculturalists and their critics, that multiculturalists mean not only to disparage Western culture but to foster a moral relativism that makes meaningful evaluation and critique of culture nearly impossible—except when the target is Western culture. Consider the goal of the New York State Regents in a policy recently adopted for promoting multiculturalism: "Each student will develop the ability to understand, respect, and accept people of different races; sex; cultural heritage; national origin; religion; and political, economic, and social background, and their values, beliefs, and attitudes." American Federation of Teachers president Albert Shanker puts the common-sense objection to such a goal clearly:

> This goal, expressed in a lot of positive words, sounds very broadminded, very reasonable. And up to a point, it expresses what we'd hope for from a multicultural and global education. An educated person is not narrow-minded or provincial. So, of course we don't want students to be prejudiced—to prejudge the correctness or desirability of some idea or action before they know anything about it. We want them to be open to new ideas and ways of doing things.
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> But do we really want them to "respect and accept" the "values, beliefs, and attitudes" of other people, no matter what they are?
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> Do we want them to respect and accept the beliefs that led Chinese leaders to massacre dissenting students in Tiananmen Square? And what about the values and beliefs that allowed the Ayatolla Khomeini to pronounce a death sentence

on Salman Rushdie and the current leaders in Iran to confirm this sentence? Is it okay to condemn an author to death because he wrote something that offends your religious beliefs?

Is exposing unwanted children to the elements and certain death, a custom still widely practiced in some countries in Asia and Africa, to be respected and accepted because it is part of somebody else's culture? Is female circumcision? Must we respect the custom of forcing young children in the Philippines or Thailand to work in conditions of virtual slavery? And must we look respectfully on Hitler's beliefs and actions?

The multiculturalists, says Shanker, are

> also teaching their students not to make moral judgments. If any custom or law of people in any culture is as defensible as any other, what kind of judgment is possible? So, without intending to, they encourage students in prejudice of a different sort: Instead of mindlessly assuming that others' ways of doing things have to be wrong, students will mindlessly assume these ways of doing things have to be right—or at least as good as anyone else's. And by approving practices that would not be tolerated here or in any other democracy, they are saying that some people should be held to lower standards than others—a kind of moral superiority hardly consistent with multicultural and global education.[12]

In sum, multiculturalism tends to magnify whatever seems commendable in all non-Western cultures—especially African culture—and to minimize whatever might seem condemnable. At the same time, it magnifies whatever seems condemnable in Western culture—especially American culture—and minimizes whatever might seem commendable.

Responding to Multiculturalism

If multiculturalism is unhealthy, as I believe it is, what may we offer in its place? I believe that students well acquainted with the noblest elements of Western culture—especially of Anglo-American culture—and mindful also of its failings, will feel no threat either from criticisms of Western culture or from praise of the good elements of non-Western cultures. In particular, students should be aware of such noble principles of Western culture, not found either so pervasively or in so highly developed forms elsewhere, as the Rule of Law, moral and intellectual and religious liberty, and representative republican (spelled with a lower-case *r*) government. True, they should also be aware that the West has frequently fallen far short of those great principles, and that it often does so today. But they should recognize that where exceptions to these principles in the West are precisely that—exceptions—they have been and continue to be the rule in almost all other cultures.

Christians, particularly, should keep in mind that, up until the last century or two, Christianity's influence has always been far more pervasive in Western civilization (and I should remark here that I include in Western civilization the ancient Byzantine civilization, much of which has since become part of Islamic civilization) than elsewhere around the world. Western civilization has been more shaped by Christianity—with all its spots and blemishes, along with all its truth, goodness, and beauty—than by any other single influence. For Christians to jump on the multiculturalist bandwagon is for us to become implicitly critical of the influence of Christianity in culture. It is, by implication, for us to deny the legitimacy of the attempt to influence culture toward the true, the good, and the beautiful as these are revealed to us in the Bible.

Let me conclude, then, by suggesting, ever so briefly and, I am afraid, insufficiently, certain elements of Anglo-American culture that are truly commendable and that students should be taught about. I owe much to Russell Kirk's *America's British Culture* for what follows:

First, our language and literature. The English language, "terse and powerful," has given birth to some sublime literature:

the works of Milton and Shakespeare, of Spenser and Sidney and Marlowe and Ben Jonson, of Ralegh and Fuller and Samuel Johnson exemplify what we might call high culture, but equally valuable are such things as Bunyan's *Pilgrim's Progress* and the bold simplicity of Lincoln's Gettysburg Address, not to mention the great hymnody of the Puritan and Wesleyan traditions. And the Authorized or "King James" Version of the Bible has yet to be equalled for literary brilliance as a translation of holy Scripture.

Second, the supremacy of law. "England's rather elaborate juridical structure is founded upon what is called 'the Common Law,'" writes Kirk. "(The word *common* here signifies that this body of laws is recognized and enforced throughout all the land, rather than being merely local law or custom; also it signifies that 'the law is no respecter of persons,' all orders and classes, including kings, being subject to its rules—'equality before the law.') England's common law is the footing for American law as well, and for all major English-speaking countries—with the interesting exception of Scotland, where the legal system for the most part is civil law, Roman in its roots."[13] The principles of trial by jury, due process, and the rule of law, which, as Arthur Hogue puts it, "implies that all agencies of government must act upon established principles; even the highest bodies and officials are not permitted to act upon arbitrary will or caprice. The supremacy of law means that all the acts of government agencies are subject to examination in the courts, which are compelled in their turn to follow established procedures, 'due process,' and to reach decisions guided not by whim but by generally accepted principles and sound reason"[14]—these principles are at the heart of American jurisprudence. True, they are not always lived up to; but they do not even exist in most Asian, African, and Latin American countries—and where they do exist, they are largely the legacy of colonialism. We owe much to Magna Carta, the Declaration of Right of 1689, the Declaration of Independence, and the Constitution of the United States.

Third, the heritage of representative government. The "Mother of Parliaments" that sits at Westminster, and the Congress of the United States, and the several state legislatures, have served these countries well, giving them a stability unmatched by other countries around the world, protecting the people, not perfectly but tolerably well, from the tyrannies of Right and Left, of monarchy and democracy alike.

Fourth, and most important, mores and minds, or the habits of the heart. These are chiefly of Christian origin, although much colored by British and American history. As Tocqueville put it, "It is their mores, then, that make the Americans of the United States, alone among Americans, capable of maintaining the rule of democracy; and it is mores again that makes the various Anglo-American democracies more or less orderly and prosperous. . . ."[15]

"In every culture of the past," writes Kirk, "everywhere in the world, the principal source of a culture's mores—its traditional customs, its way of regarding the human condition, its principles of morality—has been religious belief. This has been true even when many people within that culture have ceased to feel any devotion to the old religious creed; even so, habit and custom fix them in a routine of existence, so that men may open doors for ladies even though they have forsworn the traditions of civility; boys may refrain from pilfering because 'Dad taught me not to' even though they never attended Sunday school; and women may be most charitable even though they have forgotten the Golden Rule and the injunctions of Saint Paul. Thus a vestigial and peripheral morality may survive the withering of the cult from which a culture arose originally. . . . A congeries of sects [settled the American colonies]. Were they in conformity to the mores of old England? Yes, for all professed their Christian faith, all read King James's Bible (with the exception of the Catholics, who had the Douay Bible); all preached the theological virtues of faith, hope, and charity. All spoke and read English, all lived under English law, all abided by many old English prescriptions and usages. Theirs was Christianity in British forms."[16]

> America and Britain and their cultural dependencies share a common religious heritage, a common history in large part, a common pattern of law and politics, and a common body of great literature. Yet American citizens and British subjects cannot be wholly confident that their order will endure forever. It is possible to exhaust moral and social capital; a society relying altogether upon its patrimony soon may find itself bankrupt. With civilization, as with the human body, conservation and renewal are possible only if healthful change and reinvigoration occur from age to age.[17]

Such "healthful change and reinvigoration" must occur in our own age, if we are to avert the complete decay of our culture. And it may occur, through a renewal of Christian faith, restored appreciation of our "legacy of ordered liberty," the renaissance of humane letters, and the revivifying of active citizenship in this republic, energized by what some writers have called the old Roman virtues, or *Romanitas*: *labor*, *pietas*, and *fatum*—diligent labor in humble, reverent submission to right and proper authority in the pursuit of destiny. Christians, too, can embrace such virtues by laboring in humble service to the Kingdom of God.

If we would respond well to multiculturalism, we must respond with the recognition of what is good in American culture. We must also recognize that multiculturalism is a two-edged sword, enemy of both liberalism and conservatism—of liberalism because, failing to recognize the capacity of the human mind to transcend racial and ethnic roots in the pursuit of the true, the good, and the beautiful, it wages war against intellectual freedom; of conservatism because, failing to distinguish the true, the good, and the beautiful in Western culture from what is false, evil, and ugly, it hastily casts all alike aside, thus undermining the foundations of both liberty and order. □

1. Russell Kirk, *America's British Culture* (New Brunswick: Transaction Publishers, 1993), p. 1.
2. *Ibid.*, pp. 87–8.
3. Nathan Glazer, "In Defense of Multiculturalism," *The New Republic* 205:10 (September 2, 1991), pp. 18–21.
4. *Ibid.*
5. Ralph A. Smith, "The Question of Multiculturalism," *Arts Education Policy Review* 94:4 (March/April 1993), pp. 2–19.
6. Lynn V. Cheney, "Taking Steps to Build Support for Change," *Change* 25:1 (January/February 1993), pp. 8–11.
7. Molefe Kete Asante and Diane Ravitch, "Multiculturalism: An Exchange," *American Scholar* 60:2 (Spring 1991), pp. 267–76.
8. The claim is defended most strongly in Cornell professor Martin Bernal's *Black Athena: The Afroasiatic Roots of Classical Civilization*, volume 1, *The Fabrication of Ancient Greece 1785-1985* (New Brunswick: Rutgers University Press, 1989). Withering critiques of Bernal's scholarship and thesis are to be found in Gleaves Whitney, "Is the American Academy Racist?" *University Bookman* 30:2 (1990), pp. 4–15 (a review of the book) and Dinesh D'Souza, *Illiberal Education: The Politics of Race and Sex on Campus* (New York: Random House Vintage Books, 1992), chapter 4, "In Search of Black Pharaohs."
9. Diane Ravitch, "*E Pluribus Plures*," *American Scholar* 59:3 (Summer 1990), pp. 337–54.
10. Smith, "The Question of Multiculturalism."
11. *Ibid.*, citing Roger Kimball, *Tenured Radicals* (New York: Harper and Row, 1991), p. 194.
12. Albert Shanker, "The Pitfalls of Multicultural Education," *Education Digest* 57:4 (December 1991), pp. 5–6.
13. Kirk, *America's British Culture*, p. 29.
14. *Ibid.*, p. 31, citing Arthur R. Hogue, *Origins of the Common Law* (Indianapolis: Liberty Fund, 1985), pp. 188–90.
15. *Ibid.*, p. 70, citing Alexis de Tocqueville, *Democracy in America*, edited by J. P. Mayer and translated by George Lawrence (Garden City, NY: Doubleday Anchor Books, 1969), 287, pp. 305–8.
16. *Ibid.*, pp. 70–71.
17. *Ibid.*, p. 83.

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To Repair the Culture, Free the Market

by Llewellyn H. Rockwell, Jr.

Traditionalists and economic libertarians have more in common in the culture war than they might think, for capitalism helps create and sustain a conservative culture. The enemy, for all of the genuine Right, is government intervention.

Today, our economy is a mixture of state planning and impaired markets that no nineteenth-century observer would have recognized as free. Barely half of all new wealth survives the tax police. No part of the economy, from a grocery store in rural New Hampshire to a car dealership in urban California, is exempt from the toils of a hundred agencies. For all business, our planning apparatus is distinguished from the Soviets' only in degree.

Our labor markets are crippled by antidiscrimination laws, which punish old standards of merit and reward political power. And the welfare state grows no matter which party is in power, further subsidizing the slothful and inept at the expense of the dwindling band of the productive and energetic.

"Of the many species of liberty which compose the freedom we enjoy," Michael Oakeshott wrote in *The Political Economy of Freedom*, "we have long recognized the importance of two: the freedom of association, and the freedom enjoyed in the right to own private property." It is these two areas where we have lost the most, with a heavy cultural as well as economic cost.

The Welfare State

Under the welfare state, the beneficiaries need not work. In fact, they cannot work if they want to keep getting the checks. Thus the condition that welfare is supposed to alleviate—poverty, illegitimacy, etc.—is also the condition required for a continued flow of benefits. The welfare state subsidizes, and thus increases, the very problems it is supposed to solve.

What's more, welfare takes from earners and gives to non-earners. Thus it not only encourages a something-for-nothing attitude, it also legitimatizes the idea that it is moral to take other people's property without their consent—a lesson the government should not be teaching.

The rigorous rules of the market—roughly akin to the New Testament admonition that he who doesn't work shouldn't eat—are circumvented in the welfare state. Add to

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this an effort to erase the just stigma of welfare, and the work ethic is overthrown.

In the market economy, there is a hierarchy of success. But welfare increases the income and the status of the failures in society. It thus devalues the older signs of achievement and reduces the market class structure—especially at the lower end—to a jumble.

Older forms of welfare were provided privately, usually through religious institutions that were well aware of its potentially corrupting effects. Work was required from those who could do it, and the "undeserving poor" were treated appropriately. Most important, the rules of social advancement were the same for all.

Of course, the old order's free market was not footloose and fancy-free. It produced not what today's libertarians call "freedom," but a rigid environment of work and saving, and of punishments for those who failed to do both, as witness the discipline of the company towns of the laissez-faire era.

Capitalism is as conspicuous for what it requires as for what it allows. As F. A. Hayek argued in *The Constitution of Liberty*, "liberty not only means that the individual has both the opportunity and the burden of choice; it also means that he must bear the consequences of his actions and will receive praise or blame for them. Liberty and responsibility are inseparable."

Group Privilege

The welfare state "produces the habit of complaining," said Ludwig von Mises, and in response, it long ago moved beyond redistribution of property. If certain groups have failed to get what they think of as their due, they are able to get themselves designated official victims. This is a culturally corrupting effect in itself, as if failure is always someone else's fault. The welfare state then forces society to treat these groups as if they had earned what they demanded, especially through anti-discrimination law.

As Oakeshott said, "the freedom which separates a man from slavery is nothing but a freedom to choose and to move among autonomous, independent organizations, firms, purchasers of labor, and this implies private property in resources other than personal capacity."

Yet today, from business to housing to schools to clubs, the free association that Oakeshott regarded as the difference between slavery and liberty is all but gone.

The Family and the Free Market

Not everyone can make his own way in society. Children, of course, require the help of parents, and the elderly require the help of the young. These, and many other needs, are met in the family. But the mixed economy has displaced private provision with welfare, dramatically weakening the family. For example, Social Security and Medicare have relieved children of the obligation to care for their elderly parents, as Allan Carlson has shown.

In the present system, the elderly feel betrayed and ignored by everyone but the government, while grown children can disregard their obligations with little earthly penalty. There is less respect for old people, which—combined with a culture that glorifies immaturity—disrupts the natural hierarchy of age. Largely because of state intervention, each generation has become more isolated, self-indulgent, and irresponsible. One only has to contemplate the "baby boomers."

In a free market, on the other hand, the family thrives. As G. K. Chesterton noted, the family "is at once necessary and voluntary," and thus needs nothing from government other than the rule of law.

As Mises wrote in *Socialism*, however, leftist proposals "to transform the relations between the sexes have long gone hand in hand with plans for the socialization of the means of production." To Mises, traditional marriage was reinforced by the institutions of capitalism, especially free contract, and because of the contractual nature of marriage, he thought that divorce should be allowed in only the most narrow circumstances.

It is interventionist government, said Mises, that undermines "age-old moral precepts," and the battle for those precepts is the "great fight" of our age.

The greatest shock in recent decades to the traditional family has been the move of married women into the workforce. This puts a heavy strain on marriage (divorce rates have climbed) and especially on children, for day care workers can have nothing like a mother's love or interest in the child.

Why did married women enter the workforce? For the vast majority, it was to maintain a decent standard of living amidst inflation, which, by dramatically lowering real incomes, destroyed the one-salary family. And such inflation is no natural phenomenon, but the result of central banking.

Time and the Market

The most important cultural effect of the mixed economy has been to change the way we think of time. We all want to have our desires met sooner rather than later, but gaining wealth takes time, and successful people are able to put off immediate gratification for future reward.

As might be expected, nineteenth-century America was a disciplined society of people who knew how to wait and save. As T. Alexander Smith notes in *Time and Public Policy*, "the culture which the older bourgeoisie dominated and the values it forged within the social order were particularly favorable to lengthy time horizons." Moreover, "this culture was family centered." As Joseph Schumpeter noted, the "capitalist order entrusts the long-run interests of society to the upper strata of the bourgeoisie."

But interventionism has shortened societal time horizons, and inflation and easy credit are the villains. As Smith says, "credit-created inflation, if it persists for a sufficient period, shortens time horizons, as customs, values, and opinions begin to catch up with the growth of the money supply."

In the nineteenth century, personal and installment loans were extremely rare. Debt of this sort was considered a sign of vice. Credit based on the real savings of the American people went to the entrepreneurs who built the country. But a central bank that pushes down interest rates produces easy credit. It also creates the illusion of low time preference without the reality (a large pool of savings), encouraging business borrowing that cannot be sustained through time, and even bringing about the business cycle.

Other aspects of the mixed economy shorten the social rate of time preference as well. Welfare subsidizes immediate satisfaction and discourages saving. Unemployment insurance discourages saving for possible job loss, lessens the fear of unemployment and therefore the incentive to work hard, and underwrites indolence for longer and longer periods, thereby raising the unemployment rate.

Social Security discourages people from saving for their retirement. The inheritance tax discourages saving for future generations. Income and property taxes penalize the accumulation of wealth. Taxes on businesses reduce their capital and thus their ability to sustain long-term projects.

As interventionism has rewarded short-term thinking, the behavior and values of high time preference has become the cultural norm. The sexual mores, manners, clothes, and music of the underclass, once seen as the evidence of immorality and failure, now attract the favorable attention of middle-class youth. Instead of the bourgeoisie fulfilling their natural leadership role, the lower classes have begun to set the tone.

Edward C. Banfield, in *The Unheavenly City*, persuasively analyzes classes almost solely in terms of time preference. The upper-class person "looks forward to the future of his children, grandchildren, great-grandchildren (the family 'line'), and is concerned also for the future of such abstract entities" as the community or nation. He is able and willing to sacrifice "present satisfaction" so that he, his children, his community, etc., can "enjoy greater satisfactions at some future time."

Middle- and working-class people are progressively less future oriented, while the lower-class person "lives from moment to moment." Governed by impulse, he is "radically improvident: whatever he cannot consume immediately he considers valueless. His bodily needs (especially for sex) and his taste for 'action' take precedence over everything else"—especially the "routine of work."

And it is the welfare state that skews the time horizons of the upper, middle, and working classes toward the lower class's, a societally disastrous effect.

Materialism and Greed

Sometimes the word *materialist* is used as a synonym for *capitalist*. Yet capitalism, as a system of organizing resources, tends to encourage not a materialist ethic, but the prudence, thrift, and hard work that Wilhelm Roepke identified (see below). The less free the economy, however, the more materialistic everyone must be. Under Communism, women had to stand in line all day to feed their families and be constantly on the lookout for the most basic items. The demand for material possessions tended to displace other values.

The welfare state also directs man's interest to the least important material activities. Unlike the free market, as Alexander Shand notes in *Free Market Morality*, the welfare state "removes from the individual much of the responsibility for matters that would be a great concern to him—his family's health care, old age, and education—and leaves him with responsibility for choice only in comparative trivialities or luxuries."

As for greed, capitalism can reward it. So can socialism, and so can the mixed economy. The temptation is unrelated to the degree of material opportunity. Whether one is striving for a grass hut in a primitive village or a vacation penthouse in Florida, it is corrupting if done at the expense of family and other deeper responsibilities.

Dynamism and Technology

It has often been objected that capitalism's dynamic nature, its tendency to produce technological advances, undermines what T. S. Eliot called the permanent things. Yet this concern is misplaced.

Old values do not require old technology. The permanent things do not refer to particular kinds of consumer goods or modes of production. The complex of moral standards and priorities that make up the good culture cannot be reduced to technical categories. Societal virtue has nothing to do with whether goods are delivered in trucks or horse-drawn carts. It is the social commitment to traditional social institutions and patterns of living that matter.

Roepke on Capitalism and Culture

Wilhelm Roepke gave us the definitive litany of capitalist institutions in *A Humane Economy*: "individual effort and responsibility, absolute norms and values, independence based on ownership, prudence and daring, calculating and saving, responsibility for planning one's own life, proper coherence with the community, family feeling, a sense of tradition and the succession of generations combined with an open-minded view of the present and the future, proper tension between the individual and community, firm moral discipline, respect for the value of money, the courage to grapple on one's own with life and its uncertainties, a sense of the natural order of things, and a firm scale of values."

It is unfortunate that the phrase democratic capitalism has become widely accepted. Capitalism means an economy based on private property; modern democracy means the violation and redistribution of private property through political means.

In previous eras, liberty and democracy were not thought to be synonymous or even necessarily related. The confusion that they are has led to a subtle assault on property and its resultant social hierarchy.

It is thus unfortunate that the phrase *democratic capitalism* has achieved such status. Capitalism means an economy based on private property; modern democracy means the violation and redistribution of private property through political means.

The term *democratic capitalism* is therefore confused, unless it is meant to describe the kind of mixed economy that passes for a free market in the U.S., and is therefore deliberately misleading. In fact, the reestablishment of the market economy will require a curtailing of democracy as presently understood.

A Theory of Intervention

Mises argues that any intervention in the economy must lead to others. Interference in the market, which substitutes political power for the price system, causes more problems. The state then uses these problems as an excuse for further interventions, which in turn lead to other interventions.

The same is true of the cultural consequences of the mixed economy. For example, the government will point to the failing family as justification for more government control, even though the failure is a result of previous interventions. Or the government will announce that because everyone is engaging in short-term thinking, it must direct investment toward what it claims is the long term. The state, in other words, uses and thrives off the short-term thinking it itself creates.

The Culture War

Anyone who prefers a society of families instead of easy divorce, of children instead of depopulation, of prudence instead of waste, of high culture instead of underclass values, of independence instead of group privilege, of saving instead of immediate gratification, of self-discipline instead of decadence—must favor the free market over the mixed economy.

Why, then, haven't capitalism and cultural conservatism been happily linked? Unfortunately, the defense of capitalism sometimes has been associated with egalitarianism, anti-clericalism, and general cultural Leftism.

Although they reject government power, market liberals reject the authority of family, church, and community, and thus advocate cultural values not only wrong in themselves, but antithetical to those encouraged by the free market.

If we are to return to the values of the old republic, cultural traditionalists must lead the capitalist fight. Because economic interventionism destroys the culture, that is exactly where traditionalists belong. □

THE FREEMAN
IDEAS ON LIBERTY

Our Own Mad Clockwork

by Robert Zimmerman

Multiculturalist educator Leonard Jeffries has charged that Jews were instrumental in the establishment of black slavery in America. Is this true? How *did* slavery establish itself in America?

This question is not easily answered. Most history books on slavery deal with later periods, such as the American Revolution, the Civil War, or the Civil Rights movement. If the question is ever asked, the answer is usually summarized as "economic forces made people buy slaves," a Marxist formula I find wholly unsatisfactory. As John Adams himself said,

> I have, through my whole life, held the practice of slavery in such abhorrence, that I have never owned a Negro or any other slave, though I have lived for many years in times when the practice was not disgraceful . . . and when it has cost me thousands of dollars for the labor and subsistence of free men, which I might have saved by the purchase of Negroes at times when they were very cheap.

Economic forces alone do not explain the birth of slavery in America.

My research not only helps to answer this question for myself, but also raises some terrifyingly profound questions about where America is going today. And since this question is about the germination and birth of an evil upon the world, its answer might help us spot the feeble beginnings of a parallel evil in our own time.

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From Villainage to Slavery in Virginia

Serfdom, or villainage as it was called in England, had been abandoned for almost two centuries before the colonization of Virginia in 1607. And British law was very specific in protecting the rights of each individual, regardless of social status or economic class. Only bonded servitude remained as a form of coercive labor still practiced at the beginning of the seventeenth century. However, an individual who agreed contractually to work several years as a bonded servant almost always did so in exchange for room, board, and a very specific form of apprenticeship (that is, the learning of a trade). In addition, the law placed severe limits on the power a master held over his indentured servants.

Virginia began the long road to slavery when, less than twelve years after the establishment of the colony, those in charge changed the nature and meaning of bonded servitude as it had been practiced in England. Even though each new colonist was given fifty acres of land for immigrating into Virginia, the cost of transportation was too much for most citizens. In 1619 Sir Edwin

Sandys, empowered to run the Virginia Company, instituted a program of paying each person's transportation to the colony in exchange for four or seven years of indentured servitude in any labor the company chose (which was usually hard labor in the tobacco fields), with no requirement to provide any training. This idea was so appealing to many wealthy businessmen, in England as well as Virginia, that they began to use the method themselves to gain new workers. Not only did they get the years of servitude, they also negotiated the right to claim the fifty acres due every colonist.

In other words, a bonded servant in Virginia obtained nothing but relocation. For the period of his servitude he had no rights and no freedom and could be made to do whatever labor the master thought necessary. And because the social order of the colony was so new and unsettled, there were few controls on how a master could treat his servants. Very quickly, buying and selling human beings became a major form of trade in Virginia. As Thomas Best wrote from Virginia in 1623, "My master Atkins hath sold me for 150 pounds sterling like a damned slave."

None of this prevented immigration, since the possibilities for wealth in Virginia were so enticing. If anything it encouraged it, because every English citizen dreamed of becoming a landed lord with his own servants. Virginia epitomized that dream.

Because of this policy, however, the majority of Virginia's population for its first thirty years was young, white, and in cruel bondage. Everywhere you looked labor was forced and cost nothing. The social order taught its citizens that it was acceptable to buy and sell human beings for profit, and that if you needed something done, you could order someone to do it, he had to do it, and you didn't have to pay him anything.

Blacks and Whites in Early Virginia

Despite this, the citizens of Virginia in these early years did not start buying black slaves in large numbers. Neither did they treat the blacks they did buy as slaves. British law stated that all Christians were equal citizens before the law. Black men and women, if Christian and baptized, could therefore not remain slaves. They would instead become indentured servants, and like any other British citizen, be able to earn their freedom after several years of service.

Research by numerous historians clearly indicates that a large percentage of the blacks brought to the Virginia colony in the years between 1619 and 1634 were treated as bonded servants, not as slaves, and eventually earned their freedom. Of the three hundred-plus blacks estimated to live in Virginia in 1650, more than fifty were free, with many owning land the same as any other white settler. Many of these free blacks had been imported into the colony in the 1620s and 1630s, had served their time as bonded servants, and had become free.

One family especially stands out: Anthony and Mary Johnson were Africans originally from Angola. Enslaved by rival tribes, sold to the Spanish, they came to Virginia in the 1620s. Because it appears that they had both converted to Christianity, they were made indentured servants by their owner and eventually earned their freedom. Anthony Johnson became the patriarch of a free black family that, for almost forty years, prospered on the Eastern Shore of Virginia—buying land, winning court cases, and even owning black slaves.

The Johnson family's very well documented case illustrates remarkably how the early Virginian colonists were still willing to consider blacks no different from whites, and that slavery was not a *fait accompli* in Virginia. When the Johnson home burned down in 1653, the Northampton County court ordered that Anthony and Mary Johnson should be freed from the payment of taxes, recognizing that they ". . . have lived Inhabitants in Virginia [above thirty years], consideration being taken of their hard labor and known service performed."

In addition, Johnson and his family had no problem becoming successful landowners. In 1651 he patented 250 acres on the Eastern Shore. Later, two of his sons were able to patent an additional 650 adjoining acres for themselves.

There are numerous other documented examples of successful free blacks and their acceptance by early Virginian society. Benjamin Doyle was granted a patent of 300 acres in 1656. Francis Payne was a successful black landowner on the Eastern Shore of Virginia who was also married to a white woman, Aymey. When Francis died, Aymey had no difficulty marrying a white man, having earned no stigma from her interracial marriage. Anthony Longo not only owned property but felt comfortable enough with his freedom that in 1654 he refused to come to the county court to serve as a witness, and he and his wife actually beat up the sheriff who tried to summon him. This defiance earned Longo thirty lashes, but such a punishment was not very unusual for any small landowner who defied the governmental powers of the colony.

The Gradual Rise of Black Slavery

Since almost all slaves were African and unaware of the British laws that would protect them, the choice of whether to make them bonded servants or slaves was usually left to the master. Up until the mid-1630s, most Virginians felt compelled to follow British law and make African slaves bonded servants if they were or became Christians. The social order said one must treat all Christians as equals, as citizens with rights.

This social pressure was always present in Britain and New England, where everyone lived in small, tightly knit communities with strong spiritual and religious leadership. Virginia, however, had its settlers scattered widely throughout Chesapeake Bay, and though they all took their religion very seriously, there were not enough clergymen willing or able to work in such a situation. Those who did could wield little influence on such a scattered population. Each settler and his family were on their own.

Without some objective set of moral rules, the choice of how to treat the African slaves in their midst became one of individual moral taste. At first, most obeyed the law and treated blacks who converted as equals. Unquestionably, however, the vast cultural differences between the Africans and the English, extenuated by the differences in their physical features, made obeying the law difficult for some. By the 1640s and 1650s, more and more Virginians began making the bigoted choice, treating individual blacks as members of an inferior group and therefore fit for slavery. And because the society was so loosely formed with no strong moral leadership, there was little that could be done to prevent this.

Strangely enough, Anthony Johnson provides us an excellent example of this. In 1653, a black man by the name of John Casor claimed that he had been purchased as a bonded servant and that his seven years of servitude had been completed, and that his master—Johnson, of all people—would not grant him his freedom.

Even though two white landowners of some power sided with Casor, Johnson was able to bring the case before the local county court and win, claiming that Casor had not been purchased as a bonded servant, but as a slave. The irony of this, of course, is that by winning the case, Johnson himself helped make the slavery of blacks more acceptable.

Obviously, Johnson was not alone in this. Some of the most powerful landowners, such as Edmund Scarburgh and George Menefie, were much more important. In the 1630s and 1640s these wealthy and very successful Virginia colonists suddenly realized that they could claim the same headright of fifty acres by importing a slave to the colony as they could by importing a bonded servant. And since you didn't have to coax slaves into immigrating, as you must free British citizens, obtaining their headrights was cheaper and more convenient. (As an example, Edwin Sandys had instituted an expensive and complicated public relations campaign, including lotteries and newspapers, in order to convince people to immigrate to Virginia.)

With the Spanish, Portuguese, and Dutch slave-traders working the waters all around Virginia, these great planters and community leaders of the Virginia colony found it easy to buy slaves in order to expand their land holdings. Furthermore, by taking advantage of the Africans' foreign background and ignorance of British law, it was easy for some colonists to keep them as slaves. And because of the physical difference between blacks and whites, this could be quickly rationalized into a belief in their inferiority as human beings. The rest of the citizenry, whites and free blacks both, did no more than look disapprovingly upon such bigoted actions, though it was still in their power to stop it. Good men did nothing.

So, in 1635 Charles Harmar claimed the headrights of eight black slaves. In 1637 Henry Browne brought in another eight. In 1638, George Menefie purchased 23, and in 1639 another 15. In 1649 Ralph Wormeley imported the majority of 17 black slaves. And in 1655 Edmund Scarburgh brought 55 slaves from New Amsterdam, using his own ship.

In all these cases, the Virginians importing the slaves claimed fifty-acre headrights on each slave, thereby significantly increasing their own landholdings and wealth.

Even these actions did not make slavery a fully accepted institution in Virginia. According to historian Wesley Frank Craven, in the twenty years from 1630 to 1649, we know of only 245 headrights claimed for black immigrants. During this same time, more than eleven thousand British immigrant headrights were claimed, a ratio of almost 45 to 1. In addition, population figures compiled by historian Edmund S. Morgan show a ratio of 46 to 1 between the white and black population in 1653. Both these ratios correspond closely with the population numbers in the northern colonies for most of their history.

It seems obvious that most of the immigrants coming to Virginia before 1653 were British settlers, and that black slavery had not yet taken hold as the dominate form of labor.

Slavery and Political Expedience

Furthermore, it appears that few if any Englishmen were slave traders at this time. Slavery existed in the Spanish and Portuguese colonies, and the slave traders from these countries would appear every so often in Virginia, providing a convenient source of slaves for those interested in buying them. Until Edmund Scarburgh used his own ship in 1655 to import 55 slaves, no British merchant was clearly involved with the slave trade.

From 1653 to 1674, however, the black part of the total population grew from 2 percent to approximately 6 percent, with almost all the blacks now enslaved. Though the white population doubled in that time, the black slave population grew tenfold. What had happened in those twenty years to make the importation of black slaves more acceptable?

The reasons were political. Many of the same men who wanted to buy black slaves to build their fortunes (such as Edmund Scarburgh and Ralph Wormeley) were also members of the General Assembly, Virginia's legislative body, and they used this position in government to shape the law to their advantage.

Until 1661, elections for the General Assembly were held somewhat regularly, and from 1649 to 1660, Cromwell and the Puritans in England strongly influenced how Virginia was ruled. After 1660, however, the King took power again in England, and from then until 1676 Governor William Berkeley called for no new elections. For sixteen years, Virginia was ruled by the same men, and the general population accepted this with nary a peep of protest.

In reviewing their legislative record, it becomes obvious that these unchallenged legislators clearly believed that they had the wisdom, knowledge, and ability to shape Virginian society as they saw fit. A small sampling of some of the laws passed by this Long Assembly, as it was called, is illuminating. They fixed the exact rates at which tavern owners could sell liquor; fined people for spreading false rumors; dictated the heights of fences around each planter's farm; prohibited planting tobacco after July 10; ordered every planter to plant Mulberry trees; required tanneries to be built in each county; and directed every taxable person to plant two acres of corn.

And in 1667 they passed a law declaring that the "conferring of baptism does not alter the condition of the person as to his bondage or freedom." In other words, no longer did a slave owner have to fear losing his slaves if they converted to Christianity. If you were born a slave, you would die a slave, and no longer could you do anything to change that. By importing a slave to the colony, a slave owner would not only earn a fifty-acre headright, but also a guaranteed servant for life.

Other laws passed by this Assembly made the children of slave women automatically slaves themselves; forbade free blacks from purchasing Christian white servants; made all non-Christian slaves brought into the colony slaves for life; and absolved slave owners from any guilt should they kill their own slaves.

The terrible result of these laws was twofold: first, they tried to establish for blacks a fundamentally inferior status, and second, they sanctioned the government's support of the idea that slavery should be encouraged and spread.

Hence, the importation of slaves increased significantly during this Assembly's sixteen-year rule. It was also during this time that Anthony Johnson and his family moved to Maryland in the hope of maintaining their freedom.

Was slavery now a given? Had its presence been permanently cemented into Virginia society and into the future of the American society to come? No, not even now was the course of history set and unchangeable. Black slaves still comprised a very small minority in the total population, and the majority of people did not want or own slaves.

Bacon's Rebellion

In 1676 the colonists of Virginia actually rose in revolt against the Long Assembly, in what is now called Bacon's Rebellion. The causes of this revolt were complicated and numerous. Ostensibly it began as a panicky desire by the colonists to protect themselves against the Indian massacres taking place on the outskirts of the colony. Because Governor Berkeley forbade the colonists to raise an army to attack the Indians, the colonists rebelled.

Equally important, however, was the small free landowners' resentment of the laws and taxes placed on them by the Long Assembly, and their desire to eliminate these laws and taxes. In addition, because slavery gave such a powerful advantage to the large and wealthy landowner over the small landholder who could not afford to buy slaves, a significant number of small landowners participated in the revolt in order to stop the spread of slavery.

The rebellion was also pressed by many black slaves who now realized that their chances for freedom were disappearing. Black slaves represented more than ten percent of the rebel militia, and of the last hundred rebels to surrender, approximately eighty were black.

Unfortunately, the failure of this rebellion led to the British royalty's taking a stronger voice in running the colony. Fearing further slave revolts, and with the King eager to make money trading slaves, the Royal Governor strengthened the laws enforcing and sanctioning slavery. This in turn encouraged the growth of large plantations with many slaves. In the thirty years from the end of Bacon's Rebellion to the recodification of Virginia's slave laws in 1705 (with its explicit outlining of laws establishing slavery as the specific status of blacks), slaves were imported into Virginia in ever-increasing numbers. In 1699 there were approximately ten thousand black slaves in the colony, now comprising about 16 percent of the total population. By the time the American Revolution took place seventy-five years later, almost half the population of Virginia would be black slaves.

As historian James Curtis Ballagh notes, by 1705 "it was far easier for a camel to pass through the eye of a needle than for a negro or mulatto servant thereafter imported into Virginia to escape being made a slave." And in 1706, the grandson of Anthony and Mary

Johnson died without an heir. With his death, the Johnson family disappeared from history, and the family farm, appropriately named "Angola," reverted back to the state.

Unlike in Great Britain and the northern British colonies, only in Virginia in the seventeenth century did British colonists buy slaves in large numbers. Only in Virginia did slavery become the normal way of doing business. And though British and American individuals participated in the slave trade once it was established in later years, in neither New England nor Britain could they get anyone to buy slaves.

So what really allowed slavery to flourish in seventeenth-century Virginia? Fundamentally, slavery was caused by the unwillingness of too many Virginians to make the correct moral choice based on the truth. First they denied the truth that by enslaving blacks they were oppressing them. Then they rationalized this oppression with the lie that blacks were inferior to whites. Finally, they institutionalized this lie by passing laws to enforce it.

If any principle of Western civilization made it possible for our ancestors to create a healthy, prosperous society, it was the desire—the passionate need—to discover the truth and from this to make the correct moral decision. From Plato to Shakespeare to Francis Bacon to Gallileo to Thomas Jefferson to Abraham Lincoln, this concept resonates throughout our history. Even the commissioners sent by King Charles II to find out why the Virginian colonists rebelled in 1676 felt obliged to learn the truth, though that truth destroyed Governor Berkeley, an ally and friend. Such unwavering devotion to the truth makes possible the building of an honest, just society.

Racial Ranking Redivivus

Three hundred years ago Virginians decided the truth didn't matter. Sadly, it seems that in America today too many people have decided the same thing. Despite this and other clearly proven examples of how he has distorted historical facts to advocate his ideology, Jeffries remains head of the Black Studies department at City College in New York. And despite the reality that our federal government is badly managed and that its social programs have failed to achieve their goals, our elected officials today still believe that more government programs and spending will solve this country's problems. And like Governor Berkeley and the Long Assembly, they're going to force more government and spending on us all regardless of the facts or the consequences.

Worst of all is our present government's desire, just like Berkeley and the Long Assembly, to rank and reward people not by their individual achievements but by their racial, sexual, and ethnic background, and to enforce these rankings by law. Haven't we already trod this terrible path once too often?

I believe we can avoid repeating the mistakes of the past, but I also believe that to do so, we must always honor the truth above our ideology, even if the truth proves us wrong. Otherwise, we are no different from the lowest form of life, bound by instinct and doomed never to make ourselves better than we are—condemned to the "mad clockwork" described by Walter Miller in his novel *A Canticle for Liebowitz*:

> Listen, are we helpless? Are we doomed to do it again and again and again? Have we no choice but to play the Phoenix in an unending sequence of rise and fall? Assyria, Babylon, Egypt, Greece, Carthage, Rome, the Empires of Charlemagne and the Turk. Ground to dust and plowed to sand . . . burned into the oblivion of the centuries. And again and again and again.
>
> Are we doomed to it, Lord, chained to the pendulum of our own mad clockwork, helpless to halt its swing? □

THE FREEMAN
IDEAS ON LIBERTY

INSIDE THE FEDERAL HURTING MACHINE

by James L. Payne

If politicians give someone $1,000, press reports emphasize the wonder of the gift and explain how it has eased suffering and restored hope. But when politicians take away $1,000 in taxes—even from the same person!—it is a non-event. The prevailing assumption is that when government is handing out money, its subsidies and payments are desperately needed, and serve a vital national purpose. When government is taking in money, even from the same people it has just subsidized, the cash being collected is seen as limp and lifeless, a surplus wealth of taxpayers who have no good use for it.

The underlying cause of this remarkable lapse in reasoning is the popular urge for wishful thinking. With the exception of a few crusty reactionaries, people want to believe in government. They want to see it as a source of hope and help, an agency that can give them college educations, art museums, pensions, and free medical care more or less out of thin air. To remind them that they will be forced to pay every single penny these things cost, and much, much more, is a cruel party pooper. So when it comes time to examine the injuries of taxation, people stick cotton in their ears and turn the TV to full volume.

But no government spending program can be justified unless its benefits exceed the costs of taxing people to pay for it. Policy makers who approve spending programs without knowing about the costs of taxation behave irrationally. They may well be doing enormous harm to the country.

The Cost of Compliance

To begin our exploration, we need to distinguish between two types of costs: the cost of taxes, and the cost of the tax system. The taxes are the monies taken from the public, to be spent by government. While politicians make great efforts to hide, distort, or forget about this figure, at least it is known and documented. Anyone can look it up in a standard reference book. For this reason, we shall not dwell upon it here.

The burdens of the tax system, on the other hand, are almost entirely unnoticed and unreported. These are the direct and indirect costs of operating the system that forces people to pay taxes. After all, the money that government collects and spends does not fly into the Treasury on wings of its own. Citizens have to be prodded, and all this prodding, and dealing with the prodding, costs the American people more dearly than anyone has realized.

One of the main burdens of the tax system is the compliance cost: the time and energy people spend keeping records, studying tax instructions, making calculations, and filling out forms and schedules. The most com-

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plete study we have of this burden was carried out by the Arthur D. Little Company at the behest of the IRS itself (which had been forced to commission the study by the 1980 Paperwork Reduction Act). The Little study found that, in 1985, businesses and individuals were spending 5.4 billion hours on federal tax compliance activities. This corresponds to 2,900,000 people—the entire work force of the state of Indiana—working all year long on federal tax compliance activities. The cost of this work amounts to 24 percent of all federal taxes collected.

This carefully documented figure (which is supported by several other academic studies) has been ignored in Washington. Instead of working to reduce the paperwork burden, tax administrators and Congressmen keep adding to it with a steady flow of laws and regulations. Economist Joel Slemrod found that in the 1980s, especially as a result of the 1986 tax act, tax compliance burdens for individuals increased 26 percent; the increase for businesses was undoubtedly even greater.

A number of scholars have tried to tell congressional tax managers they are sowing disaster. Economist Richard Vedder put it this way, to a Congressional committee in 1984: "If an enemy power bent on destroying our nation were somehow given the opportunity to devise our tax code with a goal of sapping the nation of its economic vitality . . . it could do little better than adopt our current Internal Revenue Code." Law professor Richard Doernberg flatly declares, "The United States now has the most complex tax laws in the history of civilization."

The Cost of Forgone Production

The cost of compliance, high as it is, is not the greatest burden of the tax system. An even larger drain is the economic disincentive cost. Ever since Adam Smith, scholars have known that taxation hurts the economy. It denies workers, entrepreneurs, and investors some of the fruits of their creative activity and therefore discourages their contributions. Recently, economists have begun making calculations about the size of the economic loss caused by the tax system. One estimate for the entire tax system, by Charles L. Ballard of Michigan State and his colleagues, published in the *American Economic Review* in 1985, put the disincentive effect at 33.2 percent. That is, to raise an additional $100 in taxes to pay for additional spending causes a loss of $33.20 in lost production—on top of the $100 in taxes paid. Another study, reported in 1990 by Harvard economists Dale W. Jorgenson and Kun-Young Yun, put the disincentive cost for the tax system even higher, at 38.3 percent of tax revenues raised.

The country saw a small illustration of how the disincentive effect operates when Congress put a tax on pleasure boats in 1990: A strong export industry was almost destroyed and thousands of workers lost their jobs. In 1993, Congress recognized its error and repealed the tax. Unfortunately, Congress hasn't gone further and recognized that all its taxes go on destroying jobs day after day. They add to the cost of doing business and therefore cause scores of thousands of businesses to fail—and discourage scores of thousands of other possible businesses from ever being started.

The Cost of Noncompliance

Another burden of the tax system is enforcement—the cost of dealing with those who don't comply with the tax code. Taxation, we need to remind ourselves, is based on force and the threat of force. At first glance, this makes it seem an efficient way of raising money. Generations of eager spenders have embraced it with just this hope in mind: the threat of force should make the money flow in automatically.

What they overlook is that human beings resent being forced to do things against their will. This contrary streak leads them to resist tax collectors. The result is that instead of a smooth hum of money pouring effortlessly into the Treasury, taxation turns into a costly, and often tragic, guerrilla war. To compel the population to conform to its demands, the government has to operate a burdensome enforcement program.

The reader might find it instructive to try to guess how many levies the IRS issues each year. A levy is an order directed to entities like banks and employers forcing them to send the taxpayer's money to the government—a routine IRS seizure of property without due process of law. For the individuals involved, a levy is a personal catastrophe. Funds have been seized, credit destroyed, financial plans and dreams wrecked, and businesses shuttered. How many of these devastating enforcement episodes are necessary to make the tax system work?

Raised in a culture of spending that fosters the illusion of government as a beneficent cornucopia, Americans suppose this number is trivially small. In fact, it is a national scandal. For 1992, the IRS reports issuing 3,253,000 levies. Because of double-counting and IRS clerical errors, this figure overstates the number of human beings affected; a correction for these distortions reduces this figure by half, to about 1,600,000 people affected. This is still a sizeable chunk of humanity, more than the entire population of Nebraska.

This avalanche of levies constitutes only a small fraction of all enforcement actions. To keep the money flowing into the Treasury, the IRS also issues liens, which freeze taxpayer assets (1.5 million); sends out underreporter notices, which allege taxpayer underpayment of taxes (3.8 million), and non-filing notices, which allege a taxpayer failure to file a tax return (1.5 million); conducts personal audits of taxpayers (1.0 million), and mail audits and service center corrections (0.5 million); and imposes some nine million filing and payment penalties. In addition, it pursues about 6,000 criminal prosecutions, trying to jail people for failing to adhere to the tax code.

Naturally, the human beings caught in these snares struggle, expending enormous time and energy trying to keep their funds and prove the IRS wrong. In the underreporter program, for example (where over half of the IRS accusations turn out to be wrong), I have estimated that Americans spend 30 million hours yearly reacting to the worrisome brown envelopes: studying the notices, examining tax law, reviewing tax data, discussing their cases with friends and advisors, and composing letters of protest. The level of tax litigation—the audit appeals, court cases, and tax rulings—is running at 195,000 cases a year.

According to my calculations, the monetary cost to the American public of dealing with IRS enforcement actions in 1985 was over $13 billion, a figure three times the entire budgetary cost of the IRS.

This financial cost doesn't begin to measure the moral and emotional burdens of a system based on putting a gun to everyone's head. The anxiety, stress, and frustration generated by IRS tax enforcement represent a social blight as serious as the danger of cancer or the tragedy of divorce. That the money is being raised in a good cause does not lessen the human pain. Consider the 1988 suicide of Alex Council. The victim of an erroneous IRS lien that ruined him financially, he shot himself and left a suicide note instructing his wife to use his insurance money to pursue the legal case against the IRS—which she eventually won.

The Cost of Tax Avoidance and Evasion

To function efficiently, a tax system needs citizen cooperation. Unfortunately, by relying on force, the tax system undermines its claim to taxpayer goodwill. Instead of happily cooperating with tax collectors, citizens scheme to confound them.

In the United States, high tax rates and the impossibly complex tax code have made tax evasion and avoidance a major industry. Unfortunately, it is a completely unproductive industry, feeding no one and housing no one. It is merely the wasteful struggling of human beings trying to avoid the exactions of government.

Some citizens avoid taxes by taking their economic activity underground. By my estimate, there are at least 2 million people with significant potential tax liabilities who are driven underground by the tax system

What Does a $1 Billion Federal Program Cost?

The budgeted price tag:	$1,000,000,000.00
Plus, additional tax system burdens:	
Compliance costs (24.43%)	244,300,000.00
The cost of forgone production (35.04%)	350,400,000.00
Enforcement costs (1.97%)	19,700,000.00
The cost of avoidance and evasion (2.96%)	29,600,000.00
The budgetary cost of the IRS (0.61%)	6,100,000.00
TRUE TOTAL COST:	**$1,650,100,000.00**

Source: adapted from James L. Payne, *Costly Returns; The Burdens of the U.S. Tax System* (ICS Press, 1993), p. 150.

(another 2 million have gone underground as a result of immigration and drug laws). In attempting to avoid taxation, they have reduced their own productivity and therefore that of the entire economy. Having to stay out of sight severely curtails their ability to use the banking system, to advertise, and to hire more workers.

Other tax avoiders turn to legal, or questionably legal, investment tax shelters. Again, a social waste is incurred as they tie their resources up in unproductive investments and pay shelter promoters for setting up and servicing the tax avoidance device. To avoid estate taxes, millions of people hire lawyers to devise and administer estate tax shelters. Highly skilled legal professionals work week in and week out drawing up grantor retained income trusts, generation-skipping trusts, and so on. Another class of skilled professionals is busy exploiting the tax avoidance potential of foreign tax havens, while yet another group manages the massive paperwork that makes possible retirement tax shelters. All told, by my estimate, the nation wasted some $19 billion in tax avoidance and evasion activities in 1985—a figure that has probably about doubled since then.

Adding Up the Costs

When all the burdens are added together, what is the monetary cost of the U.S. federal tax system? According to my calculations, the answer is that, in 1985, the burden was $363 billion. In dynamic terms, the burden is 65 percent of the taxes collected.

This figure represents the only attempt anyone has made to estimate the cost of the tax system. Studies have been made of some of the sub-costs, but no one else has been prompted to add the numbers together to calculate a total cost.

The absence of other estimates is remarkable because, as we noted at the beginning, it is impossible to make rational decisions about government spending programs unless the costs of raising the money are factored in. Economists should have noticed, for example, that their theories about the social benefit of government subsidies are meaningless unless tax system costs are known. It's like trying to calculate whether a plane can fly without knowing its weight.

One excuse that policy makers might give for not considering the costs of taxation is the assumption that these costs are fixed. In order to raise the first dollar of taxes, this argument would go, the entire $363 billion burden noted above is incurred. Therefore additional tax dollars raised for additional spending programs entail no further costs.

The costs in the tax system don't work this way, however. The majority of the costs not only increase with the tax rate, but they do so exponentially. The disincentive cost, as it is calculated by economists, is tied to the square of the tax rate: double the money you try to raise and you quadruple the cost in lost production, people thrown out of work, and so on. Most of the costs associated with enforcement, evasion, and avoidance also go up exponentially with the tax rate. As more money is at stake, it pays taxpayers to work harder to keep tax collectors from getting it. Even compliance costs are variable. When taxes are raised to pay for more spending programs, tax avoidance goes up, which in turn prompts the tax authority to issue more regulations to prevent it. The result is a more complex tax system and higher compliance costs.

The overall picture, then, is that tax system costs increase along with the level of taxes. The 65-percent figure noted above is a marginal cost figure: if taxes are raised another $100 million to pay for another spending program, an additional $65 million cost will be imposed on the economy.

We return to our point: why have policy makers ignored these costs? The answer appears to be the powerful social convention against weighing the costs of taxation. Legislators and their publics want to believe in government as a helping machine, and it spoils the illusion to be told that it is, at the same time, a hurting machine.

Consider how programs to create jobs are discussed in Washington. Common sense tells us that any government spending program designed to create jobs must also cause unemployment. After all, the taxes imposed to pay for it drain money away from investors who would have opened new businesses, and from consumers who would have employed workers through their purchases. When we add to this common sense analysis our knowledge of the costs of the tax system, it becomes clear that a jobs-creation program could well destroy more jobs than it creates. Therefore, anyone proposing a jobs-creation program ought to give Congress two figures: the number of jobs the program hopes to create, and the number of jobs the taxation to pay for the program is expected to destroy.

This, of course, is never done, because telling the whole truth would make the project look foolish. Journalists would question the sanity of a president who proposed to create jobs by destroying them.

Affordable Health Care?

Take another issue: government provision of medical care. The responsible policy maker would have to point out that government is not a something-for-nothing machine. It cannot pay for health care unless it first takes money away from the citizens it wants to help. Furthermore, it can never return to them the full value of their contributions. The administrative overhead—the bureaucracy, the paperwork, the overcharging, the fraud, the disputes over benefits—are bound to consume a large fraction of resources devoted to the spending program, probably around half of the funds. In addition to this waste, there is the 65 percent cost of raising the money through the tax system.

Hence, the overall arithmetic for a government health care system would look something like this: To raise $100 in taxes to fund the system costs an additional $65, and then of that $100, government administration and waste consume about half, or $50. So for an initial $165 total burden, the citizen will get $50 worth of medical care out of the system. This is the bedrock statistic that Washington's health care analysts should be telling the American people: A government health care system is going to cost the average person three times as much as paying medical bills out of his own pocket.

Alas, no one mentions any such figure. Legislators, eager to appear well-intentioned, ignore the down side of their proposals. That makes as much sense as counting benefits but never costs. Less excuse can be found for the silence of the technical specialists, the thousands of experts working for Washington's alphabet soup of research agencies, the OMB, the GAO, the CBO, and so on. These professionals are paid huge sums of taxpayer money to find out about policies and inform the country about their true costs. Yet no one in any of these agencies has compiled *any* estimate of the overhead cost of tax-and-spend programs.

Ignoring the costs of taxation has gone on long enough. It's time to put aside our childish faith in government and take a frank, careful look at the human costs of its optimistic endeavors. □

THE FREEMAN
IDEAS ON LIBERTY

Government Redistribution Impoverishes the Poor

by Dwight R. Lee

Only the most ideologically blinded continue to argue that socialism can outperform capitalism in the production of wealth. Yet the assertion that government programs are required to reduce the income inequality generated by capitalism is widely accepted as revealed truth. Market competition motivates productive activity by threatening with poverty those who use resources unwisely, and carrying out this threat without mercy. So, it is argued, in the absence of compassionate government transfer programs, a large percentage of the population would be left behind, impoverished, without hope, and made all the more miserable by the audacious wealth of their more successful neighbors.

The Benefits of Failure

There is just enough truth in this view to obscure the fact that it grossly distorts reality. Market competition can be harsh. But the particular failures dispensed by market competition provide the information and motivation that are indispensable to the general economic success of any economy. When failures in the marketplace are viewed in isolation from the success they make possible, they are commonly depicted as unfair. In fact, in the marketplace failure and fairness go hand in hand. When people suffer failure in the marketplace they are making a necessary contribution to the general productivity of the economy—a contribution that enhances the opportunities of all to produce wealth, in an economic system that distributes that wealth far more widely and equally than most people realize. Each person would, of course, prefer to be protected against failure while continuing to benefit from the contribution that the failures of others make to economic progress. The fundamental fairness of the market lies in the fact that it gives no one a free ride on the contribution of others. In the unfettered marketplace everyone has to contribute to the general prosperity by accepting the failures as well as the successes that come his way.

Yet, because the failures that result from market competition are commonly seen as unfair, arguments calling for government to help the poor find sympathetic ears. Government action to help the poor is seen as the only way to overcome the perceived unfairness of the marketplace. Invariably what people have in mind when considering government help for the poor are government

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programs that supposedly transfer income from the rich to the poor. Seldom do those who favor such transfer programs question whether they actually reduce income inequality.

While most people recognize realistically that income is distributed in the marketplace in response to competition between people interested primarily in private advantage, they somehow believe that income is distributed in the political process in response to broad social goals such as reducing income inequality. The unstated assumption is that when people shift from market activity to political activity they experience a moral metamorphosis, overcoming considerations of private interest in order to advance the public interest. Yet, there is no convincing evidence that people in their roles as politicians, bureaucrats, members of special interests, and voters are any less driven by self-interest than they are as investors, workers, and consumers in the private sector.

A Major Unsupported Assumption

Once the importance of political competition is recognized, an important, but seldom considered, question presents itself: Why should we expect the income distribution resulting from political competition to be any more equal than the income distribution resulting from market competition? Unless one is prepared to argue that (1) the skills necessary for successful political competition are different from those necessary for successful market competition and (2) the poor possess relatively more of the politically relevant skills than the nonpoor, then there is no reason to believe that government transfer programs will help the poor.

The evidence fails to support the hope that the poor can compete successfully against the nonpoor for political largess. Little of the income distributed by government is from the rich to the poor. Studies of the distribution of after-tax/after-transfer income over the last several decades find little, if any, change in the equality of that distribution. Based on these studies, economist Robert Haveman of the Institute for Research on Poverty of the University of Wisconsin has concluded, "In spite of massive increases in federal government taxes and spending, we were about as unequal in 1988 as we were in 1950."

There are government programs, of course, that transfer income to the poor. But programs that transfer income to the poor receive political support through a process of legislative logrolling that disproportionately favors programs that transfer income to the nonpoor. The poor end up receiving no greater share of existing wealth transferred by political competition than they do of new wealth created by market competition.

There is no debate over the fact that transfer programs reduce economic growth by discouraging productivity and encouraging dependency. By reducing the overall size of the pie without increasing the share of that pie going to the poor, government transfer programs have reduced the absolute income of the poor. The inescapable conclusion is that government transfer programs have made the poor worse off.

Free market capitalism excels at producing wealth and at distributing it widely. Even those left behind by market competition benefit from the productivity of the marketplace. It is far better to be poor in California than in Calcutta. There are those, however, who disparage the market economy on the grounds that market competition unfairly distributes income. This view has been used effectively to justify transferring more of the nation's income through governmental programs. The result has been unfortunate for the poor. Substituting negative-sum political competition for positive-sum market competition reduces the size of the economic pie without increasing the share of that pie going to the poor. □

THE FREEMAN
IDEAS ON LIBERTY

How Much Money?

by Bettina Bien Greaves

Do we need more money as the population increases? Do we need more money as production expands? That would seem logical. But is it?

What individuals *really* want is not more money, but more purchasing power. Money itself isn't wealth. Look at Germany in 1923. The Germans had plenty of paper money then—billions and billions of Marks. But with all that money, they had little or no purchasing power. A housewife considered herself lucky if she could find a baker willing to take a wheelbarrow full of paper money for one loaf of bread. It is the purchasing power of money, not the money itself, that counts.

Money Has Two Basic Functions

(1) as purchasing power. A money whose purchasing power can be relied on is the most efficient means for individuals to obtain the many varied goods and services they want. Each of us always wants to hold a certain amount of money for future purchases.

(2) as a means for comparing the market values of various goods and services. Because billions of German Marks were being printed in 1923, the purchasing power of a single Mark dropped practically to zero. Germans no longer wanted to hold Marks. Rather, they used every ruse they could devise to exchange their useless Marks promptly for something tangible. Also, as the Mark declined in value, comparisons with various goods and services became increasingly unreliable. By the end of 1923, German Marks were completely useless for either of money's two basic functions.

Money is the medium of exchange people offer in the expectation of obtaining various goods, services, and leisure time. All very well and good. But when there are more people and when more goods and services are being produced, won't more dollars be needed if the extra people are to buy the additional goods and services? Won't more dollars have to be created to cover all this additional spending and keep people producing and prosperous?

No! The answer, as the German case shows, isn't more dollars. The answer is more purchasing power. And here the market provides the answer.

Suppose the population has increased but the quantity of money or credit has not been artificially expanded. Then more would-be buyers will be competing to buy the goods and services available. The same amount of money will have to stretch farther. Would-be producer/sellers will have to sell at what would-be buyers can afford to pay—or else forgo sales. If would-be producer/sellers do not anticipate artificially induced increases in the quantity of money, they will not keep asking higher and higher prices, as sellers often do nowadays; they will be willing to drop their asking prices, especially if they feel confident that the cost

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of replenishing their stocks too will not go up, and may even go down. The tendency, therefore, will be for dollar prices to go down and the purchasing power of the dollar, and hence the purchasing power of individuals, to rise.

Suppose production has been expanded, but the quantity of money or credit has not been artificially increased. As would-be sellers will be offering more goods and services than before, but there is no more money, the same amount of money will have to stretch farther. Would-be producer/sellers will have to sell at what would-be buyers can afford to pay—or else forgo sales. If would-be producer/sellers do not anticipate artificially induced increases in the quantity of money, they will not keep asking higher and higher prices, as producer/sellers often do nowadays. They will then be willing to drop their asking prices, especially if they feel confident that they can reproduce their stocks at, or below, their previous costs. The tendency, therefore, will be for dollar prices to go down and the purchasing power of the dollar, and hence the purchasing power of individuals, to rise. Because their dollars will buy more, both consumers and producer/sellers will tend to be better off.

If the quantity of money is not artificially increased, every would-be buyer will take care to spend his or her hard-earned money only on what is most important. Of course, people will disagree as to what is "most important"—but that is another matter. And every would-be seller will take care to sell only when he expects the sale to prove worthwhile, under the circumstances. Goods, services, and money will then gravitate, as the market directs, toward those persons whose demands are the strongest and most intense. This will tend to produce the greatest possible satisfaction.

Government Interference with Money

Not only can the market cope with the demands of an increased population and the appearance on the market of increased stocks of goods and services, but also government interference with this process is disruptive. In the first place, creating new money itself does not assure economic well being. In the second place, artificial monetary expansion can lead, as it has many times in the past, to economic disaster.

Governments have never been at a loss for excuses to inflate (increase the quantity of money) or to expand credit. They argue that: more people need more money; more money must be created to buy the increased quantities of goods and services produced; many people need help because they can't afford adequate food, clothing, shelter, and medical care; quarterly or year-end debt settlements create extraordinary demands for cash; exporters need to be subsidized to encourage exports and improve the balance of trade; businessmen need more money to finance transactions or to expand, and interest rates are higher than they are willing to pay; the government must counteract bank credit contraction to forestall a recession or depression, so the quantity of money to lend must be increased. And so on. However, government doesn't like to tax to pay for these programs; it much prefers to create new money and credit. And that paves the way to disaster.

Some of the effects of monetary expansion are seen. But many are unseen. Monetary expansion helps some people, the first beneficiaries of the new money; these people are "seen." The monetary expansion hurts others, those who receive none of the new money, and those who receive it only later after they have been penalized by having to pay inflated prices for things they purchased; these people are "unseen." Monetary expansion also misdirects production. It subsidizes some producers who are "seen," while discouraging others, those who must pay for the subsidies or are hurt by the competition of subsidized competitors; these producers are "unseen." Moreover, production encouraged by artificial monetary increases is determined by politicians, and thus the wants of consumers are neglected. Artificial monetary expansion leads also to international complications and the disruption of the international market, international prices, and the balance of trade.

How the Market Copes

Over the centuries, both the population and production have multiplied many times over. The market has become worldwide. Individuals, operating in and through the market, have generally coped with these changes without direct government intervention. As the demand for money increased, prices were pushed down by competition, and the purchasing power of gold rose. When gold increased in value, opportunities for profit in gold mining appeared and adventurers all over the world searched for gold. The Spaniards stole gold from the Incas of Peru. Prospectors discovered rich gold fields in Australia, South Africa, and Alaska. And substantial gold fields were found in Russia also. The exploitation of these gold discoveries expanded the quantity of monetary gold without artificial government intervention.

The market also found other ways to cope with the rising demand for money due to population and production increases. Prices fluctuated. When more people were asking for more goods and services, with essentially the same number of dollars to spend, each dollar became more valuable; as a result people had more purchasing power if not more dollars. A single dollar bought more than before; living costs went down, and living standards went up. People were better off even if they didn't have more dollars. If governments had not inflated in recent decades, price adjustments would undoubtedly have been made by using fractions of the monetary unit. After all, the dollar is infinitely divisible. For instance, if our government had not promoted inflation and credit expansion, we might be buying a daily paper with a 1/4 cent token (instead of 25 cents or 50 cents), a loaf of bread for pennies (instead of $1.00 or more), or an automobile for $500-$1,000 (instead of $10,000 or $20,000).

In addition to allowing prices to fluctuate, the market coped with the rising demand of trade for money in other ways. Traders economized the use of the precious metals. They developed banking and started using various paper documents in transactions—gold and silver certificates (receipts representing warehoused gold or silver), bonds, bills of lading, checks, checking accounts, and various forms of securities. These new techniques enabled businessmen to pay for purchases without actually shipping gold or silver. Bank clearing houses made interbank transfers of funds cheaper and faster. Electronic bank deposits and transfers, and credit cards continue this economizing trend. And no one can foresee what new market economies will be forthcoming.

Fiat money (printing press money) and fractional reserve banking are not listed here because both owe their continued use to government protection of some kind. If government had not entered the field of money and banking, private banks would have had to fulfill their obligations as do all other private businesses. Without government protection, a bank that issued more promises to pay than it could fulfill would be forced to mend its ways or go into bankruptcy. A bank that issues more banknotes (promises to pay upon demand) than it can redeem is courting disaster. And no bank whose assets and reserves constitute only a fraction of its obligations can expect to survive for any extended period of time without some form of government protection.

If government had not intervened, the market would have been able to cope with population and production increases through the pricing structure and various other techniques traders would have devised. The pressure of new buyers appearing on the market and the pressure of producers offering more goods and services, without any artificial increase in the number of dollars, would have enhanced the purchasing power of every dollar. Prices would have tended to go down and living standards would have risen, even though monetary incomes stayed essentially the same. Instead of expecting continual inflation and rising prices, people would have looked at their economic situation from a different perspective. They would have compared their present and past living standards and considered how much better off they were than in the past because their living costs had declined. It didn't cost as much to feed the family as it used to. A new automobile this year cost less than it did ten years ago. And so on.

If prices are free to fluctuate, and if traders on the market are not prevented from economizing when it seems advisable, any amount of money will be sufficient to fulfill money's two basic functions—as purchasing power and as a means for comparing relative market values. As a matter of fact, when monetary inflation is resorted to in the attempt to compensate for changes, the monetary unit loses both its purchasing power and its use as a standard for comparing values. The consequences of a government-induced inflation—in the attempt to keep pace with changes in population and production—will always be much more disastrous than any short-run benefits it brings to its relatively few early beneficiaries. □

Capitalism: An Alternative for Inner-City Gangs

by Ralph Reiland

The much-publicized gang peace summit in Kansas City last summer produced some good ideas. The Crips and the Bloods are right that voting is better than drive-bys, but that's nothing that the rest of us didn't know all along. While there's little debate about police brutality being wrong, what happened to Rodney King is chump change compared to what the Los Angeles gangs dish out to African-Americans every night.

In Los Angeles County, shootings occur every hour, with gang murders now running at 850 a year, primarily black-on-black. Nationally, the top cause of death for young African-American males is homicide; more young blacks are murdered every year than were killed in a decade in Vietnam.

A young African-American male in Harlem is less likely to reach the age of forty than a boy in Bangladesh. Yet Ice-T is cashing in with his new weapons-theme clothing line: AK-47 pants, assault jackets, and M-16 jeans—back-to-school outfits for the pathological war zones.

Still, some of the deadliest racist violence in Los Angeles isn't against African-Americans. In South Central, it's Korean storekeepers who run a 1-in-250 chance of being

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killed each year, about the same fatality rate our troops faced in Vietnam. But they're not victims of police brutality, so we won't see their victimization, on videotape, ten thousand times on television. And none of us will notice the length of the jail sentences any of their killers receive. Instead, a nihilistic mob jumps to the music as Ice Cube pockets big bucks rapping about the slaughter in his song *Black Korea*: "So don't follow me up and down your market, or your little chop suey ass will be a target."

The recommendation at the gang summit that African-American parents develop their own separate school system has merit. Catholic schools regularly outperform the public schools, comparing equivalent entering students, at less than half the cost—and the female graduates of women's colleges regularly outperform their coed counterparts. The present administration, however, isn't likely to give back to African-American parents any of their tax money to fund their own schools as long as it continues to value the bloc vote of teacher unionists over upward mobility in the inner city.

The idea at the summit of improved treatment of women by gang members is significant too. In an environment in which gang members respected their girlfriends, wouldn't more guys marry their girls and forget about the Crips?

What was best at the summit was the focus on economics. Instead of the old pleas for more government handouts, the vision was one of creating more small businesses. The talk was of management programs instead of Aid to Families with Dependent Children, and jobs and economic development instead of busing and victimhood.

The key to wealth in America—for Koreans, Cubans, Poles, Chinese, Jews, or Black West Indian immigrants—has always been small business. Today, over three-quarters of the over-$200,000 family incomes in the United States are earned by small business owners. Too often, however, well-intentioned church leaders and politicians have warned African-Americans to avoid the evils of the private sector. Jesse Jackson's only mention of business at the Democratic Convention was his story about how a North Carolina chicken plant chained in its workers and burned them to death. A life on the dole watching television soaps or selling dope sounds better than that racist, unfair, greedy, unequal, and deadly capitalism.

That picture of capitalism is just as much a lie, however, as picturing all African-Americans as Willie Hortons. Too frequently, the loud speakers on the Left paint a false picture of capitalist evil and socialist salvation. They don't ask why Germans weren't shot trying to escape from the capitalist West to the socialist East—the wall climbing was in the other direction—or why the thousands of Cubans paddling on inner tubes through shark-infested waters from Havana to Key West don't pass anyone escaping in the opposite direction.

John Shipley Butler, black professor of management and sociology at the University of Texas at Austin, states: "Going back to the 1950s and the beginning of the civil rights movement, we began moving away from business to politics. The result is we have become too focused on fairness—what somebody is doing to us and not doing for us—and almost contemptuous of business, especially small business . . . a focus on rights practically forces you to think in terms of victimization. A focus on business forces you to look for opportunity. That's the main difference between us and, say, Vietnamese Americans."

It's time for another summit, this time to lay the plans to unleash African-American entrepreneurship. It's time for African-American professionals, church people, gang members, and small business operators to open stores all across this country and watch the profits and role models trickle down and create more stores, more jobs, more hope, and more pride. It's time for capitalism. □

THE FREEMAN
IDEAS ON LIBERTY

Freedom versus Fear

by John Attarian

Friends of freedom rightly see government control as a threat. From this many have passed on to condemn government and to call for anarchy, a minimal state, and so on. But while this line of thought has been fruitful of much insight, it risks engrossment in technical arcana of libertarian theory—anarchy, public finance via lotteries, and so on—and quite forgetting that freedom's real enemy is not government itself but the frailties of human nature that result in its illegitimate use. Some of these weaknesses have received careful study. Envy, for example, is the subject of a brilliant treatise by Helmut Schoeck.[1] But one of freedom's worst foes is, quite simply, fear.

Fear of what, specifically? Fear of failure, fear of responsibility, and above all fear of uncertainty, insecurity, and financial loss and suffering brought on by competition, technological change, and the inescapable fact that "time and chance happeneth to them all" (Ecclesiastes 9:11). Fear, in short, of life and its mishaps.

These fears lead to demands for government to protect the fearful from what they fear. Indeed, much of today's colossal government intervention into the free market can be traced, ultimately, in whole or in part, to fear on the part of some group, or to politicians' appeal to that fear: antitrust laws, to fear of larger or more efficient firms; regulation of railroad freight rates, to large railroads' fear of being underbid by their competition; agricultural subsidies, acreage restrictions, and price controls, to fear of commodity price fluctuations; protectionism, to fear of foreign competition; Social Security, to fear of destitution in old age; Medicare, to the elderly's fear of unaffordable health care; unemployment compensation, to fear of hardship occasioned by job loss; minimum wages, to fear of being paid a lower wage (and, *sotto voce*, labor unions' fear of competition from cheaper labor); graduated income taxes and inheritance taxes, to fear of large incomes and concentrations of wealth; deposit insurance, to fear of losing savings in a bank crash; and so on almost *ad infinitum*.

The High Cost of Fear

All this indulgence of fear has not only severely crimped our liberty but also inflicted serious economic penalties. Thomas Hopkins, of the Rochester Institute of Technology, has estimated the 1992 cost of regulations at $564 billion, counting such things as protectionist trade barriers (e.g., sugar quotas) and paperwork requirements.[2] The huge borrowings needed to finance the federal government gobbled up 62.8 percent of funds raised in our credit markets in 1991 and 51.8 percent in 1992.[3] One would think that, confronted with such huge costs of fear and its indulgence, most of us would find the case for stoicism and freedom self-evident and overwhelming. Unfortunately, thanks to certain hard facts of life, it is not so simple as that.

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Freedom is not a free gift. There is no such thing as something for nothing. Like everything else in life, freedom has a price: responsibility, insecurity, and the possibility of failure, of unforeseen calamity, of suffering, of paying for the mistakes liberty leaves one free to make.

To most people these burdens are insupportable, or at least onerous. We are physical beings vulnerable to suffering and aware of our mortality, and therefore all of us are, or have been, or will be, afraid for our prospects in the material world. Hence human beings are inherently vulnerable to the temptation to indulge fear rather than be ashamed of it and strive to override it. And hence we will always face a powerful temptation to enlist government to interfere in the workings of a free economy to protect ourselves or others from suffering—and to regard such interference as humane and necessary.

Enthusiasm for liberty tends to vary with the position of the economy in the business cycle. During a boom, with broadening opportunity and rising incomes and living standards, paeans to freedom and free enterprise abound—witness the business advocates of the nineteenth century, the twenties, and the eighties. When prosperity withers, so does allegiance to the free market; every economic downturn brings not only vulnerability to setbacks and actual suffering but also demands that the government "do something": "stimulate" the economy, pass a jobs bill, drive down interest rates, protect industries from foreign competition, forbid plant closings, provide unemployment compensation, furnish national health care, and on and on.

The Challenge of Freedom

All this raises a hard question: does freedom demand too much of us? Is it unfeasible for fearful, mortal beings? Fyodor Dostoevsky feared so. In the famous "Grand Inquisitor" chapter of Dostoevsky's *The Brothers Karamazov*, the Grand Inquisitor grimly predicted that Christ's gift of freedom would be spurned by a humanity fearful for its material well-being, and that humanity would trade freedom for guaranteed sustenance:

> Judge Thyself who was right—Thou or he [Satan] who questioned Thee then? Remember the first question. Its meaning was this: ". . . nothing has ever been more insupportable for a man and a human society than freedom. But seest Thou these stones . . . ? Turn them into bread, and mankind will run after Thee like a flock of sheep, grateful and obedient, though forever trembling, lest Thou withdraw Thy hand and deny them Thy bread." But Thou wouldst not deprive man of freedom. . . . Thou didst reply that man lives not by bread alone. But dost Thou know that for the sake of that earthly bread the spirit of the earth will rise up against Thee and will strive with Thee and overcome Thee? . . . In the end they will lay their freedom at our feet, and say to us: "Make us your slaves, but feed us." They will understand at last, that freedom and bread enough for all are inconceivable together.[4]

The economic collapse of the Soviet empire and the privations of the Communist bloc's people have demonstrated that on the economics, at least, the Grand Inquisitor was wrong: bread for all is inconceivable *without* freedom. And during the eighteenth and nineteenth centuries, Americans and Britons, contrary to the Grand Inquisitor's assertions, were perfectly willing to risk bread in exchange for freedom and a chance of perhaps more bread in the future, and so were the immigrants who came here. That is, they had sufficiently strong characters to accept the chances of life, and to function, and function well, in a climate of considerable uncertainty offering no guaranteed economic payoff for their actions.

It emerges that freedom is perfectly feasible—but only given a certain sturdiness of character. The burdens of physical and financial insecurity and personal responsibility being higher in a free economy than in a mixed or socialist one, it stands to reason that the psychological demands of freedom are in many ways far heavier than those of servitude. One need not be sturdy or brave to collect entitlements and be shepherded by regulators and social workers through a life made artificially tidy by miles of red tape. But one does have to be brave to take one's chances in a free labor market, assume responsibility for one's own well-being, make one's own provision for old age and ill-health. And one has to be something of a hero to venture out into the unknown as an entrepreneur, staking one's all on an idea. A sturdy character is required to make freedom work—and to keep people loyal to freedom in the face of risk and adversity, and brave enough to face them without appealing to the state for succor.

It follows as well that if and when widespread sturdiness of character ever gives way to widespread fearfulness, freedom will be in trouble, and the Grand Inquisitor will have the grim last laugh. Indeed, amid the current demand for universal health care, one may almost hear the Grand Inquisitor whispering to today's "democratic despots" on the Potomac: "In the end they will lay their freedom at our feet, and say to us: 'Make us your slaves, but protect us.' They will understand at last that freedom and health care for all are inconceivable together."

Growth of government since the onset of the Great Depression in 1929 may be taken as an indicator of an alarming decline of courage in our national life, a decreasing willingness on Americans' part to take their chances in a free market and to allow market forces free play.

In the same period, as many observers have noted, American life became increasingly secularized. This does not mean that most Americans became atheists or agnostics. Rather, religion's grip on many people simply weakened; attaining earthly happiness and prosperity became a higher priority than leading a life pleasing to God. God was not so much deliberately dismissed as forgotten in the rush to attain an abundant and pleasant lifestyle. In intellectual circles, which unfortunately are also the opinion leaders of American life, atheism and agnosticism did become not only respectable but widespread—not only on the socialist, secular humanist Left but also on the libertarian Right, with the rise to fame of the atheist-egoist Ayn Rand.

These are not merely parallel and unrelated developments. As Aldous Huxley observed, a teleological chain runs from metaphysics all the way to economics and politics: "It is in the light of our beliefs about the ultimate nature of reality that we formulate our conceptions of right and wrong; and it is in the light of our conceptions of right and wrong that we frame our conduct, not only in the relations of private life, but also in the sphere of politics and economics. So far from being irrelevant, our metaphysical beliefs are the finally determining factor in all our actions."[5]

Thus one set of metaphysical beliefs will yield one set of political and economic beliefs, behaviors, and institutions, and another metaphysic will generate a quite different politics and economics. The contrast between the limited government and free economy of early America under the Founding Fathers, most of whom were Christians or at least theists and who lived in a thoroughly Christian culture,[6] and the total state and rigidly planned economy of the atheist, materialist Soviet Union confirms Huxley's statement. A being dignified by possession of an immortal soul has an unalienable right to be free; a mere piece of matter conditioned and determined by forces and relations of production does not.

Metaphysics affects economics and politics through, among other channels, the prevailing attitude of the population. Faith is a powerful wellspring of courage. Faith in God leads to faith in existence and life themselves. If the world is the work of a benevolent personal God, and one is God's child, then it follows that existence is fundamentally good and that the world is one's home in which it is possible to live, prosper, and work out one's salvation. This bedrock metaphysical confidence enables one to function: to decide, choose, act—indeed, to run risks. To a person with such psychological underpinnings, the hazards and burdens of the free market are tolerable. With faith in the essential goodness of life and in the ultimate outcome, such setbacks as occur can be taken calmly.

Put another way, religion deflects fear upward, replacing fear of existence with fear of the Lord. In liberating people from fear of living, religion makes them fit for freedom.

Religious Decline Breeds Fear

The corollary is that a decline of religion, marked by a loss of faith, yields a decline of courage. Without God, the universe becomes inexplicable and alien, and therefore frightening—and one has no one to turn to for strength, succor, consolation. Nor does one have metaphysical grounds for seeing life as fundamentally good or for having faith in the future. One's fear of life rises. This in turn yields a weakening allegiance to the free market and a greater demand for state succor.

The consequences of religion's decline ramify harmfully in other directions as well. A declining attachment to God goes hand in hand with greater attachment to the things of this world, which produces, understandably enough, a greater fear of losing them. This too diminishes willingness to run the risks freedom entails, and more appeals to government for protection.

The rising fearfulness attendant on loss of religion results in more government intervention into a free economy indirectly as well as directly. The problems of sin and fear are intertwined. When people are afraid they are more likely to be ruthless in pursuit of their interests, partly, perhaps, to create a zone of security and power in an uncertain and frightening world; scruples become unaffordable luxuries, and without belief in a divine Judge, they become impotent to curb wrong behavior. Hence a frightened, secularized population is more likely to engage in fraud, breach of contract, rapacious looting of corporations (via exorbitant salaries, bonuses, and stock options), and so on. Observers will perceive this conduct as "greed," "selfish capitalism" and "market failure." Blind to the underlying cause, they will proclaim that the market is incapable of policing itself, and so they will demand more government control.

Friends of freedom have undoubtedly done well to master and disseminate economic arguments for free markets and limited government. In economics, liberty's advocates have done the most work, and the achievements of Ludwig von Mises, Friedrich Hayek, Milton Friedman, Henry Hazlitt, Israel Kirzner, and others have been enormous. Granted their premises, their arguments for the market are overwhelming.

But we delude ourselves if we think that, having demonstrated logically that the free market is the optimum economic system and that interference is dysfunctional, we have routed the enemy. One of the drawbacks of the assumption of human rationality popular among classical liberals and libertarians is that it ill equips its believers for coping with irrationality. It produces the dangerously optimistic corollary belief, as the British historian Correlli Barnett wrote, "that once something has been demonstrated to be absurd or self-destructive it is as good as written off. However, while you may rightly tell a drunkard that drink will kill him if he does not give it up, how do you stop him drinking?"[7]

Since the true and perennial enemy of freedom dwells in a part of human nature that is largely irrational, it is no more than superficially amenable to rational persuasion. Few people frightened of insecurity and hardship are really interested in, or moved by, economic arguments about how freedom and acceptance of risk produce widgets. They do not want abundant widgets, they want their fear to go away. In the eyes of the fearful person, the danger is real, and his fear is rational. After all, pain hurts. And anyone promising relief from pain or the threat of pain will receive his unwavering support—witness the incredible loyalty of the American electorate to Franklin Roosevelt, the enduring Democratic strength among poor and blue-collar voters, and Bill Clinton's support in the 1992 election from those worried about health care.

The Necessity of Soulcraft

Hence to secure the foundations of a free society we must cultivate the character of the people who live in it. Because fear of suffering and dread of insecurity are inherent in human nature, and because time and chance happen to us all, we are always vulnerable to the temptation to seek state succor, and the battle against fear and for freedom must be waged anew in every generation. There is no permanent victory. Economic arguments are not enough. Philosophical arguments are not enough. Proofs that yielding to envy, desire for unearned gain, and fear is economically counterproductive are not enough. The only effective antidotes to evil and irrationality are soulcraft and character formation.

And the greater the erosion of character, the more attention lovers of liberty must give to it. The first great economist of freedom, Adam Smith, consciously grounded his economic thought in moral character.[8] But many later economists of freedom—the thinkers of the Manchester School, Carl Menger, Eugen von Böhm-Bawerk, Ludwig von Mises—coming to maturity and formulating their theories and their economic defenses of the free economy in societies and cultures grounded in Christianity, when the underpinnings of soulcraft were still in place and when civilized people with sturdy characters were so numerous as to invite being taken for granted, rarely concerned themselves with the interplay of character and economics. For the most part, they did not have to; it was not an issue. Today, with soaring crime and violence, endemic illegitimacy and divorce, and rampant pursuit of "victim" status, we can almost take fear of living for granted, and with it widespread repudiation of the free market and demands for government help. In a disintegrating post-Christian society friends of freedom can no longer count on family, church, school, and society instilling the metaphysical and other core beliefs underlying a successful free economy.

Unfortunately, no one has ever explained how a free economy can work in the context of a decadent national character—if indeed it can. Economists, including free market economists, continue to spin theories and build models as if the problem did not exist.

A religious revival would aid the cause of freedom, but religion cannot be preached simply because it supports free societies and free markets. Such a pragmatic approach is too cynical to work and would be worse than no effort at all; atheists and statists would see through it immediately, and the resultant firestorm of disdain would set back the causes of both freedom and religion.

Nevertheless, if a return to religion is not feasible unless and until people are genuinely ready to hear it for the right reasons, friends of freedom should meanwhile grasp every opportunity to preach and reward the virtues that make for a sturdy character, and, better still, to provide that most powerful of teachers: a good example. In the end, a society—and an economy—is no better than the people in it. And in the end, if character formation and soulcraft are neglected, all the other work of freedom, however useful, will be in vain. □

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1. Helmut Schoeck, *Envy: A Theory of Social Behaviour*, tr. Michael Glenny and Betty Ross (New York: Harcourt, Brace & World, Inc., 1969; Indianapolis, Liberty Fund, 1987).
2. "Cost of Regulation Isn't Easy to Figure But Estimates Exist," *Wall Street Journal*, September 23, 1992, p. A10.
3. *Federal Reserve Bulletin*, May 1993, p. A39, Table 1.57, Funds Raised in U.S. Credit Markets. Percentage calculations are mine.
4. Fyodor Dostoevsky, *The Brothers Karamazov*, tr. Constance Garnett, Book V, Ch. 5.
5. Aldous Huxley, *Ends and Means: An Inquiry into the Nature of Ideals and into the Methods Employed for Their Realization* (New York: Harper & Brothers Publishers, 1937), p. 11.
6. See M. E. Bradford, *A Worthy Company: Brief Lives of the Framers of the United States Constitution* (Marlborough, N.H.: Plymouth Rock Foundation, 1982), and John Eidsmoe, *Christianity and the Constitution: The Faith of Our Founding Fathers* (Grand Rapids, Mich.: Baker Book House/Mott Media, 1987).
7. Correlli Barnett, *The Collapse of British Power* (New York: William Morrow & Co., 1972), p. 48.
8. Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* was but an application, in both philosophical and empirical fashion, of his moral philosophy—set forth earlier in his *Theory of Moral Sentiments* and *Lectures on Jurisprudence*—to market relationships.

A Needful Blessing for the Tsar

by Phil Trieb

In the opening scene of *Fiddler on the Roof*, the rabbi's son asks: "Is there a proper blessing for the tsar?" The rabbi responds: "A blessing for the tsar?" He ponders awhile, then pronounces: "Of course . . . May God bless and keep the tsar . . . far away from us!"

I may be partial to the line, because it belonged to me when I played the rabbi in a community presentation of that nearly thirty-year-old musical. In a production that still has much to say to America in the waning years of the twentieth century, that line may well be the most pertinent of the play, as regards our national crisis today.

Because for anything from hangnail to hurricane, the reaction of first resort, rather than the last, is to run to Uncle Sam, who, for the sweetness of his benefits, is known by many today as "Uncle Sugar."

To those less possessed of affection for beneficent tyranny, the vision of a huge "Uncle Sow," suckling legions of should-be-weaned pigs, is more appropriate.

To the villagers of Messrs. Stein, Bock, and Harnick's fictional Anatevka, the less contact with the agents of the tsar, the better. Or, as Jefferson stated: "That government is best which governs least."

In *Fiddler*, the Jewish villagers are forced to leave their "dear little village" under a pogrom, not initiated by the tsar, but nevertheless benignly endorsed, in that he does nothing to stop the racist deportations ordered by his underlings.

We have a parallel situation today in America. The president's administration may not initiate the privations experienced by those being ground up in the gears of the Internal Revenue Service, the Occupational Safety and Health Administration, the Environmental Protection Agency, or any of the scores of other federal agencies, but in that it does nothing in its ultimate political and administrative power to stop the excesses, the administration thereby endorses the economic and judicial deportations: of families forced from homes, farms, and businesses by government edict, rules and regs, bankruptcy borne of confiscatory taxation, or worse.

For all the talk of reinventing and streamlining government, there is in place an inexorable principle in the United States today: bureaucracies never die, they only grow. And to grow, these bureaucracies, which never produce any wealth of their own, must consume the productive wealth of others. Of course, taxation has been the traditional means, but increasingly, the consumption occurs through regulation, or enforcement.

This can be rather benign, in the irrita-

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tions of paperwork necessitated by niggling regulations. A small business owner decides not to invent this widget or improve that whatsit—neither of which is crucial to life, but both of which are conducive to its comforts—because the licenses, permits, paperwork, and bureaucratic scrutiny make the reward minuscule compared to the cost.

Of course, the niggling can add up. A current study estimates that Americans are expending $100 billion per year to cover the burdensome record-keeping requirements imposed by government on the health care system.

In the extreme, the bureaucracy can be deadly. Consider the growing numbers of innocent civilians terrorized, and even shot and killed by over-anxious anti-drug SWAT teams. (And of course, there is the annihilation of the Branch Davidian sect, of which the truth of the Federal Bureau of Investigation and Bureau of Alcohol, Tobacco, and Firearms' actions may never be known due to the hasty bulldozing of the site after the fatal conflagration.)

Remember that bureaucracies, though they are by nature inefficient, must produce some kind of activity, some kind of movement, however pointless, to justify their existence. Imagine Uncle Sow again, who in foraging about the barnyard crushes and consumes other creatures. And Uncle Sow is very discriminating in whom he destroys: often it is the most productive, the most creative, the most innovative.

But that is a necessary evil, if Uncle Sow is to do so much "good," and provide for so many. But in a "less advanced" time in our history, there was a far different attitude toward government, and a vastly different hierarchy of help. When disease, death, or disaster had exhausted one's personal resources, one turned first to friends and family, then to church and community. (In many cases the latter mirrored the former.) It was recognized that those who were presently experiencing God's blessings would share with those who weren't. As to providing for the populace, government, especially the national government, was not even considered.

Yet in a terrible twisting of Jesus' command to "Love thy neighbor," there are churches today that, rather than care for those in need, have agencies and seminars to train the needy to make the most of available government "entitlements."

Elected officials, rather than help keep the "tsar" far away from us, help draw the government ever closer. Even U.S. Senators are no longer statesmen-guardians of our constitutional liberties, but professional beggars for subsidies to their states, and ombudsmen for constituents, often swamped by phone calls when Social Security or other government checks are merely a day late.

And unfortunately, God is left out of the discussion, at least in public discourse by politicians, journalists, think-tank intellectuals, unelected "policy makers," and shockingly, growing numbers of church leaders.

God was once considered omniscient, omnipotent, and omnipresent, now the government is considered all-knowing, all-powerful, all-present. Though citizens have contact with flesh and blood bureaucrats, the concept of government itself is becoming increasingly abstract, and like some distant, unseen deity, bestoweth its blessings (subsidies and entitlements) on the worthy (those who fulfill arbitrary requirements) and punishes (taxes) the wicked (i.e., the "rich," which is anyone making more than the one seeking benefits).

Yes, there were rich and poor in Anatevka. The beggar Nahum receives a kopek from Lazar Wolf, the rich butcher, and responds: "One kopek? Last week you gave me two kopeks." Lazar replies: "I had a bad week." Nahum retorts: "So if you had a bad week, why should I suffer?" In community- and church-based charity, generosity is based not only on the need of the recipient, but also on the ability of the benefactor to contribute. In government-based "entitlements," neither need nor ability to contribute is considered. One only must fulfill the arbitrary "requirements"—hence, shiny new pickups can be seen hauling away free U.S. Department of Agriculture commodities, and women in furs can plunk down food stamps to buy hamburger for pet dogs. And whatever the condition of the taxpayers funding the largesse, the benefits grow and grow and grow.

What the government subsidizes—illegitimacy, sloth, inefficiency, dishonesty, waste, inertia—we get more of. And what the government taxes—intact families, productivity, efficiency, honesty, frugality, innovation—we get less of.

Under the philosophy of providential government, most people, even elected state officials, regard federal government money as "free," as if it grows on some distant money tree in a neo-Garden of Eden on the Potomac. The trouble is, that tree has its roots in the pockets of every productive American. And with the specter of universal, federally subsidized health care on the near horizon, the mythical money tree is ready for an unprecedented explosion of new growth. (Yet we are expected to believe that the federal government will suddenly reverse 50 years of tradition, and run this program as a model of efficiency!)

These attitudes would have been anathema to most of our grandparents, many of whom fled the tyrannies of encroaching European socialism. They would also be anathema to the villagers of "Tumbledown, workaday" Anatevka. Their reliance was on God and each other, and though its people also called their village "underfed, overworked," they knew that the closer the tsar drew to them, the more imperilled their lives would be.

We would do well to heed the rabbi in *Fiddler on the Roof*, and again inculcate the attitude in our children and our communities: May God bless and keep the government . . . far away from us! □

STRIKERS AND SCABS

by Charles W. Baird

On June 15, 1993, the U.S. House of Representatives voted 239–190 to amend the National Labor Relations Act (NLRA) to prohibit employers from hiring permanent replacement workers in economic strikes. President Clinton promised to sign such legislation.

Republican senators have promised a filibuster, so the Senate leadership has postponed voting on the issue. When and if they round up the necessary sixty votes they will schedule the vote. A filibuster stopped identical legislation in the 102nd Congress, and there is a fair chance that it can do so again.

The proposed legislation applies only to economic strikes, which are union-initiated work stoppages over terms and conditions of employment. It is already illegal for employers to hire permanent replacement workers in unfair labor practice strikes, which are union-initiated work stoppages over illegal actions by employers such as firing a worker for advocating unionism.

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The Nature of the Right to Strike

Unionists portray this issue as one of simple justice. They claim that the right to strike, which is guaranteed in the NLRA, is nullified by the ability of employers to hire permanent replacement workers. But what is the right to strike?

Let's get back to basics. The employment relationship is one of contract between employees and employers. Contracts are formed by parties each of whom perceives that he will thereby gain. They are based on mutual consent. The typical employment contract is an agreement that the employee will perform specified labor services for the employer in exchange for a specified compensation package. Unless a contract specifies the contrary, employees do not have property rights to their jobs.

Since each worker owns his own labor services, he clearly has a fundamental (i.e., independent of government) right to withhold those services if he doesn't like the compensation package offered by an employer. It follows that like-minded employees have a fundamental right to withhold their labor services together, at the same time. However, there is no fundamental right for any worker, or group of workers, to prevent other workers from accepting the terms that they have refused to accept. To argue the contrary is to assert that strikers own the jobs that they refuse to do. Congress may legislate such a privilege, but that is different from a fundamental right. In the realm of rights rather than privilege, workers don't own jobs. They own their labor services.

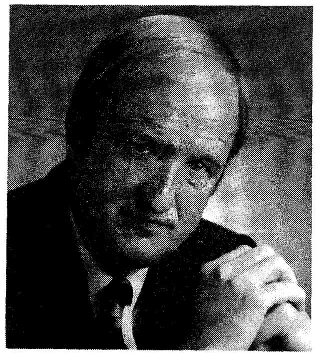
All workers, even nonunion workers, own their labor services. As owners they have a fundamental right to accept any terms of employment they wish, even if some other workers have rejected those terms.

Unionists use the epithet "scab" to refer to workers who are willing to accept terms that union workers have rejected. A scab, unionists thereby suggest, is less than human and therefore has no rights that anyone need worry about. However, calling a replacement worker a scab is not a logical argument. To make their case, those who support the proposed striker replacement legislation have to come up with some justification for subordinating the rights of union-free workers to the interests of union workers.

Moreover, existing law is well balanced between unions and management. The terms and conditions of employment that a striking union seeks have long-run cost implications for its target employer. If employers were prohibited from hiring permanent replacement workers, they could not impose any long-run costs on striking unions. As the U.S. Supreme Court has acknowledged, existing law allows each side to threaten to impose long-run costs. The hiring of permanent replacement workers, according to the Court, is one of the employers' "economic weapons in reserve" that they may legitimately employ in the collective bargaining process.

Finally, the ability of employers to hire permanent replacement workers provides a market-reality check to both sides in a labor dispute. If an employer is able easily to hire replacements at terms that a union has rejected (current law forbids employers to offer better terms), the union knows its terms are unrealistic. But if the employer cannot do so, it knows that the union's terms are not unrealistic. If employers were permitted to hire only temporary replacement workers, as the proposed legislation specifies, this market-reality check would vanish. Workers are often reluctant to accept temporary job offers even at high pay.

Although only 11.5 percent of private sector workers are unionized, the proposed legislation creates privileges for union workers at the expense of rights of union-free workers. Is that consistent with the American principle that all people have equal rights and are entitled to equal protection of the laws? □



Paul Samuelson Finally Gets It Right—Almost

"When he talks, Mr. Samuelson sometimes seems disappointed that the world's leaders did not learn enough from his textbook."

—*The New York Times* (October 31, 1993)

Mainstream economists deny that they can be held responsible for today's economic problems because, they say, political leaders are ignoring their sound advice. If only they had taken Econ 101 from me, proclaims Paul Samuelson.

Au contraire! The world's leaders have learned economics all too well from Paul Samuelson and the "neo-classical" establishment. His textbook, *Economics*, now in its 14th edition, has sold over four million copies and been translated into thirty languages. It has been the most influential textbook on economic theory and policy for the past fifty years. I and countless others (including today's political leaders) used it as undergraduates. And even though it no longer dominates the textbook field, today's leading college textbook by McConnell and Brue is considered a Samuelson clone.

What has the world been taught by the MIT professor and Nobel Prize-winning economist? In writing my book, *Economics on Trial* (Irwin Professional Publishing, 1993), I painstakingly reviewed the top-ten textbooks used in colleges today, including Samuelson's, and made an amazing discovery. Many of the problems we face today, including high deficits, inflation, excessive tax rates, low savings and capital growth, high consumer debt, the welfare state, and a boom-bust business cycle can be traced back directly to fundamental errors taught by Samuelson and other mainstream economists over the past fifty years. Governments around the world have been especially enamored with Samuelson's version of Keynesian economics, which gives theoretical support for inflation, progressive taxation, deficit financing, and the welfare state.

Bad Economics Taught in the Classroom

Remember, it was Samuelson's textbook which popularized the "paradox of thrift," the perverse idea that excessive saving could cause a recession or worse. Tell that to today's Chinese, who are enjoying the fastest economic growth rate in decades, or to the Japanese and Germans during most of the post-war period, where high savings and high economic growth went hand in hand.

This is the first of Mark Skousen's monthly "Correction, Please!" columns for The Freeman. *Professor Skousen is editor-in-chief of* Forecasts and Strategies, *one of the largest investment newsletters in the country, adjunct professor of economics and finance at Rollins College in Winter Park, Florida, and author of 14 books, including* Economics on Trial: Lies, Myths and Realities. *For information on his newsletter and books, call Phillips Publishing, Inc., at (800) 777-5005 or (301) 340-2100.*

It was Samuelson who convinced the world that big government was a "built-in stabilizer" in the economy. Never mind that it also means built-in bureaucratic waste and inefficiency.

It was Samuelson who introduced the "balanced budget multiplier," the strange notion that starting a new government program stimulates economic growth more than a cut in taxes. Since when is it more productive to transfer wealth from the private sector to the public sector? Needless to say, no one learns about the excited new trend toward privatization and supply-side economics from Samuelson's textbook.

It was Samuelson who theorized that high progressive taxation would have little or no effect on business people, entrepreneurs, or high-paying executives. "[They] will work as hard for $150,000 as for $200,000," he asserted. The Nobel Prize-winning professor ignores all the evidence supporting the "supply-side" case that lower tax rates have significantly boosted economic activity in dozens of nations.

Finally, it was Samuelson who naively claimed as late as 1989, right before the Berlin Wall was torn down and Soviet Communism collapsed, "The Soviet economy is proof that, contrary to what many skeptics had earlier believed, a socialist command economy can function and even thrive." (Samuelson, 13th ed., p. 837)

You won't find these embarrassing mistakes in *The New York Times* hagiographic review of Samuelson's career.

Samuelson's Remarkable About-Face

But the *Times* also missed out on one of the most important paradigm shifts in Samuelson's thinking. The leading Keynesian spokesman has had a dramatic change of heart in his latest (14th) edition of his famous textbook. He makes the following significant changes:

First, for the first time in over forty years of publishing, he eliminates his infamous anti-saving doctrine, "the paradox of thrift." (In chapter 5 of *Economics on Trial*, I focused on this bizarre concept as the central flaw of Keynesian economics.) Shockingly, Samuelson replaces the "paradox of thrift" with a whole new section on the benefits of saving and investing, and why the saving rate in the United States is too low, a complete reversal of his long-standing belief. Sounding more like Mises or Hayek, Samuelson's prescription for easing America's economic ills is simple: Save and invest more! Rejecting his theme of the past, he comments, "Our society has been on a consumption binge."

Second, Samuelson finally admits that the national debt can be a serious drain on the economy. In the new edition, the leading apologist for deficit spending confesses that "a large public debt can be detrimental to long-run economic growth." He asserts that "wild" government spending and mountains of debt are eating away at the nation. The huge deficit means overconsumption and underinvestment and hence less growth. The deficit has caused the crowding out of private capital, causing our "living standards [to] decline."

Third, the 78-year-old professor begrudgingly acknowledges that Soviet-style socialism has failed miserably. In his latest edition, Samuelson places question marks after Soviet "growth" data. The goods that were made under Soviet central command, he now says, were produced at "great human sacrifice, loss of life and political repression."

"Almost Thou Persuadeth Me . . ."

Paul Samuelson a free-market convert? The next thing you know he'll be writing articles for *The Freeman*! It all sounds too good to be true. But, alas, to paraphrase King Agrippa, he is more likely to respond, "Almost thou persuadeth me to be a free-marketeer!"

"Almost" is the key word, for Samuelson is still not baptized and cleansed in the pure waters of liberty. While he favors a capital gains tax cut, he recommends still higher progressive income taxes to reduce the federal deficit. "America is not remotely near the limits of taxation, and one more pfennig is not going to break the camel's back." The fallacy of progressive taxation will have to wait for another column.

Last year, Samuelson finally responded to my exposé, *Economics on Trial*, by writing me a letter: "I am putting your book on a high shelf so that Sadie our retriever will do it no harm." Given the significant changes made in Samuelson's new edition, I felt that my book had achieved a certain degree of success. However, it would be premature to raise the victory flag or for Samuelson to take my book down and let Sadie the dog have at it. There's still a lot of bad economics being promoted in the media and a lot of good economics being overlooked. I suspect this column, "Correction, Please!" has a long run ahead of it. □

BOOKS

Recapturing the Spirit of Enterprise

by George Gilder

San Francisco: ICS Press • 1992 • 275 pages
$14.95 paperback

Wealth and Poverty, revised edition

San Francisco, ICS Press • 1993 • 327 pages
$14.95 paperback

Reviewed by Raymond J. Keating

By publishing anew George Gilder's now-classic volumes *Recapturing the Spirit of Enterprise* (formerly *The Spirit of Enterprise*) and *Wealth and Poverty*, ICS Press has performed an invaluable service to anyone concerned about economic growth, opportunity, and freedom. The updating and republication of these Gilder tomes takes on even greater importance in light of recent movements in Washington, D.C., not only to wipe out positive economic policy achievements of the 1980s—such as lowering marginal income tax rates—but also to foster once again the mistaken notion of a leviathan state as the guiding force for economic growth.

In both books, Gilder amazingly manages to lift economics from the deadening morass into which much of it had sunk for at least a half century. He understands and communicates perhaps better than any other contemporary economist that economics is not largely an endeavor of statistics and econometrics, since such disciplines do not possess the tools to analyze the dynamic, entrepreneurial change that lies at the very core of capitalism. Through his comprehensive view of economics, Gilder himself provides an example of an economist unwilling to accept irrelevancy by limiting the scope of his examination to a purely econometric analysis. In fact, Gilder justifiably supplants many of the detached, mechanistic assumptions about economic reality. to which a considerable portion of the economics profession subscribes, in favor of a more realistic analysis of how the economy functions, focusing on human creativity, entrepreneurship, and a wide variety of individual incentives.

Gilder elevates supply-side economics—with its emphasis on providing the means and incentives for individuals to work, create, innovate, invest, save, and take risks—to its proper pre-eminence over bankrupt demand-side economic management and wealth redistribution. Gilder correctly deemphasizes the static, input-output style of economics so relied upon, for example, by former Soviet planners, authors of U.S. economics textbooks, and New York City government officials, while instead focusing on the creative, entrepreneurial aspects of capitalism that, while difficult to quantify, are essential to understanding and ensuring economic growth and opportunity.

After more than a decade of misrepresentations in the media and by a wide range of economists, revisiting George Gilder's classics reinvigorates too-often dormant supply-side economic senses. Gilder vividly portrays the importance of, as he puts it, "the entrepreneurial dimension of the economy."

Recapturing the Spirit of Enterprise remains one of the finest analyses of the entrepreneur's role in the economy. Gilder understands the bankrupt status of current economic analysis where the primary role of the entrepreneur has been subsumed by an emphasis on governmental management of aggregate figures:

> Economic recovery depends on the resurrection of entrepreneurs. This resurrection cannot fully and durably occur until the ultimate arbiters of economic policy—the economists—resurrect entrepreneurship in their own influential theories. The contrary vision of capitalism without capitalists springs in part from a fundamental error of economic thought, drastically overrating the importance of physical capital formation and other quantitative measures of economic activity and drastically underestimating the decisive and

controlling importance of entrepreneurial creativity.

Gilder conveys this critical nature of entrepreneurship not just with sound economic arguments, but with a wide range of real-life examples, including Florida's Cuban immigrants who prospered "not chiefly by a trickle-down of grants from the government, but by the upsurge of their own productive efforts;" Henry Ford's illustration "that high profits come from giving, through low prices and high wages, rather than from gouging for what the traffic will bear;" and Honda's plunge into designing a motorcycle for which no demand yet existed. Gilder quotes Soichiro Honda, "We do not make something because the demand, the market is there. With our technology we can create demand, we can create the market"—thus reaffirming the supply-side tenet that "supply creates its own demand," or Say's Law, named for the nineteenth-century economist Jean-Baptiste Say.

Notably, four new chapters were added to *Recapturing the Spirit of Enterprise*. In one such chapter, Gilder once again exposes the weakness of today's economists: "The reason that most economists cannot comprehend the 1980s is that it was a period of entrepreneurial acceleration. While economists measured the deficit and the trade gap, entrepreneurs were multiplying value at an unprecedented pace and disguising it with plummeting prices."

One of the best ways for any student of economics, whether in pursuit of a bachelor's degree or already in possession of a doctorate, to gain a better understanding of the economy would be to read *Wealth and Poverty*. It remains quite difficult for me to think of a more important book written about economics over the past two decades. Gilder gracefully weaves together devastating attacks on both aggregate demand management and the notion of perfect competition, while even occasionally enlisting demand-side demigod John Maynard Keynes in support of a definitive case *for* supply-side economics.

Invoking the fundamental economic principle of division of labor, Gilder also illustrates that supply-side economic theory does not rest solely on incentives: "Capitalism is the most effective way of expanding wealth not chiefly because it offers the most powerful incentives, the most tantalizing arrangement of carrots and sticks, but because it links knowledge with power. It gives control over resources and over the future flow of investment not to political bureaucracies of certified experts or to the most avidly self-loving pursuers of leisure and luxury, but to the particular businessmen who manage successful experiments of enterprise. . . . Under capitalism, economic power flows not to the intellectual, who manipulates ideas and basks in their light, but to the man who gives himself to his ideas and tests them with his own wealth and work." Gilder correctly points out that "entrepreneurs must be allowed to retain wealth for the practical reason that only they, collectively, can possibly know where it should go, to whom it should be given." This fundamental aspect of capitalism is currently being washed over by a wave of class warfare rhetoric in much of our public debate, which recently manifested itself in higher income tax rates that will divert energies from productive investment and entrepreneurial ventures to tax-sheltering endeavors fostering economic stagnation.

In this light, the new preface to this edition of *Wealth and Poverty* provides an important review of the supply-side successes of the 1980s and some sound advice for the 1990s: "This recovery [of liberalism] is likely to be short-lived. Although the left may never believe it, demand-side economics is dead. In an increasingly competitive global economy, a government can no more raise its revenues simply by raising its taxes than a company can raise its income simply by raising its prices. Like a company, a government must constantly lower its prices and improve its services to expand its markets (its tax base). In the 1990s, the United States needs further rounds of tax rate reductions and simplifications in order to lower its deficit."

Again refusing to pigeonhole economists, Gilder also provides a profound observation: "By a supply-side standard, immorality diverts, demoralizes, obsesses, and depraves the men and women who must forgo immediate returns, sacrifice immediate pleasures, master difficult disciplines, and respond to the needs and desires of others if they are to create successful businesses. Capitalism has been incomparably the most productive economic system in the history of the world because it best evokes the effort and creativity—the moral quality and productive energy—of workers and entrepreneurs who put the interest of others before their own gratifications." Gilder justifiably deserves to be referred to not only as a great supply-side apologist but also a great apologist for capitalism in general.

The following two paragraphs from *Wealth and Poverty* express the essence of the supply-side economics revolution—a revolution still being fought, with the commensurate setbacks one inevitably finds in any battle, but nonetheless moving relentlessly toward victory:

> Say's Law in all its variations is the essential enactment of supply-side theory. But its value does not reside in its mathematical workings. In economics, mathematical models, however elegant, must always defer to the behavior and psychology of persons with free will, who often act, and interact, in unexpected ways. The importance of Say's Law is its focus on supply, on the catalytic gifts or investments of capital. It leads economists to concern themselves first with the motives and incentives of individual producers, to return from a preoccupation with distribution and demand and concentrate again on the means of production.
>
> The return is crucial to understanding the current predicament of capitalism. But it will be difficult for economists. Reversion to the supply side means leaving the comfort of rigorous models and computations and again entering the fray of history and psychology, business and technology. Economists should once again focus on the multifarious mysteries of human social behavior and creativity which Adam Smith luminously addressed in *The Wealth of Nations*, which Marx stuffed into the maw of his theory, which Keynes treated in most of his writings, and which even John Kenneth Galbraith, in his often perverse way, delights in describing.

With *Wealth and Poverty* and *Recapturing the Spirit of Enterprise*, not to mention other books such as *Microcosm*, *Men and Marriage*, and *Life After Television*, George Gilder—the economist—has entered the fray not only of history, psychology, business, and technology, but of faith and the human spirit as well, to the benefit of both his readers and the economics discipline. □

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

Kindly Inquisitors: The New Attacks on Free Thought

by Jonathan Rauch

Chicago: University of Chicago Press/A Cato Institute Book • 1993 • 178 pages • $17.95 paperback

Reviewed by Jonathan H. Adler

Freedom of speech lies at the heart of classical liberal thought. Without it, classical liberals have always understood, most other freedoms are nearly unprotectable and scarcely meaningful. Yet today, in America as in many ostensibly liberal nations, the freedom to speak one's mind is under assault. Buttressing the intellectual defenses of freedom of speech against such attacks is the purpose of Jonathan Rauch's *Kindly Inquisitors: The New Attacks on Free Thought*. Rauch's achievement is no small accomplishment.

Eschewing, for the most part, traditional defenses of free thought, Rauch takes a broader view, drawing on the works of Thomas Kuhn, Karl Popper, and David Hume. To the well-understood liberal systems of politics and economics—representative government and free market economies—Rauch wishes to add the recognition of a liberal intellectual system, what he calls "liberal science." On this system rests the very possibility of scientific knowledge, broadly understood. "Liberalism holds that knowledge comes only from a public process of critical exchange, in which wise and unwise alike participate."

In the system of liberal science, it is through the exchange of ideas—and the resulting conflict between contrary viewpoints—that beliefs and observations are transformed into knowledge. As a result, the realm of knowledge is inherently restrictive; some things are true, others not. The only way to make that determination is by setting forth propositions and subjecting them to challenges. Reasonable hypotheses are entertained until they can be disproved. This removes from liberal science an element of certainty—all hypotheses are subject to challenge and revision—but it is this process upon which the whole of knowledge depends. Without freedom of speech, thought, and inquiry (freedoms not wholly separable) liberal science cannot exist; without liberal science, truth cannot be separated from fiction.

Liberal science, by its very nature, has little tolerance for fundamentalism; conversely fundamentalism is a threat to liberal science. Fundamentalism, defined by Rauch as the "search for certainty rather than for errors," is the antithesis of scientific inquiry. Fundamentalism seeks a monopoly on knowledge from which it can deny the beliefs put forth by all others. Rauch even notes that there are fundamentalist free-marketeers—those who refuse to accept the possibility that cherished economic axioms may be flawed, or at least in need of revision—and he challenges them to enhance their intellectual rigor. If classical liberals are willing to accept the self-correcting actions of the marketplace to properly allocate valued resources, they should also allow the self-correcting mechanisms of liberal science to separate knowledge from supposition.

Due to its nature as a decentralized system, liberal science frees knowledge from authoritarian control by self-appointed commissars of truth. "In an imperfect world, the best insurance we have against truth's being politicized is to put no one in particular in charge of it," notes Rauch. Liberal science achieves this end. It avoids despotism in the intellectual realm as it does in those of politics and economics.

Just as capitalism makes some rich and others poor, liberal science accepts the beliefs of some as knowledge, while rejecting those of others; the game of liberal science creates winners and losers. This, without fail, generates opposition. And so one sees the erection of rules against certain forms of expression. These rules bar "hate speech" in Canada, "historical revisionism" in France, and "insults" directed at minorities in Great Britain.

This siege of liberal science has even reached American shores. "In America," notes Rauch, "the movement against hurtful speech has been primarily moral rather than legal, and nongovernmental institutions, especially colleges and universities have taken the lead." The threat is not that private institutions establish rules to enforce civility within their own confines but the principle on which such rules are being established. Rauch warns, "A very dangerous principle is now being established as a social right: Thou shalt not hurt others with words." This principle threatens the whole of liberal science.

The search for truth entails the examination of all ideas. This makes it inevitable that some will be hurt. In the process of identifying mistaken beliefs, liberal science necessarily wounds those who hold them. "Liberal science does not restrict belief," argues Rauch, "*but it does restrict knowledge*" [emphasis in original]. It allows each individual to think for himself, but it requires that beliefs be tested and challenged before they can be accepted as true. Thus, to limit criticism in the name of protecting individuals, ethnicities, or creeds from harm is to limit the ability of liberal science to search for truth by ferreting out falsehoods. Rauch notes that "A no-offense society is a no-knowledge society," and a "no-knowledge" society is good for no one.

The determination of knowledge through liberal science works well in the realm of fact and fiction. But by Rauch's own admission it is more limited in its ability to discern good from evil; "It is true that the science rules cannot resolve moral questions in the way they can often lead to quick resolutions of questions of fact. You can't perform a study or run an experiment to determine whether abortion is murder or capital punishment is cruel. However, let it be said in favor of the science rules that they can help bring order and peacefulness to moral debate." By establishing criteria for the examination of ideas, liberal science allows for the peaceful exchange of hostile ideas. Thus "liberal science can help people organize the search for decent moral principles" even though "it is incomplete as to providing them."

Kindly Inquisitors is a slim volume that deserves to be well read and widely discussed. Over time, one can hope that Rauch's beliefs will be accepted, scientifically, as knowledge. □

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THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
APRIL
1994
VOL. 44
NO. 4

156 **The Economic Way of Thinking, Part 7** *by Ronald Nash*
The unavoidable fact of economic uncertainty.

159 **Why War?** *by Bettina Bien Greaves*
When free trade and social cooperation are abandoned, conflict will result.

164 **A Free-Market University** *by William H. Peterson*
A look at Guatemala's Universidad Francisco Marroquín.

166 **The New Forest** *by John Chodes*
Robin Hood revisited.

168 **Government "Investment"** *by John Semmens*
Analyzing the flaws in popular thinking about subsidies for public transit.

170 **The Egg and I** *by William E. Pike*
Who—or what—is the "public" in public property?

172 **Ideas and Consequences** *by Lawrence W. Reed*

174 **Monopoly Demand for Labor?** *by Glen Tenney*
Thoughts on the nature of labor markets.

177 **Higher Airfares Ahead?** *by William L. Anderson*
How the airline antitrust settlement hurts consumers.

178 **Social Security, the Welfare State, and the Market** *by Sylvester Petro*
Wishful thinking cannot make the state something it is not.

187 **Government-Created Poverty** *by Joseph P. Martino*
How Brazil destroyed the possibility of economic growth.

189 **Keeping Bad Company?** *by J. Wilson Mixon*
Can the state learn from its mistakes?

191 **Promote Free and Not Command Constitutions** *by Bernard H. Siegan*
Advice for the former Communist countries of Eastern Europe.

193 **The Women's Agenda** *by Deborah Walker*
Economic freedom is every woman's best friend.

198 **All of Us Are Equal?** *by Tibor R. Machan*
Questionable kinds of egalitarianism.

200 **Mother's Little Helper** *by Doug Bandow*
Exploring J. Robert Dumouchel's *Government Assistance Almanac.*

204 **Are Government Statistics Necessary?** *by Robert Youngblood*
Data-gathering as a political tool.

205 **Morality and Wisdom** *by Brian Buckles*
Knowledge by itself does not lead to wisdom.

207 **Money and Inflation** *by Lawrence M. Parks*
Failures of the Consumer Price Index.

209 **Correction, Please!** *by Mark Skousen*

211 **Book Reviews**
John Chamberlain reviews *Toward Managed Peace* by Eugene Rostow and *Final Warning* by Dr. Robert Peter Gale; *Making Democracy Work: Civic Traditions in Modern Italy* by Robert D. Putnam, reviewed by Ben W. Bolch; *What Everyone Should Know About Economics and Prosperity* by James D. Gwartney and Richard L. Stroup, reviewed by John Attarian; *Taking the Environment Seriously* edited by Roger E. Meiners and Bruce Yandle, reviewed by Jonathan Adler.

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PERSPECTIVE

The Market's Easy Touch

A few years back, yet another phenomenon emerged to lacerate the sensibilities of the people in the inner cities: Radios blaring at all hours of the day and night. In addition to the obvious assault on the quality of life in the poorer neighborhoods, the maximum-volume radios aggravated racial tensions for the simple reason that most of the radio-owners were minority youths in their teens and twenties. In my own neighborhood—Spanish Harlem in New York City—derogatory comments about the traditionally out-of-doors Hispanic culture abounded.

People of all persuasions, especially older folk, began to fight back. Soon the city-run subway and surface transit systems sported large red-on-white signs, "No Radio Playing." Then, police were authorized to seize radios while they were blaring (as evidence, not civil forfeiture). Some folks took on an us-or-them attitude towards the minority youths that were typically at the center of the problem, and race relations took a giant step backwards.

Along came SONY, and with its well-known ingenuity and inventiveness, a new product was placed on the market: the Walkman. Soon, blaring radios became a thing of the past as people of all ages and ethnic backgrounds enjoyed music on trains, buses, and streets alike, while walking, riding, or simply sitting on park benches. Users of this product clearly enjoyed having their immediate surroundings suffused with music, possible before the Walkman only with the offensive maximum-volume radios. SONY did what it does best: It identified a real need—environment-suffusing music which doesn't disturb the neighbors—and filled it with a new product.

Today, blaring radios are a rarity; youths and older folk, minorities and whites, all use Walkmans or the many imitations that the market has spawned. And, the racially tinged angry comments of yesteryear have been proven wrong. SONY's success shows the difference between the easy touch of the market response to social problems and the heavy-handed state response to quality-of-life issues. SONY has been rewarded with profits for its genteel product. And, "Walkman" is now an entry in the 1993 (10th) edition of the Merriam-Webster dictionary —just see page 1329!

—JOSEPH S. FULDA

(Dr. Fulda, a contributing editor of *The Freeman*, is the author of *Are There Too Many Lawyers? And Other Vexatious Questions*, available from FEE.)

Reinventing Government?

My wife and I recently had an experience that suggests problems for the much-touted attempt to reinvent government. Because my wife is a foreign national, we were required to register with the Immigration and Naturalization Service (INS). If inspiring vision statements and glossy reports could make government agencies responsive to their "clients" our experience with the INS would have been far different.

A few weeks before our marriage we obtained a stack of forms with instructions on how to fill them out. The large number of barely intelligible questions attempting to determine whether my wife was a prostitute or had engaged in acts of genocide was a harbinger of the things to come. But despite these initial difficulties, we were able to complete everything in full and report as instructed to the Los Angeles INS office.

The agency's vision statement, visible upon entering, is an impressive list of adjective-laden sentences. It begins by proclaiming the agency's commitment to quality service and ends by stating, in large block letters that "well-trained" information officers will, above all else, "create an authentic and compassionate culture treating each person with respect and dignity."

Judging from the information officers that "assisted" us, it seems that INS employees are working overtime to violate every edict laid out in their pledge.

Rude is far too weak a word to describe the way our officer treated us. Upon receiving the packet of paperwork we had spent several weeks completing, the agent proceeded to throw aside with unnecessary force what he considered superfluous. He refused to answer the questions I politely asked, only rebuffing me with "I'll tell you what you don't have and then tell you to leave." After shuffling through the disheveled stack of forms, he grudgingly gave them his stamp of approval. At no time did our "public servant" make eye contact with us.

At yet another desk, another INS official attempted to intimidate my wife with insulting questions, such as "Are you sure you know your name?" and, "Well, why don't you sign it then?" As we sat and waited, we watched as one "customer" after another left the interview with a deep scowl. The motives of our taxpayer-supported officials suddenly became transparent. As unaccountable members of the civil service, they could enjoy exercising petty power over those who had no choice but to submit.

Whether all government bureaus exhibit such astounding contradictions between vision and reality is a question I cannot answer. I can state with confidence, however, that it would be impossible for rudeness of the type we experienced at the INS to persist in any organization subject to competition. Such behavior would last no longer than it takes customers to walk out the door.

America's infatuation with the idea that we can somehow reform government with the stroke of a pen ignores the role of incentives and disincentives in shaping behavior. Creating empty mission statements does nothing to motivate otherwise unmotivated personnel. A lack of accountability and proper incentives to reward diligence creates a situation in which employees have difficulty maintaining any sense of respect for their colleagues, their clients, or themselves.

I can only hope that the emptiness of the INS vision statement is not repeated on a larger scale by the "reinvention" of government. But I am not optimistic.

—JEFFREY G. LEE

THE FREEMAN
IDEAS ON LIBERTY

The Economic Way of Thinking Part 7

by Ronald Nash

In previous parts of this series, I explained the importance of becoming familiar with a number of commonsense principles that make up what is often called the economic way of thinking. Principles already examined include the importance of incentives and the fact that everything has a cost. This month's principle introduces us to the unavoidable fact of economic uncertainty.

The Reason for Economic Uncertainty

We seldom know enough about individual persons, even people especially close to us, to predict with any certainty what choices they will make among the various options open to them. We may know that a particular friend ranks tickets to Chicago Cubs baseball games very high in his personal scale of values. But we may not know how smitten he has become with the young lady he met yesterday and how suddenly the prospect of a picnic with his new friend has become more important than watching the Cubs play the Cardinals.

The major reason why certainty in economics, indeed, why certainty with regard to human action, is impossible is the fact that all economic value is subjective. The value that different people place upon different economic goods, upon various choices open to them, varies from person to person. It also changes for the same person at different times. People's value scales are personal and different.

People value things differently for a variety of reasons which include: (1) different tastes; (2) different perceptions of available opportunities; (3) different interpretations of other people's actions; (4) different interpretations of current events; (5) different expectations about future events and people's future actions; and (6) different degrees of alertness to previously unrecognized opportunities.

Because economic value is subjective or imputed value, it follows that economic knowledge is always incomplete, limited, and fallible. None of us can ever know all that we need to know about the subjective value that other people impute to their options. Indeed, we have enough problems attaining this kind of knowledge about our-

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selves. None of us can attain perfect knowledge about the future. While it is often possible to make some estimates of what will happen, certain knowledge about the future is unattainable. Long-time investors in the stock market will vouch for this, as will anyone who has ever tried to start a business.

One corollary of our limited knowledge about the future is the possibility that the economic value of things will change in unpredictable ways. Natural catastrophes may make some resource more or less valuable. Human tastes, customs, and fashions may change. New highways may change traffic flows. Huge new shopping malls may lead people to develop new shopping habits. Inner cities may decay as people move to the suburbs.

In all such changes, some people will win and others will lose. The scarcity of information means that economic decisions must always be made with some caution and tentativeness. No one, not even the largest and previously most successful businesses, can be completely sure what the future holds for them. Each morning, when the owners of any enterprise open for business, they can never be certain what the market will do to them that day. After what is often a huge investment of money, time, and labor, it is always possible that the business person might discover on a certain day that *no one* was interested in what he had to offer. The frightening prospect is that the Maytag repairman of the familiar television commercials could be any one of us.

But isn't everything said thus far just plain old common sense? It is, save for all the people who seem to forget the lessons in this month's principle, usually at the worst possible time. What is most interesting about the fact of economic uncertainty is its contemporary relevance for several theoretical issues in economics.

Economic Uncertainty and Entrepreneurship

An entrepreneur is someone who believes he sees an opportunity that others have not yet recognized. The key to understanding economic competition is recognizing that no one knows everything, different people have different information. One thing the market process does is gather and communicate information about the most important wants of buyers and sellers. As astute entrepreneurs pay attention to information provided by changing market prices, they often come to recognize new opportunities. These new opportunities may take the form of new products or services that consumers want or of new ways of using scarce resources. As entrepreneurs recognize hitherto unseen opportunities and assume risks in an effort to maximize their own well-being by taking advantage of those opportunities, their actions result in significant benefits to large numbers of people through the creation of new jobs along with the provision of new goods or services.

Economic Uncertainty and Socialism

Without question, the most significant consequences of economic uncertainty affect socialism. Socialism is an economic system in which commands flow downward from the small number of economic planners at the top. In order for such a system to work, the planners at the top must have knowledge about what goods exist and in what quantity and location, and also about what economic goods consumers want and at what price.

The big problem for socialist planners is the fact that it is the market that supplies this information and socialism is incompatible with markets. The most important way in which people can acquire knowledge about the subjective value that individuals place upon various economic goods is to study changing prices. Prices are determined as prospective participants in economic exchanges buy or refuse to buy in response to their personal assessment of their opportunities. As countless individuals, each acting in line with their subjective value scales, exchange units of goods, services, and money, market prices evolve.

The degree to which an individual wants some good or service will have an obvious effect on the price he will pay to acquire it. The more he wants something, the higher price he will be willing to pay. Since the key to understanding the wants and preferences of consumers is market prices and since market prices are unavailable in a system like socialism that abolishes markets, the socialist planners are in obvious trouble when it comes to supplying the wants and needs of consumers. Of course, when economic socialism is married to political tyranny, the desires of the individuals forced to live under such a system do not matter.

But economic planners in a socialist system have other problems. They are cut off from the information required to set rational prices for the goods they sell. Imagine that you're the manager of a factory operating under a socialist system. Suppose your factory produces 1,000 widgets a day. One of your problems is to decide what price to charge for your widgets. But to do this rationally, in a non-arbitrary manner, you must first have access to various kinds of information. You can hardly know what selling price to place on each widget until you first know how much it cost to make it. But under socialism, such information is not available since the government owns the land, the raw materials, the machinery, the factory, the utilities, and everything else. Under such a system, it is impossible to know the cost of producing economic goods. And if you cannot know the cost, then you cannot know what price to offer the good at. What industries located in socialist states typically do is investigate what similar products are selling for in non-socialist economies.

Economic Uncertainty and Capitalism

Rational economic activity is impossible without certain kinds of information. Access to that information is hindered by the fact that economic value is a function of the subjective value that individual people impute to economic goods. One of the more important functions of a market system is the steady supply of information it provides about these subjective preferences by means of rising and falling prices. One of the ironies of socialism is the fact that socialists need capitalism to survive. Once we recognize all this, we can more easily understand not only why socialism does not work, but also why it cannot work. □

THE FREEMAN
IDEAS ON LIBERTY

Why War?

by Bettina Bien Greaves

"There never was a good war or a bad peace."
—Benjamin Franklin in a letter to Josiah Quincy, September 11, 1773.

At 7:55 A.M. Hawaii time on December 7, 1941, the first Japanese bombs fell on the U.S. Fleet at Pearl Harbor in Hawaii. At the time, the United States was officially neutral. Japan was attacking a peaceful country without warning. People in the United States were outraged. Their immediate response was anger; they were more than eager to avenge the attack and go to war against Japan. As Japan was allied by treaty with Germany, Germany soon declared war against the United States.

Within a few days the United States found herself allied with Great Britain and the U.S.S.R., which had been attacked by Germany on June 22, 1941, and at war with both Japan and Germany. (France had been defeated earlier by Germany and was out of the war.) What had been a European war became almost overnight a world war. The United States would soon be fighting Germany in the Atlantic, Europe, and Africa, and Japan in the Pacific and southeast Asia.

In spite of our Neutrality Act, many people in the United States had been emotionally anti-Nazi for some time because of Hitler's ruthless invasions of neutral countries in Europe and his treatment of the Jews. Because of Japan's war in China and the atrocities her soldiers were inflicting on Chinese civilians, many Americans were anti-Japanese even before Pearl Harbor. Yet until the attack, the majority of the people in this country did not want the United States to become militarily involved. They did not believe the war in Europe was our war.

As a matter of fact, President Roosevelt had won election to a third term in 1940 by appealing to this sentiment and promising that he would not take us into war. He had vowed that we would "not participate in foreign wars," that he would "not send our Army, naval or air forces to fight in foreign lands outside of the Americas, except in case of attack," and he had told America's mothers and fathers "again and again" that their boys were "not going to be sent into any foreign wars." Yet in just over a year, FDR was standing before Congress and asking for a declaration of war.

It is easy to blame the Pearl Harbor attack on Emperor Hirohito and the Japanese militants under the leadership of Prime Minister Tojo. It is easy to say that Hitler was a "monster" and that he and his evil regime had to be destroyed if civilization was to survive. It is even easy to blame Roosevelt,

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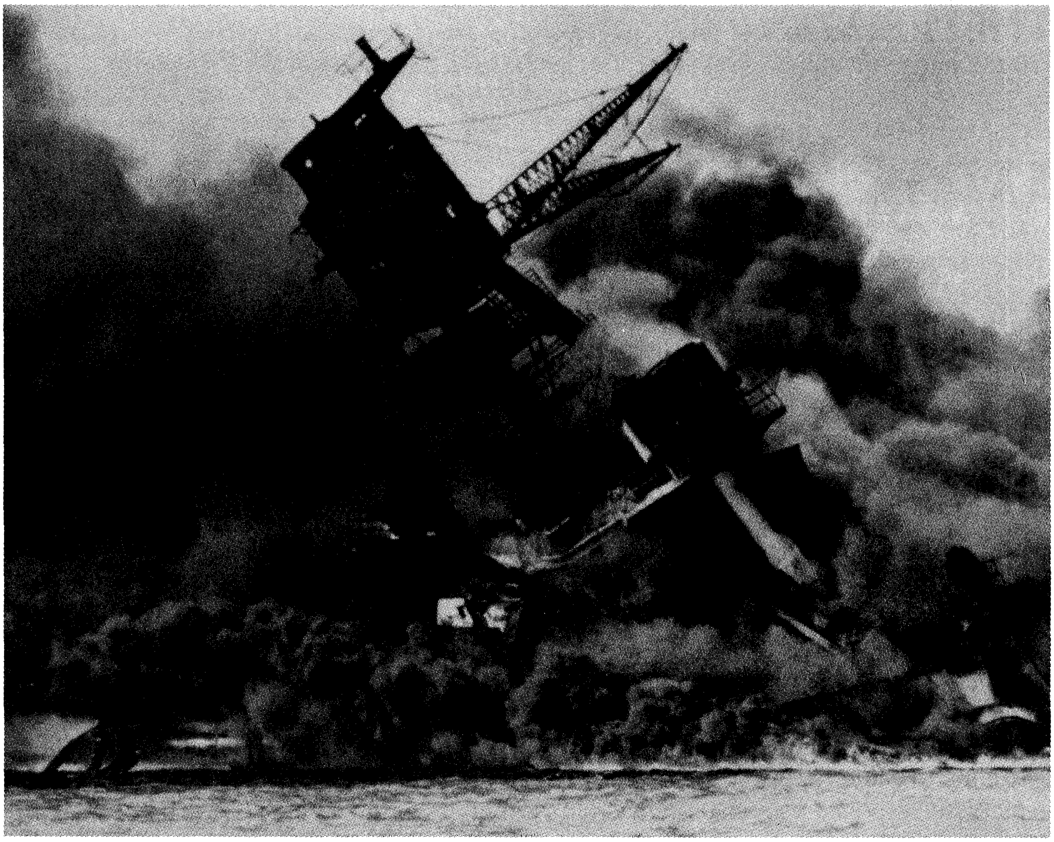

The battleship Arizona, *sunk during the attack on Pearl Harbor, December 7, 1941.*

as many have, for dragging the United States into the conflict against the wishes of the people. But the reasons why Germany, Japan, and the United States went to war are not that simple.

Europe had been on the brink of war for several years. But the war did not actually start until September 1, 1939. Why did Hitler march into Poland, then, in spite of the fact that he knew England and France might declare war against him to honor their pledge to Poland? And why did Hitler attack the U.S.S.R. in June 1941, in spite of the fact that he knew Russia's vast expanses and rigorous winters could defeat almost any invading force, as they had Napoleon's, and in spite of the fact that it would mean fighting on two fronts?

Japan's attack on Pearl Harbor also went against all reason and logic. The United States was much larger and more powerful than Japan, and Japan could not realistically expect to win.

Why war? Begin with the fact that history is man-made. Everything that has ever been thought, done, and accomplished was performed by individuals. And men are ruled by ideas. To understand the causes of war, therefore, the historian must not only explore the facts, select those that are significant, weigh and interpret their relative importance in the light of all available knowledge, but he must also analyze them in the light of sound logic and the principles of human action. The historian must interpret the actions of the individuals involved on the basis of their ideas and values. He must consider the effects of their actions in the light of various theories. Only in this way can an historian hope to explain the origins of war.

The Liberal Social Philosophy

The eighteenth century's Age of Enlightenment brought great advances in all fields of human knowledge. The liberal, pro-freedom philosophers, and the classical economists laid the groundwork for individual freedom and economic prosperity. As a result of their teachings, many old feudalistic and mercantilist laws were repealed, opening the way to more efficient large-scale agricultural and industrial production. More and more the governments of the Western world were limited to the protection of life, property, and the equal rights of individuals. In line with the classical liberal philosophy, individuals were generally left free to pursue their own goals, so long as they did not interfere with the equal rights of others. At the same time individuals were held responsible for providing for themselves and their families.

As restrictions and regulations were removed, the initiative of individuals was unleashed. Freedom to experiment, innovate, invent, save, and invest led to a veritable "industrial revolution." Productivity rose. Production and trade expanded. This trend continued in the nineteenth century. Free traders Cobden and Bright, with an assist from the Irish Potato Famine, persuaded the British Parliament to repeal the Corn Laws, the tariffs on imported grain. Free trade lowered the price of bread and improved the diet of the poor. Living standards improved. With more to eat, people lived longer and healthier lives. The population increased.

Thanks to improved transportation and communication, the world grew smaller. Thousands took advantage of their new freedom to move; many migrated from relatively poor and crowded England, Germany, Scandinavia, Italy, and eastern Europe to the wide open spaces of the Western hemisphere, especially the United States, and Australia. The division of labor developed internationally. Production was shifted to areas where the marginal productivity per worker was greater. New trade channels were developed.

Trade brought peoples in different parts of the world closer together. It fostered mutual respect and friendship. People came to realize that voluntary transactions brought gains to both parties and benefits to nation and state. The way to wealth was through trade, not conquest or war. Thanks to the understanding developed by the liberal philosophers and classical economists, peace and good will reigned in most of the world throughout the nineteenth century. Nations could safely renounce economic nationalism and war.

The Anti-Free Trade Philosophy

Toward the end of the nineteenth century, the philosophy of individual freedom, individual rights, and individual responsibility that had paved the way for economic development and prosperity, began to give way to a different philosophy. People took economic progress for granted; they didn't realize the connection between their well-being and the liberal philosophy. They didn't realize that it was the protection of private property and the equal protection of the freedom of all individuals that had eliminated irreconcilable interpersonal and international conflicts, allowing widespread social cooperation, free enterprise and freedom of movement for men, goods, and capital. People didn't realize the extent to which limiting government and leaving people free had contributed to the economic climate and their improved material welfare. They began to listen to a different breed of thinkers. The Austrian economist Ludwig von Mises wrote a book about this shift in ideas: *Omnipotent Government: The Rise of the Total State and Total War* (1944).

In the West, especially in the United States and in England, the people had succeeded in limiting government primarily to protecting life and private property. Wherever and whenever the principles of free trade prevailed, people prospered and few serious conflicts arose. Unfortunately, however, an understanding of the reason for these more peaceful conditions did not keep pace with the economic improvements.

The new theorists who began to be heard on a wide scale toward the end of the nineteenth century held that irreconcilable conflicts existed in society. Whereas the liberal philosophy explained that everyone gains from voluntary transactions so that free trade tends to eliminate conflicts, this new doctrine argued that conflicts were inherent in social relations. It pitted nation against nation, rich against poor, exploiter against exploited, race against race, class against class, employee against employer, buyer against seller, importer against exporter, and the native-born against the foreigner.

Actually these "new" ideas were not new at all but simply old theories in new garb. Their advocates adopted the idea long since discarded by classical and liberal scholars that the gain of one man is the loss of another and that no man profits except at the expense of another. From the Communist Karl Marx they took the doctrine of class conflict and exploitation; individuals should contribute "according to ability" and receive "according to need." They borrowed from the sixteenth- and seventeenth-century mercantilists the idea that it is better to export goods in exchange for gold than to import goods, government should try to maintain an excess of exports over imports, i.e., a "favorable balance of trade"; to rely on imports was considered weakness; a nation should strive for self-sufficiency, autarky. This "conflict" philosophy spawned various movements—Marxism, Fabianism, Populism, nationalism, national socialism (Nazism), fascism, socialism, Communism—which in time transformed the relatively peaceful capitalistic nineteenth century into the twentieth century of wars and revolutions.

Worldwide depression in the 1930s fed the "conflict" philosophy. Few people understood its cause—government interference in the economy. People knew only that unemployment was widespread, prices were depressed, and many businesses were going bankrupt. Governments sought to cope with the unemployment, depressed prices, and bankruptcies by enacting makeshift programs—unemployment insurance, the dole, military conscription, farm price supports, protective tariffs, "easy money," subsidies to some at the expense of others—all of which served only to nurture the "conflict" philosophy. Thanks to the flurry of government activity evoked by these interventionist programs, Berlin, London, Washington, and Tokyo boomed. But the rest of the world languished in depression. Entrepreneurs hesitated to undertake projects or hire workers. Widespread unemployment continued.

In Germany after World War I, rampant inflation had wiped out all savings, completely destroying the middle class. The people were hungry. Adolf Hitler, a rabble rouser with dramatic flair, had attracted a few misfits and malcontents to his movement. The depression added to the distress. Hitler appealed to national pride, built on envy and resentment, blamed the Jews for the economic problem, and began to draw larger audiences.

As economist Ludwig von Mises saw the situation, given the "conflict" philosophy of that day, "the immense majority of the German people saw no means to avoid disaster and to improve their lot but those indicated by the program of the Nazi party." However, Mises explained, Nazism was not the only conceivable solution for Germany's problems. "There was and there is another solution: free trade. . . . Why did it [Germany] choose Nazism and not liberalism, war and not peace? . . . Hitler and his clique conquered Germany by brutal violence, by murder and crime. But the doctrines of Nazism had got hold of the German mind long before then. Persuasion, not violence, had converted the immense majority of the nation to the tenets of militant nationalism." The answer the Germans chose depended on their ideas, the "conflict" philosophy they espoused.

Hitler made the Jews scapegoats and reached out for "Lebensraum" (living space) to obtain the food and other resources needed to make Germany self-sufficient. Hence the occupation of Austria (March 1938), the Czech Sudetenland (October 1938), and the invasion of Poland (September 1, 1939), also of Belgium, Denmark, Norway, Netherlands, Luxembourg, and Russia. As Mises wrote during World War II: "Germany does not aim at autarky because it is eager to wage war. It aims at war because it wants autarky—because it wants to live in economic self-sufficiency."

Japan too needed "Lebensraum." Its population was increasing. On the Asian mainland it had successfully opened Korea and Manchuria to Japanese settlement, business, production, and trade. Because Japan protected the rights and property of residents in Korea and Manchuria, many thousands had migrated there from China.

Japan was becoming a modern industrial state and depended on imports more than most countries. Yet Japan's attempts to buy food and resources abroad were blocked. Because of its attack on the *U.S.S. Panay* (1937) and its war with China, anti-Japanese sentiment was rife. Step by step, the United States, the British, and the Dutch imposed restrictions on trade with Japan; self-sufficiency was being thrust upon it. Japan attacked Pearl Harbor to protect its flank as she struck the Dutch East Indies and British Malaya to obtain needed food, oil, rubber, and other resources.

When the war started in Europe in 1939, it was welcomed in some circles in this country because of the many thousands of men it took off the unemployment rolls and because of the war orders it gave to industry. Although officially neutral and forbidden by law to sell weapons to belligerent nations, the United States used various ruses to furnish ships, planes, tanks, and ammunition to the Allies, China, and (later) Russia. Roosevelt knew he was treading on dangerous, possibly unconstitutional, grounds in lending so much support to belligerent nations. He confessed to one adviser that what he was doing might subject him to impeachment. Under his calm exterior, he must have been concerned. He may even have been relieved when we were attacked and brought into the war; several witnesses who saw him on the evening of December 7, after the attack on Pearl Harbor, reported that he appeared more relaxed than he had for weeks.

Is a Return to the Free Trade Philosophy Possible?

New ideas and innovations are always an achievement of uncommon men. In the physical world, these great men may introduce on their own new products, new inventions, new discoveries. But one man alone cannot change social conditions unless he can convince public opinion. To do this he must explain his ideas or ideologies to many people.

To return to a free trade world, the anti-free trade "conflict" philosophy, the breeder of war, must be rejected. The classical liberal philosophy needs to gain wide support. This takes time. But there are signs that many are becoming disillusioned with interventionist government, more critical of Congress and of the bureaucracy. Today's intellectuals no longer lend full-hearted support to the Keynesian interventions with which Roosevelt tried vainly to rescue the nation from depression. Free trade rhetoric is being heard once more, even if the programs labeled "free trade" are not really free trade but mixtures of free trade and government control.

Where there is life there is hope. And the liberal free traders live, are speaking up, using every opportunity to point out, as Mises did in his many works, that the "conflict" philosophy is a "revolt against rationalism, economics, and utilitarian social philosophy" and "at the same time a revolt against freedom, democracy, and representative government."

War is futile. It is imperative that the conflict philosophy, with the envy and resentment it spawns, be exposed as the leading cause of war and totalitarianism. The advantages of peaceful social cooperation ought to be explained by every available means to ever wider and wider audiences. □

THE FREEMAN
IDEAS ON LIBERTY

A Free-Market University

by William H. Peterson

These days neither the Ivy League nor the Behemoth State Universities—so politically correct, so given to affirmative recruitment of faculty and students, so "Hey-hey ho-ho/Western-Civ's got-to-go"—display much virtue, including the virtue of individual responsibility, free markets, and limited government. Indeed, many a university has become a wasteland, morally and otherwise.

An exception to the rule lies about a thousand miles south of the Rio Grande. It's Universidad Francisco Marroquín, founded in 1972 in rented space in the capital city of Guatemala. Clues to its philosophy are seen in the name of one of its newest buildings, the Ludwig von Mises Library, so designated in foot-high polished brass lettering over its entrance, and in the fact that members of the UFM faculty have been published on the editorial page of *The Wall Street Journal* as much as those of any American university.

Another clue is seen in its honorary degree awards to individuals of the persuasion of Leonard Read, Henry Hazlitt, Friedrich Hayek, Milton Friedman, Benjamin Rogge, Peter Bauer, W. H. Hutt, Alberto Benegas Lynch, George Roche, Agustín Navarro, Edwin Feulner, Antony Fisher, John Chamberlain, Percy Greaves, Bettina Bien Greaves, Viktor Frankl, M. Stanton Evans, Hans Sennholz, Israel Kirzner, Leonard Liggio, Henry Manne, Thomas Szasz, and J. William Middendorf.

UFM enrollment has grown to 4,500 with schools in medicine, dentistry, law, theology, architecture, education, economics, accounting, computer science, and business administration—the latter with a branch in El Salvador. Exchange programs are maintained with American universities such as Texas A and M.

UFM tuition is maintained at around 20 percent higher than the two other private Guatemalan universities, with applications nonetheless exceeding admissions by a significant factor. (Some local want ads for doctors, lawyers, CPAs, etc., stipulate that only UFM grads will be considered.) But no qualified UFM applicant is turned away if tuition payments cannot be met, as student loans are available.

UFM's high tuition is all the more amazing in view of the fact that Guatemala's national university, whose main campus is just a few miles away, charges its students practically nothing. Understandably so since the national university is allotted four percent of the central government's budget, in accordance with Guatemala's constitution.

UFM funding is assisted by Foundation Francisco Marroquín in Stuart, Florida. The foundation states that it is "devoted to encourage education in the economics of the

Dr. Peterson, adjunct scholar at the Heritage Foundation and former Lundy Professor at Campbell University, is this month's guest editor. He received an honorary degree from UFM in 1991.

market system and the politics of freedom in Latin America." Besides UFM, the foundation solicits funds for such other Latin American free-market centers as the Centro de Estudios Sobre la Libertad of Argentina, the Instituto Liberal Conselho Nacional of Brazil, the Centro de Estudios Públicos of Chile, the Instituto Cultural Ludwig von Mises of Mexico, and the Instituto Libertad y Democracia of Peru.

UFM academic standards are high, with the university tightening those standards over the years. For example, it eliminated the traditional Latin American university practice of a "second chance" on final exams. It also made more difficult the dropping of courses without affecting the requisite grade point average. And it raised the score that degree students must attain on an English-language proficiency test.

More striking still is the UFM standard on academic freedom. Its faculty handbook recognizes the right of professors to teach "that which is contrary to [UFM's] philosophy or its policies, *as long as it is done elsewhere and under someone else's auspices*." (My emphasis.) Thus Francisco Marroquín University openly upholds and enforces the right to decide the faculty and content for all of its courses in view of what it holds to be "true, false, useful or irrelevant."

Perhaps the most striking academic standard of all, though, is the UFM requirement that every student, whether of medicine, dentistry, law, education, theology, etc., take and pass courses on the economics and philosophies of Mises and Hayek, reading Spanish editions of such works as *Human Action* and *The Road to Serfdom.*

With the university now in its 22nd year of operation, tens of thousands of UFM graduates are having an impact on political and economic thinking in Guatemala and Latin America. Consider that UFM co-founder and first rector Dr. Manuel Ayau, who is also a businessman and former president of the international free-market Mont Pelerin Society, sought the vice presidency of Guatemala in 1990. Given that Ayau's free-market positions are well known, that he was chosen for the ticket is revealing, that he made the 1991 run-off election, coming up with a respectable showing at the polls, is even more revealing.

That showing is all the more surprising in view of the fact that Guatemala is a Third World country with a 9 million population of predominantly Mayan and Mestizo ethnic groups, a stormy history (two military coups in the early 1980s and some 100,000 killed in armed clashes between security forces and Marxist guerrillas over the past 30 years), an inflation rate of about 11 percent, and a literacy rate of around 50 percent.

So UFM's faculty, staff, students, trustees, alumni, and supporters, have their work cut out so as to maintain and spread their free-market philosophy. In 1993 Guatemala's President Jorge Serrano, initially backed by the army, seized the government. Serrano in one stroke clamped down on the press and abolished the legislature, courts, and the national constitution. But in one week the would-be civilian dictator fled the country, and Guatemala's constitution was restored. Latin American politics in the twentieth century has been anything but calm.

Even so, thanks in part to UFM and its seminal free-market, limited-government thinking, Guatemala's future is not without hope. That hope further springs from economic success stories in Mexico, Chile, and Argentina—Latin American countries also with recent stormy histories which nonetheless managed to turn themselves around.

How in the world then did the UFM begin? In a nutshell, inspiration and entrepreneurship. Co-founder Dr. Ayau was inspired by the lectures and writings of Mises, and through him by the ideas of Leonard Read and F. A. Harper, says Leonard Liggio of George Mason University's Institute for Humane Studies.

Adds Dr. Liggio: "Thanks to Mises' teachings, Ayau and [co-founder and fellow Guatemalan] 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." □

THE FREEMAN
IDEAS ON LIBERTY

THE NEW FOREST

by John Chodes

Robin Hood is not a legend. He was a real person. If he were alive today, he would feel just as at home in our national parks as he did in Sherwood Forest in the 1300s. And for the same reasons. The regulations that filled Sherwood Forest with outlaws and enemies of the state way back then, are at work today and may provide a clue to some consequences of our own ever-expanding environmental laws.

This comes to mind because of a recent decision by the U.S. Forest Service to end logging in many federal woodlands, which provided 7.3 billion board feet of timber last year, roughly 12 percent of all timber used in the United States. This reduced supply means wood prices may climb further and create profound changes in communities where lumber-related jobs will be lost.

These new logging decrees add another layer of codes which protect wildlife from being hunted or fished, and in some cases prevent human beings from ever entering the woodlands where these beasties live.

This leads back to the Robin Hood connection. He was born Robert Hood, in 1290, during the reign of Edward II. Like today, Sherwood Forest and many of the vast royal wildlife refuges in England had once been productive, food-producing farmland. Like today's "wetlands" and "environmentally fragile" zones, where citizens are ejected from their property, supposedly to save nature's eco-systems, the medieval kings expropriated huge tracts of agricultural country in Hampshire to create what they called "The New Forest." It was allowed to deteriorate to its original uncultivated state and no one was allowed to pursue the game inside without the king's permission.

To maintain that wilderness, an army of royal rangers, foresters, and keepers (including the Sheriff of Nottingham) made sure that the laws to keep out humans were administered swiftly and severely.

Of course, with the loss of their life-supporting farms, the commoners were denied the means to survive. While the royal forests were filled with game, hanging was the penalty for any person who killed a doe or boar to eat. Everything in the forest was sacred. To cut a single tree branch was a major crime. Ironically, the only place that a common man could escape the brutal arm of the royal law was in the same place that caused the infraction: Sherwood or Barnsdate forests. They were so inaccessible that even the army of bureaucrats could not find the culprits in there.

Robin Hood's life as an outlaw began, not from killing a protected species, but from being on the wrong political side. He joined the Earl of Lancaster in a rebellion against Edward II. At the battle of Boroughbridge, Lancaster's army was crushed. Robin Hood was officially proclaimed a traitor and his property was confiscated. He fled into Sherwood Forest to avoid the hangman's rope.

As in Robin Hood's time, today's answer to such authoritarianism is: Return the confiscated lands back to their rightful owners.

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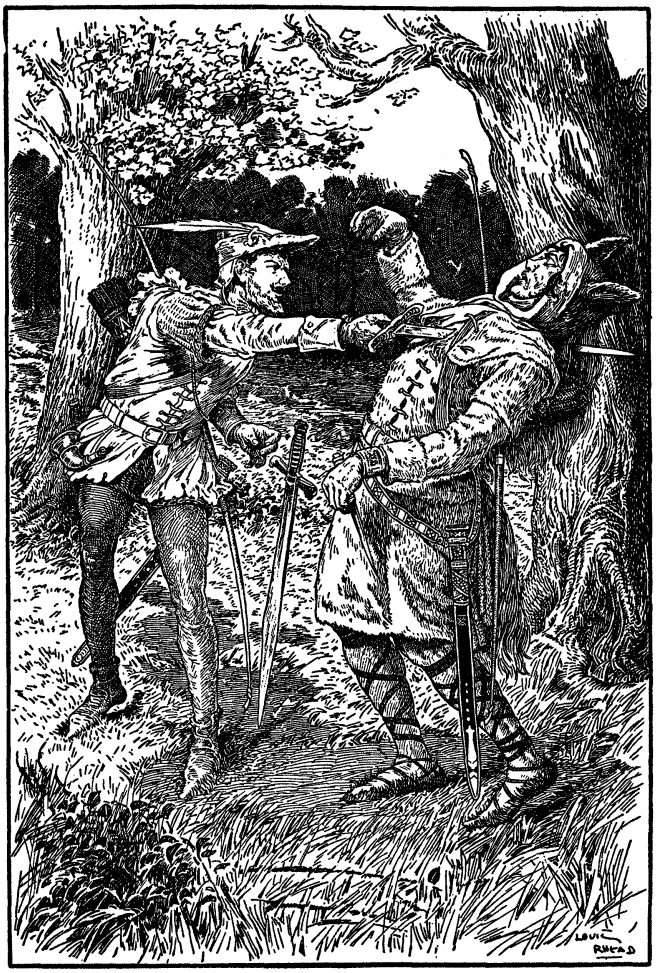

Robin Hood.

Expand, not reduce, the ability of private companies to create jobs and produce products from the forest. Private control does not mean havoc. As has been repeatedly shown, the paradox is that the profit-motive guarantees a more rational and environmentally sound use of the land. Private control demands prudent management of the forests, precluding wholesale exploitation now. This means simultaneous cutting and growing so there will be trees for lumber next year and for the next generation.

This can be verified even in Robin Hood's day. Dr. Robert Laxton, of the University of Nottingham, in a detailed study, found that in the fourteenth century, the cash-strapped English monarchy allowed private logging in certain portions of Sherwood Forest. The evidence shows that prior to this, the royal woodland management was poor but that private ownership encouraged far better conservation.

Today's federal government also is the cause of havoc, often shocking environmentalists by the betrayal of their vision. Uncle Sam has often high-handedly deforested huge areas by letting forest fires rage out of control as a matter of policy. Uncle Sam has exterminated both peaceful and predatory beasts, often more than hunters or fur trappers, in the name of "maintaining an ecological balance." Neither man nor forest has benefited.

If the process continues, as it did in Sherwood Forest, the "protected" species such as the spotted owl won't be safe and private property and other human civil rights will continue to slip away. □

THE FREEMAN
IDEAS ON LIBERTY

GOVERNMENT "INVESTMENT"

by John Semmens

The idea that the government should spend money as a means of stimulating the economy and boosting employment has been a formal part of U.S. policy since the Employment Act of 1946. This law was clearly rooted in Keynesian economics. The idea was that government spending would make a splash in the economic pond that would send out ripples that would impact the rest of the economy in a positive way.

The plausibility of this idea is enhanced by the very visible employment of those working on the specific projects funded by the government. For example, government subsidies to public transit are often urged as a means for achieving the dual objectives of improved urban transportation and stimulation of employment.

The buses and trains used to provide this transportation are there for everyone to see. These vehicles have drivers. The systems also employ mechanics, ticket sellers, administrators, accountants, etc. The American Public Transit Association proudly observes that over 300,000 people are employed due to public transit spending programs.

In 1992 around $20 billion was "invested" on public transit in the United States. Because this spending does "ripple" through the economy and eventually become someone else's income, it could be said that, in all, public transit may account for the employment of 800,000 people.

This sounds very impressive and is, no doubt, part of the reasoning behind plans to boost the U.S. economy by increased spending on public transit. The flaw in this thinking, though, is its failure to account for what economists call the "opportunity cost" of using resources on transit subsidies. That is, what opportunities may have been sacrificed while funds were being spent on public transit? What gains might have resulted if the funds committed to transit "investments" had been invested in something else?

Since 1965, when the federal government began subsidizing transit, U.S. taxpayers have paid over $60 billion into this program. State and local taxpayers have paid a similar amount. In total, over $125 billion in tax dollars have been "invested" in public transit. If the transit subsidy program had not existed and this money had instead been invested in other businesses, would we now be better off in terms of employment and economic activity?

If we assume that our investment alternative produced only average results, our economy and employment options would be far more robust than they are now. Business assets would be nearly $100 billion higher than they now are. Gross domestic production would be $400 billion higher. There

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would be over 8 million people employed in these alternative business enterprises.

These private sector benefits would have been augmented by substantial public sector gains, as well. Current federal tax receipts could have been $80 billion per year higher than they now are. State and local government tax receipts could have been $60 billion per year higher. These gains from economic growth could have meant fewer tax increases or less government borrowing, either of which would have stimulated economic growth even more than the above estimates.

The reason for the great disparity in results is that it makes a difference whether investments make profits or losses. Since the federal government subsidies began in 1965, public transit has failed to make a profit in any year. In fact, losses have grown larger in every single year since 1965. For 1992, public transit's financial losses amounted to around $13 billion.

Losses mean that the economy is not being stimulated by transit subsidies. Rather, it is being drained. Every year, other, more profitable business activities have been taxed to provide the funds to prop up public transit. The long-term consequences of this parasitic relationship have been very costly.

The economy is weaker. Virtually every sector, save those directly benefitting from the subsidies, has been harmed. There has been a net loss of over 7 million job opportunities. Wages are lower. Business sales are lower. Interest rates are higher. The federal government's budget deficit crisis is worse.

These unpleasant consequences are the result of ignoring the essential role of profit in creating resources and stimulating the economy. Profit results when the value of the outputs of an economic enterprise is worth more than the cost of the inputs. Profits mean that the economic enterprise has added to the economy's wealth. Each increment of profit on each subsequent transaction adds more to the economy's wealth. The compounding of these increments over time is what enables us to enjoy a higher standard of living than earlier generations.

Profits accrue to those businesses that have satisfied their customers. Profits act as both a message and a means for these businesses to continue and expand. Losses send a different message. Losses indicate that the business's output is worth less than the cost of its inputs. A business must heed this message by improving its efficiency or changing its product. Failure to heed the message will result in a loss of resources and endanger its ability to remain in business.

The lack of profit in government enterprises should not be surprising. Government's ability to tax means its businesses are insulated from the need to earn a profit in order to stay alive. Consequently, they don't earn profits. The absence of profits means that government businesses consume rather than create resources.

Despite consuming a huge quantity of resources over the last 25 years, public transit is still a sickly industry. Its share of the passenger travel market has declined. Most buses and trains run mostly empty most of the time. Passenger fares pay less than 35 percent of the cost of each ride. Today the total number of public transit passengers is barely above where it was before all this government "investment" started.

This pathetic record of non-achievement is all too typical for government "investments." If we truly want to stimulate our economy we need to stop "investing" in government's money-losing ventures. □

THE FREEMAN
IDEAS ON LIBERTY

THE EGG AND I

by William E. Pike

When nine-year-old Jamie Andrich tried to sell a 2,000-year-old fossilized egg he and two cousins had found while on vacation, the government of the vastly underpopulated state that is Western Australia said he couldn't do it. The three children had found the ancient natural relic on state-owned land, and the government therefore claimed it was "public property," and could not be privately sold. Jamie, undaunted, reburied the egg, for which a collector had offered $102,000, and refused to disclose its location until he and his cousins were justly paid.

One has to wonder how the Western Australian government would have dealt with such a situation if the individual in question had not been a nine-year-old with the attention of the world media, but in this case the government gave in. Though unable to pay the steep price being demanded, the government promised to set up a fund to raise up to $109,000 through state museum donations to help pay for the education of the three cousins. So in the end the government got its egg, and the children got their money—more or less.

But this quaint and humorous story brings up a far more serious question. Did the government of Western Australia have the right to claim the fossilized egg as its own? And for that matter, does any government have the right to claim ownership of a piece of "public property" for itself? I set the term "public property" apart because it is itself highly ambiguous. It is perhaps the central phrase around which this argument turns. A government may claim that it is protecting the interests of the masses by holding land or property in trust for the welfare of all citizens, but at what point does such action turn from being beneficial to the masses to being beneficial to the government itself? If Jamie Andrich and his cousins had found and tried to sell a common but pretty pebble for 10 cents, would the government of Western Australia, a state three times the size of Texas but with Nebraska's population, have used legal action to prevent the sale? Probably not.

Who—or what—is the "public" in "public property"? The question is applicable to Australia, to the United States, or to any nation. If I visit a state or federal park, I may fish in "public" waterways (with a license, of course—a meaningless receipt for a tax); I may picnic under the shade of "public" trees, using a "public" barbecue pit; I may set up a tent on the "public" ground; I may hike through a "public" forest. In other words, I may expend my energies and labors in an area I help support (through a variety of taxes and fees) in common with many other citizens. Of course, wanting to be a good citizen, and not disrupt the social order, I would not set fire to a "public" forest, or cut down a "public" tree, but could I not take home an autumn leaf? A piece of driftwood? A beetle for an insect collection? A fossilized egg?

John Locke answers the question thusly:

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> Though the earth, and all inferior creatures, be common to all men, yet every man has a property in his own person: this no body has any right to but himself. The labour of his body, and the work of his hands, we may say, are properly his. Whatsoever then he removes out of the state that nature hath provided, and left it in, he hath mixed his labour with, and joined to it something that is his own, and thereby makes it his property.[1]

Locke then goes on to remind us, as I Timothy says, that "God has given us all things richly," and therefore, if a person gathers "acorns, or other fruits of the earth" not in gross abundance, but according to individual need, then it is by nature his right—his property.[2]

But the growing state is always hungry to increase its powers, and keep the fruits of citizenship for itself. "Public lands" are owned by the people, not by the government. When the state begins to act as the center of a nation or region, higher than the good of the public, the time has come for a re-evaluation of its design. Abuse of land rights is often a definite sign of such overgrown government.

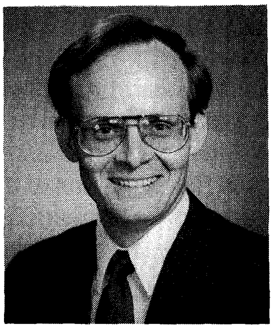
Consider the words of Albert Jay Nock:

> After conquest and confiscation have been effected, and the State set up, its first concern is with the land. The State assumes the right of eminent domain over its territorial basis, whereby every landholder becomes in theory a tenant of the state. In its capacity as ultimate landlord, the State distributes the land among its beneficiaries on its own terms.[3]

In such a scenario the state is obviously not working for the people, but for itself.

Whether it be abusing the power of eminent domain, or whether it be refusing a young boy a tiny bit of his own nation's incalculable wealth, no such government should be allowed to claim ownership of a nation's resources for itself alone, unchecked. Though he may not know it, Jamie Andrich has done his countrymen a service by not letting the state run roughshod over him. The duty of vigilance is a highly important one. We owe it to ourselves. We owe it to each other. □

1. John Locke, *Second Treatise of Government*, Chapter V, Section 27.
2. *Ibid.*, Section 31.
3. Albert Jay Nock, *Our Enemy, The State* (Delavan, Wisc.: Hallberg Publishing Corp., 1983 ed.), p. 64.



Freedom or Free-for-All?

Imagine playing a game—baseball, cards, "Monopoly" or whatever—in which there was only one rule: *anything goes.*

You could discard the "instruction book" from the start and make things up as you go. If it "works," do it. If it "feels good," why not? If opposing players have a disagreement (an obvious inevitability)—well, you can just figure that out later.

What kind of a game would this be? Chaotic, frustrating, unpredictable, impossible. Sooner or later, the whole thing would degenerate into a mad free-for-all. Somebody would have to knock heads together and bring order to the mess.

Simple games would be intolerable played this way, but for many deadly serious things humans engage in—from driving on the highways to waging war—the consequences of throwing away the instruction book can be almost too frightful to imagine.

The business of government is one of those deadly serious things and like a game run amok, it's showing signs that the players don't care much for the rules any more, if they even know them at all.

Don't think for a moment that by use of the term "players" I'm pointing fingers at politicians and somehow absolving everyone else of responsibility. In a sense, all of us are players; it's just that some are more actively so than others and of those who are active, some are more destructively so than the rest. At the very least, every citizen has a stake in the outcome.

The most profound political and philosophical trend of our time is a serious erosion of any consensus about what government is supposed to do and what it's *not* supposed to do. The "instruction books" on this matter are America's founding documents, namely the Declaration of Independence and the original Constitution with its Bill of Rights. In the spirit of those great works, most Americans once shared a common view of the proper role of government—the protection of life and property.

Jefferson himself phrased it with typical eloquence: "*. . . Still one thing more, fellow citizens—a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government.*"

Today, there is no common view of the proper role of government or, if there is one, it is light-years from Jefferson's. Far too many people think that government exists to do anything for anybody any time they ask for it, from day care for their children to handouts for artists.

Former Texas Congressman Ron Paul used to blow the whistle whenever a bill was proposed that violated the spirit or the letter of the Constitution. How were his appeals

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This is the first of his monthly columns for The Freeman.

received by the great majority of other members of Congress? "Like water off a duck's back," Paul once told me.

In a series of lectures to high school classes one day last October, I asked the students (most of whom were seniors) what they thought the responsibilities of government were. I heard "Provide jobs" far more often than I heard "Guarantee our freedoms." (In fact, I think the only time I heard the latter was when I said it myself.)

An organization called the Communitarian Network made news recently when it called for government to make organ donations mandatory, so that each citizen's body after death could be "harvested" for the benefit of sick people. A good cause, for sure, but is it really a duty of government to take your kidneys?

Americans once understood and appreciated the concept of individual rights and entertained very little of this nonsense. But there is no consensus today even on what a right *is*, let alone which ones we as free citizens should be free to exercise.

When the Reagan administration proposed abolishing subsidies to Amtrak, the nationalized passenger rail service, I was struck by a dissenter who phrased her objection on national television this way: "I don't know how those people in Washington expect us to get around out here. We have a right to this service."

When Congress voted to stop funding the printing of *Playboy* magazine in Braille, the American Council of the Blind filed suit in federal court, charging that the Congressional action constituted censorship and the *denial of a basic right.*

The lofty notion that individuals possess certain rights—definable, inalienable, and sacred—has been cheapened and mongrelized beyond anything our Founders would recognize. When those gifted individuals asserted rights to "freedom of speech" or "freedom of the press" or "freedom of assembly," they did not mean to say that one has a right to be given a microphone, a printing press, a lecture hall, or a *Playboy* magazine at someone else's expense.

Indeed, the Founders' concept of rights did not require the initiation of force against others, or the elevation of any "want" to a lawful lien on the life or property of any other citizen. Each individual was deemed a unique and sovereign being, requiring only that others either deal with him voluntarily or not at all. It was this notion of rights that became an important theme of America's founding documents. It is the *only* notion of rights that does not degenerate into a strife-ridden mob in which every person has his hands in every other person's pockets.

Millions of Americans today believe that as long as the cause is "good," it's a duty of government. They look upon government as a fountain of happiness and material goods. They have forgotten George Washington's warning, "Government is not reason; it is not eloquence. It is force. And like fire, it can either be a dangerous servant or a fearful master."

Wisdom like that prompted Washington and our other Founders to write a Constitution which contained a Bill of Rights, separation of powers, checks and balances, and dozens of "thou shalt nots" directed at government itself. They knew, unlike many Americans today, that a government without rules or boundaries, that does anything for anybody, that confuses rights with wants, will yield intolerable tyranny.

We have tossed away the instruction book and until we find it and give it life and meaning in our public lives, we will drift from one intractable crisis to the next. Something more important than any handout from the State—namely, our liberty—hangs in the balance. □

THE FREEMAN
IDEAS ON LIBERTY

Monopoly Demand for Labor?

by Glen Tenney

"The produce of labour constitutes the natural recompence or wages of labour."[1] These words were penned by the great Adam Smith more than two centuries ago; yet his message is very clear, and it remains relevant today: The wage rate is determined by the productivity of labor. Adam Smith also appropriately observed that wages depend on the voluntary agreements made between the worker and the employer: "What are the common wages of labour, depends every where upon the contract usually made between those two parties, whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible."[2]

Beyond this point however, some of the classical economists, including Adam Smith, had an incomplete understanding of the concept of value as it is understood today. According to the accepted theory of their day, which is at least partially accepted by many people today as well, the value of any product is determined by the wages of the labor which produced it. Perhaps related to their belief in this "labor theory of value," or perhaps out of genuine sympathy for the plight of the working man, they felt that employees had great disadvantages relative to their employers.

Adam Smith taught that because employers were fewer in number, they were able to combine forces against the workers and force the workers into compliance with their terms. In his view then, employers would be able to create a monopoly of demand for labor, which would allow employers to restrict their demand for labor and lower the wage rate to a level consistently lower than the marginal revenue realized by the firm through the productive efforts of the employees.

Another economist from the classical period, Jean-Baptiste Say, wrote of the "urgency" of the workers' needs relative to those of the employers. According to Say:

> The wages of the labourer are a matter of adjustment and compact between the conflicting interests of master and workman; the latter endeavoring to get as much, the former to give as little, as he possibly can; but, in a contest of this kind, there is on the side of the master an advantage over and above what is given him by the nature of his occupation. The master and the workman are no doubt equally necessary to each other; for one gains nothing but with the other's assistance; the wants of the master are, however, of the two, less urgent and less immediate.[3]

Taking from the sentiments of great thinkers such as Smith and Say, others called for the organization of workers into unions with

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the purpose of raising wage rates. The socialist thinker Karl Marx went still another direction with the labor theory of value, and wrote about the outright "exploitation" of the workers by capitalists.

But what of this so-called "disadvantage" on the part of labor? Is it really possible for an employer to monopolize the demand for labor, and thereby consistently push the wage rate below the productivity of that labor? Careful thinking about the nature of labor markets in the real world reveals the truth of the matter. Employers do not enjoy any general advantage over workers, and it is impossible for employers to join together to create a "monopoly of demand" for labor services. It is impossible to have a monopoly over the demand for labor because man's desires to have services performed are dynamic—not limited in the manner that the supply of goods and services are. There is always work that can be done in society, and no one firm or one industry can possibly be the sole demander of labor services.

Subjective-Value Theory

In the later part of the nineteenth century, the Austrian economist Carl Menger discovered the error of the labor theory of value, and replaced it with a subjective-value approach. In addition to Menger, others have articulated the subjective-value theory, and meaningfully built upon it. Under this approach, the value of a product is determined subjectively by the prospective consumer as he weighs the benefit from consuming a unit of the good against the cost sacrificed in order to obtain the product.

This value is often referred to as the marginal utility of the good, and is specific to the individual perceptions of the market participant. Thus inputs into the production process, such as materials and labor, are valued at the amount necessary to attract these productive factors away from their alternative uses. Logically then, wage rates as well as the price of other inputs are determined subjectively, based on the final value attached to the final product by the consumer.[4] This is quite different, and in fact the opposite, from the prior thinking which held that the value of the final product was obtained from the value of the inputs into the productive process.

Perhaps the most thorough expositions of the subjective-value approach to the concept of valuation were provided by Ludwig von Mises. Concerning the possibility of a monopoly of demand for labor, he denies that any such situation can persist in any meaningful way in an unhampered market economy. In the real world, labor is not homogeneous. The demand for labor services is a demand by business firms for a specific type of labor that is suitable to render specific services. In order to obtain these specific services, the entrepreneur must offer these workers incentives sufficient to entice them to withdraw their efforts from other endeavors which the worker might choose to engage in. These inducements are offers of higher pay, and can be made by higher wage levels, greater employee benefits, or a combination of both.

Labor's "Inability to Wait"

Professor Mises has further pointed out that the "inability to wait" or "urgency" argument, that was a major focus of the classical economists, is not valid. The "inability-to-wait" argument assumes that the difference between the wage set by the marginal productivity of the worker and the imagined lower rate set by the so-called monopoly power of the employer is pocketed as additional profit by the entrepreneur. In the Mises view, an employer attempting to act as a monopolist in his hiring practices would have to have an effective monopoly in the selling of his product, the purchasing of other productive inputs, and all other aspects of his business. Because productive inputs, and labor in particular, are limited, and can and will be used in alternative uses by competitors and non-competitors alike, it is impossible for the entrepreneur to act as a monopolist to persistently depress the wage below the rate conditioned by the marginal productivity of the laborer.

The businessman can succeed in lowering workers' pay only by restricting his demand for labor, which will have the effect of reducing the quantity of labor hired and used. Other employers, and would-be employers, seeing these bargain rates for labor, will want to take advantage of the opportunity of the lower labor prices, increase their demand for labor, and push the wage back up to the level prescribed by the marginal productivity of the labor.

It must be conceded that in a world where such competitive restrictions as occupational licensing and business permits dominate the industry, these measures will tend to restrict the competitive bidding for certain types of labor. Although these anti-competitive measures are not in accordance with an efficiently operating economy, and the elimination of such measures in an economy should be encouraged, it is naive to believe that such measures will be successful in preventing potential demanders of labor from bidding up wage rates in order to remain competitive.

There are many margins on which a firm can effectively compete when it comes to satisfying the desires of consumers. A higher wage rate (or equivalent employee benefits of one kind or another) paid to workers might be the very edge that a firm needs in order to compete successfully in the market for its products.

The very notion that workers compete with their employers in a meaningful way in setting wage rates is somewhat misleading from the start. An employer's primary competition in the hiring and use of productive inputs, including labor, is from other entrepreneurs who use, or can use, the same inputs in other productive processes. It is not necessary for two firms to be in the business of producing the same product, or even in related industries, in order to vie for available labor services. The non-specific nature of labor services assures that those services will be desired by any number of firms. Professor Paul Heyne has pointed out: "Workers compete against workers, corporate employers against corporate employers. And this is the competition that affects wage rates. Workers cannot successfully insist on the wage they think they deserve if other workers are willing to supply very similar services at lower wage rates."[5]

Thus we see that the competition that employers have from other employers of all kinds assures that any bargain-priced labor will be competed for by the employers bidding up the wage rate to the value of the output of that labor.

In summary, the demand for labor services is treated by business firms in the same manner as the demand for other inputs to the productive process. Because the efforts of workers can be put to use in a variety of ways by a variety of firms that may or may not be competing directly in the product markets, the price that firms will be required to pay for these services will tend toward the value of the workers' output as perceived by the end users of the products that they produce.

There is no lack of demand for labor by employers acting either on their own or in tacit combinations as monopolists, because there are no limits to the number of productive labors that are required to be performed in society. □

1. Adam Smith, *The Wealth of Nations* (Chicago: The University of Chicago Press, 1976), p. 72.
2. *Ibid.*, p. 74.
3. Jean-Baptiste Say, *A Treatise on Political Economy*, First American Ed. (Philadelphia: Claxton, Ramsen, and Haffelfinger, 1821; repr., New York: Augustus M. Kelley Publishers, 1971), p. 338.
4. Eugen von Böhm-Bawerk, *Value and Price* (Spring Mills, Pa.: Libertarian Press), pp. 28–29.
5. Paul Heyne, *The Economic Way of Thinking* (New York, Macmillan Publishing Company, 1991), p. 307.

THE FREEMAN
IDEAS ON LIBERTY

Higher Airfares Ahead?

by William L. Anderson

Last summer, I flew to the Northeast to participate in a seminar on teaching economics. In the process of buying my ticket, however, I learned an important economic lesson in this post-Airlines Antitrust Litigation age: antitrust decisions usually do not benefit consumers in general.

For many years, I have almost exclusively flown Delta Airlines, which means I have been able to build up frequent flyer miles. But when I called my travel agent to purchase a ticket for my flight to Philadelphia, she informed me that a competing airline could take me to my destination for $50 less than Delta. I asked about the possibility that another fare war might begin, allowing me to fly my preferred airline for a comparable price, but she said she had no such information. Given this meager bit of knowledge, I decided to go with Delta's competitor.

In less than a week, a fare war did begin and Delta's charge for the Atlanta to Philadelphia route was $152, nine dollars *less* than what I had just paid. In other words, had I waited a few more days, I could have had my low fare and Delta.

What is galling to me is that a year ago, my travel agent could have tipped me off about a coming fare war. Since last year, however, Delta and several other airlines settled a class action lawsuit which accused them of price fixing and other antitrust violations. One of the provisions of the suit was that the airlines could not notify customers of impending price cuts; that is considered collusion.

Thus, a provision of a legal settlement which supposedly was meant to help consumers like myself receive a better deal has actually forced me to pay more for less service, part of the law of unintended consequences. It is no accident that this situation has occurred, the way that the plaintiffs (and antitrust lawyers from the federal government) define competition, price fixing and collusion almost guarantee that any "solutions" they impose will be anticompetitive.

In the academic world of antitrust "experts," prices are objective (and purely a function of cost-plus), and, in most situations, are subject to few restraints. The "experts" believe that information which is shared by more than one firm will automatically lead to collusion, and if two or more firms charge the same price for a good or service, that is prima facie evidence of price fixing. Therefore, according to their definition, competition will better serve consumers when everyone has less information to help them make choices.

The real world offers a different and more accurate definition of competition. Prices, far from being something that can be objectively calculated by a central authority, are subjective and reflect the values of buyers and sellers at the point of purchase. Matching a competitor's low price is not an act of collusion. Rather, it is a tool that allows a producer to remain an equal participant in the marketplace. Competitive situations require that participants be as well informed as possible, not left groping in the dark.

I predict that the antitrust settlement will lead to higher, not lower airfares. Perhaps, this is why the airlines so eagerly embraced it; it will give them a chance to reap some badly needed profits while operating under an agreement which has produced a public perception running counter to the truth. □

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THE FREEMAN
IDEAS ON LIBERTY

SOCIAL SECURITY, THE WELFARE STATE, AND THE MARKET

by Sylvester Petro

While old-line Communists in the Russian parliament strive to abort the market economy's birth in Russia, the forces of darkness in the Nomenklatura of the Western welfare states work unremittingly to prevent their existing market economies from realizing man's ultimate good: a peaceful world in which global free trade spreads instantaneously everywhere, from their points of origin, the improvements in human well-being brought about by the creators among us—the savers and the entrepreneurs, thinkers, and inventors, driven by the profit motive to serve mankind's endless effort to better itself.

But no matter how vigorously they act to preserve and extend it, the Nomenklatura cannot make the welfare state viable because it is an inherently bad idea. And so, the West's alternative to failed "Communism," is itself foundering. It is foundering because it is attempting to serve man's fundamental objectives of freedom, well-being, and security with inappropriate means.

Evaluating the welfare state's role in the realm of human action ambiguously called "social security," I make three points in this essay:

1. If we think of social security as the security of society as such, rather than as the economic welfare of individual persons, the institution known as the state has important work to do; for, without it, the peace, harmony, and freedom vital to the spiritual-material welfare of mankind, are unattainable.

2. If we define social security as the economic security and welfare of the individual persons in the society, however, both theory and history teach that efforts by states to provide such "security" directly are not only futile but counterproductive and even noxious.

3. When, to use Spencer Heath's phrase,[1] the citadel engulfs the market and the altar, when the state takes over services optimally provided by private, market institutions, unsatisfactory performance is certain to follow.

I. Limits on the Competency of the State, Including the Welfare State

Contrary to opinion prevailing especially in the academic and journalistic communi-

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ties of the United States, the human institution which we call the state partakes not of the divine; it is not omni-competent, but sadly all too human, and thus severely limited in its competence. The agency which history calls the state is not equipped to create health or wealth or long life or productive employment or art or intellect. Sad it may be, yet wishful thinking cannot make the state something it is not. The essence of the state lies in compulsion, but the only means to the ends just listed is liberty.

Yet states in our time, though they have never succeeded in the effort, increasingly direct their resources and energies mainly to these goals which they are incompetent to achieve, while impairing the condition essential to all human achievement—liberty.

The state as we understand it is a sledgehammer. With it, crime and aggression may be beaten into submission but so too may liberty and enterprise. The welfare state does not differ essentially, despite the wishful thinking of the socialist mentality which animates it. It may try to be all things to all men, but before everything else it is a state, a governing agency. Like every other state it is serviceable in only one variety of production, that is, the production of government—of suppression—not of creation.

It will not do to ignore the fact that suppression has its uses. Even the anarchically inclined must recognize the evil in man and, this far along in human history, that an agency such as the state is both inevitable in the normal course of human events, and indeed even crucial to the existence of the free and prosperous commonwealth—if it confines itself rigorously to the peacekeeping functions which have repeatedly induced mankind to create states or to accept those forced upon it.

Like the sledgehammer, the state is a tool of narrow competence. Attempt to make it into something which by its essence it is not and you produce a false artifact—at best a curiosity, at worst a monster. Each time that evil men have induced fond and self-indulgent fools to turn the state from its proper governing mission into a welfare agency the result has been poverty and chaos. This is no historical accident. It is the product of inexorable law, as implacable as the law of gravity.

The agency which we call the state is reasonably well constituted for the performance of peace-keeping functions.

Commanding all the brute force and physical resources of a society, the state has, in principle, power enough to force its will upon any individual aggressor, any group, or any group of groups. With like-minded states it may preserve the peace against even international aggressors. In order to perform this function, however, its will must be intact. If like all too many local police forces in America, the state is unwilling to use its power to prevent aggression, confusing itself with a welfare agency while harassing and disabling its most productive citizens, in the meanwhile running up huge deficits in its futile efforts to enable the unable, the state becomes worthless, indeed noxious—not greatly different from and certainly less competent than the international Mafia which it has come more and more to resemble, even when it calls itself the Group of Seven.

Our age has demonstrated perhaps more definitively than any other that the state is incompetent to create but cruelly effective in destroying wealth and the personal well-being and security which only wealth can provide. And yet it has fallen also to this fecund and complex age, despite those failures, to keep producing governments which daily intervene ever more globally into economic and intimately personal affairs. Totalitarianism flourishes under another aegis, social security and the welfare state. The ablest persons and industries are persecuted and desanguinated in the name of welfare for the many, but in fact for the benefit of the wire-pullers, as Sir Henry Maine called them,[2] and of the Nomenklatura. The poor, sadly, we still have with us, despite the endless wars on poverty which the Lyndon Johnsons of the world keep waging.

The Soviet Union, the paradigm and paragon of economic interventionism, that tawdry throne of cradle-to-the-grave security for its citizens, foundling home where each would be served according to his needs, theater of the absurd in which bleeding-heart socialists have wept with joy for the last seventy years or so, is now no more. People in tatters go hungry there, vodka is in short supply, pensions worthless, medical care wretched. In short, it is in shambles.

Sweden, another paragon welfare state; Italy, the most state-dominated economy west of the Iron Curtain; England, mother of welfare states—all nearly moribund. And now a Frenchman writes that the social security system of France is "bankrupt."[3] Even still prosperous welfare states such as Germany and Japan falter. As for the United States, every year its immense deficit and bloated Nomenklatura add more dead weight for its overtaxed economy to carry, while the stupendous multi-trillion dollar national debt absorbs most of the exiguous savings which the thrifty manage to set aside despite the endless exactions of the welfare state.

I believe I could show, had I but time and energy enough, that every cent of the deficit traces to some governmental sin of omission or, more often, of commission. We go increasingly into debt year after year, in futile efforts to correct the evil results of previous interventions, when the only way to get back on track is for the government to get out of the intervention business and back to the business of keeping the peace, its one vital responsibility.

I offer pollution, the automobile, and the internal combustion engine as examples of the talent with which the interventionist welfare state has mired itself by aborting free competition and free pricing. Scarcely anyone in the world seems old enough any more to remember, as I do, that the petrol-fired internal combustion engine owes its current widespread usage to the price controls and harassing regulations which made it unprofitable for the private enterprises which created them, earlier in this century, to continue operating clean-running electricity-powered trams and trains. Thus the interventionist welfare state is fundamentally responsible for the worst polluter of our time, but you would never know it unless your memory was long and your wits still sharp.

The interventionist state has thus literally transformed the face of the earth, *for the worse*, of course, with this one grotesque distortion of the free market for transportation. Unless it breaks itself of, or the citizenry compels it to kick, the intervention habit, God only knows where it will take mankind. In all probability, if the environmentalist fanatics have their way, it will be back to the caves.

I ask you to review in your mind other problems afflicting the welfare state today, especially in the United States: family breakdowns, juvenile delinquency, unemployment and homelessness, illiteracy, the economy-busting costs of medical care, perhaps worst of all the surging deficits and the inflation they cause, however hidden, and unchecked crime. Any one who has read Ludwig von Mises, especially *Socialism* and *Human Action*, knows that all these problems have been exacerbated if not indeed created by welfare-state intervention.

At the risk of vexing the reader, I repeat: by its nature, the agency we have come to call the state has an extremely narrow range of competence. It can regulate, control, govern; it can beat into submission, incarcerate, kill; it can force one person to compensate another, or to cease and desist from engaging in certain activities. It can compel human beings to pay tribute to it. It can take tribute from one person or group and transfer that tribute to other persons or groups.

But what government—as government—cannot do is create any thing other than government. The human construct that we call state, cannot make a baby or even nurture one. When a foundling is left at the police station, the gendarmerie places it in a foundling home. This proves, one might argue, that the state can do more than govern. But it proves no such thing. It proves only that the state may use its powers of coercion and compulsion to extract money from the citizenry with which to subsidize other human beings in operating the home. One may no more say that this reveals creative powers in the state than one may say that the state can grow corn because with money exacted from taxpayers it subsidizes corn-growing farmers.

The state produces one thing—government: good government or bad government; mostly bad government: but always government. When it taxes some people for the benefit of other people—the main, if not the exclusive activity of welfare states—the beneficiaries may produce something, perhaps even something good, perhaps even a good work of art, say. But this does not establish the state's credentials as a creative agency. The state in this transaction remains what it has always been: an instrument of force and violence which now has used its power to redistribute wealth, not to create it.

It would not be correct to say that there is a net gain in this process in that now a work of art exists which otherwise would not. For one thing, we do not know that but for the government the artist would not have produced the work anyway; much fine art exists, we know, more despite government subsidy than because of it. For another, we do not know, and we cannot know, what net addition to the wealth and wellbeing of mankind might have been aborted by the state's forced transfer of funds.

One thing we can know with certainty is that the persons whose funds have been taken from them have not been able to use them in creative ways of their own: the fruits of their efforts have gone to someone else; the private-sector has been impoverished; art has not been served; no deserving person is better off; goodness has been neither rewarded nor promoted. There is another thing we know with certainty—bureaucrats have decided which artists should be patronized, not the people who created the wealth. As Bertrand de Jouvenel has said: "The more one considers the matter, the clearer it becomes that redistribution is in effect far less a redistribution of free income from the richer to the poorer, as we imagined, than a redistribution of power from the individual to the State."[4]

Observation confirms what logic and economic understanding have long known: that the more resources the government takes from the productive to redistribute to the nonproductive, the greater the impairment of the productive, the private, sector. If you take from me the fruits of my efforts, you impair both my capacity to produce and, more importantly, my will to produce. I have no desire to subsidize the Nomenklatura of the United States, any more than I had a desire to promote the welfare of Mikhail Gorbachev and his henchmen. And I know that confiscating the fruits of my efforts has not bettered the condition of the poor, but has in fact, in enervating the economy, made it harder for the ambitious poor to break the vicious circle of poverty.

Show me a state that has succeeded purely as a producer of goods, without resorting to force and violence to exclude competition from private persons. Cuba? Hungary? Poland? Italy? Good God!

The land of opportunity has always been—it remains—the land where capitalism and free enterprise are flourishing. Theory and history have combined over and over again to show that this is so, and why only free markets deliver the goods; only free enterprise creates wealth. And without plentiful wealth—or capital—none of the good things to which the welfare state pretends to aspire, but cannot deliver, are possible.

But capitalism needs capital if it is to flourish. In seeking to share the wealth through confiscatory governmental methods, greedy advocates of the welfare state are succeeding only in destroying present wealth as well as the mechanism of its future production. The savings with which capitalism could make the desert flourish and increase opportunities for all are now being diverted by the welfare state into nonproductive channels. Our "social security" system when administered by the state is a device for consuming vast capital—and with it the only genuinely effective means of promoting the general welfare.

There are things that the state can do which promote capital growth and hence the general welfare, but these are things which involve social security properly understood, not the semantic trickery of a "social security" which subordinates the general welfare to the personal welfare of politicians, bureaucrats, and the wicked with whom they consort. And to this set of distinctions I now turn.

II. Security: Social and Personal; Individual Retirement Arrangements

The greed of the welfare-state interventionists seems to be exceeded only by their intransigent economic ignorance, the kind of ignorance which enabled George Bush to refer to the only coherent economic principles in existence, as "voodoo economics." George Bush's sad economic ignorance helped him lose his office; unfortunately, worse ignorance has failed to remove the even more culpable politicians in Congress and the bureaucrats who remain hell-bent to cripple the American economy in the name of a false conception of social security.

The greatest threat to the *properly understood* social security of the free world has disappeared with the breakdown of the world's super welfare state, the Soviet Union, the nation which set out to demonstrate that cradle-to-the-grave welfare and security could be provided to all by the state, once evil capitalism was abolished. In a world governed by virtue and intelligence, the disappearance of this threat to mankind would have been followed by a huge reduction in taxation, a measure which all logic and experience indicate as the best means of increasing the wealth and hence the welfare of mankind.

Instead, in the United States there has been no peace dividend for the stockholders. It has all gone to the management—the Nomenklatura and the permanent-tenure Congress—and to the wicked with whom they consort. For the savers and the productive taxpayers there have been only higher taxes with the greatest tax increase in U.S. history still to come under the Clinton plan to combat a recession which does not exist, with money the government does not have, for purposes of value only to bureaucrats, politicians, and the wicked.

Yet more deadly in the long run, we may look forward to a substantial increase in our already huge national debt, with the depressing economic consequences entailed in the servicing of such a debt.

There can be little doubt that de Jouvenel was right when he said that the welfare state was a mechanism mainly for increasing the power of government. Social security understood as the security of a society as such means the security of the principles necessary to the survival and prosperity of the community as a whole. This was the understanding which produced the preamble of the United States Constitution:

> We the people of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.

The welfare to which the Constitution referred was not the particular welfares which are the pretended concerns of the welfare state—the old, the poor, the farmers, the spotted owls, etc. The Constitution refers only to the *general* welfare. The only possible meaning of *general* in the context of the preamble is the welfare of all, that is, the welfare of the whole community—rich, poor, young, old, sick, well, tall, short, male, female—mankind in all its diversity. And the only way that mankind generally can be served, when one considers the diversity of its conditions and interests, is by general rules, equally applicable to all, empowering the energetic and the productive to act freely, and protecting them and the fruits of their efforts from aggression—not to their infinitely varying personal conditions of age, wealth, health, and so on. It seems impermissible, therefore, to interpret the general welfare clauses of the Constitution as authorizing, let alone commanding, the establishment of the welfare state as we know it.

Instead, the U.S. Constitution seems best read as a rule-of-law document, confining the U.S. government to measures which benefit everyone equally—broad principles, justice, tranquility, defense, liberty, the *general* welfare—in sharp contrast to the log-rolling, special-interest, special-subsidy offal which constitute the essence of the welfare state.

For we must not lose sight of the fact that the framers of the Constitution of the United States were for the most part remarkable men, endowed with considerable virtue and intelligence. In Philadelphia, in 1787, they were not busybodies trying to lead other people's lives for them; they were not preoccupied with the trivia of daily life or even more serious personal problems such as career, health, sexual discrimination and the like. Mature persons of stature with a due respect for human dignity believe that those are *personal* problems for human beings to work out for themselves, once the state provides them with a society in which their lives and property are secured by a formidable army and police force and an effective system of justice, the institutions which the Constitution established.

The men who framed the U.S. Constitution were keenly aware that it was a *constitution* they were building, a structure of government, not a plan for daily living. We shall not see their like again, not soon, and not in politics, anyway; not until we have the sense to rearrange the terms and conditions of political office, so that legislators are motivated to protect property rights and to promote the growth of capital, not its destruction or desanguination.

The original Constitution of the United States survives today only in a grossly mutilated form, in a disgraceful government, where even its basic principle, the separation of judicial, legislative, and executive powers, is daily flouted. Where the Supreme Court prefers to legislate while accepting gross invasions of its judicial powers by both the Executive and the Congress; the Congress delegates it law-making functions to administrative agencies while invading executive and judicial powers; and the executive cravenly submits to invasion of its powers while furtively encroaching upon the legislature and the judiciary whenever it can do so without arousing the sleeping lion which it fears more than all else, the impeachment power of Congress.

The perversion evident in the decadent condition of the separation of powers principle is equally pronounced in the transmogrification of the idea *social security*, which has now become *personal security*—just as *general* welfare has come to mean *personal* welfare. Indeed, one hears every day a repetition of the fundamental article of faith of contemporary interventionists: that the government of the United States is a government of unlimited powers and responsibilities; in short, a totalitarian government in all but name.

Because this constitutes ruling opinion, we have in Washington, D.C., today a government which, with the abundant means gained by desanguinating our economy, is bent on fulfilling the wishes of the sick busybodies among us to stick their noses into everyone's business to a degree never dreamt of before, not even by the likes of Josef Stalin.

There is dreadful fascination in watching the destructive interventionists and the Nomenklatura at work, parrying threats, knifing anyone who imperils their privileges. Thus the 1980s, one of the longest periods of U.S. prosperity of this century, has since been called the decade of greed. That this is a characterization by the truly greedy—the nonproducers lusting after the wealth created by the productive adds to the dreadful fascination of the process. With the help of their ignorant vassals who dominate the journalistic media of the United States, the Nomenklatura and the social democrats preach that Ronald Reagan's philosophy of government as the problem not the solution must be rejected as an apologia for greed. They know that if the inert masses ever grasp the idea that interventionism benefits only the bureaucracy and the wicked, and does the masses themselves harm, not good, the game will be over for them, as it seems to be for their soulmates in the former Soviet Union.

But even more morbidly fascinating is the way they have emasculated the "decade of greed's" salubrious means of providing for old-age security—a means capable of actually providing the security which the welfare state promises but which it cannot provide, namely, the tax-exempt individual retirement arrangements commonly referred to as IRAs.

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The IRA is a savings device which permits persons to set aside a certain amount each year, without paying taxes on the money or its earnings until retirement. Unlike the compulsory "social security" payroll tax, IRA savings *belong* to the contributor himself, they become a part of the productive capital of the nation—and are not subject to being furtively spent by a larcenous government anxious to hide the horrendous deficits it is running in order to finance its biennial vote-buying sprees, handouts which it mendaciously calls expenditures authorized by the general welfare clauses of the constitution!

Peter Ferrara[5] has shown that from the contributors' point of view, the personal IRAs are superior in every way to the compulsory "social security" system. The problem, however, is that they are not superior from the point of view of the Nomenklatura. They may be good for the people, good for the country, good even for the whole world. But they do happen to expose the substantial bureaucracy of the Social Security Administration as an expensive, inefficient, irrelevancy, and this of course no Nomenklatura can tolerate. As a result, rather than expanding the scope of the IRAs, as a government of the people, by the people, and especially for the people would do, the U.S. government alas restricts them more and more.

We are to learn from this that under the welfare state government is neither by the people nor for the people, although, because someone must pay the bills, it must be *of* the people.

If the hammer of government is not the best tool to provide for the security of the aged, it is also not an appropriate means of ministering to the physical health of a society. Honest assessment must conclude that everything the U.S. government has done so far in the health field has created more harm than good.

In fact its various interventions have brought about truly menacing hospital, medical, and pharmaceutical costs; costs which, at the rate of growth of the last twenty years, would in a generation consume the entire national product. Any person of sense knows that if demand for a product in limited supply becomes infinite, the price of the product will unless somehow checked become infinite, too. In its usual fashion, however, the Nomenklatura ignores the laws of economics, offers nothing that would promote increased supply of health goods and services, and proceeds in its self-defeating way to encourage a growth in demand while then rationing the supply that it is doing its best to shrink.

The current American president, along with the current American Congress, is naturally blaming everyone but the government for the medical "emergency" that the government itself has created. And naturally the Nomenklatura apparatus headed by the president's wife has only the standard welfare state remedies to offer, price controls on the drug companies and rationing of medical care. Thus the American health industry, the equal of which I believe does not exist anywhere in the world, is doomed to the same inanity which the interventionist state has afflicted us with in each sector of the economy to which it has directed its tender loving care.

Sensible people in the United States have been proposing free-market, private-property solutions to the health problem analogous to the plainly desirable IRAs for retirement. The virtues of medical IRAs would seem to be equally plain. But like the individual retirement arrangements they have one fatal flaw in our supposed democracy, our government of the people, by the people, and for the people. They threaten the relevant Nomenklatura. And so one could predict that the appointed 500-person task force would not propose individual health-care IRAs as the solution of the medical-care emergency which threatens the country more gravely than the Soviet Union ever did.

Since it has already survived close to a century of vicious misgovernment, the United States is likely to survive even the current misrule. But it's a close question. Health costs which already constitute a very large fraction of the gross national product have been climbing at a rate of 14 percent per year, and now the President swears that he is going to make socialized medicine universal in the United States. At the same time, the federal deficit is growing at a rate which makes repudiation of the national debt—probably in a way that deceives the unwary—a virtual certainty.

The private watchdog organization called Citizens Against Government Waste points out that the U.S. deficit for 1992 is actually $342 billions, not the $290 billions being reported, because the government has hidden its diversion of $52 billions from the Social Security funds. It goes on to say that 61 percent of the annual personal income-tax revenue goes to paying the interest on the $trillion-plus federal debt, and that at the present rate of growth, "in less than seven years it will take 102% of all personal income taxes just to pay the interest on the debt. . . . We are rapidly approaching the day when we will no longer be able to make even the interest payments on our national debt and carry on any reasonable level of government service. When that happens our nation will be technically bankrupt."[6]

It would appear that in transforming itself into a personal security agency, the government of the United States has sacrificed the social security that it was designed to preserve and protect. It has also betrayed the general welfare in its preoccupation with the particular welfare of the Nomenklatura and of the wicked with whom they consort, in dooming the poor to eternal poverty and that marvel of the ages, the American economy, to certain imbecility.

III. Life in the Welfare State: Automated Interventionism

Social security as conceived by welfare statists involves the politicizing of all human life. Though retirement, health care, and unemployment seem to be the welfare state's major concerns, such are the inner necessities of politics, the seamlessness of economies, and the linkages in the diversity of human lives, that what starts out as a small effort to deal with a distinct problem turns into a global preoccupation with all of existence. The free society and the rule-of-law state are transformed, as Friedrich Hayek observed fifty years or so ago in *The Road to Serfdom*, into a totalitarian state. With the experience of the total state gained in those years, we now know that totalitarianism freezes human progress and thus turns entropy loose to produce the gray, featureless, sordid ugliness that westerners saw when the Berlin Wall came down.

I have come to use the term "automated interventionism" in my attempts to understand and explain the political necessities which have turned the American interventionist welfare state into a total state during my life. Once the distractions of politicians, professors, and journalists are shunted aside, the process is not hard to understand. Each intervention involves a transfer of funds from the frugal and productive members of society to the greedy, the profligate, and the unproductive. Perhaps it is better to call this an energy-dissipating transfer, as well as a redistribution of wealth.

Anyway, four significant results follow the transfer. First, the victims of the theft are impoverished, both their capacities and motivations diminished. Second, the economy generally suffers from a reduction in productive capital-formation. Third, the success of the redistribution encourages others to try the same method of increasing their wealth and well-being, often including the victims of the first transfer (there are trade journals which offer instruction on how to get government subsidies). Fourth, since U.S. politicians run for office continuously, and must in each election keep their old clients happy as well as replace attrition, our federal taxes, expenditures, and deficits grow every year.

The deficits keep growing because our increasingly desanguinated private sector cannot generate enough wealth to cover the ever increasing expenditures. The deficits grow also because as our government exempts the poor from direct taxation, it must tax them indirectly by inflation in order to cover such vital expenditures as, for example, the $6.4 million awarded by Congress to build an "authentic" Bavarian ski resort in Idaho.[7] And so our national debt runs to the trillions.

A national debt in the trillions will ultimately bankrupt the country, if not checked or retired, for the capital-starved economy will ultimately be unable to provide the funds with which to carry the debt-service. Yet, as long as politicians are running for office all the time, the debt is unlikely to be retired. The economy becomes increasingly anemic and listless. The complaints of the do-gooders mount, the interventions of the busybodies grow, the energies of the productive flag, their motivations diminish, and even the incurably energetic and inventive find it impossible to get capital enough to circumvent the inhibitions of the busybodies and to carry the load of the total state.

The end result would be not unlike what we see in the former iron curtain countries. However, I do not expect this end result to arrive. The case for privatization of the worst features of the welfare state is too strong, and there are too many among us who understand the case. Furthermore, the politicians of the western world themselves understand it. For example, the social democrats of Germany seem to be readying themselves to abandon the welfare state in the nineties,[8] as they abandoned pure socialism in the sixties, when Willy Brandt concluded that since capitalism delivered the goods and seemed to be inevitable, it behooved politicians to embrace it and milk it, rather than destroy it. And today in the United States, our own social democrats, who dominate the Congress, seem to fear the deficit more than they fear the do-gooders, some of them, anyway.

Busybody do-gooders who cannot tolerate freedom and free institutions will always be with us, trying to force their will on us, in order to expand the citadel and the state at the expense of the market, the free academy, and the altar. I cannot imagine a world without them, as wonderful as such a world would be.

But they can be held in check. Of course, it will take work and cheerful energy on the part of the proponents of capitalism and freedom to do so, but it has always been and more than likely will always be so. Benjamin Franklin of blessed memory knew this in 1787.

These things do not change. Freedom and the blessings it bestows must be fought and suffered for, eternally. □

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1. Spencer Heath, *Citadel, Market, and Altar: Emerging Society* (Science of Society Foundation, Baltimore: 1957).
2. Henry Sumner Maine, *Popular Government* (London: John Murray, 1st ed., 1885), pp. 30–33.
3. Guy Sorman, "Adieu French Socialism," *The Wall Street Journal*, March 17, 1993, p. A-14.
4. Bertrand de Jouvenel, *The Ethics of Redistribution* (Indianapolis: Liberty Press, N.D.), p. 72. The Boutwood Lectures, Corpus Christi College, 1949.
5. Peter J. Ferrara, *Social Security: The Inherent Contradiction* (San Francisco: Cato Institute, 1980), pp. 351–402.
6. Citizens Against Government Waste, "Special Report: Social Security Crisis Update," at unnumbered pp. 2–4 (March, 1993).
7. *Ibid.* at unnumbered p. 3.
8. Peter Glotz, described in *The Wall Street Journal* as a leading German Social Democrat, is quoted as saying that "The welfare state established after 1945 by social democrats 'cannot continue to exist in the same way. . . . Instead we must put more value on the initiative of individuals.' " *The Wall Street Journal*, March 24, 1993, p. A 10. Of the German Social Democrats one may always say, better late than never.

THE FREEMAN
IDEAS ON LIBERTY

Government-Created Poverty

by Joseph P. Martino

Every morning, outside my apartment building, I see a woman sweeping the sidewalk. She wields her broom briskly, marshaling the scraps of paper and dead leaves into an orderly pile. She then sweeps them into a long-handled dustpan made from a cut-down salad-oil can with a broom-handle nailed to it.

Downtown, São Paolo is a clean city. It's kept that way, not only by people like the woman outside my apartment, but by an army of municipal workers, men and women, clad in safety-orange coveralls. Like the woman in front of my apartment, they wield brooms and long-handled dust-pans. Their only concession to a greater volume of work is the barrel-shaped push-carts into which they dump the refuse.

Street cleaning is not the only labor intensive activity I see. At a gas station, I count six pumps and four attendants in clean uniforms. Another attendant, in a different uniform, puts air in tires. I am told that there are only one or two self-service gas stations in all of São Paolo.

On the university campus where my office is located, there are numerous well-tended gardens. The campus seems to be covered with flowering shrubs and trees. This beautiful landscape is tended by a host of workers who trim, cut, and plant by hand. The newly planted trees are watered regularly by a man who stands by them, holding a hose.

The contrast with my own campus in the United States is instructive. Planting a tree on my home campus means bringing in a truck-mounted auger which digs a hole in minutes, following which a tree is dropped into the hole by another truck with a crane. Trimming the hedge in front of my building is done with a chain-saw. Leaves are cleaned off the sidewalk with a gasoline-powered blower carried by one of the grounds workers.

One of my colleagues in São Paolo, an economist whose office is just down the hall from the one I use, tells me that Brazilian institutions can afford to use so much labor because wages are so low.

Although no one I meet in Brazil makes the argument, there are those among my colleagues in the United States who would praise the Brazilian arrangement. "It provides jobs for poor people. If you mechanized, they'd be out of work."

Nevertheless, what is true in any other country is true in Brazil as well. You cannot eat what you do not grow. You cannot wear what you do not weave. You cannot live in what you do not build.

Money is simply an improvement on barter. The man who earns his wages trimming hedges does not need to find a farmer with

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a shaggy hedge in order to obtain food. He can trim a hedge at a university, and use his money wages to buy food, clothing, or shelter. The key point is that his money wages represent the value to his employer of his labor services. They represent what he has put into the economy. His wages allow him to take an equivalent value out of the economy, in whatever form he prefers.

Low wages mean the worker can take only a little out of the economy. He cannot live very well on that. His wages are low, however, because he has put so little into the economy. In short, his productivity is low.

It will not do to say that a Brazilian university cannot afford to buy a leaf-blower or a chain-saw. That misses the point. Hiring additional workers is cheaper than equipping a few workers with productivity-enhancing tools like chain-saws and blowers. Why is it cheaper? Because productivity in the rest of the Brazilian economy is low as well.

Why does my home university equip its workers with chain-saws and blowers? Why is it concerned with increasing their productivity? Why doesn't it simply hire more workers to use pruning shears and leaf-rakes?

Because it must compete with other employers for the services of workers. If a worker with certain skills can earn a high wage at the local auto plant, my university must match that wage to attract a worker with the same skills. Once forced to pay a competitive wage, my university must increase the worker's productivity by equipping him with chain-saws, blowers, and other tools. In short, forced to match the going wage, my university must invest in capital equipment so its employees can match the productivity of equivalent workers in the rest of the economy. That is, high industrial productivity is the driver which forces all other U.S. employers to increase their workers' productivity, by threatening to draw them away.

Likewise, in Brazil, all other employers compete with industry to attract workers. Since productivity is so low in the rest of the economy, the university whose campus I am visiting does not need to provide much in the way of productivity-enhancing tools. Since other Brazilian workers do not put much value into the economy, they cannot take much out either, and employers such as the university, the petroleum company, and the streets department of the city, can pay low wages and still attract workers. Total output can be increased more cheaply by hiring more workers than by investing in capital equipment.

Why is productivity so low in Brazilian industry? A visit to a combination sugar mill and alcohol distillery helps explain why. My companion, also from the university, has been trying to convince the mill managers to install new equipment which would save energy, cut expenses, and increase profits. The savings would repay the cost of the new machinery in less than three years.

Our host, the chief engineer of the mill, explains the situation in simple terms. The cost of the machinery would exceed the mill's available cash. The managers would have to borrow the money. The current real interest rate is 40 percent per year, over and above the inflation rate of approximately 1 percent per day. The interest on the loan would more than eat up the savings from the new machinery. Part of the mill's current profits would have to be used to meet interest payments, and they would never pay off the principal of the loan. My companion admits ruefully that the interest rate on his credit card is 48 percent *per month.*

Why are real interest rates so high? A U.S.-trained faculty member from the business school of the university explains the problem to me. The external and internal debt of the Brazilian government is absorbing nearly all the capital the nation can raise, just to pay interest and avoid default on the loans. This enormous drain on the economy prevents all industry, not just one sugar mill, from modernizing and increasing the productivity of Brazilian workers.

How did the Brazilian debt become so high? During the "oil shocks" of the 1970s, the Brazilian government made the same mistake many other people made. They assumed the price of oil would remain high. They borrowed heavily against their anticipated oil revenues. They intended to use the money to force economic growth. Unfortunately, for the most part they spent it on uneconomic industries, following the then-popular "development economics" doctrine of "import replacement." Worse yet, they spent much of it on showcase projects like roads in the Amazon which have since been abandoned, on the showplace city of Brasilia, and similar extravagances.

Now the chickens have come home to roost. The oil cartel failed, as all cartels do eventually. The price of oil is down. Since the borrowed money was not invested productively, there is no income stream from it to meet interest and repay the loans. The present Brazilian government, in order to maintain its credit rating, is making repayments from current savings. The high inflation rate is in effect a tax on savings, allowing the government to siphon off the nation's savings. Virtually none of Brazil's current savings are available to invest in industry.

By attempting to force economic growth with borrowed money, the Brazilian government ended up destroying the possibility of economic growth.

That is why Brazilian industry has such low productivity. That is why it isn't drawing workers away from low-paying jobs. And that is why the woman outside my apartment building sweeps every morning with a badly worn broom and a homemade dustpan. □

THE FREEMAN
IDEAS ON LIBERTY

KEEPING BAD COMPANY?

by J. Wilson Mixon, Jr.

My eight-year-old son had climbed the wall of the nearby convent and was busily helping himself to some apples when the nuns apprehended him and his gang of four. When informed of his misdemeanor, I reacted like any other young parent: I blamed the company he was keeping. My innately blameless child had obviously fallen in with bad company. Time has taught me that he was, in fact, doing what young boys do.

A recent *Daedalus Books* catalogue brought this incident, now two decades past, back to mind. Bemoaning a lost rain forest, as chronicled in one of the catalogue's offerings, an editor lamented a world "where the government has lost control to bankers, builders, and outlaws." The government, whose innate tendency is to do the right thing for the environment, has been keeping bad company.

Maturity and experience provided perspective regarding my son's mischief. By now we have seen overwhelming evidence that when government defrauds its citizens, wastes resources, and behaves in a generally unseemly fashion it is not being misled by bad company; it is just doing what governments do. Why don't we find this evidence compelling?

Albert Jay Nock explains why so many

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repeatedly give government one more chance: "Republicanism permits the individual to persuade himself that the State is his creation, that State action is his action, that when it expresses itself it expresses him, and when it is glorified he is glorified."[1] They do not find the evidence compelling because they choose not to.

The misty-eyed, anthropomorphic view of the State is entirely consistent with the modern intellectual view, fathered by Rousseau. Paul Johnson describes this view: "The rich and the privileged, as an ordering force, would be replaced by the State, embodying the General Will, which all contracted to obey."[2] Obedience is entirely appropriate, since Rousseau assures us, "The General Will is always righteous."[3]

The General Will is echoed in Lincoln's phrase "of the people, by the people, and for the people." Nock describes this phrase as "probably the most effective stroke of propaganda ever made in behalf of republican State prestige."[4] Certainly, Lincoln's sentiment shifts the presumption toward the State. Given this sympathetic view of the State, the citizen, as Nock says, "Looks on its failures and malfeasances with somewhat the eye of a parent, giving it the benefit of a special code of ethics. Moreover, he has always the expectation that the State will learn from its mistakes, and do better."[5]

Among recent issues, this abiding faith in the State's ability to reform itself is most obvious where the environment is concerned. As a result, serious analysts too often favor putting the fox in charge of the henhouse. The WorldWatch Institute observes, quite correctly, that "national land use policies foster degradation. . . . For example, the governments of Brazil and Indonesia—supported by World Bank loans—have sponsored resettlement programs that encourage people to clear tropical forests to create new cropland, even though that land will only sustain cropping for a few years."[6] Nonetheless, it sees reformed government leading the crusade to improve the environment: "Over the next few decades, government policies will encourage investments that promote stability and endurance at the expense of those that simply expand short-term production."[7]

Nock warns us to support moves to reduce government's role in the environment rather than hoping that it will someday cease being hoodwinked by "bankers, builders, and outlaws." If government's role in the environment can be limited, Karl Hess, Jr., said, for example: "Human actions that are detrimental to the land will be limited in space and time. There will no longer be environmental mistakes on the scale of the Homestead Acts, fire suppression, below-cost timber sales [or] the federal grazing program. . . ."[8] Reducing government's ability to get into mischief, rather than quixotically trying to reform the incorrigible, should be our goal. □

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6. WorldWatch Institute, *State of the World, 1989* (New York: Norton, 1989), p. 29.
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8. Karl Hess, Jr., "Sacrificial Lands," *Reason*, June 1993, p. 40.

THE FREEMAN
IDEAS ON LIBERTY

Promote Free and Not Command Constitutions

by Bernard H. Siegan

As the nations and republics emerging from Communism write new constitutions, ominous signs appear that these constitutions will reject the basis for the recent revolutions. Instead of confining it, the constitution writers appear to be establishing a huge economic role for government.

A major, if not *the* major, reason for the fall of Communism is economics. Compared to the capitalist states, the Communist countries were economic disasters, far behind in individual income and material comforts and conveniences. Thus, as was apparent to any traveler, life for the average citizen was considerably better in capitalist West Germany, Taiwan, and South Korea than in Communist East Germany, China, and North Korea.

Yet most Communist leaders were no less interested than capitalist leaders in providing a better life for their constituents. They imposed every conceivable law toward that end and were ever ready to adopt new regulations "in the public interest." As a result, the Communist nations had an abundance of laws, but as it turned out, never of food, clothing and shelter. The problem was that Communism identified the public good with ever greater government authority.

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By contrast, the market-oriented countries achieved much more good for the people by following an opposite principle, equating the public interest with individual freedom. Capitalist countries such as the United States rely on individual ingenuity and productivity to improve and advance human society. History confirms that free minds, hearts, and bodies account for the greatest societal achievements.

Unfortunately, lawmakers in the former Communist countries may be ignoring this great lesson. Consider, for example, the recommendations of the Ukrainian Parliament's Constitutional Commission. In the June 1992 draft, it proposes constitutionally mandating a lavish program of entitlements and benefits including: Rest, leisure, paid vacations, "fair" and "satisfactory" wages, and other welfare benefits for workers, minimum living standards, equal pay for the same amount of work in accordance with its quality and quantity, free medical service, safe environment and foodstuffs, free education, and a reduced work period for mothers with young children, minors, people with limited ability to work, and those engaged in physically demanding labor or working in harmful environments.

The proposed constitution would thus impose serious regulatory and monetary restraints on the private sector as well as on the political process. These controls are not consistent with aspirations for freedom and abundance.

They rely on the erroneous idea that people are dependent on government benevolence for their well-being. To prosper and provide abundantly the material necessities of life, Ukraine must encourage private ownership and investment. A constitution that strongly protects economic liberties will attract both domestic and foreign investment. Studies show that the most prosperous nations are those that strongly protect private property and enterprise.

If the Ukraine economy is poor, how will it provide for the host of entitlements and conditions the constitutional draft seeks to bestow? If the entitlements are satisfied, how much will be left to pay for the armed services, police and fire protection, and installation and maintenance of streets, sewers, and water mains? A nation must limit the tax burden lest it destroy the economy.

To be sure, the proposed Ukraine Constitution does provide protection for ownership and investment, but in language hardly comforting to would-be owners or entrepreneurs. The right of property supposedly is secured, but it "must not contradict the interests of society as a whole or of individual citizens." This exception is big enough to consume the protection.

The former Communist nations should look to the U.S. Constitution as their model. Its protections are negative in character. They are intended to prevent the enactment of laws that stifle opportunity and self-improvement. The U.S. Constitution does not impose affirmative economic obligations on the government. Liberty, in the U.S. constitutional sense, means being immune from government coercion.

The benefits flow to both the individual and the society, as James Madison, the principal architect of the United States Constitution, once stated: "I own myself to a very free system of commerce, and hold it as a truth that if industry and laborare left to their own course, they will generally be directed to those objects which are the most productive, and this in a more certain and direct manner than the wisdom of the most enlightened legislature could point out."

A constitution that protects both liberties and entitlements is incoherent and very difficult to interpret. It seeks to accomplish two diametrically opposite goals: reducing and enlarging government. Moreover, guaranties of entitlements in a constitution that authorizes judicial enforcement of its provisions will jeopardize the judiciary's protection of liberty. (The former Communist states are according their high courts the power to enforce their constitutions.)

To enforce the entitlements, the judiciary might well mandate imposition of additional taxation and spending, and neither the people nor the legislature would be able to control this power. Taxing the people and spending the receipts are peculiarly legislative powers, stemming from the idea that only the people, acting on their own or through their representatives, are entitled to decide how they will utilize their own resources. (In the United States, the principle of "no taxation without representation" is among the most sacred.)

Similarly, a court may implement constitutional provisions that require a clean environment, adequate medical service, or fair wages by imposing personal monetary requirements on owners and entrepreneurs, contrary to their contract and property rights. Thus, constitutional efforts to provide government benevolence would give the judiciary dictatorial control over important public and private decisions.

For some people in nations emerging from Communism, life is not comfortable these days. The fault lies not with capitalism but with the difficulty of converting a backward economy to a modern one. Most government-owned industries in these nations cannot compete successfully in world markets. They produce goods and utilize production methods that are antiquated. They lose much money and must either be closed or sold to private investors. Unfortunately, either alternative creates unemployment. But there is no other way for a nation to convert to a viable economy which in time will produce a high standard of living. □

THE FREEMAN
IDEAS ON LIBERTY

The Women's Agenda

by Deborah Walker

I am often asked, "What is this 'woman thing' about anyway?" or, "Why is there a woman's movement or a feminist agenda at all?" Both men and women have their own ideas about this social movement and what they want to see come out of it.

Although I speak only for myself, I hope I convey the thoughts of many when I say that generally women are asking for three things: (1) equality under the law, (2) more options in society: that is, *opportunities* to expand the roles they play in society, and (3) as much *respect* and *recognition* as men have in those roles, while maintaining respect in the traditional roles as well.

A truly free society based upon classical liberal principles certainly should provide women with legal equality. Unfortunately, the woman's movement now goes beyond this and asks for special privileges under the law. In my opinion, this is wrong. If women want to live in a free society offering economic freedom, then they must realize that with freedom comes responsibility, and that respect and recognition must be *earned.* These cannot be given to anyone, especially by government.

Before I continue, let me make three general statements upon which the rest of my analysis will rely:

(1) Good economic analysis is sex-and-gender neutral. Both men and women act purposefully.

(2) Entrepreneurs go into business to make money! This is not only noble and honorable, it is also socially responsible. Adam Smith was right: Responsibly acting in one's own self-interest will benefit others.

(3) Economic freedom, indeed freedom in general, is a desirable goal in and of itself. Economic freedom may also have desirable consequences, but it is valuable for its own sake. Those of us who value freedom always seem to be forced to argue that the outcome of freedom is better than the outcome of government intervention. This is unfortunate since no one ever knows the particular outcomes of choices made in a free economy. It is doubly unfortunate because the question of whether freedom itself is desirable is lost in the debate. It is not even asked!

The Business of Business

Many people, most academic feminists among them, seem to have forgotten that the goal, the bottom line, of business is to make money—something often regarded as evil and unethical. Instead, businesses supposedly exist to employ people. Furthermore, businesses are supposed to employ people they do not want to employ and to pay them wages they do not want to pay. Businesses are also supposed to exist to pay for everyone's health care, or provide child care, or make sure everyone is taken care of in retirement. With regard to women especially, businesses are considered social institutions designed to accommodate pregnancies or other family concerns. This

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attitude toward business is detrimental to women. Women, in particular, should applaud the motive of making money, which drives a free market economy.

Under free markets, the basic economic questions of what and how things are produced, and who gets what, are decided through a process of competition for *monetary profit*. I produce something and I sell it to consumers. If consumers like it—more importantly, if a lot of consumers like it—I make a lot of money. You notice this and decide you want a piece of my pie. You start competing with me. Resources are moved out of unprofitable activities and into profitable ones. Prices, and the profits that emerge from them, are the all important information signals which guide the movement of those resources. And, yes, it is all based on the Almighty Dollar!

Oh, what a heartless, cold system. Certainly not a system that women would have devised. After all, women are the nurturing sex, the great civilizers of society. Capitalism must be a man-made ruthless system that operates to keep women in their place and elite capitalists in power.

Woman's Best Friend

Is this true? Can women, having a different, more civilized mindset than men, come up with a better system? I challenge anyone to try. But in the meantime, let me say that I think capitalism is not a heartless or ruthless system, but just the opposite. Furthermore, capitalism and the economic freedom upon which it is based, is every woman's best friend (for the same reasons it is every man's best friend). And this is true for any woman, regardless of her aspirations.

Why? Look around the world, countries without economic freedom and markets are countries where people starve to death on a daily basis, where children die of disease before they have a chance to form their own identities, where people's lives are preoccupied by the business of trying to stay alive. Capitalism feeds people, keeps them healthy, provides them with leisure time to play catch with their kids and have romantic picnics with loved ones. It is the most humane and socially just system known to men and to women.

Understanding Opportunity

How exactly does economic freedom enter the picture? Economic freedom and capitalism provide the *opportunities* women need in order to broaden the roles they play in society and to gain the respect and recognition they desire.

In order to understand the fundamental way that economic freedom and capitalism create opportunities we have to return to something I stressed earlier—that basic economic lessons apply to both men and women. A strong and prosperous economy is the only environment in which people can broaden their roles *in the ways they desire*. Certainly a central planner can force all women into the factories, for example, and broaden their roles in society (this is what both Lenin and Stalin did). But that is not what I am talking about. An opportunity is something that is seen as something desirable by an individual. Opportunities cannot be mandated because mandates can never be flexible enough to meet the needs of a diverse society.

There are many ways a strong economy creates opportunities, but let me begin with the most basic, yet perhaps most important: job creation. Let us quickly dispel the myth that governments can create jobs. They cannot. A government can move jobs around (and in the process destroy a great many of them) but it cannot create jobs. Job opportunities, which are important because they allow women options in choosing an employer, are created when idle resources become productive resources, or when productive resources become even more productive. *Efficiency* creates opportunities. Efficiency is enhanced in environments where it is rewarded, i.e., under capitalism. This is why I said women should be glad entrepreneurs go into business to make money. In the process of doing so, they create *opportunities*! Thus, *efficiency* is a good thing. When women ask for special privileges and special consideration which decrease the efficiency of a firm, they are not only hurting their employer, they could be hurting themselves, or another woman (or man) looking for a job.

Does this mean that businesses should never offer family leave or child care or flex-time? No, not at all. In fact businesses have developed creative ways to keep female employees happy and efficient. But decisions regarding employee benefits must be left to individual firms and not mandated by government. Government does not possess the knowledge necessary to implement programs that will satisfy all businesses and their diverse workforces. Not only do government mandates decrease efficiency, and therefore opportunities, but they also decrease the flexibility employers and employees need to develop programs that will accommodate employee needs while also keeping the workplace efficient.

Free Market Benefits

Here are some examples of what companies are offering without government mandates: (1) support for child care (and elderly care), (2) job-protected leave for childbirth, (3) work at home opportunities, (4) job sharing opportunities, (5) flex-time, including compressed work weeks and coming to work early or late, (6) part-time work, (7) resource and referral services to help employees find child care, (8) pre-tax set-asides which employees can use to pay for child care, (9) sick-child days, (10) disability, which sometimes includes paid or partially paid leave after childbirth.

Interestingly, as I was researching the origins of such programs, I noted one common theme. The programs usually started as the idea of one or more *employees*. These employees approached the firm, not in a hostile "Norma Rae" manner, but with a well-developed plan showing how the firm could better accommodate its employees and not *lose profitability in the process*! This makes sense: only individual employees can know what they need in their lives, and only individual firms know what they can and cannot offer.

Now it may be great that companies are voluntarily offering these benefits. However, it is important to ask if companies are offering them because they are efficiency-enhancing over the long term (and in some cases in the short term as well). Such company benefits are either efficiency-enhancing—they promote economic growth, job creation and employment options—or they are efficiency neutral, but value-enhancing to those involved.

You might reply that companies are not offering these options for reasons of efficiency, but because they are afraid of lawsuits. For example, a woman can sue a company claiming she was not promoted as quickly as others, or was put into a "mommy track" because of her decisions regarding pregnancy and motherhood. To avoid costly lawsuits companies may try to keep women "happy" by offering other options. To the extent this occurs its impact is negative for two reasons: (1) it clearly violates the freedom of contract, which includes the option of not making a contract at all, and (2) it leads to inefficiency which, I repeat, decreases opportunities. In these instances the actions of highly educated professional women who sue or threaten to sue, and thereby impose inefficiencies in the job market, are subsidized by the unemployed, many of them single mothers who cannot find a job at all!

It is also true that a firm may actually choose "inefficiency." The owners of a firm may have personal preferences for less monetary profit and more employee benefits. Ben and Jerry's Ice Cream *might* be a good example of this. I say *might* be because I am only assuming the company could make more money if it changed its benefits. I do not know. The company is famous for its so-called social-mindedness. It offers two weeks of paid paternity leave and four weeks of paid adoption leave, with extended leave without pay, and three pints of free ice cream per day, among other benefits. When entrepreneurs such as Ben and Jerry freely choose such arrangements, not because of the threat of lawsuits, but because of their personal ideologies, I see no problem—except that I am glad most entrepreneurs want to make money, because that is the incentive that creates opportunities. If every business operated for nonpecuniary reasons there would be a few lucky employees and many unlucky, unemployed people!

Free to Choose

It is also important for women that *choice* remains a priority, allowing firms to offer cafeteria-style benefit programs. Under many of these programs, employees who use particular benefits also pay for them, or bear the brunt of the cost. This is important for reasons of efficiency, for employee morale in general. In some cases this will not be feasible. For instance, a firm may operate an on-site day care center funded by decreasing the money wages of all firm employees. In this case, employees without children subsidize those who use the day care center. But if a childless employee does not like this situation, it is important that he or she can choose to work for another employer.

This is why a strong economy is important. A strong economy, free of government interference, will give people choices. Federal mandates, such as the Family Leave bill, passed last year, are anti-choice in that they force businesses to offer a particular benefit, decreasing choice within companies, and they destroy efficiency, decreasing choice among companies.

Sports Cars and Mini-Vans

Let me be more specific by using an analogy. The employer/employee relationship is a market exchange just like any other market exchange. While it is probably one of the most important exchanges a person makes, it is an exchange nonetheless. In this way employers search for employees, and employees search for employers. When you buy a car you search for the one with the features and options you personally desire. For example, a mini-van is very different from a sports car. Now wouldn't we all be upset if the government mandated that all single people must buy mini-vans instead of sports cars, or that all sports cars purchased must be equipped with a child seat, which the single person does not want? Just as people want to choose from a variety of vehicles, they also want to choose from a variety of employers. Everything from employers who offer very minimal benefits but very high money wages (for the sports car crowd) to employers who offer paid paternity leave and on-site child care (for the mini-van crowd). A person should be able to choose employers based upon personal lifestyle choices. This does not by any means preclude an employee from negotiating new arrangements or benefits with an existing employer. Employer options can and should change over time just as options on mini-vans and sports cars change over time.

More Opportunities

There are two other important ways economic freedom or capitalism opens opportunities for women. First: *technology*. Capitalism created the technology which changed our economy from one based on physical strength (giving men a comparative advantage in many economic activities) to one where physical strength is no prerequisite for economic success. This alone is reason enough for women to applaud capitalism. But technology has also opened other doors as well. Household technology (created by capitalists) has made work inside the home much less time-consuming and difficult. Microwave ovens, dishwashers, and electric can openers, for example, are all derivatives of a consumer-oriented economy. Furthermore, technology in the telecommunications area allows many people to shop at home and, more important, work at home. We cannot even imagine what opportunities technology will create in the future.

Second: *entrepreneurship*. Only a free market economy affords women this option, a very important option indeed. The popular statistic often quoted is that women-owned businesses now employ more people than

Economic freedom and capitalism provide the opportunities women need in order to broaden the roles they play in society and to gain respect and recognition.

the Fortune 500 companies. That is impressive. The opportunities female entrepreneurs create for others in the process of taking on the responsibility of inventing their own opportunities cannot be overlooked.

Women should also keep in mind that a market economy thrives on differences between people. Take the simple act of trade. Trade takes place because I value something you have more than what I have, and you value what I have more than what you have. If we were clones, with the same set of values, there would be no reason to trade. This is an important point because there are differences between men and women. Instead of trying to destroy or hide those differences, I think we should celebrate them. They are, after all, what makes life interesting. Also, by recognizing our differences, the ways we are special, we can take advantage of those differences through entrepreneurial talents that come naturally to women. Economic freedom allows us the opportunity to discover what these advantages might be, or even if the differences between men and women do indeed matter in the marketplace.

My main message to women is that to receive the respect and recognition you rightly deserve as complete human beings you should have the following agenda: (1) With respect to economic policies, less government involvement in all aspects of the economy, including and especially lower taxes, less regulation, and a drastic decrease in the size of government. These policies will give women a strong, prosperous and free economy which will provide the options they desire. (2) Emphasize your own individual responsibility. If you want your employer to change, then take the responsibility of creating your own strategy for that change. But do not expect your employer to sacrifice profit for your lifestyle choices. Be creative and convince your employer that your strategy is a win/win strategy.

The government, instead of making the world a better place for women, is destroying opportunities and destroying individual liberty. Lysander Spooner, in 1882, put it best when he wrote: "If the women, instead of petitioning to be admitted to a participation in the power of making more laws, will give notice to the present lawmakers that they are going up to the State House, and are going to throw all the existing statute books in the fire, they will do a very sensible thing."[1] □

1. Lysander Spooner, in *Liberty*, vol. 1, June 10, 1882, p. 4, cited in *Freedom, Feminism and the State*, ed. Wendy L. McElroy (Washington: Cato Institute, 1982).

THE FREEMAN
IDEAS ON LIBERTY

All of Us Are Equal?

by Tibor R. Machan

When the founders of the American republic declared that "We hold these truths to be self-evident, that all men are created equal," they were not naive, as many of their critics have asserted throughout the ensuing years. They had no notion that men were identical to each other, that there were no significant differences among men. And they were not sexists, either, even if in their time some of what mattered politically had not been applied to women. (The division of labor that rested on gender had been much more relevant in those days!)

What the founders were saying is that for purposes of understanding their actions of breaking off from Britain, all human beings must be viewed as having the same rights—to Life, Liberty, and the Pursuit of Happiness. In short, we are all equal as human beings. We are all equal in facing the task of living our lives, of choosing what to do, and in seeking to better our lot. And no one must upset this equality. No one must violate anyone's rights. That is the equality the founders had in mind. It is also the equality with which the American political tradition is most closely identified. Furthermore, it is the equality that no other nation, despite all the rhetoric to the contrary, has ever managed to deliver within their legal systems.

But "equality" is one of those terms, like "democracy" or "freedom" or "rights," that tempts many people to play fast and loose with its meaning. So, for example, we hear all sorts of claims about how America fails to treat people as equals, or how there is no economic or social or gender equality in this society. As if this had something to do with what the founders set out to establish. It does not. They did not pretend that people have to be equal in all respects—they knew better than to attempt the impossible or, for that matter, to see this as desirable. The kind of equality that critics of America's basic political ideal have in mind is not only silly but quite unattractive.

A recent development in our culture puts this point quite starkly. Some time ago one of the TV magazine programs ran a story about a young girl whose hearing could be restored through complicated surgery. The girl had no hearing at all but after surgery she could hear, plain and simple. Surely prior to surgery she was unequal, as compared to those who could hear, regarding the task of hearing what there was to hear around her.

But when this surgical procedure was brought to light, a number of other deaf people protested. They found it offensive to suggest that there is something wrong with them. They found it insulting that it was suggested that they were not equal to those who could hear. And they protested the actions of the little girl's parents who opted to have the operation performed, since this would amount to some kind of belittling of them.

By now this line about the hearing-

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impaired has spawned articles and books across the country, and those who had the perfectly sensible view that being deaf is something of a disability seem to be baffled by it all. Their bafflement is understandable—it is akin to what happens when some radical environmentalists indict the rest of the world for liking technology, for welcoming modern medicine or agriculture. Something very fundamental—something "we hold to be self-evident"—is being challenged and most people who are concentrating on solving the problem faced by the disabled simply haven't given it any thought that there might be doubters about the value of what they are doing.

But, of course, there are. In a free society, it is possible to make an issue of nearly anything—including whether being deaf is a disability. Next it will be argued, by some, that being blind or one-legged is not a disability but merely a different form of living. And there is some remote rationale behind such claims. One can imagine a world in which there are human beings who lack sight or hearing. That seems no different from the actual world in which human beings have no capacity to take to the air, as birds do. If we had human beings who could just take off and fly, those who could not would then be called disabled for lacking this capacity.

Yet, we are essentially the sort of being that can hear and see. So when some of us cannot, that is a disability, just as if a whale lacked fins or a bird broke a wing. Indeed, the sort of egalitarianism those who protest the remedying of hearing impairment advocate calls into question the idea of injury or harm. If I broke your arm, would I be injuring you or just changing you from someone with a certain sort of limb to someone with another? If your eyes got poked out by someone, would this be assault or mere alteration?

Egalitarians who advocate leaving things be because they are all of equal value fail to appreciate the notion of "essentially" or "by its nature." If a fish swims, that is natural to it, but if all a human being could do is swim, that would be a disability. All of the improvements we make in not just our lives but the lives of other beings—as when we take injured birds and repair their wings—depends on this idea. The attempt of some people, for purposes of some kind of warped political agenda, to place the matter in doubt is sad. It would be wiser to seek remedies for disabilities than to pretend that they do not exist. □

THE FREEMAN
IDEAS ON LIBERTY

Mother's Little Helper

by Doug Bandow

That the federal government is expansive and expensive is evident from the fact that Uncle Sam is spending some $1.6 trillion this year and will become ever more profligate as the push for a national health program accelerates.

But such numbers give little indication of how intrusive is the federal government. A far better measure is provided by J. Robert Dumouchel's new *Government Assistance Almanac*, which proudly announces that it catalogues all "grants, loans, insurance, personal payments and benefits, subsidies, fellowships, scholarships, traineeships, technical information, advisory services, investigation of complaints, sales and donations of federal property."[1] The result is 850 pages of pork, along with detailed instruction on how to grab a slab or two.

Indeed, if you are a businessman frustrated by international competition, a potential homeowner after a cheap loan, a college student desiring educational assistance, or most anyone else—especially a farmer—looking for a federal handout, the *Almanac* is the book for you. Not only does the volume list all 1288 grant programs, but, explains the publisher, it "is bound and conveniently indexed, helping users target their benefit search."

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Where to start? If you're hungry, try the Agriculture Department. There is, for instance, the Food Distribution program, by which surplus federal commodities are donated. There are Food Stamps, which most everyone is familiar with, as well as the school Breakfast Program, which underwrites breakfasts for school kids. Similar is the National School Lunch Program, Special Milk Program for Children, and Summer Food Service Program for Children. On top of these are the Special Supplemental Food Program for Women, Infants, and Children; Child and Adult Care Food Program; Nutrition Education and Training Program; Commodity Supplemental Food Program; Temporary Emergency Food Assistance; and Food Commodities for Soup Kitchens. Special Groups, too, are eligible for Uncle Sam's helping hand through the Nutrition Program for the Elderly, Food Distribution Program on Indian Reservations, and Nutrition Assistance for Puerto Rico.

But USDA does far more than just help people eat. The Foreign Agricultural Market Development and Promotion program pays to advertise farmers' products abroad—grants range from $158,000 to $18.4 million. The Department aids forestry research; one recent project, explains Dumouchel, was an "experimental system for continuous press drying of paper." Grants go to localities and states for roads in counties in which federal forestland or grassland is located. Minnesota has its own special grant program "to share receipts from national forest lands."

The Rural Electrification Administration subsidizes electrical co-ops and telephone utilities. It also offers Rural Economic Development Loans and Grants to promote business, as well as Distant Learning and Medical Link Grants for educational and medical computer networks. The Soil Conservation Service doles out money and advice; the Agricultural Research Service, not surprisingly, gives grants for research. And then there is the Agricultural Stabilization and Conservation Service, which made 250,000 new loans in 1991. If you want money for cotton, dairy, feed grains, wheat, wool ("National Wool Act Payments"), forestry, rice, or livestock, just wander down to USDA. There is even the Grain Reserve Program, which, after you have been paid to grow your crop, will provide "incentives to farmers to place harvests in storage, thus increasing prices of the grains by lowering the marketable supply." Such a deal: paid to grow it and then paid to store it!

But you really don't have to be a farmer to benefit from Uncle Sam's largesse. Just living near farmers is enough. Consider the Farmers Home Administration with money for destroyed property, housing for laborers, farm operation, enlarging farms, low-income rural housing, improving the site of low-income rural housing, rural recreation facilities, rental property, repairing homes of "very low-income" people, rural waste disposal, preventing floods, rural schools, rural businesses, rental payments by low-income senior citizens, rehabilitating low-income rural housing, rural foundations, and mediating disputes between rural borrowers and creditors. But wait—there's more: technical assistance, aid for Indian tribes, the Intermediary Relending Program, and emergency assistance to comply with the Safe Drinking Water Act.

While farmers have their own department, most other businesses have to line up at the Commerce Department. The Census Bureau provides technical assistance and information, the International Trade Administration counsels exporters—when it isn't busy blocking the entry of inexpensive, quality imports—and the Export Licensing Service and Information provides "information, training, seminars, and other assistance on export licensing requirements, regulations, and policies." In 1992 alone, reports Dumouchel, the Bureau counseled 309,000 exporters, handled 100,000 phone inquiries, and held 308 export licensing seminars.

But the real money is elsewhere. The Economic Development Administration, provides grants—149 in 1991—"for public works and development facilities." There are also guaranteed loans to create jobs through redevelopment projects, as well as grants for renovating public works, planning economic development, and assisting firms hurt by imports. One EDA gem: "Special Economic Development and Adjustment Assistance Program—Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration."

The National Oceanic and Atmospheric Administration provides loads of cash for research, fish conservation, fisherman's compensation, research, fishing ship construction, coastal management, research, climate centers, marine sanctuaries, and research. The National Telecommunications and Information Administration, National Institute of Standards and Technology, and National Technical Information Service all provide information, technical assistance, and money to promote telecommunications, technical standards, and technical information.

The Commerce Department also has a Minority Business Development Agency, which spares no expense to promote minority-owned businesses. There are, for instance, Minority Business Development Centers, which receive grants to offer technical assistance to minority businesses, a half dozen Indian Business Development Centers, and Minority Business Resource Development grants "for activities advocating the expansion of opportunities for minority business firms," by, among other things, "decreasing minority dependence on government programs"!

The Defense Department isn't a particularly fruitful goose to be plucked, unless you want money for help in "controlling and eradicating obnoxious plants in rivers, harbors, and allied waters." But the Department of Housing and Urban Development remains a fount of federal subsidies. In fact, there is no housing that is *not* backed by HUD. Do you want to rehabilitate run-down property? Get an insured loan under Rehabilitation Mortgage Insurance. Do you want to buy a mobile home? Get an insured loan under the Manufactured Home Loan Insurance. Want to construct a condominium? Check out the Mortgage Insurance for Construction or Substantial Rehabilitation of Condominium Projects. There's also mortgage insurance to construct facilities for medical group practices; guaranteed mortgages to build one- to four-unit homes. Insured mortgages for homes for disaster victims and low-income families. The government will also guarantee mortgages for "homes in urban renewal areas," "housing in older, declining areas," and "nonfarm homes, or new farm homes on at least two and one-half acres adjacent to an all-weather road, in outlying areas."

HUD also pours forth guaranteed mortgages for cooperative projects, mobile home parks, hospitals, and nursing homes. People seeking to buy units in condominiums, "sales-type cooperative housing units," and leased land can receive federally-backed mortgages. Builders seeking to construct "middle-income rental housing," rental and cooperative housing for the elderly, and rental housing "in urban renewal areas" are all welcomed by HUD. So, too, are "special credit risks," who, so long as they receive counseling from "a HUD-approved agency," have a special program for receiving federally guaranteed mortgages.

Still, the HUD programs go on, page after page: Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures, Rent Supplements— Rental Housing for Lower Income Families, Supplemental Loan Insurance—Multifamily Rental Housing, Supportive Housing for the Elderly, Mortgage Insurance—Combination and Manufactured Home Lot Loans, Operating Assistance for Troubled Multifamily Housing Projects (also known as the "Flexible Subsidy Fund"), Congregate Housing Services Program, Mortgage Insurance—Growing Equity Mortgages, Multifamily Coinsurance, Housing Development Grants, and on, and on, and on.

There's money for the homeless, the handicapped homeless, and "persons with AIDS." There's money to stop housing discrimination on the basis of race, color, national origin, sex, age, or handicap. There's research money. There's money for public and Indian housing. For the latter, Dumouchel helpfully informs us, one should apply to the Assistant Secretary for Public and Indian Housing. The phone number, if you are interested is (202) 708–0950.

Still the money flows. If you are an Indian, or have enough Indian blood to be considered as Indian, the Department of Interior is waiting to hear from you. Consider the Indian Employment Assistance Program. Writes Dumouchel: Its purpose is "to enable American Indians to obtain vocational training and employment assistance. Funds may be used for subsistence, tuition and related costs, transportation. Payments may extend for up to two years—three years for nurses training. Amount paid is based on a financial needs analysis." To get your hands on the loot, all you need be is a member "of recognized tribes, bands, or groups of Indians whose residence is on or near an Indian reservation under BIA [Bureau of Indian Affairs] jurisdiction—in need of financial assistance."

The Department hands out research grants, provides technical assistance, and offers counsel on a variety of subjects. It also gives money to preserve national landmarks and rehabilitate recreation areas.

But wait: There's more, much more! Civil rights programs. Law enforcement grants. Money to prevent juvenile delinquency.

Grants to compensate crime victims. Cash to help handle child abuse cases involving American Indians. And oodles and oodles of advice, assistance, and money from the Department of Labor for most anything—employment, training, pensions, trade adjustment, migrant farmworkers, safety, disabled veterans, and homeless veterans.

But don't stop reading yet. There are pages of Transportation Department programs, and scores of environmental grants. Even the Internal Revenue Service has money to give—to volunteers who help counsel elderly taxpayers, for instance. There's the Appalachian Regional Commission, the Equal Employment Opportunity Commission, National Aeronautics and Space Administration, and, of course, the ever-helpful National Endowments for the Arts and Humanities. In 1993 the NEA provided 363 grants under Promotion of the Arts—Expansion Art, which, explains Dumouchel, are intended "for arts projects reflecting the culture of minority, inner-city, rural, or tribal communities. Support is available for activities such as professional training of talented persons, financial assistance to small and emerging art groups, instructional activities for pre-school and school age youth."

All in all, Dumouchel has done his job well—too well, for those without a strong stomach. He continues to count the ways by which Uncle Sam wastes our wealth. There's the National Science Foundation and Small Business Administration. The Department of Veterans Affairs. ACTION. The Department of Energy. The Federal Emergency Management Agency. National Council on Disability. And the wonderful Department of Education. One of the winners: Adult Education for the Homeless, with grants ranging up to $500,000. But the real winner is the Department of Health and Human Services. Even with his succinct descriptions, Dumouchel requires *125 pages* to cover the largesse flowing from HHS. One of my favorites: Adolescent Family Life Research Grants. Their purpose: "For research and information dissemination activities concerning societal causes and consequences of adolescent premarital and sexual relations, contraceptive use, pregnancy and child rearing, adoption decision-making."

Dumouchel follows his program descriptions with a wealth of useful information. There are summary tables as to how much hard-earned taxpayer money is being frittered away on each program, a very extensive list of field offices to contact to benefit from the frittering process, and a comprehensive index so that you won't miss even one program for which you might, just might, be eligible.

There may be no better exhibit on why the federal deficit is so hard to cut than the *Government Assistance Almanac*. Everyone may complain about Uncle Sam's unending tide of red ink, but no one wants to cut spending. Indeed, literally everyone has a hand in the till—independent businessmen, individualist farmers, iconoclastic artists, and ordinary middle-class, bourgeois homeowners. Until we change this culture of entitlement, this notion of Uncle Sam as but "Mother's Little Helper," it's hard to imagine how we're going to cut out many of the specific programs detailed by Dumouchel.

So I think it's time that we consider the old adage, if you can't beat 'em, join 'em. I've decided to put the *Almanac* to good use. I'm now looking for grant programs for slightly eccentric, chess-playing policy nerds who believe that it would serve the national interest if the taxpayers took over their mortgages, underwrote their writing, and generally provided them with a good life. With 850 pages of federal loot to choose from, it's got to be there. □

1. J. Robert Dumouchel, *Government Assistance Almanac: 1993–94* (Detroit: Omnigraphics, 1993), 850 pp., $95.

THE FREEMAN
IDEAS ON LIBERTY

Are Government Statistics Necessary?

by Robert Youngblood

I recently received an eye-catching advertisement from the Government Printing Office for *The Statistical Abstract of the United States, 1993*—"The Essential Reference and Research Resource for people like you!" According to some of my think-tank friends, next to national defense, data collection is the best thing the federal government does.

This year's edition features information "keyed to Congressional district," along with "new material on health practices, education attainment, child abuse and neglect, book purchasing, federal debt, military installations, occupational tenure, use of automated teller machines, high tech exports, . . . details on racial and Hispanic groups—and more."

My first thought was: How much does the annual *Abstract* cost taxpayers? I'm sure the $32 price per copy merely covers the printing costs, not the expense of hiring bureaucrats to collect and collate raw data and having firms spend man-hours to fill out copious forms under penalty of law for non-compliance. Consumers also pay—through the loss of goods and services that could have been, but were not, produced because companies diverted resources from output to regulation compliance.

As an entrepreneur I gather much data on my customers. It has been a discovery process for me to learn what information is important to me. My research has helped me to answer such questions as:

• What mix of equipment does a customer now own?

• How often and how much does he order?

• How do seasonal factors affect the ordering process?

• What is the interest rate on leasing new equipment?

• What are the new technology trends?

This information does not come without a cost both in money and time, but it allows me to tailor my marketing and advertising and to better serve my customers.

Many industries and special interest groups lobby Congress to have information gathered at taxpayer expense. But they should finance the collection of pertinent data themselves rather than use the power of government. For example, the banking industry should pay for its own survey of automated teller machines.

The ultimate cost of the *Statistical Abstract* to all of us, however, is some loss of freedom when government uses statistics to manage our lives. □

Mr. Youngblood is a manufacturer's representative living in North Carolina and producer of the radio talk show The Free Market *in Columbia, South Carolina.*

THE FREEMAN
IDEAS ON LIBERTY

MORALITY AND WISDOM

by Brian Buckles

President Andrew Jackson believed that "one man with courage is a majority." Today, I believe that one college graduating class with wisdom can change the world.

Like many of my classmates, when I set foot upon this prestigious hilltop four years ago, I was mesmerized. This vibrant city of scholars was a majestic mountaintop when compared with the small, rural high school on the central Illinois prairie from which I graduated with my 32 classmates. Here, at this city set upon a hill, my professors were royalty, and my textbooks offered the keys to true wisdom.

Today, however, my perceptions are different. Of course, my professors have maintained their knighthood. But I have learned that knowledge, by itself, does not lead to wisdom.

The great inventor Thomas Edison said that "we don't know one-millionth of one percent about anything." I would like to add that what we do know, we will soon forget. Years from now, most of us will not remember the marginal cost curves, the conjugations of Spanish verbs, the difference between mitosis and meiosis, or even the political leanings of Charles Dickens. I dare say few of us can remember these things today. What we will always remember and what will be the single most important guiding principle behind each of our lives is something that our classroom instruction has not addressed: morality. Without morals, our knowledge can never become wisdom.

King Solomon, who was hailed as the wisest leader ever to govern any nation, said "be wise and give serious thought to the way you live." Solomon recognized the importance of morals. The young Martin Luther King, Jr., did as well. When he was a graduating senior at Morehouse College, he wrote, "the most dangerous criminal may be the man gifted with reason, but with no morals." But over the past four years, my classmates and I have sat together patiently through countless lectures aimed at convincing us that all truth is relative and that moral absolutes do not exist.

In the meantime, we've seen our inner cities become war zones, chemicals and pornography infect the minds of our nation's youth, teenage children have babies, prisons overflow, and drug-sniffing dogs and metal detectors placed at schoolhouse doors. It seems that rather than standing for something, America has fallen for anything.

My generation must change all of this. We can begin today by recognizing the obvious: the statement "there are no absolutes" is itself an absolute. When our professors appealed to Einstein's groundbreaking theory of relativity for ethical purposes, they stretched it beyond its legitimate scientific application. They ignored Einstein's own personal warning that his theory of relativity does not apply to ethics.

Not only must we understand the limitations of our knowledge, but we must also

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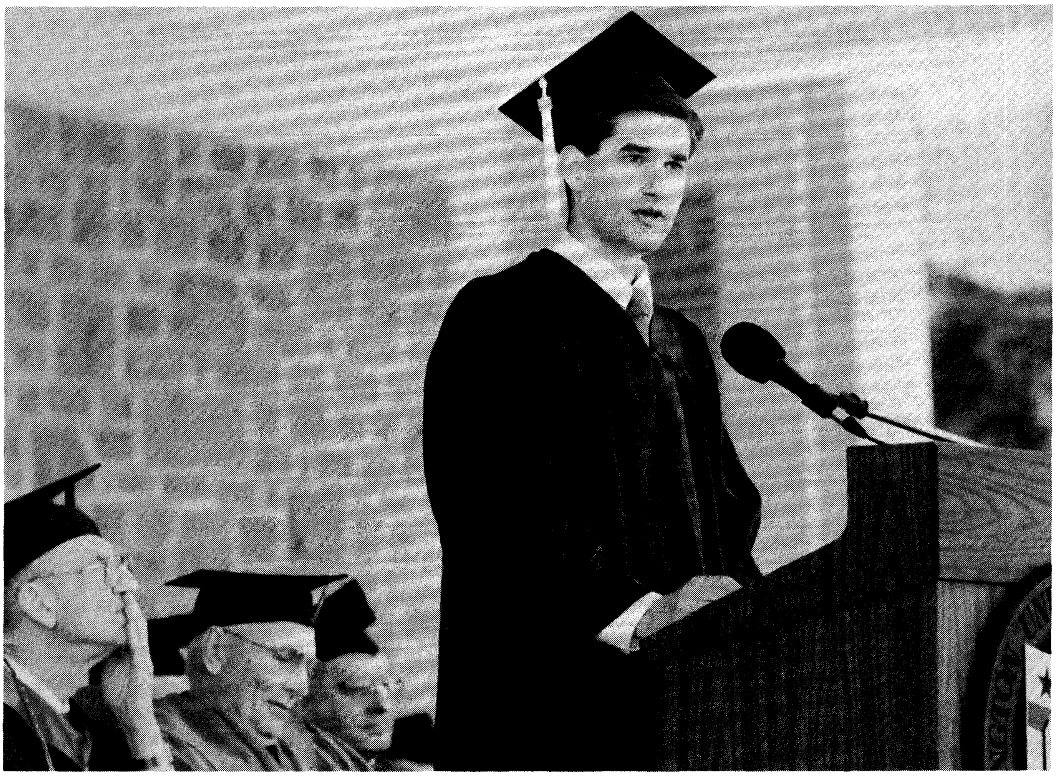
This article is adapted from commencement remarks given by Mr. Buckles at Washington University in St. Louis in 1993. A summa cum laude *graduate in economics, he will attend law school in the fall of 1994.*



COURTESY OF WASHINGTON UNIVERSITY

Brian Buckles, delivering his commencement address at Washington University, 1993.

consciously strive to become examples of morality for our nation. As Thomas Jefferson put it, "In matters of style, swim with the current; [but] in matters of principle, stand like a rock." And what better principles to pattern ourselves after than those of George Washington whose name this university bears?

When Washington University was inaugurated on April 23, 1857, the first Chancellor, Reverend William Greenleaf Eliot, explained in his speech that the name Washington "was admirably adapted to the plan proposed, namely, . . . to educate the rising generations in that love of country . . . and in that faithfulness to God and Truth which made [George] Washington great." Clearly, Chancellor Eliot and the other founders of this university recognized the need for a moral component in higher education. They thought that by naming this university for George Washington, they would provide an outstanding example of morality for future students.

On this occasion, then, we are justified in turning to George Washington as our moral mentor. The historian Cyrus R. Edmonds, who lived during Washington's day, once said "the elements of [Washington's] greatness are chiefly to be discovered in the moral features of his character." The Duke of Wellington, who was a British statesman, general, and enemy of Washington in the Revolutionary War, said that Washington had "the purest and noblest character of modern time—possibly of all time." Like all great leaders, George Washington was not representative of the world's population.

In his Farewell Address, Washington explained the basis of his morality. He said, "Let us with caution indulge the supposition that morality can be maintained without religion. Reason and experience both forbid us to hope that national morality can prevail in the exclusion of religious principles."

As we enter the wilderness ahead, never forget that without morality, true wisdom is unattainable. The facts we have learned at this place will only fade with time, but morals will guide us through life. □

THE FREEMAN
IDEAS ON LIBERTY

MONEY AND INFLATION

by Lawrence M. Parks

In his speech to the Economic Club of New York last year, Federal Reserve Chairman Alan Greenspan used the word "inflation" no less than 50 times. In the Chairman's speeches and in Congressional testimony, he has said of inflation: It is going away. It is not coming back. It is not a problem. It is diminished. It is nonrecurring. It is subdued. There's no re-emergence. We've learned our lesson.

So if inflation has ceased to be a problem, why does it occupy Mr. Greenspan's thoughts so much? Perhaps inflation is more of an issue than he is letting on.

Why should inflation just be a measure of the prices of some arbitrary basket of items in the consumer goods market? Why exclude the price level of the capital and real estate markets? After all, money isn't always spent on goods and services; some of it is invested in stocks and bonds and real estate. By any yardstick, stocks and bonds have gone way up in price in the last several years.

Further, the government has enacted laws and regulations that effectively persuade prudent people to put or keep money in the capital markets, thereby decreasing money that might otherwise be spent in the consumer goods market. For example, about $800 billion in IRA accounts by law must be invested only in stocks and bonds. Large amounts are also tied up in Keoghs, Pension Plans, 401-K's and other quasi-savings plans that must be similarly invested.

Perhaps if people had free use of these monies, some might be used to improve homes, buy cars and other consumer items, which would certainly spike the price level of the consumer goods market and the nominal inflation rate. Clearly, there is vast deferred inflation. Some day people will spend that money, and that's when nominal inflation will pop.

Similarly, because of inflation over the last two decades, if people sell appreciated property, capital gains taxes will many times result in a loss of capital. The result is that money is kept in the capital markets for tax purposes, and is kept out of the consumer goods market. Thus, people have been misled about the purchasing power of their savings which retain value provided they are never spent in the consumer goods market. Again, there is vast pent up purchasing power postponed by government and, as a result, a tidal wave of latent inflation.

The most widely reported measure of price increase is the Consumer Price Index (CPI). But the CPI is an untrustworthy measure of price inflation. First, the Consumer Price Index fails to account for products and services that have been inflated out of existence. For example, when I was a child, our family physician made house calls for $2. (What would a doctor's house call cost today, assuming a doctor would make one?) There were ushers in movie theaters, and even middle-class folk employed domestic help. First-class postage was three cents, and the post office made *four* deliveries each day: two regulars and two specials.

For the most part, these and many other services no longer exist or have deteriorated greatly. Hence, if the measuring rod is not consistent, then CPI comparisons over time cannot be useful.

Another major failing of the CPI is that the goverment must fudge every time there is an

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improvement in a good or service. For products where innovation is frequent, such as consumer electronics, there is no meaningful way to compare price changes from year to year. Consider, also, the case of a more expensive automobile that is substantially smaller and lighter than its same make and model predecessor. Because the new automobile is "improved," the government reduces the price increase for CPI purposes. How can this methodology be objective?

On top of that, the CPI "market basket" was last reformulated in 1982–1984 and, for budgetary reasons, is not due to be revised until 1996, if then. When I told one of the senior government economists about this article and that it was my contention that inflation was substantially understated, he said: "We would concur with that."

Third, the CPI fails to report products and services whose prices are reduced by government subsidies. Continuing inflation many times causes certain goods and services to become so expensive that they either disappear or their manufacture is arbitraged to foreign countries. Where there are politically connected constituencies and where the production of products or services cannot be transferred out of the country, government many times subsidizes them, thereby reducing the price to consumers and keeping the CPI artificially lower than it would otherwise be.

For example, in some industries, government subsidizes research and development. Even after considerable machinations and subsidies from the state, New York's Blue/Cross Blue/Shield rates were recently increased 25 percent. Depending upon whom one listens to, a subway ride in New York City costs anywhere from $3.50 to $6.00, but the public is charged only $1.25. The rest is subsidized from taxes, whose increases are *not* in the CPI. Clearly, if the true cost of a subway ride was incorporated into the price, the CPI in New York City would be higher than it is.

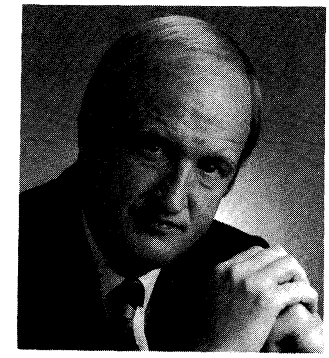
Because of its historical link to gold, many foreigners still consider the dollar "as good as gold," even though the link is irrevocably broken. As foreign governments, such as Russia, debase their own currencies, rather than switch into gold, foreigners many times switch into the next best thing (in their minds): United States dollars. According to *Grant's Interest Rate Observer*, perhaps as much as 60 percent of the $363 billion in American currency is now circulating in foreign lands.

The drain of dollars from the United States to foreign lands is price *deflationary* in the United States. But if by accident some of these errant countries should get their monetary houses in order, then dollars will flow back to the United States. Again, there is substantial pent-up purchasing power that will someday be spent and, then, latent inflation will become obvious.

Prices Should Be Falling

As industrial processes and productivity improve, prices should *decrease*. In fact, the increasing productivity of the 1980s contributed to the lower rate of price inflation. Decreasing prices improve everybody's living standard. That is the benefit of an advanced economy: higher production of better products available to more people at lower prices. If prices do not decrease because of inflation, then the benefits of productivity increases are not shared. By gerrymandering the CPI and pursuing "price stability," the government obfuscates this fact.

During the past three years, by purchasing Treasury securities, the Federal Reserve has monetized government debt at a high rate, and the most basic measurement of money supply, M1, has increased 37 percent and currency has increased 27 percent. That this has not been reflected in price inflation is due only to the flawed definition of price inflation and the fact that vast amounts have diverted to foreign countries. Inflation is a worldwide phenomenon and has been understated all over the planet. Perhaps long-term interest rates haven't dropped that much for good reason. □



Will Keynes Ever Die?

"It was here [*The General Theory*] that Keynes invented Keynesianism, disproving the classical laissez-faire theory of the self-adjusting, self-regulating, self-sufficient market . . ."

—Arthur Schlesinger, Jr.
New York Times Book Review
(January 23, 1994)

Keynesian economics should have died long ago. Ludwig von Mises, one of Keynes's chief critics, thought it was already dying out in 1948. "What is going on today in the United States is the final failure of Keynesianism. There is no doubt that the American public is moving away from the Keynesian notions and slogans."[1] Mises, Hayek, and other free-market economists thought *The General Theory* was a "tract of the times," not anything revolutionary or permanent. Hence many conservative economists miscalculated the persistence of Keynesianism.

What's even more strange is that every theoretical tenet of Keynesianism has now been disproven. The process took decades. Arthur Pigou first refuted the "liquidity trap" hypothesis by demonstrating that deflation increases the real value of cash holdings, thus boosting potential demand during a depression. Friedrich Hayek showed that Keynesian economics is based on a "critical error," namely, that economic activity is solely a function of final aggregate demand, when the truth is that employment and production are based on a delicate balance between investment and consumption, where interest rates and entrepreneurship play a vital role. W. H. Hutt offered a devastating attack on the accelerator principle and also demonstrated that a government-induced high-wage policy generates significant joblessness.[2]

Henry Hazlitt proved that cutting wages during a slump, a Keynesian bugaboo, could actually *increase* wage income and end the recession if, as a result of a wage cut, more workers are hired or employees work more hours. Murray Rothbard criticized the multiplier, the stagnation thesis, and demonstrated the inherent instability of inflationary measures by government.

Milton Friedman effectively destroyed the Keynesian argument that monetary policy is not effective during a slump. With painstaking research, he showed that the Federal Reserve allowed the money supply to decline by a third during 1929–32, proving conclusively that government, not the free market, was largely responsible for the Great Depression. Friedman also demolished Keynes's "consumption function," which gave theoretical support for progressive taxation, and raised serious doubts about the Phillips curve.

Robert Higgs, in a brilliantly researched

Mark Skousen is editor of Forecasts & Strategies, *one of the nation's largest financial newsletters, and an economist at Rollins College in Winter Park, Florida. His book,* Dissent on Keynes, *is available from Laissez Faire Books, 800-326-0996.*

study of the American economy during World War II, showed that deficit spending did not have the beneficial effects commonly believed, and that it was only after the war that genuine prosperity returned.[3]

A Persistent Virus

Yet, despite all these attempts to dislodge the "New Economics," Keynesianism survives. Today in academia there are post-Keynesians, neo-Keynesians, and New Keynesians. Most economists and government leaders in the West still maintain that deficit spending is necessary and beneficial during a recession. The media persists in its mistaken notion that consumer spending drives the economy and efforts to save can be debilitating. (The February 14, 1994, issue of *Business Week* contained this comment on the proposed tax cuts in Japan: "The risk is that consumers, still hung over from the go-go-1980s, will just dump their new money into savings accounts and so torpedo a recovery.") The Old Guard, as represented by the statement made by Arthur Schlesinger, Jr., at the beginning of this article, continues to sway the public into believing that big government is essential to stabilize free-market capitalism. They believe that Keynesianism constitutes a "permanent revolution," as Mark Blaug calls it.

The Stability of the Free-Market Economy

But Schlesinger—and Keynes—have been proven wrong. The best and the brightest of economists have demonstrated quite clearly that an economy can function, thrive, and progress without serious unemployment, inflation, and recession if (a) monetary policy is stable and sound, (b) government's role is fiscally responsible and limited to being a referee, not a player, (c) taxes, controls, and regulations are kept to a minimum and (d) people are free to pursue their own self-interest. This free-market counterrevolution has been most popular in emerging markets in Latin America, Asia, Africa, and Europe, where governments are downsizing, privatizing, cutting taxes, and adopting fiscal and monetary restraint. As a result, they are expanding like never before.

Robert Lucas, Jr., sums it up neatly: "The central lesson of economic theory is the proposition that a competitive economy, left to its own devices, will do a good job of allocating resources."[4]

Unfortunately, the Keynesian mystique is an overwhelming temptation to the seekers of power and the politicians of envy. The foundations of the House That Keynes Built are crumbling, but workers are determined to fix it rather than demolish it and replace it with the House That Mises Built. Therefore, I suspect that Keynesianism will be around for many years to come.

Nevertheless, let us not give up. In this new era of political freedom and global markets, there will never be a better opportunity to promote the virtues of free enterprise and to instruct the coming generation that free markets work and big government doesn't. We will know we have won when the Keynesian Cross is replaced with Hayekian Triangles in Econ 101. □

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1. Ludwig von Mises, "Stones into Bread, the Keynesian Miracle," *Planning for Freedom*, 4th ed. (Spring Mills, Pa.: Libertarian Press, 1980 [1952]), p. 62.

2. *Out of Work*, by Richard K. Vedder and Lowell E. Gallaway (New York: Holmes & Meier, 1993), confirms Hutt's thesis in the Great Depression and beyond: Minimum wages, legal privileges for unions, civil rights legislation, unemployment compensation, and welfare have all played significant roles in generating unemployment. See also Hans F. Sennholz, *The Politics of Unemployment* (Spring Mills, Pa.: Libertarian Press, 1987).

3. Robert Higgs, "Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s," *The Journal of Economic History* (March, 1992), pp. 41–60. For a review of all the anti-Keynesian arguments, see my edited volume, *Dissent on Keynes: A Critical Appraisal of Keynesian Economics* (New York: Praeger, 1992).

4. Robert E. Lucas, Jr., "The Death of Keynes," in Halistones, ed., *Viewpoints on Supply-Side Economics* (Richmond: Robert F. Dames, 1982), p. 4.

A REVIEWER'S NOTEBOOK

TWO WORLD VIEWS

by John Chamberlain

As Eugene Rostow, former dean of the Yale Law School, shows in his book, *Toward Managed Peace* (Yale University Press, New Haven and London, $35.00), we have definitely *had* a foreign policy: It was to fight the Cold War. Stalin, like the Romanov Czars, continued the immemorial policy of trying to bite off more territory. His prey was anything he could pick up, but at Yalta he showed his preference for land that was contiguous to Mother Russia.

With the perspective of a world historian, Rostow reminds us of the origins of current events: The Cold War came to an end with the collapse of Marxism in Russia. Instead of one huge Russia we had ten or twelve smaller Russias from the Ukraine on down. The Contras controlled much of Central America and reached into South America. Chile became a benevolent dictator story. Castro was another such story though not quite so benevolent.

There isn't much point in writing a simplified review of the Rostow book, as long as another book, *Final Warning* (Warner Books, New York, N.Y., $18.95) subtitled "The Legacy of Chernobyl" by Dr. Robert Peter Gale and Thomas Hauser demands attention. Gale was the doctor summoned by Armand Hammer to supervise bone marrow extraction and deposits in victims of the Chernobyl disaster. Chernobyl could have been much worse. It was pure luck that blew the wind around. The Ukraine city of Kiev might have been ruined. Odessa, on the Black Sea, might have been stricken. But Chernobyl operates still. With the prevailing world winds going from west to east, all of the new Russias (the Ukraine, etc.) are in perpetual menace. There must be no more accidents. But there have also been accidents in the Urals, as Gorbachev has intimated.

Together, *Toward a Managed Peace* and *Final Warning*, enable the reader to visualize two opposing worlds; a hopeful harmony, which I can't picture at this moment in history, and a possibly disastrous conclusion to everything alive. □

Making Democracy Work: Civic Traditions in Modern Italy

by Robert D. Putnam

Princeton, N.J.: Princeton University Press • 1993 • 258 pages • $24.95

Reviewed by Ben W. Bolch

It is a rare occurrence when a book appears that is destined to influence the study of the interrelationships of economics and politics for decades to come. *Making Democracy Work* is such a book, one that will no doubt become a classic in the social science literature and should be read by all economists.

In 1970, fifteen new regional governments were created in Italy and were given essentially the same powers and responsibilities.[1] By the 1990s these governments were spending nearly a tenth of Italy's GDP, so that they were quite powerful structures.

This creation of nearly identical governments offered Putnam the exceedingly rare opportunity to study something that resembles a controlled experiment in the natural sciences. The question Putnam asks about these governments is classically simple: Which of them worked best and why? Clearly there were differences in the Italian regions which contained these governments, especially differences in the history of the people of these regions. Did these differences matter?

Putnam measured the performance of the governments in various ways. Did the people find them comprehensive, reliable, and internally consistent? Did the governments conform to the objectives of their constituents?

What Putnam found was that the successful governments were located in areas where he also found a high degree of "civic tradition." In areas in the south of Italy a powerful Norman kingdom had appeared around the eleventh century A.D. There a ruling tradition was established that, while enlightened in terms of religious toleration and other matters, had an autocratic, top-down structure that promoted state monopolies and other mercantilist sorts of economic arrangements. In certain northern and central parts of Italy, on the other hand, there began to develop at about the same time a tradition of republican government featuring the involvement of large numbers of the members of the society.

The two types of government traditions, vertical in the south and horizontal in the north-central regions, produced very different kinds of civic traditions. The vertical tradition produced the lord, vassal, and serf style of relationship, while the horizontal tradition developed into guild, fraternal, and university relationships.

In the south, disputes tended to be settled by godfather-like figures who, in order to maintain their power, were not above causing trouble among people so that they could later be of use in settling the dispute. In the north-central regions, people tended to form mutual aid societies and other spontaneous kinds of organizations that promoted mutual trust and a team spirit for the solution of economic and social problems. Thus it is no accident that the banking community grew up around Florence in the north, comments Putnam, for the very word credit derives from *credere*, "to believe." It is also no accident that the Mafia emerged as dominant in the south. However, the really striking economic difference between these regions did not come until the time of the Industrial Revolution, which took hold in the north-central regions of Italy and still languishes in the south. It is interesting to note that the civic differences between the regions remained more stable than the economic differences. While the civic regions became wealthier they also remained steadfastly civic. In Putnam's words: "Like a powerful magnetic field, civic conditions seem gradually but inexorably to have brought socioeconomic conditions into alignment, so that by the 1970s socioeconomic modernity is very closely correlated with the civic community. . . . In other words, perhaps civics helps to explain economics, rather than the reverse" (pp. 153–4).

Interestingly enough, Putnam finds that organized religion, at least in Catholic Italy, is mainly an alternative to the civic community: the more people take part in religious activities the less they take part in government. Along similar lines, of course, Max Weber in his *The Protestant Ethic and the Spirit of Capitalism* (1904) felt that Catholicism was less conducive to business success than were certain forms of Protestantism. Yet, it may not be Protestantism versus Catholicism that is at issue here, but once again the vertical structure of the Church system. Historian Paul Johnson writes in his *History of Christianity* (pp. 313 ff.) that entrepreneurs have historically been put off by highly structured Christianity of any kind and have tended to favor more loosely structured "primitive" churches or even solitary worship.

Putnam's work should demonstrate to economists something that they have long suspected: economic development is *path dependent*. It matters a great deal how we got where we are. And, while only the radical fringe of the economics profession believes otherwise, this work makes it crystal clear that certain cultures and governments are more supportive of economic growth than others. In particular, the dangers are evident of replacing the decentralized government given to us by the founders of this Republic with a "more efficient" vertical structure. Further, since the interrelationships between the economy and government are glacial in their historic movement, Putnam's work suggests that we should abandon any hope of quick cultural "fixes" in less developed areas and recognize as well that pro-growth cultures can be slowly eroded in ways that will become perceptible perhaps only centuries later. The importance of these findings for the battles of the culture wars yet to be fought is immense. □

Ben Bolch is Robert McCallum Professor of Economics and Business Administration, Rhodes College, Memphis, Tennessee.

1. Putnam actually studied twenty governments, five of which had been created somewhat earlier. However, all were close enough in structure to be included in the comparative work.

What Everyone Should Know About Economics and Prosperity

by James D. Gwartney and Richard L. Stroup

Mackinac Center for Public Policy, 119 Ashman Street, P. O. Box 568, Midland, MI 48640 • 1993 • 120 pages • $5.00 paper

Reviewed by John Attarian

Even economists can lose sight of basic principles in the complexities of modern economics. More ominously, economic illiteracy is endemic among the general public. Fortunately, Professors Gwartney and Stroup have produced a very clear, crisp primer which will help everyone keep basic economic ideas straight.

They begin by explaining ten fundamental ideas: (1) incentives matter; (2) free lunches don't exist; (3) voluntary exchange promotes economic progress; (4) so does lowering transaction costs; (5) increasing real output increases real income; (6) growth rests on skills, technology, capital and organization; (7) income is earned by meeting others' needs; (8) profits steer businesses to productive activity; (9) markets harmonize individual and social interests; and (10) secondary and long-term effects must be kept in mind.

Hence economic progress rests on private ownership, free exchange, competition, efficient capital markets, stable money, low taxes, and free trade. A government that ensures them will preside over prosperity. To wreck an economy, it need only do the opposite. Gwartney and Stroup illustrate this with data giving international comparisons for real interest rates, inflation, marginal tax rates, tariffs, and economic growth.

What then is the economic role of government? The authors sort it out admirably. Government can help by protecting life, liberty, and property, and providing certain public goods. It is, however, capable of great mischief. Constitutional rules are vital to prevent deficits and special-interest governance. Substituting political decisions for market ones, central planning turns in inferior results. Income redistribution costs more than the intended beneficiaries gain. Worse, when government helps some people at the expense of others, "resources will move away from production and toward plunder." Hear, hear.

Straightforward without being simple-minded, the book is a master clarifier. An analogy illuminates the economic disruption caused by inflation: "money is to an economy what language is to communication. Without words that have clearly defined meanings to both the speaker and the listener, communication is impossible." On the economic significance of government protection of life, liberty, and property: "Simply put, this protection provides citizens with assurance that if they sow, they will be permitted to reap. When this is true, people will sow and reap abundantly."

They offer a "positive program for prosperity": protection of private property, voluntary exchange, and free trade; requiring Congressional supermajorities to spend, run deficits, and mandate expenditures by states or businesses; and committing the Federal Reserve to a sound dollar and price stability. "It is limited government, not majority rule, that is the key to economic progress."

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Taking the Environment Seriously

Edited by Roger E. Meiners and Bruce Yandle

Rowman & Littlefield, 1993 • 270 pages • $42.50

Reviewed by Jonathan H. Adler

In 1994, the United States will spend approximately $150 billion on environmental protection and there will be precious little to show for it. Certainly the staffing at environmental agencies will increase, as will the employment of green lawyers and consultants. Bureaucratic paperwork also will continue to grow at an exponential—and dare one say unsustainable—rate. Nevertheless, the countless dollars, opportunities and hours spent to comply with America's environmental laws will yield marginal environmental benefits. Something is very wrong with the conventional approach to environmental policy.

Many experts would counsel that the profligate waste in today's ecological efforts results from too much enthusiasm. In this view, American society has collectively taken the threats posed to the environment all too seriously. There is truth in this statement, insofar as humans have overestimated the likelihood of ecological catastrophe resulting from the growth of civilization. However, before turning our backs on the issue of ecology, we should consider a second opinion. Perhaps, as Roger Meiners and Bruce Yandle suggest in their new volume, we have failed to take the environment seriously enough.

The essays in *Taking the Environment Seriously* make the case that the dominant regulatory approach to environmental issues should be re-examined by those who recognize the onus of existing environmental rules, as well as those with an abiding interest in conserving the natural world. Conventional regulatory efforts "relate to production inputs. None focus directly on the environment itself," note Meiners and Yandle in their preface. Indeed, modern policy experts have been deluded in thinking that environmental results can be adequately achieved through properly designed government fiats, and have been oblivious to the failings inherent in their approach.

Those essays that focus on the failures of existing government policies may be old-hat to those enthralled by the minutiae of environmental policy—for those less familiar with the subject they should provide a rude awakening. The book opens with Robert Nelson's overview of America's failing environmental programs and their histories. David Riggs discusses acid rain, illustrating how utilities are being forced to invest millions purchasing emission-control equipment that is unlikely to produce tangible environmental benefits. Indeed, the most comprehensive environmental study ever conducted could find scant evidence that acid precipitation was causing much of a problem at all. Efficiency-minded economists may marvel at the cost-effective use of tradeable emission permits to achieve the mandated emission reductions. However, Riggs reminds the reader that the more important question is whether one should promote the undertaking at all. Enacting "efficient" means to achieve unworthy ends is hardly something to crow about.

Richard L. Stroup and Jane S. Shaw, in their chapter, further catalog the ecological harms imposed by the federal government, from the mismanagement of public rangelands and national parks to the perverse subsidies for the destruction of wetlands. After reading of the costs to be imposed by the cleanup of hazardous wastes at federal facilities—as much as $250 *billion*—one can easily conclude that the federal government is environmental enemy number one. This stands in contrast to private environmental success stories, such as the use of property rights to protect marine resources—the subject of the chapter by Terry L. Anderson and Donald R. Leal.

If the federal government is mediocre at protecting environmental values, and spends much of its time inflicting ecological damage, one may ask whether the federal government should be engaged in environmental policy at all. The common law was premised on the protection of persons and their properties and, as a result, was often used to prevent what is now considered environmental harm. Polluters were not guilty of despoiling "public" water or lands, rather their crime was the violation of the rights of others. In their chapter "Clean Water Legislation: Reauthorize or Repeal?" Meiners and Yandle note that "The common law relies upon individuals seeking protection of their rights, not on group lobbying before Congress." This not only curtails efforts to politically impose ecological asceticism, but in some cases "the common law often sets standards far tougher than those set by statutes." Under common law protections, no political entity could unilaterally impose a pollution easement upon private lands. From this standpoint, it seems that the best a government could do is to transfer all that is common into private hands.

The most thought-provoking essay in *Taking the Environment Seriously* is "Economics, Ethics, and Ecology" by Paul Heyne. Heyne critiques not only the misguided ecological crusades of left-leaning environmentalists, but also the economist's obsession with efficiency. As Heyne observes, "There is no such thing as *technical* efficiency, an efficiency that is independent of subjective evaluations." Thus when the economist presents the environmentalist

with a more "efficient" means of achieving environmental goals, such as through transferable "rights to pollute," the economist is missing the point. Environmentalism embraces what Lon L. Fuller termed a "morality of aspiration"—an open-ended pursuit of environmental improvement. From this standpoint, efficiency is nothing to celebrate, indeed an environmentalist may find it to be something to condemn "insofar as it pushes . . . pollution issues lower down on the political agenda."

Heyne finds principled opposition to the conventional environmental agenda not in neo-classical economics, but in a traditional standard of justice that emphasizes individual rights and the rule of law. This approach will not only facilitate a free political order, it will also allow for the pursuit of many goals, environmental and otherwise; "A regime of clear and stable property rights, as it turns out, will be supportive of both efficiency and justice." Indeed, by protecting rights and the rule of law, "efficiency will largely take care of itself." The alternative of statist intervention in all facets of life—whether for the environment or any other end—will fail on both counts. As Heyne astutely observes, "the command-and-control approach will almost inevitably substitute arbitrary decisions for the rule of law." Moreover: "Allowing environmental regulations to be shaped by a political process that is dominated by special interests is another ethically indefensible procedure." The reality of both failings are amply demonstrated in the balance of the book.

Free market advocates are often branded "anti-environmentalists" for their seeming indifference to environmental harms. To most self-proclaimed environmentalists, fealty to free market ideologies will end in ecological—if not total—devastation. Yet, as this volume suggests, perhaps it is the modern environmentalist whose outlook will lead to ruin. As Heyne concludes, "When we take the *whole* environment seriously, we will acknowledge that our primary moral obligations are to respect the persons, the liberties, and the rights of those among whom we live. After all, these are the people upon whose cooperation we must ultimately rely, whether it is to 'make a living,' to 'save the earth,' or to see the realization of any other of our larger aspirations."

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THE FREEMAN

IDEAS ON LIBERTY

CONTENTS

MAY
1994
VOL. 44
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220 **Lodge Doctors and the Poor** *by David T. Beito*
A look at the "lodge practice evil" and medical care before the Welfare State, 1900–1930.

226 **A Feminist Lesson from Economics** *by Deborah Walker*
Women and the "knowledge problem."

231 **The Incredible Ticket Machine** *by Jerry Ellig*
Are computerized reservation systems a threat to competition in the airline industry?

236 **Ideas and Consequences** *by Lawrence W. Reed*

238 **The Moral Consequences of Paternalism** *by Daniel B. Klein*
Why we should reject government's offer to lend us a helping hand.

241 **The Past Is Prologue** *by K. Maureen Heaton*
What happened when the Planners came to Our City.

244 **King Charles' Ax: Property Rights, Human Freedom, and the Quality of Life** *by John Robson*
Property rights are not *a* human right; they are *the* human right.

251 **Owls, Ferrets, and Free Markets** *by K. L. Billingsley*
Battling the bureaucrats who seek to regulate every facet of the environment.

253 **Post-Communist Traumas East and West** *by Tibor R. Machan*
Few people in the West seem to fully appreciate just how horrible the Soviet experiment was and how difficult it is to recover from it.

256 **The Economic Way of Thinking, Part 8** *by Ronald Nash*
Dr. Nash concludes his series with thoughts on the importance of asking what the long-term consequences of any economic action will be.

259 **Lending Discrimination: The Unending Search** *by Robert Batemarco*
Recent regulatory follies.

263 **Correction, Please!** *by Mark Skousen*

266 **Book Reviews**
Steven Horwitz reviews *Monetary Policy in the United States: An Intellectual and Institutional History* by Richard Timberlake; *Cities without Suburbs* by David Rusk, reviewed by Dean Stansel; *The Fortune Encyclopedia of Economics*, edited by David R. Henderson, reviewed by Raymond J. Keating; *Playing the Field* by Charles Euchner, reviewed by Jeff A. Taylor.

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PERSPECTIVE

Shifting the Terms of the Debate

An ancient legend has it that a Roman emperor, asked to judge a singing contest between two entrants, heard only one contestant and gave the prize to the second under the assumption that the second singer could be no worse than the first. The problem with the Emperor's judgment, of course, was that his assumption was unwarranted. The second contestant might have been much worse.

Unfortunately, much of the popular debate concerning whether the market or government should be relied on to provide certain goods and services follows the same myopic pattern of behavior as that of the Emperor. When the market economy can be shown to "fail" in some area, it is simply assumed that the government can provide the service better. One of the most important tasks of economic education is to reverse this lopsided way of thinking.

Adam Smith, for example, argued in *The Wealth of Nations* that not only would the government not be in a position to efficiently judge the best use of scarce resources, but that "The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could be safely trusted, not only to a single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."

The great French economic journalist, Frederic Bastiat, wrote in his classic essay, "What is Seen and What is Not Seen," in *Selected Essays on Political Economy* that "There is only one difference between a bad economist and a good one: the bad economist confines himself to the *visible* effect; the good economist takes into account both the effect that can be seen and those effects that must be *foreseen*." The full extent of the harmful effects of such government policies as taxes, public works, and restraints of trade unfortunately can only be gleaned by a careful and thorough examination of interventionism and its effects (both direct and indirect) on the economy.

Though the debate over government versus free market is old it is never ending. Each generation must fight the battle anew. The free market response to advocates of government intervention is twofold. First, it must be pointed out that many so-called market failures are not really failures of the market but instead the consequence of government failure to clearly define and strictly enforce private property rights. Second, it must be stressed that even in situations where the market could be said to fall short of the optimality conditions of the best of all possible worlds, the proposed government remedy may actually worsen the situation. This type of argument has been put forth by generations of economists from Adam Smith to J. B. Say to Ludwig von Mises to F. A. Hayek to Milton Friedman to James Buchanan. Sometimes their arguments have carried the day—if not in policy implementation at least in policy discussion. At other times, the teachings of economists who possess a boundless optimism concerning the ability of the government to solve our problems dominate. Economists who favor government intervention in a wide array of economic affairs, such as John Maynard Keynes, Paul Samuelson, and John Kenneth Galbraith, have more or less dictated the terms of the debate for most of the post World War II era.

During the 1980s, the terms of the debate shifted so that the burden of proof was on those who proposed government intervention. Unfortunately, the debate has shifted back again so that the presumption in the policy debate is that the government can provide an easy and efficient remedy to economic ills. The recently released *Economic Report of the President*, written by the administration's leading economists Laura D'Andrea Tyson, Joseph Stiglitz, and Alan Blinder, officially signaled the shift in the terms of the debate. The *Report* calls for economic intervention by the government, including "microeconomic initiatives to promote efficiency and productivity." As the *New York Times* (February 15, 1994) pointed out, the *Report* does not examine the age-old free market litmus test for justifying government action (i.e., identifying the market failure, and then examining whether the government could outperform the market in dealing with the problem). Instead, the *Report* identifies market failures alone. As Laura D'Andrea Tyson stated herself in the press conference to announce the publication of the *Report*, "I think there is something different in the whole tone of this. . . . There is a lot here implicitly about the role of Government to do something that would be beneficial . . . "

Laura D'Andrea Tyson, Joseph Stiglitz, and Alan Blinder are accomplished economists—in many ways leading representatives of their generation. Their arguments must be addressed in the most scholarly manner possible. We will find neither a complete nor effective answer to their arguments in Mises or Hayek or Friedman or Buchanan, let alone Smith or Bastiat. Repeating the basic principles of the free society taught by these great thinkers is not enough (though, of course, it is a good start). Instead, we must find the answer to these "new" challenges to the market economy ourselves.

As Mises pointed out in his preface to the Henry Regnery edition of Adam Smith's great treatise, "the reader will [not] find in the *Wealth of Nations* a refutation of the teachings of Marx, Veblen, Keynes, and their followers. . . . Read the great book of Smith. But don't think that this may save you the trouble of seriously studying modern economics books." Similarly, the debate has now shifted to a new generation. Free market thinkers must address the questions of 1994 and beyond, with fresh refutations of modern theorists who favor government solutions over the voluntary choices of individuals within the market.

—PETER J. BOETTKE

THE FREEMAN
IDEAS ON LIBERTY

Lodge Doctors and the Poor

by David T. Beito

Medical Care Before the Welfare State, 1900–1930

On the face of it, a historical study of fraternal societies seems to be a subject fit only for connoisseurs of the arcane. Few Americans these days come into contact with such groups. When many of us hear the word *lodge*, we think of it as a place where television characters from our youth, such as Ralph Kramden (of the Loyal Order of Raccoons) and Fred Flintstone (of the Loyal Order of Water Buffalos), escaped from their more sensible wives to engage in childish hijinks—parading around with silly hats and mouthing pretentious rituals.

There was a time, however, when fraternal societies could not be so easily dismissed. Before the rise of the welfare state, they were rivaled only by churches as organizational providers of social welfare. By conservative estimates eighteen million American men and women were members in 1920—at least three out of every ten adult males. While fraternal societies differed in ethnicity, class, and gender, most shared a common set of characteristics. In general, this included a decentralized lodge system, some sort of ritual, and the payment of cash benefits in times of sickness and death.

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By the turn of the century, an increasing number of societies began to add treatment by a doctor to their menu of services. This arrangement was known as lodge practice. It involved a simple contract under which a physician provided care in exchange for an annual salary determined by the size of lodge membership. To qualify, a prospective lodge doctor had to win an election by the members. Generally lodge practice plans did not extend beyond basic primary care and minor surgery, although a few provided hospitalization.

Lodge practice became particularly extensive in urban and industrial centers. In 1915, for example, Dr. S. S. Goldwater, Health Commissioner of New York City, went so far as to assert that in many communities it had become "the chosen or established method of dealing with sickness among the relatively poor." In the Lower East Side of New York City, he noted, 500 physicians catered to Jewish societies alone. Among blacks in New Orleans there were over 600 fraternal societies with lodge practice during the 1920s.

Nationally, the two leading providers of lodge practice among native whites were the Foresters and the Fraternal Order of Eagles. By 1910, both organizations had over 2,000 doctors under contract to look after the medical needs of about 600,000 members. Yet, aside from the common thread of lodge practice, the Foresters and Eagles were actually quite unalike as fraternal societies.

The Foresters

The Foresters traced their origins directly to the Ancient Order of Foresters, a British organization. The ritual drew inspiration from Robin Hood and his legendary adventures in Sherwood Forest. In keeping with the medieval motif, the lodges were called "courts" and the supreme leader a "chief ranger." Both women and men could join (although in separate courts) and the only tests for membership were belief in a supreme being and good moral character.

Foresters were quintessential internationalists. In an age of self-conscious Anglo-Saxon exclusivity, they were notable among fraternal societies for seeking converts not only in Europe but also in Asia. The chief ranger for over two decades was a Dr. Oronhyatekha, a Canadian Mohawk. Equally remarkable for the time, his ancestry was not a cause of embarrassment for the members; in fact, they wore it as a badge of distinction. One member boasted that "There is not a Forester in the wide world but knows that this full-blooded Indian chief is the one man to whom the Order should be thankful for its wonderful growth."

The Eagles

While the Foresters eschewed nationalism, their leading rival for lodge practice, the Fraternal Order of Eagles was almost a caricature of apple-pie Americanism. The Eagles opened their first lodge in Seattle, Washington, in 1898. The members embraced a fun-loving and informal style quite unlike more solemn co-fraternalists, such as the Free Masons. The aeries (as Eagles called their lodges), with their well-stocked bars, often served double duty as local community centers. This freewheeling behavior earned the Eagles an unsavory reputation in some quarters. In 1910, *McClure's Magazine* characterized the group as "a great national organization of sporting men, bartenders, politicians, thieves, and professional criminals." The Eagles later refurbished this unwholesome image somewhat by launching a highly visible, and ultimately successful, campaign for the proclamation of Mother's Day.

Less than ten years after the Eagles had been founded, they became noted (notorious in medical society circles) for engaging in lodge practice. For one dollar a year, a member and immediate family could receive basic medical services (including minor surgery). This fee did not pay for treatment for obstetrics, venereal disease, and "any sickness or injury caused or brought about by the use of intoxicating liquors, opiates or by any immoral conduct."

Ladies Friends of Faith

Unfortunately, primary data from individual societies with lodge practice is in very short supply. Nevertheless, some records survive which can shed light on the subject. Particularly helpful is a minute-book from the Ladies Friends of Faith Benevolent Association, covering the period from August 1914 through September 1916. It was a black female society of about 170 members which operated in New Orleans during the early twentieth century.

The Ladies Friends of Faith was not exceptional, at least within the broad context of New Orleans. It was only one of numerous such societies which offered lodge practice to blacks in the city. Among these were local affiliates of two prominent national organizations, the Eastern Star and the Household of Ruth. Much more common, however, were home-grown societies such as the Female Union Band, Young Men of Inseparable Friends, Francs Amis, Holy Ghost, and the United Sons and Daughters. A simple reading of 134 organizational names from a list assembled in 1937 indicates that no less than 40 catered primarily to females.

In terms of organizational structure and benefits, the Ladies Friends of Faith also fit the general local pattern. The rank-and-file voted in annual elections to choose a "society" druggist, doctor, and undertaker who provided services at a low flat rate. Those taken sick collected two dollars a week if they saw the lodge doctor and three dollars if they did not. To guard against false claims for cash benefits and to provide companionship, a visiting committee sat at bedside with the recipient. Those members derelict in these duties had to pay a one-dollar fine.

In this two-year period, the minute-book evidences great activity. One hundred and thirteen individuals (slightly over half the membership) collected sick benefits. Of these, 70 used the lodge doctor at least once; several a dozen times or more. Almost all these applicants obtained cash payments and medical service (including free medicine) without eliciting complaints from the other members.

This does not mean that the deliberation process of the Ladies Friends of Faith was without controversy. Most notably there was a persistent need to grapple with appeals from individuals who had fallen in arrears. At nearly every meeting, the society heard at least one plea from a member unable to pay because of unemployment or poor health. One of the most desperate of these concerned a woman who was "out of Doors, and had no money." In such cases, the society was generally ready to extend help. It allowed 24 members extra time to pay off their debts while it passed the hat for ten others. Not once did the Ladies Friends of Faith reject any of these appeals outright. Such liberality did not translate into open season on the lodge's treasury, however. Those delinquents who failed to explain their "unfinancial" status were readily dropped from the rolls.

Regardless of religious, ethnic, or political orientation, all fraternal societies, to the extent they relied on lodge practice, faced a similar set of obstacles. Without a doubt, the most serious was the organized opposition of doctors. By the first decade of the twentieth century, the spread of what became known to critics as the *lodge practice evil* elicited almost universal condemnation among medical societies.

At its core, this opposition represented fear for the future survival of the dominant fee-for-service remuneration. Writing in the *Wisconsin Journal of Medicine*, Dr. W. F. Zierath of Sheboygan, Wisconsin, put the matter succinctly when he chided certain fellow members of the profession for bowing so readily to "the keen business instinct of the laity" who have "discovered in contract practice a scheme to obtain medical services for practically nothing . . . they are organizing societies by the score with that feature as the excuse for their existence." Once doctors allowed themselves to be placed on a fixed payment system, he warned, loss of both income and independence would soon follow. The profession would then become tainted and demoralized by every doctor's cutthroat and undignified scramble to sell to the lowest bidder. Another opponent predicted that lodge practice, if not stopped, would depress fees to levels "comparable to those of the bootblack and peanut vendor."

Lodge elections were depicted as carnivals of corruption in which victory went to those doctors best able to ingratiate themselves with key players in the leadership through extravagant promises or outright bribery. Even when outright corruption did not occur, the critics portrayed the election campaign as dominated by unseemly wire-pulling and backslapping. According to Dr. Zierath, success of a candidate depended upon "the handshaking, the button-holing, the treating to cigars and drinks in public houses."

According to these critics, however, lodge practice was not only bad for doctors, but it also harmed the patient. While they conceded that the fees were low, they warned that the service given in return was shabby. Along these lines, a leading professional journal condemned lodge practice as a vain attempt by the patient to get "something for nothing."

Who Benefited?

Lodge practice, in my view, merits a far more favorable assessment than it received either from contemporary critics or more recent historians. At first blush, such a contention would seem impossible to defend. Most of the surviving sources on which the historian must rely already have turned in a ringing verdict of guilty. This research problem is not fatal, however. Ironically, the strident manifestos published in the medical journals contain a wealth of information which can cast a positive light on lodge practice. With great profit, these professional critiques can be supplemented and compared to the still extant defenses written by doctors and leaders of fraternal societies.

The most important beneficiary of lodge practice was, of course, the patient of modest means. He or she was able to obtain the care of a doctor for about two dollars a year—roughly equivalent to a day's wage for a laborer. If translated into 1994 dollars, this annual fee would be equivalent to about 14 dollars, the hourly wage of some construction workers today!

The remuneration paid to the lodge doctor was a far cry from the higher fee schedules favored by the profession. A local medical society in Pennsylvania was typical in setting for its members the following *minimum* fees: one dollar per physical examination, surgical dressing, and housecall (daytime) and two dollars (nighttime). Such prices, at least for continual service, would have been out of reach for many poor Americans.

Why were the lodges able to charge such low fees? The answer to this question lies with several organizational strengths peculiar to the fraternal structure itself. The fact that lodges could entice doctors with a large and stable market left them well positioned, as one opponent put it, to purchase medical services at wholesale and sell at retail.

Also exerting downward pressure on fees were lodge elections. While the election process was not without flaws, there is also ample evidence from both supporters and opponents that, on balance, it served members well. It gave patients an opportunity once a year to compare notes on the medical records of both the challenger and incumbent. John C. McManemin, the Past Worthy President of the Eagles, maintained that as "the members have the right of franchise in electing the lodge physician, so have they in deposing him, and it therefore results that unless the physician so selected, attends to the duties devolving upon him he is quickly brought to account." From a very different perspective, a leading opponent of lodge practice complained that during campaigns "colleagues and rival applicants are roundly 'knocked' and their mistakes and capabilities held up to public ridicule and censure."

Quality of Service

Closer inspection of the medical journals also gives some cause to be skeptical of blanket claims that lodges heedlessly sacrificed quality to elect the candidate bidding the lowest fee. The contrary, in fact, occurred in a campaign described by lodge-practice adversary Dr. George S. Mathews of Rhode Island:

> . . . in one lodge two members in good standing in the State Medical Society openly in lodge meeting underbid [each other]. One volunteered his services at $2 a head. The other dropped his price to $1.75. The first bidder then acceded to this price with medicines furnished. This occasioned a drop in bidder No. 2 in his price to include medicine and minor surgery. To the vast credit of the lodge neither bid was accepted but a non-bidder was given the job at $2.

Even the detractors, while generally disdainful of the quality of care provided, acknowledged that fraternal societies attracted some doctors of ability and high training. In Dr. Goldwater's opinion, for example, there were "many competent medical men and between the slip-shod service of the poor kind of dispensary, and the painstaking care of the conscientious lodge doctor, the choice easily lies with the latter." It is worthy of note that the hack often inspired less contempt than the physician with a lucrative private practice who took a lodge contract on the side. One leading critic excoriated such individuals as "inordinately selfish and avaricious men who have no neighbors in the profession, for they are not Samaritans by practice."

Proprietary Medical Schools

Also misleading were efforts to dismiss the abilities of lodge doctors by citing their low level of medical education. For many opposed to the system, it was merely sufficient to note that these doctors graduated disproportionately from the ranks of the proprietary medical schools. While as a description of reality this was probably accurate, it fails as an indictment. To understand why, a bit of background about proprietary education might be helpful.

These schools had two salient features. First, they were owned by doctors in regular practice and second, unlike the endowed university, they subsisted entirely on tuition. The owners earned income both from tuition received in exchange for delivering lectures and from sometimes lucrative referrals tendered by grateful graduates. The students often came from modest backgrounds and thus lacked both the contacts and financial pull enjoyed by many of their counterparts in the universities. The alumni of these proprietary schools would have ample incentives to be attracted to lodge practice. For a recent graduate especially, a contract with a fraternal society might be the only means available to obtain the necessary financing and community contacts needed to build up a practice.

To call these doctors *quacks*, however, as many critics did, would be a misnomer, at least in the strict meaning of the term. Like every other aspiring doctor, they needed to receive state certification to practice. By no means was this pro forma. Since the 1880s and 1890s, the requirements had become increasingly stringent and failure rates were high. In short, the lodge doctor may not always have been top-of-the-line but he or she had at least rudimentary training.

As the purchaser of these services, the fraternal society also had incentives to maintain the quality of care. An incompetent or arbitrary doctor could prove fatal to actuarial soundness. Moreover, if fraternal advertisements are any indication, prospective members were leery of organizations with high mortality rates. The publicity for the Foresters repeatedly contrasted the death rate of its members (6 per 1,000) with that of the same age group in the general population (9 per 1,000). It credited this low mortality to "Sherlock-Holmes-like acuteness in the detection of bad risks" exhibited by the doctors attached to its courts. This boast was more than hyperbole. In the first decade of the twentieth century, the doctors of the Foresters annually rejected between ten and twenty percent of all initiates.

Additionally to ensure quality of care lodges often imposed specific sanctions, in the form of fines, for doctors who neglected their duties. Among the possible infractions were failure to report at meetings, fraudulent approval of sick claims, and refusal to respond to a patient's housecall. For the latter violation, for example, both the Eagles and Foresters authorized a lodge to hire a substitute from the open market and then deduct the charges from the salary of the delinquent lodge doctor.

An important consequence of lodge practice for the patient was to facilitate habits of assertiveness. The members who used these services anticipated by several decades the *active patient* now very much in vogue. Many physicians, obviously unaccustomed to such treatment, denounced the willingness of members to quibble about fees and diagnosis. One doctor blamed excessive and unnecessary housecalls for engendering fears in the doctor "that he will lose his position if he fails to answer every call regardless of circumstances and his knowledge of the fact that he is being imposed on constantly by members who abuse their privileges."

For the patient, if not always the doctor, lodge practice had the additional virtue of affording accessible preventive care. Again, one need look no further for evidence than the repeated accusations in the professional journals that doctors were being pestered with trivial ailments. According to Dr. Zierath, the patient called on the lodge doctor at all hours of the night "to see cases repeatedly where a physician would not be called, were the regular fee to apply. One of the children in a family has abdominal pain, and the anxious mother promptly conjectures that it is appendicitis'' when it was nothing more ''than too much indulgence in mince pie. But it looks stylish to have the doctor's rig standing in front of house and excites the curiosity and envy of the neighbors, therefore the 'free' doctor is summoned.''

For fraternal societies, by contrast, the ability to readily call on the doctor for any complaint was a major selling point. Lodge practice, wrote a leader of the Eagles, ''accords perfectly with the modern theory of the prevention of disease . . . Many of the poorer members, under other circumstances might delay in calling a doctor until the disease made considerable headway.''

Lodge practice opened up rare opportunities for many working-class Americans to compare and experiment and empowered them with the necessary economic clout to break free from the confining view that health care was merely a generic good. It gave patients the wherewithal to use medical services more as a varied menu of choices, each adjustable to suit the particular need at hand.

The discernment of lodge patients was exemplified by their selective patronization of medical services. They may have readily turned to their lodge doctor for prevention, for example, but many looked elsewhere for a cure. On this note, an exhaustive study of blacks in New Orleans, who were members of fraternal societies during the 1930s, found that while 56 percent relied exclusively on the doctor hired by their lodge, the rest also hired private physicians in some cases. A member of one of these societies expressed a typical view when he commented, ''Well, I think there is nothing better than a society for when you're sick they give you the best possible attention, but if I were real sick I'd prefer calling a doctor not connected with a society, so that I could get the best of attention. Society doctors are too busy to handle extreme illnesses.''

Decline of Lodge Practice

Even before the Depression, lodge practice had begun to fall into a state of decline. The pressure exerted by the leaders of organized medicine hastened the demise. By the 1910s, doctors had launched an all-out war against lodge practice. Throughout the country, medical associations imposed a range of sanctions against lodge doctors, including expulsion from the association and denial of hospital facilities. In certain instances, campaigns were organized to deny patient care, even in emergencies, to members of offending lodges. Most commentary from both sides of this conflict indicates that these sanctions were highly effective. In any case, by the end of the 1930s, the once vibrant health care alternative of lodge practice, which less than two decades before had inspired trepidation throughout the medical establishment, had virtually disappeared. □

THE FREEMAN
IDEAS ON LIBERTY

A Feminist Lesson from Economics

by Deborah Walker

With the collapse of Communism, economists have finally figured out that economic planning does not work. This does not mean, of course, that the economic planners don't continue to try; some will never concede defeat, even when theory and history tell them to give up. Along with the economic planners are the social planners, who usually call themselves egalitarians or defenders of social justice. But the truth is, they, too, along with the economic planners, should throw in the towel. Interestingly, the reason why the social planners should give up is the same reason why the economic planners should consign their visions to the dustbin. It all has to do with knowledge.

Let me explain by focusing on one social movement in the United States which is ripe with social planning: mainstream feminism. Although feminists generally argue that the use of legislation as social planning has its limitations, they see legislative change as at least a partial means to positive cultural change.[1]

Complete cultural change requires an entire transformation of many existing institutions such as "the family, childrearing arrangements, the economy, the wage labor market, and human consciousness."[2] So, in fact, legislation is seen as a compromise to real reform, which requires the abolition of markets.

The Problem With Planning

Since the whole abolition of markets is not feasible to most, legislative mandates are the next best thing. Always keep in mind that planning is planning; whether on a large or small scale, the same problem arises. This problem is what F. A. Hayek calls a knowledge problem.

Each individual in an economy possesses knowledge only some of which is known by others. This *subjective* knowledge of particular time and circumstances is that of one's values, tastes, plans, talents, desires, and so on. This knowledge, of a contextual nature, is dispersed throughout the economy, and is constantly changing.[3] Furthermore, much of this knowledge is inarticulate or tacit. Because of the contextual and subjective nature of knowledge in society, any one person or group of persons cannot possess all of this knowledge. The basic economic problem that all societies face, therefore, is how to utilize this knowledge.

Ludwig von Mises explains exactly why economic calculation, the utilization of subjective and dispersed knowledge, in a planned economy is technically impossible.[4] According to Mises, there are really two processes of economic valuation in an economy: that of the consumer and that of

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the producer. Both processes are necessary for economic calculation and coordination. For example, even if the planners could know the subjective valuations of goods by the consumers in an economy (or even assume that they know what should be valued by consumers) and the best production techniques for producing these goods, economic calculation would still be impossible. This is because there would be no means for knowing or calculating how the scarce productive resources should be utilized. That is, how would the planners know if a piece of land should be used as a site for a factory or for a potato farm or for any other number of uses? Mises explains that what is necessary for economic calculation is private ownership of the means of production. Without the existence of *prices* and the profit calculations they make possible, central planners could never possess the knowledge necessary to direct resources so that people's basic wants are satisfied. It is the private ownership of the means of production which leads to a competitive bidding process among resource owners, which in turn generates market prices for these resources.[5] It is with the use of these market prices that economic calculation takes place.

What is important to note here is that the economic phenomena being conveyed or "calculated" in a market price are subjective in nature. That is, they are the subjective valuations of individual actors in any market. The "objective" price seen in a market is the result of the interaction of the subjective valuations of numerous market actors. As Mises explains, "The subjective use-value of each [commodity] is not immediately comparable as a purely individual phenomenon with the subjective use-value of other men. It only becomes so in exchange value [price], which arises out of the interplay of the subjective valuations of all who take part in exchange."[6] It is this subjective nature of economic phenomena that dismisses the possibility of economic calculation under socialism.

And it is also the subjective nature of social phenomena which dismisses the possibility of successful social planning. Just as economic planners must "guess" where resources should be utilized because it is impossible for them to know the subjective valuations of consumers and producers, social planners, attempting to produce equal opportunities for both men and women, must also "guess" at what the subjective term "opportunity" means to *all* women. But this is also an impossibility.

Opportunities Cannot Be Objectified

Opportunities are subjective in nature. Furthermore, the knowledge regarding what different individuals value as opportunities is dispersed throughout society, is contextual in nature, and is constantly changing. Social planners could never possess all of this information. How then, could they be successful at organizing society such that all opportunities are "equal." In fact, since opportunities are subjective in nature, they cannot be objectified or thereby "equated" one with another.

In a planned system, whereby women are told that they *must* play a certain role (or roles) in society, it is difficult to argue that this is a system which allows for individual women to plan their own lives and decide their own opportunities. This will always be the major problem with centralized social planning of any scale: the individual woman can never be the focus of attention, only women in some sort of generic sense. Therefore there will always be a large number, if not the vast majority, of women who are not satisfied with what the planners decide to do. Decentralized planning, with each woman planning her own life, would be more successful than centralized social planning in fostering an atmosphere in which opportunities remain where they actually are: in the minds of individual women.

Furthermore, planners do not seem to comprehend the complexity of our society. Because of the complexity of market orders, they cannot be planned with any degree of success. This is also true, for the social order in general. In fact, the more complex an order is, the more spontaneous it must be. Attempting to plan the order such that a particular end is reached will be futile. But just as important, this attempt will also produce unintended and undesirable consequences, only some of which can be predicted.

Important in this idea of markets as spontaneous orders, as Hayek explains, is that individuals within markets must be guided by general rules, *not* by specific commands. General rules provide a framework under which individuals act in a more or less similar way. Because these rules are general, they are applicable to a variety of circumstances and, most important, allow people to utilize their individualized "knowledge of time and circumstance." Hayek explains, "They [the rules governing a spontaneous order] will have to be applied by the individuals in the light of their respective knowledge and purposes; and their application will be independent of any common purpose, which the individual need not even know."[7]

In her book *Reclaiming the Mainstream: Individualist Feminism Rediscovered,* Joan Kennedy Taylor argues that the feminist movement in the United States has gone through several important changes since its conception. The most important of these was the movement from a focus on individualism to that of collectivism.[8] Another way of approaching this idea is that when feminists focused on the individual, the desire was to change the general rules of society so that they applied to both men and women in the same (or near same) manner. In other words, the focus was on equality under the law in general, or equality with respect to the process, to the rules of the game—not equality with respect to specific ends.

Women, therefore, demanded the right to own property, to sue, to make contracts, and to vote, all of which men could already do. Hayek explains that general rules, "must be the same, if not necessarily for all members, at least for whole classes of members not individually designated by name."[9] Although one can argue that there should be general rules which apply differently to men and women (for example, whether women should enter combat or not), these should be exceptions and not norms, especially if women themselves desire to have the same general rules in all cases. This is because the general rules of society should change as cultural norms change. In actuality, some general rules *are* cultural norms, while others are deliberately designed. And, in fact, these two "types" of general rules work together or influence one another.

It was a change in the cultural norms that led women to call for changes in the deliberately designed general rules of society (the demand for property rights and the like). And, in turn, these changes in the general rules influence cultural norms.[10]

Women Enter the Market Arena

Two of the most important changes individualist feminism made with regard to the general rules of society were giving women the right to own property and to make contracts. Both of these rules are prerequisites of a market order. Allowing women these rights, therefore opened up the possibility for women to enter the market arena.

Before explaining the importance of these particular changes, it should first be noted that both the freedom to own property and to make contracts are general rules, and not specific commands because the actual ownership rights and the terms of individual contracts are left to the market participants. The general rule is that contracts can be made, and then can be legally upheld. Legislative mandates, which force the terms of particular contracts, are not general rules, but are instead specific commands. The terms of contracts are no longer left to market participants, but are instead stipulated across the board.

It is unfortunate, but today most feminist goals are often set in very specific terms: the desire for more women in upper management or public office (a set number or percentage of population is often given), the desire for equal wage rates between men and women, or the desire for all businesses to offer very specific terms of employment, to name a few examples. Given these particular or specific goals, legislative mandates are set in place in order to bring them about. Instead of the intended goal, however, what we get are unintended consequences such as an increase in sex discrimination and a decrease in self-determination by women.

Now, why is freedom of contract, specifically, so important to women? First, again, as Hayek explains, "although we can endeavor to improve a spontaneous order by revising the general rules on which it rests, and can supplement its results by the efforts of various organizations, we cannot improve the results by specific commands that deprive its members of the possibility of using their knowledge for their purposes."[11] In other words, specific commands hinder market actors by not allowing them to adjust the general rules to their individual circumstances by utilizing their unique knowledge.

Women and the "Knowledge Problem"

Why is the utilization of individual knowledge in labor markets so important to women? In essence, employers face a "knowledge problem" regarding which employees to hire. They must trade off the costs of screening individual employees with the costs of missing out on hiring very productive workers. This is why firms, indeed market forces, have produced different ways by which employers can screen employees at lower costs. These include employment agencies, interviews, references, different types of employment tests (such as aptitude or skill level tests), as well as brand names in educational and vocational institutions.

All of these devices decrease screening costs for employers and thereby increase the likelihood that potential employees will be hired on the basis of their individual attributes rather than on the basis of their group membership. This is especially applicable to women because men and women are biologically, and sometimes culturally, different. These differences are often viewed by employers as statistical differences in terms of employment practices. For example, women, on average, have higher turnover rates than men; women, on average, are more likely to take time off upon the birth of a child, and so on. Anything which increases the flow of information regarding individual employees will lead to a decrease in employer discrimination based upon these group averages. Insofar as the flow of information is interrupted, employers' screening costs remain high and they resort to hiring on the basis of statistical averages. Legislation that prohibits the use of employment tests, for example, on the basis that the tests are biased against particular groups in society will actually decrease the likelihood that individual members of these groups can set themselves apart from the group and be hired on individual merit considerations.[12]

The freedom to make creative, individualized employment contracts can be a vital source of information to employers and thereby decrease discrimination. Legislative mandates take away this means for individual women to distinguish themselves, but more important, they take away the very method by which women can bring about social change without the use of legislation.

In fact, it is the unique ways in which individual economic actors can utilize their specific knowledge within a market order that will determine the changes in the order over time. "The particular content of the order will depend on the concrete circumstances known only to the individuals who obey the rules and apply them to facts known only to them. It will be through the knowledge of these individuals both of the rules and of the particular facts that both will determine the resulting order."[13] The point being, the order will change over time as individuals apply their particular knowledge to the rules of the order. But note that the order changes according to this knowledge, which contains individual tastes and subjective values of market actors. The resulting order is something which emerges spontaneously in the sense that there was no deliberate design of the whole order. Instead, the order adjusts to the individual actions of people within the order.

What message does this give to feminists who desire social change? It says that it is up to women themselves to change the order from within. The order cannot be changed through legislative mandates for two reasons: the unintended consequences which result in decreased opportunities for women, and because mandates actually destroy the very means to social change that women have—the utilization of individual knowledge through freedom of contract.

This idea of social change through freedom of contract does not appeal to many feminists because it places the responsibility for change on those who desire the change. It provides the message to women that they are not passive agents in social evolution, but are instead responsible for a large amount of that evolution. It maintains that markets do not take opportunities away from women, but instead, that markets actually provide opportunities for women to instigate social change. □

1. See, for example, H. Hill Kay, "Models of Equality," *University of Illinois Law Review*, 39, 1985; S. Law, "Rethinking Sex and the Constitution," *University of Pennsylvania Law Review*, 955, 1984; A. C. Scales, "Toward a Redefinition of Sexual Equality," *Harvard Law Review*, 95, 1981; and K. T. Bartlett & R. Kennedy, eds., *Feminist Legal Theory: Readings in Law and Gender* (Boulder, Colo.: Westview Press, Inc., 1991).
2. Law, p. 965.
3. Friedrich A. Hayek, "The Use of Knowledge in Society," *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), pp. 77–91.
4. Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," in *Collectivist Economic Planning*, ed. Friedrich A. Hayek (New York: Augustus M. Kelley, 1975 [1935]), pp. 87–130.
5. *Ibid.*, see p. 108.
6. *Ibid.*, p. 97.
7. Hayek, p. 50.
8. Joan Kennedy Taylor, *Reclaiming the Mainstream: Individualist Feminism Rediscovered* (Buffalo, N.Y.: Prometheus Books, 1992).
9. Hayek, p. 50.
10. The moral arguments for the rights of women to own property and to make contracts are beyond the scope of this paper. However, they are not considered to be unimportant.
11. Hayek, p. 51.
12. See Richard Epstein, *Forbidden Grounds: The Case Against Employment Discrimination Laws* (Cambridge, Mass.: Harvard University Press, 1992).
13. Hayek, p. 46.

THE FREEMAN
IDEAS ON LIBERTY

THE INCREDIBLE TICKET MACHINE

by Jerry Ellig

Way back in high school, a far-from-right-wing teacher made our class sit through a short film called "The Incredible Bread Machine." The story's protagonist invented a bread-baking machine so productive that it vastly reduced bread prices and promised to end world hunger. But instead of praising his achievement, the government pilloried him as a monopolist, claiming that he drove competitors out of business and charged monopoly prices. He could do both because his wondrous invention dramatically slashed the cost of baking bread. Despite this boon to society, the movie implied that the inventor landed in the pokey for a Sherman Act violation.

Even during the malaise years of the late 1970s, the movie sounded like a stretch of the libertarian imagination. Surely, if someone invented a technology that is superior, even politicians and regulators would have to recognize him as a benefactor and let him go about his business.

Recent events in the airline industry have shown otherwise. During the past 20 years, several airlines developed a new, computerized technology to process reservations and issue tickets that is the equivalent of the "Incredible Bread Machine." Unfortunately, the developers of airline computerized reservation systems have fared little better than the ill-fated inventor of the bread machine.

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What Is a Computerized Reservation System?

The Airline Deregulation Act of 1978 freed airlines to enter new routes and charge whatever fares they could induce customers to pay. In this new, deregulated environment, an airline of any size has thousands of different route combinations, generating tens of thousands of different airline fares. Before the invention of computerized reservation systems, a travel agent making a reservation had to look up flights in a book called the *Official Airline Guide*, then phone the different airlines to find out if they actually had seats available at a particular date and time. If the customer wanted a hotel room or rental car, the agent had to make another round of phone calls to find out what was available and make reservations.

Computerized reservation systems automated and streamlined this process, often permitting travel agents to consult with the customer, search for available seats, and book the reservation within minutes. When a customer phones, a travel agent begins searching for suitable flights on a computer screen. The screen is linked through phone lines to a mainframe computer owned by the company that operates the reservation system. The mainframe contains information on millions of available airline flights and fares. As soon as the customer and agent select a flight and agree on payment, the agent can print out the ticket. Similarly, a travel agent can access information on available hotel rooms and rental cars, making reservations within minutes.

Computerized reservation systems slashed travel agent and airline costs while dramatically reducing the time it takes to make reservations. By 1981, use of these systems had become widespread, and a Harris survey in that year indicated that computerized reservation systems had increased travel agents' productivity by an average of 41 percent. In fact, "One travel agent estimated that his employees could make a reservation using a computerized reservation system in one-third the time it would take to look up schedules in a book and make reservations over the telephone."[1] United Air Lines estimated that a reservation system's booking fee is less than half the cost of making a reservation through the airline's own reservation staff.[2] Although travel agents retain the option of returning to pre-computerized reservation system technology, 95 percent subscribe to at least one system.[3]

Of course, if computer systems cut the time and effort needed to make reservations, they no doubt eliminated some jobs in the travel industry, and possibly in the airline industry's reservations departments as well. In effect, these systems substitute human brain power and the sand in a microchip for the brute force labor previously required to process airline reservations. They provide a textbook example of what the economist Joseph Schumpeter called "creative destruction": the replacement of old technologies and ways of doing things with new arrangements that drastically reduce the amount of resources required to get the job done. In so doing, the new methods and technologies may cause some temporary dislocations, but they vastly increase our standard of living by enabling us to satisfy more human desires with fewer resources. Schumpeter argued that the process of creative destruction is in fact the driving force behind economic progress.[4]

The Competition Issue

In the case of computerized reservation systems, some critics saw a great deal of destruction and very little creativity. Instead, voices in both industry and government perceived computerized reservation systems as a threat to competition in the airline industry.

There are currently four major computerized reservation systems in the United States, but most travel agents subscribe to only one system. Typically, a travel agent signs a long-term contract with a computerized reservation system provider, who then installs computer terminals and other equipment in the travel agent's offices. The contracts have included rollover provisions, so that when a system vendor adds equipment or features, the contract is automatically extended. Minimum-use provisions have required travel agents to book 50 percent of their flights on a given system, and liquidated-damages provisions have discouraged travel agents from switching to a new computerized reservation system.

There is also some evidence that this is a difficult industry for new firms to enter. The computer systems and software needed for a reservation system may not have much resale value if their developer chooses to leave the industry. Analysts at the Department of Transportation also found evidence of economies of scale, economies of scope, and learning-curve effects, which suggest that the first firms to enter this industry may enjoy a substantial advantage over new competitors.[5] The existence of long-term contracts helps augment this advantage.

Most of the policy controversy stems from the fact that all four major computerized reservation systems are owned by airlines or groups of airlines. The two systems with the largest market shares are Sabre, owned by the parent company of American Airlines, and Apollo, developed by United Air Lines and now owned by a consortium of domestic and foreign airlines. To be listed on a system, an airline must sign a contract with the system vendor, and it then pays the vendor a booking fee every time one of its tickets is booked using that system.

Critics charge that ownership of a reservation system gives an airline an unfair advantage over competing airlines. Computerized reservation system technology allows the airline owning the system to list its own flights before those of other airlines, update information on its flights before updating the information of rivals, and in general manipulate the information presented to travel agents in ways that promote the owner's flights over those of rivals. In the absence of regulation, the system owner could also charge discriminatory booking fees, forcing other airlines to pay a higher price when customers choose them.

These types of complaints are common among companies in many types of businesses; the "have-nots" can always be counted on to complain about the "unfair" advantages possessed by the "haves." But the airline case is unusual, because many defenders of airline deregulation agree that computerized reservation systems pose a threat to competition. Most economists, for example, agree that airline deregulation has lowered prices and greatly enhanced the convenience of air travel.[6] Yet even the most authoritative study on the impact of airline deregulation warned that computerized reservation systems might require regulation because they give the large, established airlines that own them an advantage over new upstarts.[7] An entire mini-industry of scholarly articles focuses on ways of achieving the full benefits of airline deregulation through government intervention to eliminate remaining "market imperfections," such as those created by reservation systems.[8]

In response to both theoretical and practical concerns, the federal government has issued a number of regulations that govern the conduct of computerized reservation system vendors. "Display bias" is outlawed; vendors are prohibited from giving preferential treatment to any airline's flights in constructing video displays or operating the system. Contracts between vendors and travel agents are limited to five years. The government prohibits discriminatory booking fees, tie-ins, and exclusive-use contracts. Travel agents must also be permitted to use software that would allow them to access all computerized reservation systems from the equipment supplied by one system vendor.

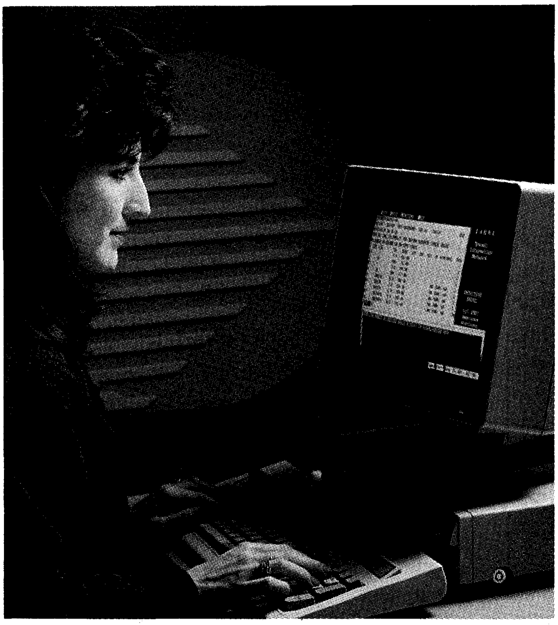
All of these regulations were adopted not by social planning zealots, but by the Civil Aeronautics Board under President Reagan and the Department of Transportation under President Bush. In both cases, the responsible officials appreciated free markets enough to firmly resist a return to the pre-1978 regulatory regime, under which the government limited entry and regulated airline fares. In fact, they saw the regulations as quite consistent with the goals of airline deregulation, which replaced a government-enforced cartel with a competitive marketplace.

In general, these regulations stemmed from the belief that ownership of a computerized reservation system constitutes a "barrier to entry" that will impede competition and prevent consumers from reaping the full benefits of airline deregulation. This policy position, however, begs a very important question about the true nature of competition in this and all industries.

The Importance of Conceptual Frameworks

What prompts some of the staunchest defenders of deregulation to advocate potentially extensive regulation of a new technology? The answer can be found in the concept of competition employed by most economists who analyze the airline industry. In modern neoclassical economics, "competition" means the abstract model of perfect competition. Perfect competition is characterized by numerous buyers and sellers, homogeneous products, perfect information, and costless entry and exit from the industry. Economists have logically proven that, under such conditions, decentralized markets allocate every unit of every resource to its most highly valued use. This result, termed "allocative efficiency," is the

Before regulators intervened, computerized reservation systems were a powerful marketing tool that gave owners a competitive advantage.



COURTESY AMERICAN AIRLINES/SABRE

standard of economic efficiency by which many economists judge policy proposals.

No one seriously argues that regulators or antitrust authorities should impose perfect competition on the airline industry, or on the computerized reservation system industry. However, many common economic policy prescriptions in this industry are based on the related model of "perfect contestability." A perfectly contestable market may have only one seller, but as long as there are no barriers to entry or exit, the threat of potential entry can force the monopolist to behave as if it had numerous competitors. The end result is the same as perfect competition: prices closely reflect marginal costs, and allocative efficiency is achieved.[9]

A key policy prescription that emerges from contestability theory is that government can promote efficiency by removing barriers to entry. These include not just government-imposed limitations on competition, but also private barriers to entry that take the form of "sunk cost" facilities.[10] A "sunk cost" is an industry-specific investment that a firm cannot recoup if it chooses to leave the industry. In the airline industry, examples of sunk cost facilities include airports, the air traffic control system, and computerized reservation systems. When facilities involving sunk costs exist, government policy can promote contestability by ensuring that all actual and potential competitors have equal access to the facilities. This might be accomplished by government ownership, as with airports and air traffic control, or it could be accomplished through regulation of privately owned facilities, as is done with computerized reservation systems.

Given this theoretical background, it should come as no surprise that many people who appreciate the virtues of free markets advocate regulation of computerized reservation systems. A good many analysts believe that free markets enhance human welfare by moving us closer to the ideal of allocative efficiency. When private market developments seem to thwart allocative efficiency, it is time for government to intervene.

A Different View of Competition

Such prescriptions make perfectly good sense, if indeed allocative efficiency describes the sum total of human welfare. But many advances in our standard of living occur because of phenomena that the models of perfect competition and contestability assume away. Both of these models describe a world in which all change that will occur, has occurred. The assumption of perfect knowledge rules out the possibility that someone might discover something new tomorrow. To the extent that technological progress is foreseen, market participants incorporate it into their plans today.

In the theoretical world that generates the policy norm of allocative efficiency, Schumpeterian creative destruction is ruled out by assumption. That does not mean that the conventional neoclassical economic models might not be useful for some purposes; they are just not particularly useful for understanding entrepreneurship and creativity. To the extent that entrepreneurship and creativity exist in the real world, we risk misperceiving them if we insist on interpreting them through the lens of the neoclassical model.

Airline computerized reservation systems provide a clear case in point. Several companies became the industry leaders because they were the first to capitalize on the new possibilities that information technology offered the airline industry. Indeed, the first computerized reservation systems began as extensions of American and United Air Lines' own internal computer systems. These pioneers quickly signed up many travel agents, and before regulators intervened, computerized reservation systems were a powerful marketing tool that gave the owners a competitive advantage in selling tickets on their own flights. The computerized reservation system owners earned high profits—in the form of booking fees and additional ticket sales—because they were the first to enter the market with an innovative new service.

These profits, however, are not a sign that government needs to eradicate imperfections in the airline market. Rather, the profits are the reward that the innovators received for entering a new, untried business. When government policy permits entrepreneurs to keep their profits, it promotes the alertness to new opportunities that is the first step toward achieving a more productive use of resources. When policy penalizes such profitability, it penalizes entrepreneurial activity aimed at the discovery of new knowledge.[11] Without such discovery, there can be no replacement of old methods or technologies by new ones. A consistent quest for allocative efficiency will sometimes impede the movement of resources to more highly valued uses, because it can undermine the discovery process that drives this reallocation.

"Where you stand depends on where you sit" is a common saying in the nation's capital. In the battle over computerized reservation system regulation, plenty of naked self-interest is in evidence. But the policy debate reveals more than self-interest; it reveals a clash of conceptual frameworks. Analysts who take allocative efficiency as their policy ideal will tend to seek regulation that eliminates any competitive advantage an airline might gain from owning a computerized reservation system. A minority will be more skeptical of regulation, because it erodes the incentive for entrepreneurial discovery. As the information age unleashes its creative potential, we can only hope that the minority view gains greater recognition and understanding. Economic progress depends on it. □

1. "New Reservations About Airline Computers," *Frequent Flyer* (December 1982), pp. 45–50.

2. Comments of United Air Lines, DOT Docket No. 46494 (November 20, 1989), p. 9.

3. U.S. Department of Transportation, *Study of Airline Computer Reservation Systems* (May 1988), p. 10.

4. Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper & Row, 1942), pp. 81–108.

5. U.S. Department of Transportation, *Study of Airline Computer Reservation Systems* (May 1988), pp. 24–27. Strictly speaking, these may not constitute "barriers to entry" in the economic sense; see George Stigler, *The Organization of Industry* (Chicago: University of Chicago Press, 1983), pp. 67–70.

6. For a general study of the economic literature on airline deregulation, see Jerry Ellig and Wayne Winegarden, "Airline Policy and Consumer Welfare," *Transportation Practitioners Journal*, Spring 1994.

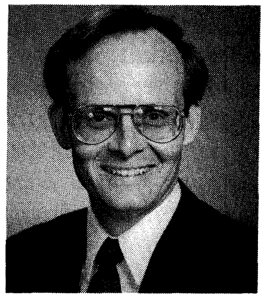
7. Steven Morrison and Clifford Winston, *The Economic Effects of Airline Deregulation* (Washington, D.C.: Brookings Institution, 1986).

8. See, for example, Severin Borenstein, "Hubs and High Fares: Dominance and Market Power in the U.S. Airline Industry," *Rand Journal of Economics* (1989), p. 344.

9. See William Baumol, John Panzar, and Robert Willig, *Contestable Markets and the Theory of Industry Structure* (New York: Harcourt Brace Jovanovich, 1985).

10. Elizabeth Bailey, "Contestability and the Design of Regulatory and Antitrust Policy," *American Economic Review* (May 1981), pp. 178–183.

11. Israel Kirzner, *Discovery and the Capitalist Process* (Chicago: University of Chicago Press, 1985).



As Values Collapse, Government Grows

The collapse of moral and ethical values in American society is frighteningly real and equally dangerous. Consider the findings of a recent Louis Harris poll of 5,000 young people.

Of those high schoolers in the poll, 65 percent said "Yes, I would cheat to pass an important exam." Fifty-three percent said they would lie to protect a friend who has vandalized school property.

One of the questions asked was, "What do you take to be the most believable authority in matters of truth?" One to two percent said science or the media. Three to four percent said religion or their parents. Most of the kids said "Me."

In a different study done by an international public relations firm, 67 percent of American high school seniors said they would happily inflate an expense account, 50 percent would pad an insurance claim, and 66 percent said they would willingly lie to achieve a business objective.

These and other appalling manifestations of a national moral and ethical vacuum were cited in a remarkable speech in 1991 by Rushworth Kidder, president of The Institute for Global Ethics in Camden, Maine. He was speaking at Principia College in Illinois.

Kidder recounted a true story about a 10-year-old child in Brooklyn, New York, who found on the street a wallet full of money, credit cards, and identification. The boy took the wallet into school and was unable to find either a teacher or an administrator who was able to tell him what was the right thing to do with the wallet.

"I can't possibly impose my values on you," Kidder said the teachers and administrators seemed to be saying. Even more incredibly, when he told this story "in the company of about seven very bright college juniors and seniors sitting around a dinner table at a very good liberal arts college in California," every single one said those teachers and administrators were absolutely right. This is worse than situational ethics; it's just no ethics at all.

Should it be any wonder, then, that crime is up? In a recent year—1990—one violent crime was committed every 17 seconds in America, compared to every 3 minutes in 1963. Thirty years ago, one murder occurred every hour in America; now it's every 22 minutes. Likewise for rape: one every 32 minutes then, one every 5 minutes now. Robbery: one every 5 minutes then, one every 49 seconds today. Burglary: one every 32 seconds then, one every 10 seconds now.

Just between 1986 and 1992, the murder rate was up 14 percent, the incidence of rape was up 12 percent, and street robbery was up 21 percent. Motor vehicle theft increased 15 percent, while robbery of convenience stores and aggravated assault both rose a whopping 26 percent.

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Twenty three hundred American youth between the ages of 15 and 19 were murdered in 1990—up by 53 percent since 1982.

As America prepares to enter the 21st century, Americans have become some of the most violent people on the planet. They feel less safe in their homes and on their streets than at any time in the history of the country. And when we're not assaulting or being assaulted, it seems we spend a lot of time cursing, conniving, lying, deceiving, backstabbing, and otherwise being unfaithful to spouse, family, friends, or associates. Our politicians seem to hit new lows of public and private morality with each new scandalous revelation. How can our society possibly retain any meaningful measure of freedom if these trends persist and deepen?

At the core of America's values crisis, Kidder pointed out so well in his speech, is the destructive, demoralizing notion that all values are in the eye of the beholder, that there are no "absolutes" against which the actions and decisions of people should be judged.

The teaching of values, Kidder says, may not yet be extinct, but it has been relegated (particularly at the college level) to a neutralist approach, where the teacher "is not to get in the way of kids discovering their own standards."

Distinctions between right and wrong are being eroded. Indeed, it seems that many people these days think the only choices are between right and right, that fewer and fewer things are really "wrong" when their "context" or the individual's motives are taken into account.

Moral and ethical relativism has suffused its poison throughout society, a major reason America has been losing its values compass. But that isn't the only thing we're losing.

The first casualty when the moral/ethical core of society evaporates is freedom. Law (government) fills the void—directing by threat of force those aspects of life that formerly were governed by our ethical standards.

Ethical people don't require fines for tossing trash out of car windows or for embezzling funds from their employer, because ethical people just don't do those things.

Nor do ethical people abandon responsibility for the education of their children or the care of their parents and expect society to do the job. Ethical people don't cast off their problems onto others because they have both a healthy dose of self-esteem and a respect for the lives and property of others. Moral people do not stake a claim of any kind on what doesn't belong to them. The erosion of values—ethical, moral, or whatever adjective you choose to employ—is freedom's single most lethal threat.

The choice, in other words, is to govern yourself or be governed. The less you do of the former, the more you'll get of the latter.

Ultimately, the standards by which we order our personal lives as well as our relationships with family, associates and others determine the sum and substance of our society. When those standards are strong, people take care of themselves and those around them; they work for a living instead of voting for one.

But when those standards decay, we pay the price in broken families, crime, drug abuse, child neglect, a loss of personal independence and greater reliance upon public welfare. If the rot gets deep enough, the price can be reckoned in terms of national bankruptcy and dictatorship. Whole civilizations in history have travelled this path and bit the dust.

Restoring our foundational values ought to be top priority for all Americans. There's just too much at stake for us to do otherwise. □

THE FREEMAN
IDEAS ON LIBERTY

The Moral Consequences of Paternalism

by Daniel B. Klein

Picture a man gobbling a second helping of chocolate cake, or chain-smoking a pack of cigarettes, or injecting heroin into his vein. Is there a crime being committed? Is aggression or violence being done to an innocent person?

In a sense, yes. A fleeting, short-term self that enjoys chocolate, nicotine, or heroin is working his will on an enduring self that pays the cost. Although we may fancy ourself a fully integrated and consistent being, it might make more sense to describe ourself as a bundle of multiple selves, selves that overlap, intermingle, and sometimes conflict.

Although you may not think of yourself as plural, the idea of multiple selves is really familiar. It is common for people to say that heavy drug users don't know what they are doing, that anorexic young girls are self-destructive, that people perpetrating violence suffer from "temporary insanity."

Some people recognize a dark self—a Mr. Hyde—that lurks within, and act strategically to defeat him. The reformed smoker will flush cigarettes down the toilet. Compulsive spenders put their savings in a Christmas Club account that levies a heavy penalty for early withdrawal. And some people, like myself, don't subscribe to cable television, not because we wouldn't use it, but because we would use it *too much*!

If such personal tactics are insufficient in subduing the Mr. Hydes that lurk, perhaps the government can lend a helping hand. After all, subduing bad guys is what the government is all about. This reasoning underlies numerous paternalistic laws in our country.

Anyone can suffer a fine for motorcycling without a helmet, or for driving a car with seat-belts unbuckled. States limit gambling to keep the poor from falling into bad habits. To help people preserve the family circle we have proscriptions on sexual commerce. Laws help us not to overuse a huge variety of substances, from heroin to penicillin. Other laws protect us from buying on impulse, from hiring incompetent plumbers or therapists, from not saving for our old age, and from murdering ourselves. All these laws are offered as a service to the erstwhile partaker.

Yes, people sometimes do things they regret. You'd be ridiculous to say that you never make mistakes, that you never do things to excess. But does that mean the government should step in and protect us from ourselves?

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One good reason to reject paternalism is that public officials, acting in some remote government office, do not in fact know better whether an activity is detrimental to our enduring self. Passing blanket restrictions on behavior rides roughshod on individuality. Some people drink too much, or gamble too much, but many others do not.

Another reason to reject paternalism is that it sets a nefarious precedent. Up to what point does the government get to play nanny? Where does it end? Sometimes it is the government that seems to suffer addiction—addiction to power—and it is the one that needs to show restraint. Furthermore, the justification of "it's for their own good" is bound to be abused. It will be used to justify all manner of special-interest plunder, such as excessive licensing laws.

But the chief reasons for rejecting paternalism do not deny irrationality in the private individual, nor even wisdom and benevolence in government stewards. The chief reasons to reject paternalism are its moral and spiritual consequences.

The Meaning of Life

What is it that gives one's life meaning? Meaning flows from narrative, from the drama of the story. But any old story won't give our lives meaning. It must be *one's own* story, a story that one feels is *of his own making*. To achieve a profound sense of *meaning*, one must be free to choose his behaviors. Hence, as Thomas Szasz has explained, paternalism is demeaning to the individual because it de-means his existence. It makes existence a happening rather than a willful action; it makes the story arbitrary and alien, rather than purposive and personalized.

The autonomous individual admits his inconsistencies, his contradictions, his bedeviling impulses, but insists nonetheless: Grant me the *dignity* of choosing which behaviors define my being, and charge me with the responsibility for the Mr. Hydes that lurk. If you suspect that some Mr. Hyde seeks to undo me, then I say, go ahead and let him try.

A first moral consequence of liberty, then, is dignity, the romantic sense of being the captain of one's soul and relishing the drama of one's existence.

There is a second moral argument against paternalism. To give our existence beautiful meaning, to make ourselves becoming, we must learn *how* to manage our troublesome impulses. But how do people learn self-command? The best teacher is liberty herself. The second moral argument is that liberty breeds responsibility (in the sense of trustworthiness or dependability, *not* in the sense of accountability). How does liberty teach responsibility? Return to the intimate contest of self-command.

Often hubris prevails. Beforehand we say we won't gamble at all, we won't get angry, we won't watch TV, we won't, we won't! We forget that the mood and vision in which plans are laid may vary greatly from the mood and scenes experienced as the course is traveled. So hubris produces unhappy experiences and a feeling of regret. From experience we gain awareness of the need for better self-command and a will to defeat our entrenched impulses.

Sometimes it is not our own outrageous fortune that sets us in search of better impulses, but the pleasing fortune of someone else. Nothing awakens our soul like the image of one we admire. As Matthew Prior wrote in 1708:

> Examples draw where precept fails,
> And sermons are less read than tales.

Rather than leaving the individual free to learn from experience and example, paternalism deprives him of these moral opportunities. By pre-empting choice, it weakens the moral faculty of choosing one's own course. And by presuming that the individual is incapable of choosing competently, paternalistic government may actually make him incapable. Wean a person in a world of decrees and proscriptions, and he may fear personal independence and responsibility (here, in the sense of *accountability*).

In 1792 the classical-liberal thinker Wilhelm von Humboldt came to similar conclusions about paternalism in his book, *The Limits of State Action.* He said: "A society in which the citizens were compelled to obey even the best behaviors might be a tranquil, peaceable, and prosperous one. But it would always seem to me a multitude of well-cared-for slaves, rather than a nation of free and independent men."

Albert Jay Nock argued similarly in his great essay, "On Doing the Right Thing": "The practical reason for freedom, then, is that freedom seems to be the only condition under which any kind of substantial moral fibre can be developed."

Two moral arguments against paternalism, then, are dignity—that is, our desire to belong to a culture of proud and romantic individuals—and responsibility—our desire to belong to a culture of decent and self-reliant individuals.

If a Mr. Hyde sometimes puts too much chocolate cake in my stomach, too much alcohol in my bloodstream, or too much television news in my head, that is *my* problem, and everyday I must practice the art of subduing him and negotiating with him. □

THE FREEMAN
IDEAS ON LIBERTY

THE PAST IS PROLOGUE

by K. Maureen Heaton

Time was when owning a home of one's own was not an impossible dream in America. Then, a determined young couple could find an affordable lot and build their dream themselves. I know. My husband and I did just that.

We had a small nest egg and a very sizeable dream. We paid for the lot with war bonds, and, on the strength of that equity, purchased a prefabricated house, which we put together ourselves. (Never mind that no nails—which were in short supply after the war—were included in our "package." A trip to San Diego and back from Redondo Beach where we lived at the time, stopping at every hardware store on the way, supplied enough to put the house together!)

When the parts were assembled, a roof over our heads, a living room and kitchen, two bedrooms and a bath were ours—for about seven thousand dollars, including the lot and the trip to San Diego.

Young people today can't do that.

Even if such a lot could be found today, it would be expensive, and the average young couple wouldn't be able to save enough to pay for it, anyway.

Our little house wouldn't have had the approval of a "planning commission." (Fortunately, there was none in those days!) It didn't have enough floor space for one thing (we thought it did). We moved in before the interior walls were installed, because they didn't come with the package, either, and we didn't have enough money then to buy them. (Today's Planners wouldn't let us do that.) I used the firebreaks between the studs to display my treasures, and missed them when the walls were finally installed.

We didn't have a garage, or even a carport, and the lot was so narrow we had to turn the house sideways to get it to fit. As a result, the front door didn't face the street. (Would that be permitted today?)

A few years later we built an addition on the back for my folks. There was no "zoning" then to say we couldn't, and no neighbors ran to the city fathers to object.

There were other ways as well for young folks to get their dream house then. Maybe the old folks had more property than they needed or wanted, and would cut off a piece for their kids. Many did that.

The Planners

Those were happy days—but it was just about then that the foolishness started and, surprisingly, found support among the general population. Just about then, the Planners moved into Our City. Their presence was not announced, but it was obvious—only we did not know it then.

The first any of us knew they were there was the night the city council held its first discussion of a "city plan." In short order, Our City had a "city manager," who quickly produced a Plan, and scheduled a "hearing" to present it to the citizens.

The citizen reaction was mixed. Disbelief was probably the strongest response from

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those present, because the Plan was so far removed from the projected layout of the city that had grown over the years. You couldn't call those early projections a "plan"—they were simply logical extensions of expected growth, sensibly preparing for a need which was already visible.

But with this Plan, the whole area within the City boundaries was to be metamorphosed.

Reconstruction

The visionary maps of a reconstructed City showed that the second high school planned for North City had, as if by magic, become a public park. Around our existing high school stood substantial homes—silent witnesses to the competence of those who had pioneered the City. On the Plan, those were gone. In their place, additions to the old high school spread out like a university campus.

City Hall (where the meeting was held), a lovely relic of a past era, was missing from the map. It was replaced by a "government center," which was shown in an area then occupied by hundreds of small homes.

The heart of the business district, situated at the waterfront, became a utopian dream of a marina—the businesses miraculously removed to outlying areas of the City, where small clumps of stores were surrounded by huge parking lots.

Someone asked what the reason was for all this transformation. The answer was almost mechanical: *"We must have planning."* "Why?" the citizens wanted to know. *"You don't want a pig farm next to you, do you?"* was the response. Well, of course no one did. But none had been proposed, either. How a pig farm might be set down in the middle of an established city was never explained.

The year was 1948. Despite strong opposition from the majority of citizens, despite an attempted recall of three of the members of the City Council (which, sadly, was unsuccessful by a slim margin), the Plan began to take on a life of its own, and Our City was never the same.

About Thanksgiving time, it suddenly became "necessary" to put new sewers in the downtown area. Main Street was blocked off, and merchants who had already put in their stocks for Christmas, found themselves isolated from their customers, who had to park outside the business district to do their Christmas shopping. It was a long uphill walk, especially with arms full of packages, and many regular customers found it more convenient to shop at stores elsewhere, which had parking close by.

Several merchants closed their doors after the holidays, and never reopened. Other businesses moved to the planned "shopping centers."

Awaiting the pleasure of Congress and federal funds, it was 20 years before the "marina" became a reality. By then, most of the downtown stores stood empty, or were occupied by fortune tellers, shady promotional entrepreneurs, tea-leaf readers, and the like.

And grass grew in the sidewalk cracks on Main Street.

The rest of that story unfolded just before the Fourth of July, 1988. The evening TV news had dramatic pictures of that marina going up in flames and smoke. It was reported completely destroyed. So much for Planner's plans!

A Man's Home . . . ?

The homes around the old high school, grand relics of a happier past, with their beveled-glass windows and door lights, beautifully planted yards, and huge graceful old trees, and those little homes in the way of the "government center" were condemned and demolished.

Gradually, the former owners disappeared from their usual haunts. So many of these were old folks, who had lived there all their productive lives, close to schools and shopping. Most had paid off their mortgages, and were looking forward to their "golden years," with only taxes to worry about. It was not possible for them to find housing they could afford for anything near what the government paid for their homes. Some went to live with their children, disrupting two families' lives. Some found apartments, and some just up and died, perhaps of broken hearts, frustration, or sheer anger at being put out of their own property.

A New Order?

This was the beginning of a new era for California—and the rest of the world, though few knew it then.

This was the activation of the National Resources Board Plan developed during the Roosevelt years.

Resistance was minimal, because citizens in one area did not know that what was going on locally was being repeated all over the country. The resistance met by Planners in the pilot areas was used by them as a lesson, to gain control in other areas.

There was a growing acceptance of the "planning idea." There was a growing body of opinion which was receptive to "government" taking control of such matters. There was a growing belief that no one could "live" in a one-room house—unless it had been there forever. Why the older one-room dwelling could be allowed and the other proposed structure not, was never explained. To an innocent, a new one-room house, surely seemed better than an old one!

Even a one-bedroom house was not to be countenanced, unless it met arbitrary standards: so much square footage; so many windows per room; the bedroom couldn't open off the kitchen; the rafters had to be so far apart; so much yard area to so much house; so much set back from the street, so far away from the lotline; and so on and on and on.

All these things added to the cost of a house, and the American dream moved further from reality for many people.

Then came the pressures for "urban renewal" and "modernizing the cities." Little houses from the past were in the path of the bulldozers everywhere.

All these interventions in the use of private property have resulted in many larger problems—no homes for the young folks just starting out on their own, no place for the oldsters to go when the children moved away, the emergence of the "street people"—and the also inevitable "necessity" for "government" to "solve" these problems.

The list of foolish interventions has grown exponentially. With each one accepted, new ridiculosities are concocted. They are made to seem so practical—no, *desirable*—that it would be considered quixotic to oppose them. It was all for our own good, you know.

Well, today, the birds have come home to roost. The way things are going, the birds may well be the only creatures with a place to call home.

I have no idea what that first home of ours would bring on the market today. I've heard that the "veteran's housing" which was built across the street from us a year or so later (which sold new for four, five, and six thousand dollars), was selling in the neighborhood of seventy thousand dollars several years ago. That's a nice neighborhood, if you can afford it. Certainly we who lived there after the war couldn't have.

Centralized planning has all but replaced the historic American method of *individual planning*. If unchecked, government will usurp all initiative for planning by citizens—not just for property, but for the whole of their lives. □

THE FREEMAN
IDEAS ON LIBERTY

King Charles' Ax: Property Rights, Human Freedom, and the Quality of Life

by John Robson

There is an old saw that "He who is not a socialist at twenty has no heart; he who is at thirty has no head." Perhaps then the world grew up in the 1980s, and learned the sad wisdom that the great schemes for bettering the human condition through government intervention did not actually work. The U.S.S.R. and its Eastern Europe satellites crashed in flames, while the widespread famines and other human tragedies in the Third World showed the Soviet development model of heavy industrialization and a squeeze on agriculture to be equally unsuited for developing countries.

Meanwhile the welfare state in the advanced industrial economies has proven itself unable either to produce overall prosperity or to remedy "social injustices" like poverty. Admittedly the rollback of the state in the 1980s in the United States, Britain, Canada, and elsewhere consisted much more of rhetoric than of action, but interventionism is on the defensive both politically and intellectually. It simply does not work. And as secure property rights are the indispensable foundation of free markets, they too are enjoying something of a renaissance.

Nevertheless that old saw lingers, in the form of a suspicion that the triumph of free markets has been a triumph for the mean-spirited; there are even those who still continue to believe that with sufficient will, sufficient compassion, intervention can be made to work.

It cannot, and the most immediate reason why it cannot is that everything in life is more complicated than it seems, and we simply cannot foresee all the consequences of our actions. For this reason we have over a long time developed general rules for both personal and public decisions, and the most important of these in the latter area is that the neglect or flagrant violation of property rights leads to counterproductive results. What Rudyard Kipling called "The Gods of the Copybook Headings" have persisted in returning afresh to the scene of each disaster and saying "We told you so."

But though this is a triumph of experience

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over hope, it is more than that. Free markets and their philosophical premise, property rights, are not a mean, grasping, Scrooge-like set of institutions collectively labeled "Devil take the hindmost." Rather, they represent the only way of organizing a society that really respects individual people.

Property rights are not *a* human right, they are *the* human right, and the reason that coercion fails practically is not a different reason from the reason that it fails morally. Coercion, even when "benign," founders on the rock of individual responsibility. You cannot as a practical matter take property rights away, and you cannot as a moral matter do so. People own themselves, but they do not own others, and there is nothing moral or idealistic about saying that they do. Property rights are a matter not only of the head but also of the heart.

The Challenge to Property Rights

There is no difficulty in demonstrating the importance of property rights to economic efficiency. There is no difficulty in demonstrating that historically societies with property rights are richer and freer than those without. Yet if we only present them in this way, saying that they have worked so far, we risk being cast as the man who, having fallen off the Empire State Building, was heard as he passed the tenth floor saying to himself "So far, so good."[1]

Some people will claim that conditions have changed, or that the longer-term negative consequences of respect for property are now surfacing (for instance with regard to the environment) and that they must now be jettisoned. Indeed, the very success of property rights in creating wealth can turn, as Schumpeter said it would in *Capitalism, Socialism, and Democracy,* into an argument that they can and should be abandoned.

Even now there is a persistent "progressive" claim that we are moving into a new age, that somehow our increased prosperity, our increased awareness, the environmental "crisis" or something else has produced a situation where what used to be good enough, or the best available, is now unacceptable. And part of this claim is that we must submerge our individualism and our materialism and march cheerfully into a glorious communal future as comrades. Economics, they say, is not all life is about. This, in fact, is taken to be the core of the "idealist" position, and it is against this claim that property rights must be defended.

King Charles' Ax

Yet the denunciation of property rights as materialist is quite inaccurate. They are the most fundamental human right, and they address themselves to the spirit and the meaning of life directly, and to the accumulation of material wealth only indirectly.

Indeed, those who would separate "mere things" from the "higher values" simply don't understand what the world is like. King Charles I of England would be the first to point out that an ax may undo a political philosophy. No matter how elegant it might have been, his theory of the divine right of kings could not withstand the practical test of whether it could govern a world of fleshly subjects and rulers, physical crops in the field, mere stone walls and lowly water in rivers. No matter how bright the eye of a child, or elegant the couplets of a poet, without food the child will die and without pen and ink the inspiration will pass unrecorded and be lost.

In this sense, and in this sense alone, a devotion to property rights is a triumph of experience over hope. For the essence of utopian philosophies is their unwillingness to accept the tragic element in life, whereas to accept property rights is to accept it. And to object to the tragic in life on the grounds of "idealism" is to object not to a political philosophy but to the fundamental nature of the universe.

Inevitably in this vale of tears our hopes and dreams assume physical form. Time passes and we must use it one way or another, and once we have it is gone and all we have is what we did with it then. To take an individual's property is to steal that time,

King Charles I declaring war on Parliament.

to steal the hopes and purposes embodied in the acts of transforming the world, and it is to say that the physical objects, the surds if you will, matter more than the hope that produced them. Thus it is that those who would violate property rights, not those who defend them, are the true materialists.

If we had world enough and time, it might be no offense for the state to take the fruits of our labor. If we were immortal, who could begrudge an hour's work? But the time we chose to invest in that transformation of matter will never come again, and as one of Clint Eastwood's characters once observed, it is a hard thing to take all a man has and all he will ever have. All we have is our time, our effort and our free choice, and to take what we do with these is to take of our essence, to violate our personal integrity, and to steal part of our soul.

Property Rights and John Stuart Mill

It may be alleged, of course, that the butcher has an obligation to other members of society, that it is his moral duty to give of his excess to those in want. To begin with, there is a world of difference between saying that everyone should be charitable and in saying that they should all agree on what charity is, and without elaborating much I would say that it is because of this that socialists must be at war with human nature. Until some way is found to produce unanimity in society, redistribution in violation of property rights remains only a way of producing the appearance of agreement and of charity, but not the reality.

There is also a world of difference between saying that it is the butcher's moral duty to be charitable, and saying that it is our moral duty (or right) to force him to act as though he were charitable. What we are asserting is not that we should force the butcher to *be* charitable (for we cannot get inside his head and rearrange his thoughts), but that we should force him to act as though he was, from our point of view, charitable. Coercion will make the butcher act as though he shared the majority—or government—view of charity, but it will not in fact make him share that view.

And this is crucial. For in forcing him to act according to our conception of generosity, rather than his own, we deprive him of any moral freedom, and put material above moral considerations. His physical goods will be transferred to another, and he may be compelled to produce more even once he knows it will be diverted to the purposes of others. But he will not be acting voluntarily. And so in an act of coercive redistribution, the material aspects are rearranged as they would be in an act of charity, but the intellectual and moral ones, the intentions and feelings, are not.[3]

As the great economic philosopher Frederic Bastiat wrote a century and a half ago, one's person, liberty and property are "the three basic requirements of life, and the preservation of any one of them is completely dependent upon the preservation of the other two. For what are our faculties but the extension of our individuality? And what is property but an extension of our faculties?"[2]

Adam Smith's famous observation that it is not from the benevolence of the butcher that we expect our dinner, and that we speak to him not of our needs but of his advantage, relies on this point. The butcher's stock embodies his time, effort, risk, and dreams, and to take it because we want it, for ourselves or for others, is to assault his person. To substitute our judgment for his, or to try to, is a monstrous violation.

Property Rights and the Grim Reaper

In a utilitarian sense, perhaps, my respect for your property rights is merely a concession to you in return for your respect for mine, and if that is as far as someone is willing to go it will have to do. But in a deeper sense my respect for your property rights is based on my practical and moral respect for your individuality. Not only will you resist my attempts to make you do what I want, but all I really know about your choices is that they are and must be yours.

Thus my respect for property rights is based fundamentally on humility. I believe that the purpose of life is, at best, somewhat obscure, and that living is a difficult activity that inevitably, in some sense at least, ends in failure. As Paul Newman's character put it in *Buffalo Bill and the Indians*, "the last thing a man wants to do is the last thing he does." And this fact stares everyone in the face, or at the very least peers over their shoulder constantly.

I am going to die. I don't know much about you, my readers, but I know that as Seneca wrote "You will die not because you are sick but because you are alive." And as death rushes toward you and all of us (and if you have one of those digital watches that beeps every hour you don't need to miss it happening) you have chosen to spend these moments reading this essay. Many people would consider this folly. And they aren't sitting, *The Freeman* in hand, absorbing ideas on liberty and property. They are out shopping, or skydiving, or fighting with their in-laws, or doing any number of things.

Once again, if the arrow of time were not unidimensional, this would not be a problem. If you didn't like what you had done, you'd just do something else. But in our universe making one choice means not making another, so we can in fact make our choices badly and be stuck with it.

Property Rights and Joseph Stalin

The only way to avoid these conclusions, and into the bargain to protect others from the terrible fate of justified guilt, is to reject the premise of individualism. We may say that it is simply not true that individuals are, or should be, left to face the universe of moral choices alone (we have already seen that the world of moral choices is a world of choices about material things with moral consequences, so we cannot avoid the moral choices by saying that where we went was merely physical. So is all motion, and all choice). We may say that the purpose of the individual is to serve the greater good and that the individual's choices will be dictated by the greater good, or its agents, and that only the greater good can feel any culpability for those choices.

In its purest form this is as a practical matter impossible to hold, and even the most rigid Stalinists would blame an individual worker who neglected his revolutionary duties. Even if you submit to the common will, if you do it badly you are to blame. Or, to quote Elizabeth Fox-Genovese's *Feminism Without Illusions: A Critique of Individualism,* "Here I am arguing that individualism actually perverts the idea of the socially obligated and personally responsible freedom that constitutes the only freedom worthy of the name or indeed historically possible."[4] There's that darn personal responsibility again, in the writings of a self-described foe of individualism.

But in fact I simply do not accept the collectivist vision as a description of the world, let alone as a prescription. I observe and I believe that if told what to do for the common good I must myself decide whether to obey, and I must live with my choice. Even if disobedience means death, I cannot turn on the Zyklon B and say "Just following orders."

This is very much the same as C.S. Lewis' argument at the beginning of *Mere Christianity*: even if you say "I do not believe in individual responsibility" you will observe as a matter of fact about the operation of your personality that you do. You will in fact consider yourself responsible for your actions, even if only in that you take pride in complete submission to authority.[5]

So I begin by taking the intellectually humble position that I do not know what other people should do. If asked by the shoppers and sky-divers whether they should be reading these words or doing what they are doing, I can certainly inform them. I can inquire as to how they expect to benefit from what they are now doing, and what they think they might experience by choosing something else. If I find that there is something wrong or suspect about their expectations in one or both cases, I can pursue the matter as long as *they* want me to. I can even make a suggestion as to what I think they should do. But I do not know. And since I do not know, I take the intellectually humble position that I will not compel them.

The knowledge that we do not know must make us more profoundly humble. To assert that I know what you should do implies necessarily that I know what I should do, and who among us will cast the first stone on that account? No one makes all decisions perfectly because there are so many and life is so difficult. We all, to be blunt, mess things up, and it's mostly a question of avoiding mistakes as much as possible, making amends where necessary, and not getting too down over our own fallibility. It's just life.

But I also take the morally humble position that even if I did know, I could not compel others. I do not know the meaning of your life, nor of mine, and I have my hands full with the latter. Yet I do not spare time to run yours not because I hate you or scorn you, but because I do not believe that I can make your choices for you at all. It's not just that I shouldn't; I can't. This is a matter of definition: no matter what I say, you must choose whether to do it, even if it's "Your money or your life." And if I do try I will only get in your way.

The meaning of your life is the meaning of your choices, so to make them for you is to void your life of meaning in pursuit of material, not moral, situations that I prefer.

Money Can't Buy Happiness

Indeed, it is always vital, in my view, to go back to first principles, in this case asking what society is for and what the good life is. To take a rather trivial example, the reason that airports should be private is not that private property increases the wealth of society and moves us closer to the New World Order. It is that private airports let people go where they want.

And to treat government as some institution for achieving the greater good, and asserting that it can and should override individual rights when "prosperity" requires it, is not only to advocate a policy that almost certainly won't work. It is also to assert that individual freedom is a good like any other, and with a low price. It is to say that we would be better off in an unfree society with a per capita income of $20,000 than in a free society with a per capita income of $3,000, and that is simply not so. As Booker T. Washington wrote in his autobiography, "I have learned that success is to be measured not so much by the position that one has reached in life as by the obstacles which he has overcome while trying to succeed."[6]

Thus while I enjoy luxury as much as the next guy, I would prefer my own log cabin to a gilded cage. And I would not dream of calling "idealistic" any philosophy that did not respect this same preference, in me or in others.

The Constitution of Liberty

Respect for property rights means respect for individual choice, and therefore we can quickly identify laws and institutions inimical to respect for individual choice by their impact on property rights. You in the U.S. are blessed with a Constitution that firmly protects them, though you are cursed with a Supreme Court that has all but destroyed them, while we in Canada have a Constitution that ridicules them and a Supreme Court that does likewise. But we should aim for a legislative and ultimately a Constitutional order that does protect them, when we do not have one, and for a restoration of judicial sense and hence Constitutional government when we do.

In order to do this we must win the intellectual battle, and we cannot win it on the terrain of Pareto Optimality not because our arguments are so weak there but because they are so strong. Anyone who really understands the terms "utility maximization" will not fall for "beneficial" legislation.

No, where we must win is on the enemy's terrain, where we argue that property rights literally are human rights. We own ourselves, not other people, and we may exercise that ownership as we see fit. But our ownership of other people, which we do not possess, we may not exercise. Thus rent-seeking, the curse of modern government, is ruled out *a priori*. A government that respects property rights is not in the business of redistributing income, period.

Property Rights Are Human Rights

And so we must remember that a Constitution that protects property rights is a Constitution that protects not the exploiter or the pampered heir, but one that protects individuals.

In fact there is no "human right" that is not best understood as a property right, including free speech, freedom of religion, the right to bear arms, the right to be free of arbitrary search and seizure, and the right to freedom of contract.

Even the ninth and tenth Amendments to the U.S. Constitution are, from this point of view, easily explained. Since no one may delegate to government a power he or she does not possess, the government may not go about assuming powers it hasn't expressly been given, even on the grounds that "it's for the best." Like the entire Bill of Rights, this section was questioned by some who argued that no one could possibly take any other view. Fine and good, said the doubters, if it's that obvious let's put it in just for good measure. History has proved that even they did not doubt strongly enough, but the other parties were right that, given the nature of the U.S. Constitution, the government could not possibly have the power to undertake any sort of coercion of its citizens not expressly enumerated.

Moreover, if human rights literally are property rights and vice versa then the so-called "positive" rights are not rights at all. For they are the right to someone else's property, which means the right to someone else's person, and that you do not have. Not having it, you certainly cannot delegate it to government. And from this point of view we will not lose sight of why you may not, and will not fall into practical or moral errors.

To take a rather less cosmic example, consider the coercive, universal, shoddy education currently afflicting youth in North America. What is particularly remarkable about this problem is that for thirty years we have been throwing money at our schools, like good materialists, yet as the quality of education declines still further the only thing we can think of to do is to throw more money at them. This is even empirically silly, since those nations that outschool us—for instance Japan—have much shabbier, much more crowded schools than we do.[7] The problem is that our educational system does not allow people to take control of their own or their children's education, to make the important choices themselves. This is a practical error and it is a moral error, but it is not two errors. It is one very big one.

For you do not have the right, through any means at all, to make other people's choices for them. You do not have the ability either. This is where and why practicality and idealism intersect. The attempt to make other people's choices for them will fail because they are fundamentally theirs to make. You can, of course, reduce the choice set available to them, but if you do you are engaged in a deplorable violation of their personal integrity, not in an act of benign and magnanimous charity.

Conclusion—A Prison Called Heaven

This was driven home to me quite forcefully in a rather unlikely setting in December of 1992, when the Fraser Institute hosted a round-table luncheon where the guest speaker was Karlhermann Klottschen, director of the *Treuhandanstalt* (the agency charged with privatizing the "economy" of the former German Democratic Republic). My thesis, as I noted at the outset, is that property rights are not material in nature, except insofar as the universe is. The right to property is first and foremost the right of self-ownership, and becomes a right to things only because the universe is made of material stuff and the arrow of time is unidirectional. In such a universe it is the height of miserable materialism to constrain the free choices of others, and the height of idealism to allow them.

And when Herr Klottschen was asked what was the most lasting damage done by socialism in East Germany, this is what he said:

> I think they have robbed people of the most precious thing they have; that is, to spend their time in a way that they wish. They have taken away this very precious thing which we cherish, and that is the freedom, the liberty to move where you want, and to do what you want, and this they have basically forbidden. I think that is a very serious crime for which there is no penalty. . . . What I find is very disastrous is to put 16 million people in a prison for 45 years and pretend they are in heaven.[8]

There is no doubt at this point in history that violations of property rights do not achieve their goals, and indeed East Germany was not a prosperous place. But money cannot buy happiness, and what was really wrong with the GDR, as Herr Klottschen rightly stated, was that people's dreams and ideals were destroyed. Even if the GDR had enjoyed greater material wealth than, say, eighteenth-century England, the latter would have been a better place to live.

So it is wrong, even preposterous, to call property rights materialistic. They are the most basic human right. They are the only human right. They are what makes life worth living. □

1. This analogy was in fact used by environmentalist Paul Ehrlich in an ongoing debate with economist Julian Simon about the so-called "limits to growth," after he had lost $500 in a bet with Simon about metal price trends in the period 1980–90, *The Economist*, December 21, 1991, p. 26.
2. Frederic Bastiat, *The Law* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1974 [first published 1850, in French]), p. 6.
3. In this sense those who respect property rights manifest true idealism. But rather than become involved in a squabble over terminology, let us regard the term as the rattle on a rattlesnake, and avoid any "idealism" we may encounter. In this we would be following Thoreau, who warned us that if we saw a man approaching bent on doing us good we should flee for our lives.
4. Cited in Joan Kennedy Taylor, *Reclaiming the Mainstream*, p. 11.
5. Unless, of course, you decide to get really messed up and feel guilt over feeling proud of your humility before Allah.
6. Booker T. Washington, *Up from Slavery*, p. 39.
7. See for instance the survey of education in *The Economist*, November 21, 1992.
8. In the elision he spoke of the inappropriateness of trying Erich Honecker for the shooting of a handful of people when the whole regime was a monstrous crime.

THE FREEMAN
IDEAS ON LIBERTY

Owls, Ferrets, and Free Markets

by K. L. Billingsley

Ranchers in the western states like black-footed ferrets because they wreak havoc on the prairie-dog towns that cause ranchers much grief. But when ranchers see a black-footed ferret, they are likely to shoot, shovel, and shut up about it. What would lead ranchers to act against their interests?

Federal regulation. The black-footed ferret has been declared an endangered species, like spotted owls and various brands of woodpeckers and snails. If an endangered species is discovered on your property and federal regulators find out about it, they will make life very difficult for you. In fact, you may not be able to use your property.

The Constitution of the United States stipulates that you may not be forced to quarter soldiers on your property without compensation. As Montana State economics professor and former Interior Department official Richard Stroup points out, "the military pays for what it takes," but environmental bureaucrats do not. Stroup notes that current regulations require landowners to quarter all manner of species, or even a wetland, with no compensation.

To many observers, this constitutes a "taking" and should be compensated. John Echeverria, chief legal counsel of the Audubon Society, disagrees, seeing the call for compensation as a money-making scam and radical reinterpretation of the Constitution. Echeverria favors stepping up the regulatory enforcement that has become quite draconian.

According to Nancie Marzulla, formerly of the Justice Department and now chief legal counsel for Defenders of Property Rights, some 800 people have been jailed for environmental infractions since 1982. That figure includes seven for violating wetlands policy.

According to Vice President Al Gore, the world and nation stand at the brink of an environmental apocalypse. By Gore's standards, then, the regulatory approach is protecting neither the environment nor the individual rights that constitute the bedrock of American government and society. Some people see a better way: free-market environmentalism, which is more than a theory.

The government of Zimbabwe has come to the rescue of dwindling elephant herds by privatizing hunting rights. Poaching has virtually disappeared, the elephants are thriving, and the income of the villagers has doubled.

In the United States, the group Ducks Unlimited has preserved more wetlands than government departments boasting much larger budgets, resources, and legal clout.

Hank Fischer, the Northern Rockies representative of Defenders of Wildlife says

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that the Endangered Species Act (ESA) has been ineffective on private lands, which harbor fifty percent of endangered species. Fischer's group compensates ranchers when wolves kill livestock. The group also pays ranchers to let wolves develop on their land.

R.J. Smith of the Competitive Enterprise Institute is an avid bird-watcher and former president of the Monmouth (N.J.) Audubon Society. Smith notes that around the turn of the century the wood duck became an endangered species. The ducks now thrive, not due to government regulation but to private landowners who built boxes for the ducks to use in nesting. Something similar happened with the osprey. But things have changed since the ESA.

At present, Smith notes, "there is no incentive to help the spotted owl," since building boxes for the birds will only attract predatory regulators. In this way the ESA, Smith adds, provides "perverse incentives" and creates a "lose-lose" situation.

The largest landowner in the United States is not some tycoon or corporation but the U.S. Government, which still controls about one-third of the nation's land. Economist Terry Anderson, Senior Research Associate at the Montana-based Political Economy Research Center (PERC) and co-author of *Free Market Environmentalism*, advocates a plan in which the federal government could sell some of this land to private groups such as the Sierra Club, which are interested in preserving old-growth forest. This type of privatization would force people to face both costs and benefits. According to Anderson, the federal government lost $23 million on recreation last year.

Parks could be privatized and companies could lease their land to hikers, hunters, and fishermen. Another market measure would be the trading of permits. For example if a logging company owned some old-growth forest, it could trade that area for a timber region that they could harvest.

"When you own assets you take better care of them," says Richard Stroup, who adds that the market "forces even short-sighted people to account for the future." Stroup argues that, contrary to what many believe, the government is more short-sighted than the market. He cites the case of a government official he worked with who agreed that a certain inexpensive research project had merit but who failed to fund it because it outlasted his tenure in the Interior Department.

While those on opposite sides of the environmental debate disagree with each other's beliefs, observes Stroup, a market system based on common law will force them to respect each other's rights. And since there is no perfection in human affairs, Stroup urges all sides to ask the "compared to what?" question.

In the end, there are only two ways to solve the environmental question: by regulation or by property rights. According to the best evidence to date, the property rights approach comes closest to a win-win situation. □

THE FREEMAN
IDEAS ON LIBERTY

Post-Communist Traumas East and West

by Tibor R. Machan

[We] cannot say that democratic institutions reflect a moral reality and that tyrannical regimes do not reflect one, that tyrannies get something wrong that democratic societies get right.
—PROFESSOR RICHARD RORTY,
The New Republic, July 1, 1991

During an international conference on political theory several of us were sitting in a restaurant in Tallinn, Estonia. Among us was a participant from Bucharest, Romania, a young woman, who listened as some from the West poked fun at the evident inefficiency of the Russians who still have a significant presence in the Baltic countries and who happened to be running this establishment. We noted the drabness of the decor, the ineptness of the help, the slowness of the service, and reminisced about the even worse olden days when the gray-looking Russians who dominated the Communist culture would run roughshod over everyone in sight.

Suddenly we saw our friend from Bucharest in tears. She was apologizing but unable to keep herself from sobbing. We were stunned—we didn't know what we did to upset her. We all searched our minds for what we might have said but could not come up with a sensible answer. In a while she calmed down a bit and told us.

All of this amusing banter called to our friend's mind not only what she had been living with for all of her life but what in her country is still largely the case, namely, the complete control of the Soviet-type bureaucracy over the society. She then went on to recount, in halting English and tearfully, how the daily lives of her family and friends had been utterly trapped in the abyss that so many in the West championed as the promising wave of the future. She gave example after example of how people suffered, from moment to moment—how every ounce of some modicum of joy and pleasure, never mind genuine happiness, was rendered utterly impossible and inconceivable for them. She noted that people simply lost the will to live, that they could not even smile, not to mention laugh heartily, and how the most minute matters, such as the way in which parents played and talked with their children, suffered from this totalitarian impact.

It is often only when one finds oneself facing the facts directly, inescapably, that

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one can appreciate their meaning. This is especially true about facts that so many people would just as soon obscure with clever rationalizations.

In the West, especially in American newspapers, academic journals, and college classrooms, the collapse of the Soviet empire is now nearly forgotten. People everywhere are talking about why there isn't some kind of major economic boom in response to this fall. A *Business Week* editorial remarked, "Communism has been vanquished in much of the globe, the victim of its own failure to deliver a decent living to its citizens under its rule. Yet capitalism in the industrialized nations is limping along." It is as if "one, two, three," and our world will simply put 40 to 70 years of bloody dictatorship and command economy out of mind and bounce back as if nothing had happened.

Assessing the Damage

The damage inflicted by the Communist reign is not nearly well enough understood. It is certainly no longer treated as a big deal. What has taken its place as a vital item of concern is just how bad conditions are in the wake of the efforts to live without Communism, without the mighty Soviet State imposing its warped vision of human life on all the colonies within its sphere of impact. The question that seems to titillate the interest of many people is why the recovery is so slow, if a recovery was needed in the first place. The question on the minds of many prominent journalists, for example, is: "What should be substituted for the admittedly harsh and clumsy form of socialism, in the wake of the evident unworkability of the freedoms that the people gained after the fall?"

Despite all the talk about free markets and free institutions in the newly liberated countries of Eastern Europe, the intellectual consensus among political theorists and scientists seems to be that some kind of middle way is needed between socialism and capitalism. There is little encouragement toward a truly vibrant capitalist system either from our politicians and political theorists or the voices of moral leadership.

Just consider what the word on this is from the Vatican Secretary of State, Angelo Cardinal Sodano: "Capitalism is no less dangerous [than Communism] because of its basic materialism and the unbridled consumerism and selfishness it encourages" (*La Stampa*, December 28, 1992). Instead of the truly productive capitalist system, the preferred alternative seems to be social democracy, the welfare state or communitarianism, a hybrid of liberalism and socialism, with the emphasis not on the value of the freedom of the individual, including freedom to engage in free production and trade, but on the value of individuals' responsibilities to the community, not unlike the creed preached by Marx and his followers. The new vision involves a system in which free trade is here and there "permitted," but only under the watchful eyes of planners and regulators who know just when to limit people's liberty good and hard.

The one system that gets the least play as a proper candidate to replace the tyranny just overthrown is free-market capitalism or, as the Europeans call it, classical liberalism. No, that would unleash all the beasts. Such freedom cannot work and must not be tried, lest anarchy and rapaciousness break out all over. Look what freedom's promise has already unleashed on Bosnia-Herzegovina. Look how greed and profiteering has already spread all over the old Soviet sphere. So the proper answer is not to let it happen—some people must become the stern tamers of the rest, if only we could quickly decide who are so clever and dependable as to take the reins of power.

Not only, then, is there little left of true capitalism and free-market economies in the West but there is little chance of such a system taking over where the Communist dictators failed. In addition to this, few people in the West seem to fully appreciate just how horrible the Soviet experiment really was and how difficult it is to recover from it. There are no expressions of earnest *mea culpa* anywhere. Publications such as *The Nation, The New Republic, The Pro-*

gressive, The New York Times, The Washington Post, and the hundreds of other more scholarly outlets or related media do not spend much time acknowledging that their different degrees of softness on Communism, the thesis of moral equivalency between capitalism and Communism, their subtle but evident apologies for the Lenins, Stalins, Brezhnevs, and others in the Soviet debacle may have had a bit to do with the horrors the people had been subjected to, as well as with their current difficulties in recovering from these horrors and starting a new life, and recapturing some measure of hopefulness and the will to live and flourish.

I was rereading *Naming Names,* the book about the black list period in America during the 1950s by Victor Navasky, editor of *The Nation* (which is still proudly championing socialism with some kind of human face for all countries). In it Navasky made clear that he thought that despite the brutality of Soviet Marxism there was something morally noble about the system because its intent was to help the poor and powerless. I also read some passages ridiculing the Russian-born American novelist Ayn Rand who once claimed that a movie that depicted Russians smiling was a travesty, a sly propaganda piece since no ordinary Russian could be presented in such a way without a gross distortion of the truth—it would be comparable to depicting Jews in concentration camps having a good time playing volleyball. Not that this may never have happened, but that highlighting such characters in a work of fiction amounts to a vile distortion. Navasky and his ilk, of course, scoffed at this and still do.

A Complex, Painful Ordeal

But that is just what our Romanian friend was telling us about the millions and millions of victims of the Soviet terror, one that only a lunatic could imagine to have been motivated from compassion and care. What is worse, today many of these same naive reporters of the meaning and impact of Soviet socialism still do not appreciate just how complex and painful an ordeal it is to attempt to recover from it all.

People are not simply changing from one game to another when they finally are able to leave the Soviet system behind. They are undergoing recovery from massive and prolonged injury to their whole beings. They and everyone they know and love had been beaten and derided and terrorized by thugs for decades on end. When finally they are left alone, they are expected to, as the song says, just pick themselves up, brush themselves off, and start all over again—with cheer in their hearts.

We are seeing some extremely painful recovery as well as relapses in the lives of those who had been the victims of the Soviet experiment that so many of our comfortable intellectuals watched with vile neglect. We will see normal imperfect human beings undergo a slow convalescence or stand around hesitatingly coping with new problems and nearly forgotten ones as well.

For the many people who have given their support to socialism and Communism over the years—if only by not being brutally honest about them—on such grounds as that, well, these systems were motivated by compassion for the poor and downtrodden, the failure to see all this is a blatant confession of hypocrisy. The victims of the Soviet vision of human life deserve compassion and caring and yet all they seem to be getting is the callous disregard for their plight and the quick judgment that they are, after all, unable to handle freedom, aren't they? What the yearning for self-justification will not permit some people to do in the face of the gravest of human tragedies! □

THE FREEMAN
IDEAS ON LIBERTY

The Economic Way of Thinking

Part 8

by Ronald Nash

In June of 1992, I was nearing the end of a set of lectures in Moscow, Russia, when I learned that a member of the Congress of Peoples' Deputies was coming by my hotel to meet some people in our party. I decided that I would use the meeting to try to learn more about what makes Boris Yeltsin's opponents in the Russian Congress tick. When the deputy revealed that he was an important player in economic decisions made by the Congress, I brought up the subject of the massive increase in Russia's money supply that had just been announced. In a matter of weeks, Russia planned to double its money supply. Didn't anyone in the Russian Congress realize, I asked the deputy, what the announced action would do to the Russian economy? Didn't anyone understand the horrendous inflation that would result?

The deputy made it clear that he and his allies in the Congress did not care about the long-term results. The huge inflation in Russia's money supply was necessary in the short-run because, he claimed, it would alleviate serious problems resulting from his nation's movement away from Socialism. Had the deputy been a bit more candid, he would have admitted that the planned inflation in the money supply was going to benefit the deputy and thousands of other Russian bureaucrats like him.

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Actions like those just described, along with the blasé attitude toward the future exhibited by the Russian deputy, are an example of the folly that results whenever individuals or governments ignore the fourth principle of the economic way of thinking, which is the subject for this, the last in my eight-part series. This fourth principle of the economic way of thinking is the importance of always asking what the long-term consequences of any economic action will be.

Short-Run Versus Long-Range Consequences

Economic theories are testable in terms of their success in predicting and explaining what takes place in the real world. One way of assessing any economic proposal is to ask what its long-range consequences will be. It is a mistake to notice only the short-term or immediate consequences of economic activity. Any proposal or policy can affect the way people view a situation and thus can alter their incentives in ways that change their choices. Such a change in incentives often produces other effects that become noticeable only in the long run.

American politicians excel at adopting economic policies because they appear to produce desired consequences in the short run. What "the short run" usually means for American politicians is an effect likely to last through the next election. This has often been true of policies adopted because of the help it was claimed they would bring to the poor. But measures that appeared beneficial when viewed in the short term often look quite different after a longer period of time. This has certainly proved to be the case with the Russian government's continued expansion of its money supply that has gone far beyond the one-hundred percent increase in mid-1992. The Russian ruble has become worthless and the incomes of tens of millions of Russians continue to plummet, leaving them further behind each week in their quest for the basic necessities of life. As the inflation rate continues to escalate, the leftist-controlled Congress has continued to slow down Russia's feeble efforts to move towards democracy and a market economy.

But there is no need to say more about the insane economic policies of the Russian government; there are abundant examples of equally foolish acts by the American government.

How the U.S. Government Destroys Industries and American Jobs

In 1955, the United States produced half of the world's cotton (some 18 million bales a year). But by 1969, only 11 million bales were being harvested in the United States. This dramatic decline resulted from growing competition from foreign cotton growers and synthetic fabrics. Lost in the fog of history and government statistics is the sad but true story of how U.S. governmental intrusion into the cotton and textile markets gave added strength to foreign intrusion in these markets.

The first leg of this governmental intervention were federally mandated price supports for U.S. cotton that by 1955 had reached a peak of 32 cents a pound. The short-run justification for this price support was the alleged good of cotton growers whose income would increase because of the government's "wise and benevolent action." But as we saw earlier in this series, every economic action involves some cost. If you artificially raise the price of U.S. cotton to raise the income of U.S. cotton producers, you open the door to the importing of lower priced cotton from foreign producers. Even more serious was the fact that the price supports raised the price of U.S. cotton above the world-wide market price, cutting dramatically into sales of U.S. cotton abroad. U.S. cotton producers were rapidly losing their niche in the world market.

The federal bureaucracy's answer to this was to subsidize the price of U.S. cotton exported overseas in 1956. This immediately created problems for the American textile industry whose manufacturers were now forced to pay more for U.S. cotton than their foreign competitors. This meant that foreign producers of cotton goods could manufacture and sell their goods more cheaply than American millers. The U.S. government's response was to add still another subsidy, this one for U.S. millers.

There was nothing mysterious or surprising in any of these long-term consequences resulting from our government's intervention with the cotton and textile markets. Anyone attuned to the economic way of thinking could easily have predicted what was going to happen; and of course many economists and businessmen issued their warnings. But those warnings were ignored in the mad rush to produce some immediate but short-lived "solution" to some problem. Notice also that many American businessmen were eager accomplices in what eventually became the destruction of their industries.

Once the dangers of the government subsidies became apparent, assorted changes were made. But the damage had already been done. Foreign growers had already become established because the U.S. government's actions gave them an incentive to enter the cotton market. Foreign millers became established because the U.S. government's actions gave them an incentive. To appreciate fully the damages resulting from this last fact, it is necessary to visit some of the American communities that used to provide tens of thousands of textile jobs. The factories are closed, the jobs were terminated years ago, and the local economies were devastated. But few people recognize the role of the federal government in bringing about all this loss. And fewer people still recognize how inattention to the fourth principle of the economic way of thinking helped produce the situation. When contemplating any economic action, always ask what the long-term consequences of that action will be.

How Government Destroys a Housing Market

Failure to calculate the long-term consequences of an act has been a major factor in the housing crisis in New York City. When a locality like New York City imposes rent controls, it does so under the pretense that rent controls will stifle the greed of selfish property owners, reflect the greater compassion of the liberal bureaucrats who run the city, and presumably make more decent housing available at a lower cost. But anyone familiar with the principle of long-range consequences knows that the end result of rent controls will not be more available housing but less; and on top of all that, the condition of available housing will continue to deteriorate.

As we learned earlier in this series, people respond to incentives. Property owners think they are entitled to some return on their investment. When they begin losing money because of coercive rent controls, the first thing they begin to do is cut back on required maintenance of their property. As the condition of the property declines, it becomes increasingly less desirable to responsible people who find other places to live. As the apartments become increasingly occupied by lower-class residents, the lack of maintenance coupled with the tendency of people to treat other people's property with something less than loving care leads to still a further decline in the quality of the property. Many such properties deteriorate so badly that they eventually become condemned or mysteriously burn to the ground. If one doubts that this happens, all one need do is make a brief visit to the borough of New York known as the Bronx.

Other property owners will survive the rent controls by finding creative ways of getting around the restrictions. A black market in rental property may arise. People able to rent an apartment at the governmentally approved price may still have to make additional payments under the table, perhaps by renting additional furniture or paying for a cleaning service. A good exercise in the economic way of thinking would be to consider what would happen to housing in New York City if all rent controls were ended. The short-term consequence, of course, is that the price of housing in the city would jump dramatically. But, of course, the ultimate blame for this would be the original, short-sighted view of the city bureaucrats. But the long-term consequence would be an enormous increase in the quantity of new housing as entrepreneurs rush into the market to build new housing in response to the incentives of higher rents. But as the quantity of new housing increased, as it would, another long-term consequence would be the significant decrease in the cost of such housing when the quantity of acceptable housing then supplied by the market increased.

Given the obvious answer to New York's housing crisis, the question to ask is why the liberal bureaucrats don't admit their mistakes and abandon their self-destructive policies? One possible answer, of course, is that one must never underestimate the stupidity of politicians. Whatever the truth may be in the case of these bureaucrats, it is clear that the real losers are the people who live or would like to live in the city.

Conclusion

Another worthwhile exercise for the reader would involve the identification of other self-destructive economic policies that fail to consider long-range consequences. Even as I write, there is proposed legislation that would produce automatic increases in the minimum wage in response to inflation. Minimum-wage laws are justified as acts that will help low-skilled workers earn a living wage. But it is clear that such laws only force employers to lay off more unskilled workers. And so, the very law that was supposed to help unskilled workers earn more money has the long-range effect of costing many of them their jobs. Such is the nature of liberal "compassion" that ignores the economic way of thinking. □

LENDING DISCRIMINATION: THE UNENDING SEARCH

by Robert Batemarco

H. L. Mencken once called politics "the art of looking for trouble, finding it everywhere, diagnosing it incorrectly, and applying the wrong remedies." You don't have to spend much time looking around to see just how right he was. Mencken's characterization fits some recent regulatory follies to a tee.

One problem the politicians and bureaucrats set out to find was discrimination in lending. They found it in just about every rundown neighborhood in which mortgage lenders failed to extend credit because there wasn't a sufficient probability of recovering money lent. This avoidance by lenders of certain areas, known as red-lining (so-called because red lines were supposedly drawn around areas where banks would not make loans) was outlawed by the Community Reinvestment Act of 1977. Other types of lending discrimination were forbidden under the Equal Credit Opportunity Act of 1974.[1] Interestingly enough, despite the current political climate, which encourages members of officially designated victim groups to make any of life's little disappointments into a federal case, the Federal Reserve System's office that deals with credit discrimination has received but a trickle of complaints, not one of which was found to entail illegality. The Fed's response to this dearth of activity was to seek out complaints from civil rights activists. Even this had no discernible effect.[2]

The misdiagnosis was the idea that these areas were rundown *because* they couldn't get loans. Dysfunctional families, public schools incapable of imparting the skills to prepare children for a productive adulthood,

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pervasive dependency on government largesse, high unemployment, and rampant crime which prevents those who are productive from enjoying the fruits of their labor get nary a mention as contributing factors. Certainly, the notion that these factors, which cannot help rendering a neighborhood rundown, might also make loans there a losing business proposition seems not to have occurred to those who are so quick to cry "discrimination."

Indeed, the very existence of racial discrimination in lending is only plausible because of the misinterpretation of the available data. The finding by the Federal Reserve Bank of Boston that, in 1991, 15.0 percent of Asian, 17.3 percent of white, 26.6 percent of Hispanic, and 37.6 percent of black applicants for mortgage loans were denied credit is taken by regulators as proof of such discrimination.[3] Whether it is or not, however, depends on a number of factors which such summary statistics are incapable of revealing. Unless the members of each of these groups possessed identical levels of such characteristics relevant to credit-worthiness as income, net worth, employment stability, and quality of the collateral they can post as security for the loan, to name a few, the numeric discrepancies mentioned above provide but the flimsiest of circumstantial evidence regarding the existence of discrimination.

Those studies which have taken such factors into account have discovered that Asians, whites, Hispanics, and blacks with similar levels of credit-worthiness do indeed have similar rejection rates. A study of lending behavior at a Detroit-area bank which controlled for factors related to credit-worthiness found no correlation between one's likelihood of having his mortgage application approved and one's race.[4] Even the study conducted by the Federal Reserve Bank of Boston, which has been held by many as evidence of widespread discrimination, shows that taking credit-worthiness into account reduces the differences in rejection rates among racial groups. Its author, Alicia Munnell, has conceded that her study does not prove discrimination.[5]

Default Rates

If any statistic could shed some light on the presence or absence of discrimination among various ethnic groups, it would be the relative default rates among those groups. If lenders both made loans only on non-discriminatory profitability criteria and were able to avoid systematic errors, default rates would be identical for all groups. As a matter of fact, data cited by Ms. Munnell establishes the absence of any statistical relationship between race and default rates.[6] Any fair-minded observer would have to conclude from this evidence that lending discrimination, if it exists at all, is a non-problem. Indeed, the very regulators charged with enforcing Community Reinvestment Act guidelines have rated nearly 90 percent of commercial banks as "satisfactory" or "outstanding" regarding their fair lending records.[7]

Not only are the numbers incapable of supporting the charge of lending discrimination, but so are theoretical considerations. To the extent that loan officers' incomes are based on the number and the value of the loans they generate, indulging whatever prejudices they may have against members of other races who in point of fact are fully qualified for loans would be a pricey indulgence indeed.[8] Furthermore, as long as such prejudices were not acted upon by all lenders, any qualified applicant turned down by one lender because of his race would represent a profit opportunity for those lenders not blinded by prejudice.

It should be noted that those who single-mindedly seek to find discrimination are not deterred by anything as pedestrian as the absence of evidence or logic on their side. Thus, Richard F. Syron, President of the Federal Reserve Bank of Boston, while realizing that loan rejection rates have more to do with weak credit histories than with race, nevertheless exhorts lenders and regulators to stop asking if there is a problem and begin to work to solve it.[9] Alicia Munnell continues to insist that lending discrimination occurs even though she had admitted that neither she nor *anyone else* has any evidence of it.[10] Indeed, some regulators, when they can't find discrimination, are still not satisfied. Federal Reserve Board Governor Lawrence Lindsey, for instance, sought to prevent First Interstate Bancorp from acquiring another bank, not because there was any evidence that it discriminated, but because he did not think that it worked aggressively enough to make mortgage loans in particular low-income and minority areas.[11] Atlanta's Decatur Federal Savings & Loan was put through the wringer for not advertising in black media and not giving special treatment to black borrowers, specifically not making loans at below-market rates to black borrowers who did not qualify by traditional banking criteria.[12]

Mencken Was Right

As Mencken realized, regulators would not be so hell-bent on finding problems unless they were itching to try out their (invariably counterproductive) pet solutions on them. One preferred solution is to foist on lenders the same types of affirmative action requirements which become so much a part of the business landscape. Regulators' ability to withhold approval of new branches or acquisitions until their mandates are complied with in full is a potent threat indeed.

Shawmut Bank, New England's third largest banking company, knows by painful experience just how effective it is. The bank has seen its efforts to expand through acquisition of other banks, a virtual necessity in today's fiercely competitive environment, halted abruptly not because it has been convicted of, or even indicted for any violation of any law, but merely because of suspicion that Shawmut *may* be guilty of lending bias, which is being investigated by the Justice Department.[13] Until the banks' officials comply with the commands of regulators, they will remain at a competitive disadvantage. Some of the actions which they have taken in an effort to placate the powers-that-be include requiring lower down payments of certain low-income applicants, earmarking $25 million for applicants whose unstable employment histories would not qualify for loans under traditional standards, and paying $100,000 to a left-wing community activist group which one would expect to otherwise make further accusations of discrimination.[14] Similar pressures forced Decatur Federal to "pay heavy fines, institute lending quotas, pay bonuses to people who didn't qualify for mortgages, hold racial brainwashing sessions for employees, and pay a hefty ransom to liberal community groups."[15]

Another proposed "solution," while less punitive, may set an even worse precedent. This is the Community Development Bank, (CDB) whose mission is to "stimulate the economy in areas where other bankers are loath to lend."[16] The CDB is modeled on some private institutions which already exist—although these generally enjoy some subsidy either from the government or private foundations. (In any case, they have sufficient private capital invested that must seek out only the credit-worthy.) Government CDBs, on the other hand, are likely simply to depend far more on political criteria and to end up making mostly uneconomic loans. Critics hold up the federal Farm Credit System, which required $4 billion of government funds to cover the losses it incurred on agricultural loans in the early 1980s, as an example of the likely fate of these CDBs.[17] Of course, given that credit, as are all economic goods, is scarce, if the government makes loans to those who fail to meet traditional qualification criteria, it must be taking credit away from those who do meet them. Thus, it diverts credit from those more able to repay it to those less able to do so.

Ultimately, all of these proposed solutions constitute an attack on the rational economic calculation which Ludwig von Mises identified as the *sine qua non* of the market economy. Each of these measures replaces calculations based on expected profits and losses with those based on political criteria. Furthermore, such actions also erode the rights of property owners, specifically the right to use their property where it offers the greatest potential for gain.

What the government has been doing to lenders is not an isolated case. Government attempts to suppress decisions based on the profit motive in the name of some unattainable notion of fairness or equality are quite widespread in the United States today. The insurance industry has also come under attack for alleged red-lining. Community ratings statutes in a number of states have prevented health insurers from "discriminating" between good and bad risks. The Clinton Administration and several key Congressmen are now considering extending the Community Reinvestment Act to cover mutual funds and other financial institutions.[18] Even the use of information regarding prospective employees has come under attack by our courts, with the bizarre legal principle of "compelled self-publication," under which your telling a prospective employer the official reason why you were fired by a previous employer, gives you standing to sue that previous employer for slander.[19] These examples are but the tip of the iceberg. And if our country does not shift course soon, that iceberg is likely to sink the Good Ship Capitalism. □

1. This act includes among its prohibitions a bank's refusal to lend money to welfare recipients.

2. Statement by John P. LaWare, Chairman, Federal Financial Institutions Examination Council and Member, board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, February 24, 1993, *Federal Reserve Bulletin*, April 1993, p. 194.

3. Peter Brimelow and Leslie Spencer, "The Hidden Clue," *Forbes*, January 4, 1993, p. 48.

4. Jonathan Chait, "Bad Examples," *Reason*, December 1993, p. 58.

5. Brimelow and Spencer.

6. *Ibid.*

7. Dean Foust with Kelley Holland, "Taking A Sharper Look at Bank Examiners," *Business Week*, April 19, 1993, p. 99.

8. Jack M. Guttentag, "Most Lenders Would Rather Profit Than Discriminate," *American Banker* 158, January 6, 1992, p. 4.

9. "Statement of Richard F. Syron, President, Federal Reserve Bank of Boston, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, February 24, 1993," *Federal Reserve Bulletin*, April 1993, p. 314.

10. Brimelow and Spencer.

11. Kenneth H. Bacon and Suzanne Alexander Ryan, "Shawmut Decision Shows Fed's Division over Adequacy of Fair-Lending Records," *Wall Street Journal*, November 22, 1993, p. A4.

12. Llewellyn Rockwell, Jr., "Fact," *Forbes*, September 27, 1993, p. 86.

13. Kenneth H. Bacon and Gary Putka, "Shawmut's Plan for Acquisition Rejected by Fed," *Wall Street Journal*, November 16, 1993, p. A2.

14. Kenneth H. Bacon and John R. Wilke, "Fed Gives Bias Law New Clout As It Blocks a Bank Acquisition," *Wall Street Journal*, November 17, 1993, pp. A1 and A9.

15. Llewellyn Rockwell, Jr., "Nader Aim at Banks—Unsafe at Any Rate?" *The Washington Times*, August 24, 1993, p. F2. The fines in question amount to $1 million, paid to 48 black applicants who were denied loans.

16. Dean Foust with David Greising, "Banks That Believe in Many Towns Called Hope," *Business Week*, November 30, 1992, p. 89.

17. Foust and Greising, p. 90.

18. Janet Novack, "What's Ahead for Business," *Forbes*, October 25, 1993, p. 39.

19. Junda Woo, "Quirky Slander Actions Threaten Employers," *The Wall Street Journal*, November 26, 1993, p. 81.

The Mother of All Myths

"Analysts watch consumer spending closely because it represents roughly two-thirds of all economic activity."

—*Associated Press* (October 30, 1993)

In the early 1990s, in the depths of the recession, Range Rover, a British maker of sports-utility vehicles, ran an unusual ad in *USA Today*. It announced its formula for ending the downturn: "Buy Something." Of course, Range Rover wanted you to buy their car, but in any case, purchase something. "Buy a microwave, a basset hound, theater tickets, a Tootsie Roll, something." Anything to get the economy moving again.

In late 1991, Federal Reserve chairman Alan Greenspan suggested that the economic contraction was caused in part by retrenchment in consumer and business debt during the early 1990s. The implication is that the economy could be on its way to recovery if only consumers and business would start spending again, even if it meant spending beyond their means.

Falling Under the Keynesian Spell

For decades, members of the media and the financial community have fallen under the Keynesian spell, emphasizing the importance of demand over supply, of deficits over surpluses, of debt over equity, and of consumption over saving. For them, the key to prosperity is found in encouraging a high level of consumption, even if it means going deeply into debt. The establishment press is so enamored with consumption that it highlights monthly changes in consumer spending, consumer debt, consumer prices, and surveys of consumer confidence, looking for any encouraging signs. After all, doesn't consumer spending represent two thirds of total economic activity?

Pro-Consumption Mischief

Well, no, it doesn't. The idea that consumption is the largest sector of the economy is based on a grave misreading of Gross Domestic Product (GDP).

According to 1993 data, consumption expenditures represents 66.1 percent of GDP, or approximately two thirds. Government purchases are second at 18.3 percent, and investment, which includes residential housing, comes in third at 15.6 percent. Business fixed investment is only 11.5 percent of GDP. By making the standard assumption that GDP measures total economic activity, the unsophisticated journal-

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ist has concluded that consumer and government spending are by far the most important sectors of the economy, while business investment rates a poor third.

Much mischief in government policy has arisen in consequence of this misinterpretation of national income statistics. Many lawmakers have passed legislation encouraging consumption at the expense of investment. At the same time, they see no reason to cut capital gains taxes or corporate income taxes, since the business investment sector appears to be relatively small and unimportant.

The Source of the Fallacy

What's gone awry? The source of the error is that GDP is *not* a measure of total economic activity. As anyone who has taken Econ 101 knows, GDP measures the purchase of *final* goods and services only. GDP deliberately leaves out spending by business in all the intermediate stages of production before the retail market. It does not include spending (what economists call "working capital") by natural resource companies, manufacturers, and wholesalers. Obviously, financial journalists need a refresher course in economics.

In sum, GDP does not measure total spending in the U.S. economy, only final retail purchases by consumers, business, and government.

Introducing a More Accurate Statistic

To determine total economic activity, we need to look at Gross Domestic Output (GDO), a statistic I developed in my book, *The Structure of Production* (New York University Press, 1990). It measures gross expenditures at all stages of production, from raw commodities to finished products. Based on the input-output data prepared by the U.S. Commerce Department, I estimate that consumption expenditures actually represent only about 33 percent, or one third, of economic activity in the United States, not two thirds as is commonly reported. Moreover, gross investment by business represents the majority (54 percent) of total spending in the economy if you add together gross intermediate expenditures ("working capital"), business fixed investment, and residential housing. Government purchases represent the remainder, or 13 percent.

This new statistic, GDO, provides a more complete indicator of total economic activity. As such, it suggests a far different interpretation of how the world works. In fact, we come to the opposite conclusion: Investment is far more important than consumption. The U.S. economy, like all economies, is investment-driven, not consumption-driven. Consumption is ultimately the effect, not the cause, of a nation's prosperity.

An individual becomes wealthy by producing and investing first, then increasing his consumption—not the other way around. To go on a spending spree using credit cards or other forms of debt may initially give the impression of a higher standard of living, but eventually the individual must pay the piper or face bankruptcy. The same principle applies to a nation as a whole.

"But," retort the big spenders, "if consumers stop buying, business will eventually stop producing." Granted, the whole purpose of production is eventual consumption. Per capita consumption is usually a reasonable measure of national wellbeing, and business must be responsive to consumer needs. But the real question is, how do we *improve* our standard of living? There is only one proven way, and that is by raising the amount of capital invested per worker. Economic progress is achieved when business increases its profits by providing customers with better products at cheaper prices. That requires a direct investment in capital. Those who postpone consumption now and invest their savings productively will be rewarded with higher consumption later.

Consumer Spending Not a Leading Indicator

If the U.S. economy is consumption-driven, why aren't retail sales a leading indicator of economic activity? Of the eleven components in the U.S. Department of Commerce's Index of Leading Indicators, only one, the Consumer Expectations Index, is directly linked to future retail sales. The other leading indicators are almost entirely related to capital investment and earlier stages of production, such as manufacturers' orders, sensitive materials' prices, contracts for plant and equipment, and stock prices.

Retail sales are in reality an unreliable indicator of where the economy and the stock market are headed. Industrial output is a much better forecaster. And, contrary to what the national media often reports, retail sales are relatively stable compared to industrial production, just as consumer prices are nowhere near as volatile as commodity prices. Financial analysts seeking to pinpoint changes in the direction of the economy and the stock market will be disappointed if they rely entirely on retail sales as a guide.

The Crisis in Productivity and Investment

Stimulating consumer spending in the short run will undoubtedly encourage some lines of investment. If people go on a buying spree at a local grocery store or mall, merchants and their suppliers will see their profits go up. But the consumer spending binge will do little or nothing to construct a bridge, build a hospital, pay for a research program to cure cancer, or provide funds for a new invention or a new production process. Only a higher level of saving will do that. Thus, in nations following Keynesian pro-consumption policies, it is not surprising to see luxurious retail stores and malls along side dilapidated roads and infrastructure. Their consumption/investment ratio is systematically out of balance. Peter Drucker chastises the United States and other Keynesian industrial nations for a "crisis in productivity and capital formation" and "underinvesting on a massive scale."[1] The current administration has done little to reverse this trend.

Saving, investing, and capital formation are the principal ingredients of economic growth. Countries with the highest growth rates (most recently in Southeast Asia and Latin America) are those that encourage saving and investing, i.e., investing in new production processes, education, technology, and labor-saving devices. Such investing in turn results in better consumer products at lower prices. They do not seek to artificially promote consumption at the expense of saving. Stimulating the economy through excessive consumption or wasteful government programs may provide artificial recovery in the short run, but cannot lead to genuine prosperity in the long run.

Using our new statistic, GDO, we now see that cutting taxes on business and investments (interest, dividends, and capital gains) will have a dramatically favorable effect, far more than previously thought. When business investment represents 54 percent of the economy, not 15 percent, reducing investment taxes can have a multiplying impact on the nation's economy.

In sum, it is capital investment, not consumer spending, that ultimately drives the economy. As economist Ludwig von Mises declared forty years ago, "Progressive capital accumulation results in perpetual economic betterment."[2] □

1. Peter Drucker, *Toward the Next Economics and Other Essays* (Harper & Row, 1981), p. 8.
2. Ludwig von Mises, "Capital Supply and American Prosperity," *Planning for Freedom*, 4th ed. (Libertarian Press, 1980), p. 197.

BOOKS

Monetary Policy in the United States: An Intellectual and Institutional History

by Richard Timberlake

University of Chicago Press • 1993 • 502 + xxv pages • $28.95 paper • $65.00 cloth

Reviewed by Steven Horwitz

Both the public and most economists have generally agreed that of all the sectors of the economy, the production of money and financial services requires a significant amount of government intervention in order to work "properly." The common view is that, more than any other industry, supposed laissez-faire has failed consistently in banking and has been responsible for various crises, panics, and difficulties throughout American history. This trend has begun to reverse itself in the last twenty years, however, as more economists and bankers are beginning to understand how regulations can destabilize the banking system and how various free-market alternatives might provide monetary order.

Richard Timberlake's study is sure to push this debate to the next level. In a comprehensive and readable book, he carefully scours the history of American banking from Colonial times to the early 1990s to document the increase in government intervention and its deleterious effects on both the banking industry and the economy more broadly. His book is a perfect complement to the more technical and statistical work of Milton Friedman and Anna Schwartz and will likely, like their work, be considered a classic of monetary history.

Two themes form the backbone of Timberlake's historical story. The first is the way in which increased government intervention has occurred not because laissez-faire has failed, but because various interventions served the revenue-raising interests of the political sector. Timberlake carefully documents how each of those interventions led to further crises and failures, resulting in calls for even more government regulation and more problems down the road. Although he does not mention it explicitly, the story he tells is a perfect historical example of what Ludwig von Mises called the "logic of interventionism."

Timberlake's second theme is that this increasing encroachment by government has moved us away from the rule of law in the monetary realm, to the rule of all-too-fallible humans. Each successive intervention undermined the Constitution's attempts to prevent government from doing any more than stipulating the gold or silver content of the medium of exchange, leaving the production of money to the private sector. As earlier systems and now the Federal Reserve System have led to increased government power, the quantity of money and the range of financial services available have become the products of intentional human-designed policy, rather than the more automatic and unintended consequences of the market.

The danger in this shift is that when human policymakers are unable to provide rational solutions, they will turn to those policies that work to their own self-interest, or the interests of the political actors to whom they answer. As Timberlake's historical story reveals, one of the primary purposes of various bank regulations and other government powers has been to facilitate growing government deficits and the vote-seeking of elected officials.

For example, one of the regulations of the National Banking System (1863–1914) forced banks to purchase federal government bonds to serve as collateral for the currency they created. This law provided the federal government with a captive market for its bonds, both to finance the Civil War and other government expenditures. The result was a lack of flexibility in the currency supply leading in turn to the periodic panics during the late 1800s and early 1900s. Many would ascribe these crises to the failure of the market, but as Timberlake and others have demonstrated, the problems of the system were the result of mistaken, and politically self-interested, regulations.

A second example Timberlake notes is the Fed's acquisition of open market powers in the mid-1930s. The Fed increases the supply of bank reserves by buying government debt in the open market. Having this power enables the Fed to purchase, if it so chooses, any level of debt Congress creates. Without such powers, debt creation is limited to the amount the public willingly purchases. With open market operations, the Fed can always buy any amount of debt the public does not voluntarily wish to hold. Congress was more than happy to give the Fed open market powers so that it could finance the debt of both the New Deal and World War II.

These are only two examples of the kind of historical evidence that Timberlake has documented. Some of his best work is on the 1960–1990 period, particularly the inflation of the late '70s. He also effectively demolishes the myth that monetarism was tried and failed in the 1979–82 period as well as unmasking the confusion that underlay most Fed policy since World War II.

Of particular importance is his discussion of the final nail in the coffin of the gold standard—the closing of the international gold window in 1971. Franklin Roosevelt had ended the American public's ability to exchange Federal Reserve Notes for gold in 1934, but foreign holders of U.S. currency could redeem them for gold at a stipulated price. This process put some limits on the Fed's ability to increase the money supply. However, as Timberlake argues, President Johnson's decision to finance the Vietnam War and the Great Society through inflation forced the end of even international redemption.

As the money supply grew in the mid and late 1960s, more foreign recipients of U.S. dollars began to return them to the Fed, leading to a significant outflow of gold. Rather than lose the gold or reduce inflation, President Nixon ended international redemption in 1971. Since then the U.S. dollar has been a complete fiat currency. Once again, the spending proclivities of the federal government drove monetary policy in directions that benefited the political process at the expense of the general public.

Timberlake's book is sure to quickly become a genuine economic classic. Unlike many such books, however, it is readable by the nonspecialist and of important relevance for current events. As Washington is debating the consolidation of bank regulatory agencies, and the possibility of a new regulatory push, a careful examination of the history of bank regulations, and their role in causing monetary disorder and economic disaster, could not be more important. Richard Timberlake has given us just such an analysis, and a masterful one at that. □

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Cities without Suburbs

by David Rusk

Johns Hopkins University Press, A Woodrow Wilson Center Book, 1993 • 130 pages • $13.95 paper • $29.00 cloth

Reviewed by Dean Stansel

Watch out, suburbanites.

New, multibillion-dollar federal program proposed to solve America's urban crisis by putting public housing projects in the suburbs.

Though we haven't seen that headline yet, it's not because the idea does not exist. For decades America's cities have been in decline, in mocking defiance of the explosion of new government-spending programs designed to save them. Nevertheless, many urban advocates still seem to think some elusive new government program will miraculously reverse the cities' decline.

One such person is David Rusk, former mayor of Albuquerque and the author of a new book entitled *Cities without Suburbs*. Rusk says the solution to the urban crisis lies in "regional governance." That is, he wants cities to annex their thriving suburbs—with or without their consent—or consolidate with their counties, thus creating "cities without suburbs." According to Rusk, that will transform declining cities into booming cities by forcing suburbanites to pay what he feels is their "fair share" of the costs of urban decline.

Though some cities—most notably, Nashville, Indianapolis, and Jacksonville—have successfully annexed their suburbs or consolidated with their counties, the political and legal obstacles are usually prohibitive. So Rusk suggests other ways—short of suburban annexation or city-county consolidation—to reduce the racial and economic segregation that he thinks is "the heart of America's 'urban problem.'"

One such plan would put public housing projects in the suburbs. Rusk argues that this would integrate the underclass into mainstream society, exposing them to the positive role models therein.

However, having subsidized housing in their neighborhoods is nearly as objectionable to most suburbanites as is annexation. Therefore, Rusk suggests the provision of federal "incentives" to get suburbs to cooperate. That's the catch. (Even Rusk admits that "'incentives' is a euphemism for federal money.") According to Rusk, the so-called "incentives" would cost federal taxpayers $23 billion a year.

Though touted as a new approach, Rusk's proposal is just another big spending program. To make matters worse, his expensive proposals have support in high places. Speaking at a Spring 1993 conference on urban policy sponsored by President Clinton's favorite think tank (the Progressive Policy Institute), Secretary of Housing and Urban Development Henry Cisneros explicitly endorsed Rusk's proposal, saying, "If we cannot open up suburban communities to subsidized housing . . . , we will not succeed."

Since then, Cisneros has proposed a massive expansion of "Moving to Opportunity" (MTO), a program created by his predecessor Jack Kemp. MTO will be tested in six major cities over the next two years, moving 6,200 households from inner-city public housing units to suburban ones, at a cost of $234 million.

While Rusk contends that "in any constitutional sense, the federal government has no role" to play, he advocates implementing these types of programs through either the provision of federal dollars or "new requirements on federal grants in aid."

In further contradiction, Rusk calls for larger, more centralized governments, while gushing that "in many ways the belief that 'smaller government is better government' resonates *emotionally* within me" (emphasis added). He even muses that larger government "may be less efficient and less responsive as a deliverer of services than smaller governments."

Rusk is correct about that. Studies have consistently shown that large, centralized governments have significantly higher unit costs of providing public services than small, decentralized governments. Nevertheless, Rusk insists that larger, more centralized governments are the answer, listing as "key goals: unification of the tax base and centralization of planning and zoning authority . . . under a *dominant* local government" (emphasis added).

Only in America do you still hear arguments such as Rusk's for larger, more centralized government. The last few years have witnessed a worldwide revolution. People have been throwing off the yoke of big, centralized government with rampant enthusiasm. Rusk ignores that reality, or perhaps he was too busy researching and writing his book to notice.

Rusk states that his primary motivation in creating cities without suburbs is the elimination of economic and racial segregation. He cites statistic after statistic to "prove" that cities that have annexed their suburbs are less segregated than those that have not. But what does that really mean? Few would disagree that redrawing the borders of a central city to include its suburbs will create a new "city" that has a greater proportion of middle- and upper-class whites than the old central city. Thus, by definition, Rusk's solution does indeed reduce measured segregation in "the city."

However, isn't that just semantics? After all, "the city" is no longer the central city. It is now the central city plus its suburbs. There is no reason to believe that creating cities without suburbs will in any way reduce the racial and economic disparities between the central city and what used to be the suburbs. Rusk's so-called solution to what he sees as the "heart of the urban problem"—racial and economic segregation—is, to be kind, a sham.

As Rusk himself says, his real goal in creating cities without suburbs is "tapping a broader tax base." He further states that "sustained success requires . . . moving dollars from relatively wealthy suburban governments to poorer city governments." Although Rusk uses the term "suburban governments," it is suburban taxpayers who will take the hit. Could Rusk's rhetorical chicanery be intended to camouflage the fact that his plan is simply a Robin Hood-esque effort to take from the suburbanites and give to the city dwellers? And what about the phrase "moving dollars"? Most people would call that stealing.

Furthermore, Rusk's proposals are imbued with the traditional left-wing notion that the solution to the problems of the inner city (or any problem for that matter) is more government spending. However, that argument rests on the assumption that the cities simply have not been spending enough. Nothing could be further from the truth.

In 1960 the average city government spent $470 per resident (in inflation-adjusted dollars). By 1991 that amount had more than doubled, rising to $1,070. Few city residents would argue that the quality of municipal services has doubled. Most would say just the opposite.

Twenty-five years ago Harvard's John Kenneth Galbraith said that there was nothing wrong with New York City that doubling the city's budget wouldn't solve. Apparently, New York City's leaders took him to heart; since then their budget has nearly tripled (in real terms). Surely, no one believes that New York City is in better shape today than it was twenty-five years ago. In fact, the recent efforts of the boroughs of Queens and Staten Island to secede from the city are damning evidence to the contrary.

Rusk admits that "cities, in the battle over middle-class America, have lost to their suburbs." To many, the central question of the "urban crisis" is why. Why are Americans voting with their feet by fleeing the inner cities in such large numbers?

Rusk seems to realize that higher taxes and spending are part of the problem, not the solution, saying, "Many middle-class families . . . went to the suburbs *to flee high city taxes*" (emphasis added). However, Rusk then goes on to say, "Admittedly, some factors in suburban growth in the early postwar decades were nonracial . . . [but] racially motivated 'White flight' was *undeniably a major factor* in suburban growth" (emphasis added).

While racial prejudice certainly exists, the idea that it is a major factor in the decline of America's cities smacks of a conspiracy theory. Besides, it is no longer just whites who are fleeing the inner city; middle-class blacks have been leaving in droves as well. Does Rusk really contend that suburban exiles from declining cities such as Oakland, New Orleans, and Birmingham are more racist than their same-state neighbors in the more prosperous cities of San Diego, Baton Rouge, and Mobile? Or could it be that the high tax burdens in declining cities—often twice as high as in booming cities—are simply forcing middle-class Americans to flee to areas with lower taxes?

Many urban advocates argue that America's large, declining cities cannot cut their taxes without slashing crucial municipal services. However, one reason taxes are so high in those cities is that the per unit cost of providing municipal services is often twice as high as in smaller cities.

The underlying problem is that most city governments are simply too big and centralized. They are too far from the people they govern. As a result, residents of large, centralized cities have relatively little ability to influence their leaders and to control how well their government is run. In contrast, public employee unions have substantial influence in such cities. For example, in New York City, some public employees get as many as 51 days off a year. That means they work the equivalent of a four-day work week. Such generous spending of city taxpayers' dollars on members of public employee unions is well documented in other large cities as well. It is a major factor driving up the cost of providing municipal services in large cities.

Rusk's solution would create more wasteful centralized governments. Thus, the cost of providing public services such as trash collection and police protection in Rusk's cities without suburbs would be even higher than it is now. Those higher costs would require still higher taxes. Since tax hikes cause residents and businesses to leave, Rusk's solution would only perpetuate the downward spiral of America's cities. It is the exact opposite of what should be done. Cities should move, instead, toward more decentralized governments and seek to privatize municipal services. That would enable them to enact the pro-growth tax cuts necessary to make the cities places where the middle class and businesses again want to, and can afford to, live and work.

Ignoring that centralization leads to inefficiency and higher costs, and that taxes have consequences, Rusk's "solution" to the urban crisis is ultimately just an elaborately constructed house of cards. He fails to even consider the possibility that many suburban businesses and residents, faced with higher taxes after being annexed by their central city, would simply choose to move farther and farther away from the inner city to avoid those tax hikes. Perhaps Rusk plans to build a Berlin Wall around the new cities without suburbs to ensure that businesses, people, and capital cannot escape. Without such police-state restrictions, Rusk's proposal is doomed to failure. His house of cards will inevitably come crashing down.

Nevertheless, given the huge amount of tax dollars at stake and Rusk's powerful supporters, at a short 130 pages, *Cities without Suburbs* is a worthwhile read—especially for suburbanites. The proposals it contains are a haunting harbinger of things to come.

If Rusk, Cisneros, and Clinton have their way, we will all soon be living in cities without suburbs. So start forming your grassroots organizations now, suburbanites. And hold onto your wallets. The tax man cometh. □

Mr. Stansel is a fiscal policy researcher at the Cato Institute in Washington, D.C., and co-author of a recent Cato study entitled "The Myth of America's Underfunded Cities."

The Fortune Encyclopedia of Economics: 141 Top Economists Explain the Theories, Mechanics, and Institutions of Money, Trade, and Markets

edited by David R. Henderson

Warner Books, Inc. • 1993 • 876 pages • $49.95

Reviewed by Raymond J. Keating

Initially, one might think that reviewing an economics encyclopedia would be an arduous task—slogging through esoteric theories, statistical models, and academic prose. However, *The Fortune Encyclopedia of Economics* successfully dispels such commonly held concerns. The 157 essays in this collection, as well as an appendix of short biographies on a variety of economists, are well written, clear, and often lively. Considering the fact that economists are not generally known as engaging writers, this amounts to nothing less than a momentous achievement for editor David R. Henderson.

No less of an achievement is the fact that this tome weighs in heavily with essentially free-market views. With a few exceptions, the issues addressed in this encyclopedia are examined from a sound, market-based perspective. Henderson has largely banished hyperbole in favor of well-grounded economic reasoning.

This combination of style *and* substance makes *The Fortune Encyclopedia of Economics* invaluable to a wide variety of readers. For example, students and professors should find that this collection serves as an excellent supplement to various texts and courses in economics, while also as a reliable desk-top reference book when researching and writing, or for those occasional moments when the mind falters and a refresher on certain issues is in order. Both business executives and government policymakers also should find this volume a good resource in helping to sort through the jargon of economics as well as often conflicting economic news reporting.

As for the topics addressed in this one-volume, oversized encyclopedia, the editor has cut a wide swath through the economics discipline. Included are such basic topics as efficiency, profits, opportunity cost, fiscal policy, investment, inflation, and property rights, as well as more specialized areas like privatization, deposit insurance, the gold standard, recycling, natural gas regulation, public schools, and sportometrics. While such a book really is not designed to be read from cover to cover—but rather to serve as a reference or educational guide with each essay standing alone—the format does allow one to read straight through if he so desired. In fact, it offers a much smoother read than many economics textbooks.

While the essays that stand out will vary from reader to reader, depending on one's particular interests, I found several worth mentioning here. Armen A. Alchian offers a good essay on how private property rights "protect individual liberty." Thomas W. Hazlett writes an interesting and informative piece on apartheid and how it developed in South Africa. Deborah L. Walker and Robert Hessen supply good summary essays on Austrian economics and capitalism, respectively. Also, Allan H. Meltzer's article on monetarism includes a good evaluation of recent monetary policy in Great Britain. Supply-side economics is given fair treatment by James D. Gwartney, as well as by Alan Reynolds in a piece focusing on marginal tax rates. Also, William Niskanen presents one of the more balanced views of Reaganomics that one is apt to find.

David Ranson's essay on inflation registers as an outstanding piece, as he illustrates that: "Inflation has tended to increase in periods of slow growth or recession and decrease in periods of expansion,"—a fundamental point missed by most economists. John Cogan offers an interesting essay on the federal budget, noting that spending growth accelerates the more decentralized the federal budget process.

The growing field of free-market environmentalism is introduced well by Richard Stroup, while Jane S. Shaw supplies an essay on recycling that needs to be distributed to any policymaker or elected official dealing with the issue. In a similar vein, the Pat Buchanans and Ross Perots of the world should be supplied with Alan Blinder's contribution on free trade. Individuals perpetuating myths about so-called shortsightedness of American business and the destructive effects of junk bonds need to read Steven L. Jones and Jeffry M. Netter's article on efficient capital markets and Glenn Yago's piece on junk bonds. Also of note are Mark Casson's essay on entrepreneurship, George Gilder's piece on the computer industry, John Chubb's overview of public schools and educational choice, John Haring's contribution on telecommunications, as well as editor Henderson's essays on the true sources of economic growth in post-World War II Japan and Germany.

More disappointing are Blinder's attempt to defend Keynesian economics, James Tobin's archaic essay on monetary policy, and Kevin D. Hoover's equally archaic article on the Phillips Curve. In addition, Joseph J. Cordes' piece on capital-gains taxes offers a workmanlike analysis of the "lock-in" effect of high capital gains taxes, as well as the effect of inflation on capital gains, but nothing substantial on such critical issues as the effects of such taxes on incentives and the trade-off between risks and potential rewards.

On the whole, however, this is a stellar collection of essays by some of the world's most knowledgeable economists. While it might seem strange to those who view economics as a dismal science, a lucid, market-oriented encyclopedia of economics is worth getting excited about. *The Fortune Encyclopedia of Economics* is an astounding feat. □

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

Playing the Field

by Charles Euchner

The Johns Hopkins University Press • 1993 • 205 pp. • $24.95

Reviewed by Jeff A. Taylor

Cities across America are caught in a headlong rush to land a professional sports franchise. Five cities—Memphis, Jacksonville, St. Louis, Baltimore, and Charlotte—recently ended a competition to entice the National Football League into their towns. When it was over, the tab for public financing of playing fields had climbed into the hundreds of millions of dollars. Charles Euchner, a political science professor at Holy Cross, provides insight on why cities do this and why it is a bad deal for local taxpayers.

Euchner has studied several cities' attempts to woo teams and finds much of the competition centers on which locality can provide the biggest cut of public money to team owners. Owners, in turn, make the most of this situation by actively pitting cities against one another with threats to move the franchise to more lucrative environs.

In 1988, the Chicago White Sox effectively used a threat to move to Florida to win public funding for a new baseball park built literally on top of the existing one. The White Sox's spurned suitor, St. Petersburg, is stuck with an empty Suncoast Dome for which Euchner estimates local residents pay $7.7 million a year in debt service.

Euchner makes the case that franchise owners have adroitly played upon officials' political fears of "losing" a franchise to win backing for stadium upgrades. The big payoff for the owners is control of stadium skyboxes—luxury suites which can sell for hundreds of thousands of dollars apiece. The Houston Astrodome originated the skybox in 1965, but they now number in the hundreds for each new stadium built.

Euchner notes that if building stadiums was such a good business venture, more private entities would be willing to step forward and build them. And in fact, where the facilities are privately owned cities earn money rather than spend it. The hugely successful Dodger Stadium in Los Angeles pays $400,000 a year in property taxes.

The oft-repeated mantra that sports franchises generate economic growth is also disputed by numerous studies collected by Euchner. One local official compared the decision on NFL expansion to "whether or not the railroad was coming to your town in the Old West." But, as the evidence shows, filling a stadium eight times a year does not have the same economic impact as a manyfold increase in transportation capacity. By definition, dollars spent on sporting events are highly disposable and would likely be spent on other forms of entertainment—movies, plays, participatory sports—absent the franchise. The difference is that all the economic activity doesn't occur on a single day, at a single site.

Euchner also argues that when compared to other forms of social spending, such as job training, government subsidies for sports teams lag behind in generating a return. However, that line of argument is dangerous: it could entice local officials to graft a "job training" element into their stadium building plans rather than eschew the endeavor outright. It also overlooks the cost of taking of resources from the private sector in the first place.

There is every sign the frenzy for sports franchises is intensifying. The state of New York recently authorized funds to help communities keep and attract *minor* league baseball teams while two Chicago suburbs now spar over a farm team. Officials from every city, town, and hamlet would do well to listen to Euchner's warnings lest they get sucked into a game they cannot win. □

Jeff Taylor is National Political Reporter for Evans & Novak in Washington, D.C.

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
JUNE
1994
VOL. 44
NO. 6

276 **Things Are Better Than We Think (And Could Be Better Yet)** *by Jane S. Shaw*
America's biggest secret: Capitalism is good for the environment.

279 **How Government Makes Natural Disasters Worse** *by Llewellyn H. Rockwell, Jr.*
When natural disasters strike, bureaucrats should just stay home.

282 **Ideas and Consequences** *by Lawrence W. Reed*

284 **The Fascist Epithet** *by Mack Tanner*
We ought to recognize American liberalism for what it is.

288 **Economic Fascism** *by Thomas J. DiLorenzo*
Government control of nominally private property was always a favorite tool of totalitarians.

294 **The Failure of Antitrust Policy** *by D. T. Armentano*
Antitrust regulation is based on strange theory and incorrect history.

297 **Losing Touch** *by Donald Boudreaux*
Politicians, like long-distance bombers, seldom see their "victims."

299 **A Tax Deduction for Education** *by Roy E. Cordato and Sheldon Richman*
A plan for genuine freedom of choice in education.

302 **Now for Some Serious Educational Reform** *by Tibor R. Machan*
Compulsory schooling is the root of higher education's problems.

304 **By Any Means Necessary?** *by Robert Zimmerman*
Political correctness as "justification" for tyranny.

307 **The Moral Hazard of Government** *by Michael R. Duff*
To government officials, policy failure means political success.

312 **What's Wrong with Democracy?** *by L. Hatzilambrou*
Democracy only works when government's powers are strictly limited.

316 **Is Individualism Dead?** *by Nelson Hultberg*
America's greatness depends on freedom and individualism.

320 **Correction Please!** *by Mark Skousen*

323 **Book Reviews**
John Chamberlain reviews *Reclaiming The American Dream* by Richard Cornuelle; *Commager on Tocqueville* by Henry Steele Commager, reviewed by David M. Brown; *Reclaiming the American Right: The Lost Legacy of the Conservative Movement* by Justin Raimondo, reviewed by Jim Christie; *Inside American Education: The Decline, the Deception, the Dogmas* by Thomas Sowell, reviewed by Patrick Groff.

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PERSPECTIVE

The Power of Paternalism

Opium and morphine are certainly dangerous, habit-forming drugs. But once the principle is admitted that it is the duty of government to protect the individual against his own foolishness, no serious objections can be advanced against further encroachments. A good case could be made out in favor of the prohibition of alcohol and nicotine. And why limit the government's benevolent providence to the protection of the individual's body only? Is not the harm a man can inflict on his mind and soul even more disastrous than any bodily evils? Why not prevent him from reading bad books and seeing bad plays, from looking at bad paintings and statues and from hearing bad music? The mischief done by bad ideologies, surely, is much more pernicious, both for the individual and for the whole society, than that done by narcotic drugs. . . .

It is a fact that no paternal government, whether ancient or modern, ever shrank from regimenting its subjects' minds, beliefs, and opinions. If one abolishes man's freedom to determine his own consumption, one takes all freedoms away.

—LUDWIG VON MISES
Human Action

Insidious Monopolists

It has been suggested that, because the nominal price of first-class postage is about where it was in the late eighteenth century, Americans who complain about the proposal to increase postal rates are merely whining wimps who are lacking in historical perspective.

However, the real price of transportation (a key input in postal service) has plummeted over the last 200 years. In 1799 it took 53 days for an Army courier to travel from Detroit to Pittsburgh. Today the same trip can conveniently be made in minutes.

Likewise, the productive efficiency of the United States is vastly greater now than it was even a few decades ago. Given the plunge in transportation costs, joined with other technological improvements and a large increase in the scale of postal activity, the price of postage should have fallen dramatically.

Americans do not oppose postal-rate increases because of their ignorance of history. Rather, opposition to these increases grows from the correct perception that a legally protected monopolist such as the United States Postal Service can keep prices higher, and service inferior, to what they would be under competition.

Regardless of how today's postal rates compare with rates in the past, opening the delivery of first-class mail to competition would lower rates still further while improving service.

—DON BOUDREAUX and GEORGE SELGIN
in a letter to *The New York Times*

Ortega's Mass Man Redux

In his 1932 book, *The Revolt of the Masses*, the Spanish philosopher José Ortega y Gasset defined the average or mass man as one who "in face of any problem, is satisfied with thinking the first thing he finds in his head." Ortega's Mass Man is with us today in the person of the average man who believes what he reads in the latest headlines or sees on the network news.

He doesn't want to be bothered with the details or further analysis of the facts. The Mass Man, according to Ortega y Gasset, "will tend to consider and affirm as good everything he finds within himself: opinions, appetites, preferences, tastes. . . . He has no wish to find the truth; he is intellectually a barbarian." This man accepts no personal responsibility or punishment for what he does. He claims he cannot control his desires; he is a victim, so it is perfectly permissible to finagle food stamps, welfare, a job, or a corporate subsidy.

The Mass Man, Ortega y Gasset states, "does not want to give reasons or to be right, but simply shows himself resolved to impose his opinions. . . ." He has "decided to rule society without the capacity for doing so. . . . He wishes to have opinions, but is unwilling to accept the conditions and presuppositions that underlie all opinion." The Mass Man of 1994 sees no connection between the rising crime rate and the teaching of relative morality.

Ortega y Gasset's Mass Man's ideas "hardly reflect in any way the reality to which they appear to refer and. . . . there is not even an attempt to adjust the ideas to this reality. [He] is trying to cut off any personal vision of reality. It does not worry him that his ideas are not true." Such a man considers humans as ants or creatures that exist for the state without any inherent value.

According to Ortega y Gasset, "There is not to be found . . . a single group whose attitude to life is not limited to believing that it has all the rights and none of the obligations." That perfectly describes the Mass Man of 1994.

The superficial, non-thinking Mass Man seems to be present and threatening not only in Ortega's day and our own, but throughout recorded history. He appears whenever thinking man abdicates his responsibilities and relies on someone else to perform his duties.

—CHARLES RODA

THE FREEMAN
IDEAS ON LIBERTY

Things Are Better Than We Think (And Could Be Better Yet)

by Jane S. Shaw

To an objective observer, Americans' attitudes toward the environment must be puzzling. Many Americans think that our forests are being destroyed by logging, that the world's natural resources are disappearing, that hundreds of species are going extinct each year, and that the future, with a depleting ozone layer and imminent global warming, is bleak. But when Americans look outside their window or travel on vacation, they in fact find clean air and clean streams, and miles and miles of open space and forestland.

Furthermore, current information casts doubt on worries about the future. Most of the nonrenewable resources that people feared would skyrocket in price, materials like copper and tungsten, are cheaper than they were ten years ago. And in spite of two decades of worry about energy, the world is awash in oil.

Although human beings may be having an effect on the climate, careful study of these issues indicates that the impacts are likely to be modest. The ozone layer is not being ripped apart by floating chemicals; even if there has been five percent depletion, as some pessimists suggest (and no one is sure), the loss has about as much impact on skin cancer as moving south sixty miles, for example from Palm Beach to Miami.[1] Fear of global warming is based on computer models of climate that are so inadequate that they are essentially speculation.[2] And recent satellite studies of the Amazon suggest that the rate of deforestation may be about one-fifth of what scientists previously thought.[3]

The fact is that the environment in the United States is generally a healthy one, and the alarms about global problems (deforestation, ozone, the greenhouse effect) are exaggerated.

The world does have environmental problems, but most of them are quite different from the ones that we read about daily. James R. Dunn and John E. Kinney recently wrote a paper that included two lists of environmental problems.[4] The first came from a poll of Americans taken by *The Wall Street Journal* and the National Broadcasting Company in April 1990. It listed environmental problems in order, based on the number of people who thought they were serious problems. At the top were hazardous waste sites, water pollution from industrial wastes, occupational exposure to toxic chemicals, oil spills, and the destruction of the ozone layer.

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Then came a list of environmental problems developed by an Ethiopian geologist, trained in the United States but familiar with a number of African nations. At the top were diseases (such as sleeping sickness, malaria, and dysentery), soil erosion, loss of soil nutrients (primarily due to lack of fertilizer), lack of sewage disposal and contamination of water by human bodily wastes, insufficient facilities for treatment of drinking water, and lack of refrigeration.

"The lists have virtually a 100 percent lack of correlation," said Dunn and Kinney. "The U.S. list is mostly a media list in the sense that the public must be told of most problems (that is, most citizens do not really see or feel the problems on a daily basis)." In contrast, "the African problems are obvious to everyone who lives there." They are "megaproblems, pervasive, largely visible everywhere and result in decreasing food production, very high infant mortality, severe social problems, a decreasing average human life span, and a decrease in human productivity, average income, and quality of life."

The Role of Economic Growth

Nearly every one of the problems cited by the Ethiopian geologist could be corrected by economic growth. And, indeed, the attractiveness of the American environment (and that of most developed nations) has come about because of economic growth.

There are two reasons for the link between economic growth and a better environment. One is that greater wealth leads to greater demand for environmental quality—and the willingness and ability to sacrifice to attain it. Until people have food on their tables, they can't be terribly concerned with the view from their windows. Only after they have basic sanitation (which millions of people still lack) can they worry about making streams and lakes pristine. In the United States today, people are wealthy enough to willingly pay higher taxes and higher prices for goods, if necessary, to assure that the environment is clean.

Environmentalists themselves offer the best illustration of the connection between economic growth and environmental protection. The readers of *Sierra*, the magazine of the Sierra Club, have (according to *Sierra*'s 1992 reader study) an average income of \$79,400, compared with the average American adult's income of \$37,100.[5] These wealthy people want a clean environment and they are willing to pay for one.

A second reason for the good environmental record in the West is that the Western countries are capitalistic. Contrary to much popular rhetoric, capitalism has characteristics that spur pollution control and environmental improvement, even without an Environmental Protection Agency.

For example, most pollution is waste. The smoke that contributes to air pollution is often unburnt fuel. Profit-making companies have over the years tried to save fuel by reducing pollution. One of the early measures of air pollution, the Ringelmann number, was developed by engineers trying to save diesel fuel.

Profit-making companies have incentives to be efficient. Economist Mikhail Bernstam compared the use of energy in capitalist and socialist countries. He found that the market-based economies used only 37 percent as much the energy as did the socialist nations to produce the same output.[6]

Market-based economies conserve on other materials as well. In 1965, for example, 164 pounds of metal were needed to produce 1,000 beverage cans. But that went down to 35 pounds by 1990, the change caused by the shift to lighter-weight aluminum and a reduction in the amount of material used.[7] Competition pressured the companies to use less raw material.

And environmentalist Randal O'Toole points out that we can thank the automobile for the dramatic regrowth of forests in the twentieth century! By displacing horses, the automobile eliminated the need for so much pastureland for horses, so millions of acres of farmland reverted to forest.[8]

These points—the fact that economic growth leads to greater demand for environmental quality, and the fact that capitalism discourages waste—help explain the improvements in the Western countries. Of course, profit incentives do not completely eliminate all waste. Traditionally, common law was also a tool that people used to protect themselves from extreme pollution, and today laws and regulations are widely used to prevent pollution. Interestingly, however, evidence suggests that air pollution declined faster in the United States in the 1960s, before passage of the Clean Air Act, than it did after passage of the Act.[9]

Why the Worry?

So, in the face of such good news, why are Americans so worried? Perhaps because when the most severe problems have been solved, the more abstract ones surface. There is always more to be done.

But there are other reasons, too. While environmental groups played an important role in publicizing the need for improvements in air and water pollution in the past, today many are bureaucratic organizations whose programs depend on large memberships and steady donations. It is in the interest of these groups to keep fear alive. In a paper given at the Mont Pelerin Society in 1991, PERC Senior Associate Richard Stroup observed: "It is ironic that to date, at least, the media and most voters seem not to have recognized that representatives of environmental groups face the same conflicts of interest [as business executives do]. They may be nonprofit, but their financial health and expansion depend on donations and government grants, both of which are likely to be enhanced if they can convince the public that crisis looms."[10]

Stroup also points out that reporters are trying to break into print and editors are trying to win readers with dramatic scare stories. Even scientists get into the game. While their science may be honest, the way they interpret their results (say, on global warming) may determine whether their laboratory gets additional funding or not. And government agencies find that "a crisis loosens the purse strings and paves the way for increased power or 'turf,'" says Stroup.

Politicians, always ready to take advantage of public perceptions, have based policy on heavily slanted information about environmental problems. Such policies may have unfortunate consequences. For example, government regulations requiring fuel efficiency have led to smaller cars, which result in more highway deaths.[11] The explosion of the Challenger space shuttle in 1986 seems to have been caused by the withdrawal from the market of asbestos-based putty that was used to seal the o-rings.[12] This withdrawal stemmed from the EPA's campaign against asbestos (largely unwarranted, it turns out). The current government campaign to eliminate CFCs (such as Freon) will raise the price and energy requirements of refrigeration around the world, adding to the troubles of the world's poorest people. Fewer, smaller refrigerators mean more food poisoning and less fresh, wholesome food.

So the environmental picture is mixed. As long as economic growth occurs, we can expect a better environment, but if we use our resources to fight largely imaginary disasters, we may end up harming those whose environments are in the worst shape. □

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THE FREEMAN
IDEAS ON LIBERTY

How Government Makes Natural Disasters Worse

by Llewellyn H. Rockwell, Jr.

An earthquake or hurricane always generates an inspiring rush of private generosity. People are never more willing to help their neighbors than when they are casualties of nature. It's also inspiring when, as after the Midwestern floods, the victims adapt to their terrible losses and begin to rebuild their homes and communities without a whine, even lending helping hands to others.

What Leonard Read called "the miracle of the market" is also on display. Economic conditions are radically changed by a disaster. Resources that were once in great supply go into shortage. Materials and services once desired only in limited markets are suddenly in general demand. Yet free enterprise works rapidly to absorb these shocks. Through a system of private property and free-floating prices, the market coordinates people's needs and transforms tragedy into social cooperation.

Besides generosity and enterprise, something else seems ever-present in natural disasters: meddling government. Indeed, bureaucrats and politicians love nothing better than pretending to come to the rescue. Their usual do-goodism appears more plausible and sincere. Their favorite solution to social problems—controlling markets and pouring in other people's money—suddenly appears to be the only way out. Of course, the "solution" creates new imbalances, slows repairs, and skews the rebuilding effort.

Prices after hurricanes, earthquakes, and floods reflect sudden changes in supply and demand. Essentials like water and gasoline soar in price as if to inform people that they should use them sparingly. What is remarkable is not the high prices— which the media always ascribe to "gouging"—but that the market works so well in the face of catastrophe. When local bureaucrats put caps on prices, they create more shortages.

After Hurricane Hugo hit Charleston, the city punished price "gouging"—that is, charging the market price—with fines up to $200 and 30 days in jail. Hurricane Andrew, which hit Dade County, Florida, inspired bureaucrats to new heights of tyranny, with fines of $500 and 60 days in jail. When that didn't work, the state attorney general set up a Soviet-style "Economic Crimes Unit" and threatened fines of $10,000.

All this is folly. Businessmen will always charge as high a price as they can get away with, whether in the midst of disaster or not. Consumer sovereignty and competition, not

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fines, prevent them from "gouging." Those market forces are always in place, and especially so after a disaster. Businessmen know there are needs to be met, and rush in, sometimes from afar, to provide them. Entrepreneurs spend their lives looking for unmet needs they can satisfy. But these providers have to compete with each other, a process which results in prices that are neither too high, which would lead to underutilization, nor too low, which would lead to waste.

If government intervenes by mandating artificially low prices, it conveys misleading information to consumers, causing them to use more than they should of scarce resources, and making existing shortages more intractable.

Is it wrong for private enterprise to make money from disasters? Is this "profiting from other people's misfortunes"? If capitalists didn't benefit, it wouldn't make economic sense for them to provide people with what they want. The other beneficiaries, who seem somehow forgotten, are the people with whom the capitalists make their exchanges.

It's not only local government that impedes market adjustment. Natural disasters are boons to the central government as well. The Los Angeles earthquake, for example, inspired the federal government to unparalleled fits of "generosity." One high-ranking official asked that "Congress and the American people approach this situation with the same sense of compassion and concern for our fellow human beings that we've applied in other disasters."

He did not offer to clean up debris or have Congressmen repair the highways. He wanted the government to transfer $8 billion from its owners and earners, to non-owners and non-earners, the government and its selected clients. By the time the transfer was finished, the total exceeded $8.6 billion. The timing worked in the government's favor as well. The extra spending came too late to be included in the FY 1995 budget, so spending and deficit projections were even more off the mark than usual.

The central government did not route the money directly to the L.A. residents. That would have taken much of the fun and political advantage out of government compassion. Instead, much of the money went to agencies within the central government itself. The Federal Emergency Management Administration (FEMA) received $3.9 billion, the Small Business Administration $1.44 billion, the Education Department $245 million, the Transportation Department $1.4 billion, Veterans Affairs $280 million, and Housing and Urban Development $500 million.

The central government's infusion of cash provided a new lease on life not only for FEMA but for every other bureaucratic beneficiary. They all got budget increases they couldn't have negotiated through the usual political process. Not only did their budgets zoom, but they were offered the chance to appear essential to the commonwealth. "Good thing we didn't cut those agencies way back when," we are encouraged to think. "What would we do without them now?"

Most people hurt by the L.A. earthquake will never see a dime of the $8.6 billion. To get a small business loan, you would have to fill out a giant form, subject yourself to federal scrutiny, be politically correct, wait a surprising amount of time, and then rely on the discretion of bureaucrats. Even if you did get the money, you should tear up the check, since such wealth transfers are both immoral and socially damaging. Most of the money, of course, ends up in the hands of lower levels of government, who take their cut and disperse the remainder to favored contractors and other campaign contributors.

Henry Hazlitt, in his book *Economics in One Lesson*, encouraged us to look at the unseen consequences of government benevolence. The billions extracted from the private economy to clean up the Los Angeles earthquake could have been left in private hands to expand investment and jobs. Some of this capital would have flowed to Los Angeles, where people's needs are the highest. The private sector could have invested at a profit in a place with high consumer demand; instead private earnings were forcefully taken by government, which empowers that institution at the expense of society, penalizes work and savings, and rewards the socially unfortunate skills necessary to get loans and grants from politicians.

Oddly, wealth destruction (through either earthquakes or taxation) does not appear in the official data. In a strange statistical anomaly, wars and natural disasters appear to increase economic growth. The reason is the manner in which the Gross Domestic Product is calculated. It counts only spending and production of goods and services. When flood waters engulfed the Midwest, for example, the result was not a declining GDP but an expanded one. The GDP also counts government spending as wealth, when in reality it subtracts from wealth, only one of many other reasons that the construct deceives rather than informs about the economy.

Government aid also squeezes out private solutions the crisis would have generated. Consider, for example, the highway system. In Los Angeles, several crucial highways collapsed, and everyone bemoaned the failure of their "earthquake-proof" design, and screamed for roads with more reinforcement. Why not use this golden opportunity to let private companies own and build them, and charge a fee for their use? The roads would have been built much faster, and because private companies could be held responsible for a future collapse, they would have added incentive to make them as strong as possible.

An added benefit of private roads would be reduced congestion. In Los Angeles, traffic jams cause billions in lost productivity and even lead to violent fits of rage. When road service is offered at zero price, as economists point out, the inevitable result is overutilized resources. If private companies ran the roads, prices would match supply with demand. The roads would be safer, in better repair, less congested, and taxpayers all over the country would have been spared higher taxes for Los Angeles "freeways."

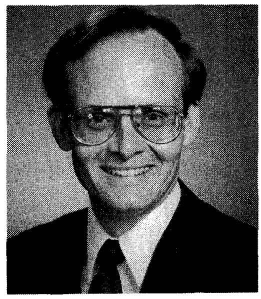
Instead, Los Angeles will pay a heavy price for its reliance on federal aid. Newly built roads will be even more congested than the old ones. Schools will find themselves more subservient to Washington than ever before, since the Education Department will take credit for rebuilding classrooms. And businesses that do get money from the Small Business Administration and other agencies will shift their loyalties from customers to executive agencies.

After a crisis, the government rarely shrinks to its pre-crisis levels. This has been the pattern throughout this century, as Professor Robert Higgs has pointed out. After the Great Depression and the Second World War, for example, we never returned to normalcy. Similarly, the Cold War helped justify huge military budgets and expanded Pentagon power, but once it ended, the promised "peace dividend" turned out to be a tax increase so we could play vice squad to the world.

The only way to prevent government at all levels from taking unfair advantage of natural disasters is to keep it from intervening in the first place. Two months before the earthquake occurred, former Senate candidate Bruce Herschensohn spoke at the Claremont Institute near Los Angeles on disaster aid. In his speech, he urged that California turn down all central government aid when the next earthquake hit.

He cited the waste and unfairness of taxing people all over the country to pay for California's ills. And he noted that nothing in the U.S. Constitution gives the central government authority to bail out earthquake-prone areas. The Tenth Amendment reserves to the states and to private enterprise the responsibility for such disasters.

If California had tried such an experiment and rejected government aid, it would have set—as Mr. Herschensohn noted—a shining example for the rest of the country. And it would have been the first major step away from leviathan. Instead, we witnessed another bad example of the government pretending to rectify every ill in society except statism, and making us all worse off in the long run. □



Economic Opportunity Needs A Moral Dimension

In this Congressional election year, expect to be barraged with rhetoric about "getting America moving again," "creating jobs, jobs, jobs," and "stimulating the economy."

Politicians love to promise the future and ignore their own handiwork of the past. They typically spend much more time concocting new schemes for intervention than they spend searching for old ones that deserve to be repealed.

What really deserves our attention are those specific barriers to economic opportunity erected *by* government—regulations, taxes, licensure laws, unfunded mandates, building and zoning codes, special privileges for organized labor, subsidies to business, chronic budget deficits that consume needed capital, a welfare system that puts a premium on idleness and a penalty on work, and an education monopoly that fails to teach children as it vacuums their parents' wallets, to name a few.

Each 1 percent increase in the federal tax burden, report economists William Dunkelburg and John Skorburg for the Cato Institute, results in a 1.8 percent decline in national output and a 1.14 percent decline in national employment—a loss of about 1.5 million jobs. A study from the National Center for Policy Analysis points out that a 1 percent decrease in the tax rates on all saving and investment income would generate enough new investment to increase the nation's output by $25 billion.

Dozens of studies have shown that excessively restrictive zoning laws, building codes, and property taxes constitute the greatest obstacles to affordable housing for the poor. Minimum wage laws, by making it illegal to employ people whose skills are worth less than Congress decrees, keep hundreds of thousands from getting a start in the job market. Endless regulations designed to curtail entry into markets from trucking to taxis freeze out many a would-be entrepreneur from creating new businesses.

I'm not talking about basic laws which prevent or punish harm to others. I'm talking about the primary social disease of our age—government beyond its proper bounds, playing Robin Hood, Santa Claus, and Mother Hen all at the same time, inflicting real damage to real people who have victimized no one. Economists, at least, are increasingly taking a critical eye to such policies.

It must be understood, however, that economic analysis will not by itself make the case for ridding ourselves of these man-made obstructions. It is powerful, but still not enough, to simply tote up the numbers and show how many jobs are erased by particular actions of government. It is not enough to produce graphs and models that plot the fluctuations in Gross National Product.

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What is sorely needed in the discussion is a recognition of the moral backwardness that so many of these barriers to economic opportunity represent. Dismantling the barricade requires that we who advocate freedom of enterprise seize the high ground. We must appeal to what most people instinctively know is *right*, not just what makes the cash register sing. We must learn to speak of the deleterious actions of government in terms of trampled rights, broken dreams, and ruined lives.

For instance, when the city of Detroit in my state imposes—as it does—a tax burden that is *seven* times the average burden in Michigan municipalities, that is not simply bad economics. It is an *affront* to every citizen of that city who wants the best for his family, who wants simply a chance to be productive. Those high taxes should evoke visions of hungry children, of a boarded-up business that was once someone's dream, of homes torn apart because of the breadwinner's inability to pay the bills of irresponsible politicians.

In case a reader might think I'm dealing in generalities, let me provide a very specific example—also from my state of Michigan. As is the policy in 41 other states which regulate the business of trucking, the "authority" to haul goods within the state is granted by state government. The Michigan Public Service Commission is empowered to determine who can be in the trucking business, what goods they can and can't transport, where they can haul them, and what rates they can charge their customers. Doing business as a Michigan trucker means playing an elaborate and costly game of "Mother, May I?" with state bureaucrats—filing forms and begging permission every step of the way.

The regulatory apparatus is not designed to protect the public from any harm. Rather, it is a means by which some of the regulated firms discourage newcomers and keep rates artificially high. One company, known as Federal Armored, Inc., ran afoul of these rules recently. A Public Service Commission ruling stripped the company of its right to do intrastate business in Michigan, resulting in its severance of more than 160 employees.

There were no public health or safety questions involved, no alleged fraud, and no complaints against Federal Armored by *any* of its customers or employees. The company's "crimes" boiled down to nothing more than charging customers *less* than the fixed rate and failing to file worthless paperwork with state regulators. The PSC itself brazenly asserted, "The absence of shipper objection . . . is irrelevant to Federal Armored's fitness" to do business in Michigan!

Why is it that people who go to work for government as officeholders or bureaucrats are known as "public servants"—even when highly paid? Why isn't "public servant" a term reserved for those entrepreneurial heroes in the *private* sector who create jobs, invent machines, cure illnesses, build businesses, serve customers, and pay the bills of government through their taxes? When the barriers erected by "public servants" crush the self-reliance of citizens like those at Federal Armored, where is the outcry of righteous indignation from the public or the press?

What regulators did to Federal Armored —and what countless other acts of government inflict upon people every day—is morally repugnant. Such deeds are throwbacks to less enlightened times when the common thief and the uncommon prince were indistinguishable but for their robes.

The campaign to restore our liberties and enhance our economic opportunities must incorporate a personal, moral dimension at its core. A law which suffocates the aspirations of enterprising men and women is more than bad economics. In a free society, it ought to be a moral outrage. □

THE FREEMAN
IDEAS ON LIBERTY

THE FASCIST EPITHET

by Mack Tanner

Epithets are always good political weapons. If they are well chosen, they paint the opponent's reputation so black that further discussion is no longer required. If an opponent is inherently evil, then one has no reason to expect that rational discussion and debate would produce any useful result. Therefore, once a political opponent has been appropriately labeled, that person can be shouted down and driven from the podium without the need of further discussion.

Using epithets is obviously not engaging in logical political discourse, but politics isn't about logic, it's about winning and who gets to use legal force for their own advantage. Anyone who looks seriously at the American political system can only conclude that elections are won on an emotional level, not through rational debate. Usually, the politician who scares the voter the most is the one who wins.

Lovers of individual freedom generally agree that politicians, news commentators, and government bureaucrats who want to increase the size and power of government, raise taxes, further limit personal freedom, and give us socialized medicine are misguided at best, or crooked, power-hungry thieves at worst. If we believe that they support evil ideas, shouldn't we use an epithet that makes it clear what we think about them? Ultimately, freedom can only be won by those willing to fight for it, and the first weapon in any fight are fighting words.

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We need a single word epithet that paints the enemy as black as we believe the enemy to be.

Words like *statist*, *liberal*, or *conservative* simply don't get the blood boiling. Use them, and the listener yawns and continues to ignore well-reasoned arguments. More important perhaps, the targets of such sweet-sounding epithets usually accept the words as compliments that explain what they consider themselves to be.

The Best Epithet

To be effective, an epithet must make the target angry. An effective epithet must also have a basis in truth. The best epithet is one that describes a truth that the targets refuse to recognize about themselves and their political positions. By making an angry target deny the truth of the epithet or to try to explain it away, we might finally get a rational, logical discussion going as we explain why the epithet does honestly apply.

There is a very appropriate epithet that fits perfectly everyone who favors more government control of business, the economy, society, and health care. But first some political and philosophical background.

With the collapse of Communism as a threat to our modern society, it's not surprising that the two most damning political epithets that can be hurdled these days are *Fascist* and *Nazi*, the second epithet being an even more dangerous mutation of the first evil. Those who usually throw those hated epithets think they know what they accuse an opponent of being. In the popular mind, the two words are assumed to mean anyone who is a bigot, a racist, an extreme nationalist, or a political ultra-conservative.

Understanding Fascism

If we examine the political evolution that produced fascism, we find that fascism has an entirely different meaning. Once we understand what that meaning is, it's easy to understand why it is that while the epithet *fascist* is so popular with liberal politicians and commentators, hence little is ever written about fascism as a political philosophy. Liberal statists don't want the public to know that when they point the finger of fascism at someone else, they are pointing four fingers at themselves.

From a logical perspective, a fascist may be a racist, a bigot, an ultranationalist, a violent sociopath, or a blond Swede, but all racists, bigots, ultranationalists, sociopaths, and blond Swedes are not fascists. Fascism is a specific form of government, just as feudalism, monarchy, socialism, communism, and constitutional democracy are specific forms of government.

The roots of fascism are found in the French Revolution. While the American Revolution was founded on the philosophical idea that all men should be free, and that the primary role of government should be to guarantee that freedom, the intellectuals and politicians of the French Revolution argued that government should guarantee not only freedom, but economic equality as well.

While this is an appealing idea, the reality is that as government goals, freedom and economic equality are mutually exclusive. When people are free, those with greater intellectual capacities, creative abilities, physical prowess, initiative, or good luck will probably end up with the most economic wealth. The only way a government can create economic equality is to take wealth forcibly from the most productive members of society and redistribute it to less productive citizens. The economically successful lose their freedom so that the unsuccessful can share the wealth. The more economic equality the government guarantees, the more it must restrict the freedoms of its most productive people.

Socialism

The original political philosophy that promised both freedom and equality was socialism. Socialism proved to be a powerful rallying cry for revolution in economically backward countries where tyrants ruled, especially in countries where foreign tyrants ruled. However, intellectual supporters of the socialist dream soon discovered that it was hard to sell socialism in democracies or even in those nondemocratic countries where rulers had allowed the population a degree of economic freedom.

The voters in the Western democracies not only didn't want socialism, they were terrified of the prospects of a violent socialist revolution. In the United States, most citizens quickly decided that socialism was *un-American*.

Not willing to give up the impossible dream that a government could guarantee both freedom and equality, the utopians proposed an alternative to socialism: the idea of a strong, nationalistic government which would allow private enterprise and privately owned property, but would control and regulate it to insure that the property owners and entrepreneurs served the public good instead of their own selfish greed. Under this scheme, politicians promised that they could achieve the goals of socialism without the otherwise inevitable pain of revolution and confiscation.

It is not surprising that these utopian intellectuals began calling themselves *Progressives*. What they were proposing was progressive socialism rather than revolutionary socialism. They also pre-empted the word *liberal*, redefining the liberalism of the American founders which held individual freedom as the ideal of a limited government into modern American liberalism in which the government limits individual freedom in order to insure economic equality.

The Promises of Progressivism

Academic economists like John Maynard Keynes threw in the promise that a strong central government could also smooth out economic cycles of boom prosperity followed by bust depression. *Progressive* democratic government thus not only promised freedom and equality, but also the good life of economic prosperity and perpetual growth.

The liberal democracies proved to be especially vulnerable to this philosophy which promised the voters significant improvements in their economic station without the need for great sacrifice on their part. While the successful and wealthy did have to pay the bill, initially, the bill presented extracted only a minor portion of their personal wealth and they accepted the argument that it was a cheap price if they were to avoid a socialist revolution.

In America, this system of progressive, socially engineered economic democracy was adopted so slowly that only a few thinkers recognized that it represented a total and complete break from the philosophy of government as espoused by those who wrote the American constitution. By the mid-1930s, this *progressive* idea that a strong government could resolve all problems of human society had thoroughly permeated the popular political thought of Western democratic governments.

Fascism

This philosophical counterpoint to socialism in which people were permitted to retain property and personal wealth while the state regulated how private property and wealth would be used to achieve the common good was given a name by Benito Mussolini when he founded the Fascist Party in Italy. He promised to give the Italians the same things that Roosevelt promised to give Americans. Mussolini called the political process for doing that *Fascism*.

In like manner, Adolf Hitler promised the Germans equality and prosperity through regulation and control of private wealth and industry. Hitler called his movement National Socialism (which was shortened to the acronym Nazi) because he was promising the same utopian benefits as the socialists promised, but without the pain of the immediate confiscation of all property and wealth. Like the democratic progessives, the fascist tyrants argued that the fascist way to prosperity and equality was the only hope for defeating the Communists.

Fascism was and is a political philosophy in which a strong central government permits, but regulates and taxes, private wealth and property in order to achieve the utopian socialist ideal.

Hitler played on frustrated national pride and used hate and envy of the German Jewish population in selling his fascist dream. To be a fascist one must not necessarily hate the same things the Germans hated at the time Hitler rose to power. But hatred is an inevitable by-product of fascism.

A primary fallacy of fascism and socialism is the belief that intelligent, selfless people can be found within any society—people who are so wise and knowledgeable that they can determine what constitutes the common good and what individual sacrifices are necessary to achieve that good. The fallacy dictates that such wise citizens are morally entitled to do whatever is necessary to ensure that all other members of the society make the necessary sacrifices. Other members of the society have a moral obligation to make the personal sacrifices, even if in making them, they suffer a significant decrease in the level of their own comfort and personal happiness. By definition, anyone who resists making such a personal sacrifice is deemed an immoral, evil, selfish beast who deserves whatever punishment the state decides to inflict.

Because fascist controls of business and private property can never produce the promised result of equality, freedom, and economic prosperity any more than socialist promises can, fascist politicians must always be looking for someone to blame for their failures while continuing to promise even greater future economic and social miracles. Both socialists and fascists must demonize those who object to the state taking over control of their property, businesses, and lives in order to justify the violence that the political leaders will inflict on them. Fascism and socialism grow only in the soil of envy and hate.

Like socialism, fascism has fatal flaws that can lead to excesses like those of Nazi Germany just as socialism led to the gross excesses of violence in the Soviet Union, China, Cuba, and on down to the killing fields of Cambodia. But the excesses of racism, the violent suppression of minority views, ruling class elitism, and aggression against other states are symptoms of fascism, not descriptions of the political-economic system.

Hitler picked the German Jews as hate targets. Modern fascist politicians demonize Wall Street bankers, entrepreneurs, well-paid CEOs, pharmaceutical and insurance companies, illegal immigrants, creative financial managers, gun owners, fundamentalist religious leaders, and dead white guys who wrote criticism pointing out the fallacies of fascism and socialism.

World War II started out as a confrontation between the two competing utopian systems for building a brave new world. Hitler expected that the democratic fascist countries of England and the United States would either support his efforts, or remain neutral. How we ended up on the side of the most extreme socialist country in the world rather than the most extreme fascist country requires a complicated historical examination beyond the scope of this essay.

Nevertheless, once Germany was defeated, the ongoing world-wide struggle immediately reverted back to a conflict between fascism and socialism and continued on for another 45 years. The primary issue of the Cold War was never freedom or slavery; it was whether total state control would be achieved through Communist revolution or through progressive subversion of the democratic process.

Now that socialism has collapsed under its own weight, we will next learn how long it will take democratic fascism to collapse because of the same fatal flaws in economic and political theory that are common to all socialist systems.

Much of modern American liberalism is fascism and always has been. We ought to start calling it that. By calling it what it really is, we can draw attention to what is happening in our country and explain why we keep losing freedom while violence and hate grow and spread through our society. □

THE FREEMAN
IDEAS ON LIBERTY

Economic Fascism

by Thomas J. DiLorenzo

When most people hear the word "fascism" they naturally think of its ugly racism and anti-Semitism as practiced by the totalitarian regimes of Mussolini and Hitler. But there was also an economic policy component of fascism, known in Europe during the 1920s and '30s as "corporatism," that was an essential ingredient of *economic* totalitarianism as practiced by Mussolini and Hitler. So-called corporatism was adopted in Italy and Germany during the 1930s and was held up as a "model" by quite a few intellectuals and policy makers in the United States and Europe. A version of economic fascism was in fact adopted in the United States in the 1930s and survives to this day. In the United States these policies were not called "fascism" but "planned capitalism." The word fascism may no longer be politically acceptable, but its synonym "industrial policy" is as popular as ever.

The Free World Flirts With Fascism

Few Americans are aware of or can recall how so many Americans and Europeans viewed economic fascism as the wave of the future during the 1930s. The American Ambassador to Italy, Richard Washburn Child, was so impressed with "corporatism" that he wrote in the preface to Mussolini's 1928 autobiography that "it may be shrewdly forecast that no man will exhibit dimensions of permanent greatness equal to Mussolini. . . . The Duce is now the greatest figure of this sphere and time."[1] Winston Churchill wrote in 1927 that "If I had been an Italian I am sure I would have been entirely with you" and "don the Fascist black shirt."[2] As late as 1940, Churchill was still describing Mussolini as "a great man."

U.S. Congressman Sol Bloom, Chairman of the House Foreign Relations Committee, said in 1926 that Mussolini "will be a great thing not only for Italy but for all of us if he succeeds. It is his inspiration, his determination, his constant toil that has literally rejuvenated Italy . . ."[3]

One of the most outspoken American fascists was economist Lawrence Dennis. In his 1936 book, *The Coming American Fascism*, Dennis declared that defenders of "18th-century Americanism" were sure to become "the laughing stock of their own countrymen" and that the adoption of economic fascism would intensify "national spirit" and put it behind "the enterprises of public welfare and social control." The big stumbling block to the development of economic fascism, Dennis bemoaned, was "liberal norms of law or constitutional guarantees of private rights."

Certain British intellectuals were perhaps the most smitten of anyone by fascism. George Bernard Shaw announced in 1927 that his fellow "socialists should be delighted to find at last a socialist [Mussolini] who speaks and thinks as responsible rulers do."[4] He helped form the British Union of

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Fascists whose "Outline of the Corporate State," according to the organization's founder, Sir Oswald Mosley, was "on the Italian Model." While visiting England, the American author Ezra Pound declared that Mussolini was "continuing the task of Thomas Jefferson."[5]

Thus, it is important to recognize that, as an *economic* system, fascism was widely accepted in the 1920s and '30s. The evil deeds of individual fascists were later condemned, but the practice of economic fascism never was. To this day, the historically uninformed continue to repeat the hoary slogan that, despite all his faults, Mussolini at least "made the trains run on time," insinuating that his interventionist industrial policies were a success.

The Italian "Corporatist" System

So-called "corporatism" as practiced by Mussolini and revered by so many intellectuals and policy makers had several key elements:

The state comes before the individual. Webster's New Collegiate Dictionary defines fascism as "a political philosophy, movement, or regime that exalts nation and often race above the individual and that stands for a centralized, autocratic government." This stands in stark contrast to the classical liberal idea that individuals have natural rights that pre-exist government; that government derives its "just powers" only through the consent of the governed; and that the principal function of government is to protect the lives, liberties, and properties of its citizens, not to aggrandize the state.

Mussolini viewed these liberal ideas (in the European sense of the word "liberal") as the antithesis of fascism: "The Fascist conception of life," Mussolini wrote, "stresses the importance of the State and accepts the individual only in so far as his interests coincide with the State. It is opposed to classical liberalism [which] denied the State in the name of the individual; Fascism reasserts the rights of the State as expressing the real essence of the individual."[6]

Mussolini thought it was unnatural for a government to protect individual rights: "The maxim that society exists only for the well-being and freedom of the individuals composing it does not seem to be in conformity with nature's plans."[7] "If classical liberalism spells individualism," Mussolini continued, "Fascism spells government."

The essence of fascism, therefore, is that government should be the master, not the servant, of the people. Think about this. Does anyone in America really believe that this is not what we have now? Are Internal Revenue Service agents really our "servants"? Is compulsory "national service" for young people, which now exists in numerous states and is part of a federally funded program, not a classic example of coercing individuals to serve the state? Isn't the whole idea behind the massive regulation and regimentation of American industry and society the notion that individuals should be forced to behave in ways defined by a small governmental elite? When the nation's premier health-care reformer recently declared that heart bypass surgery on a 92-year-old man was "a waste of resources," wasn't that the epitome of the fascist ideal—that the state, not individuals, should decide whose life is worthwhile, and whose is a "waste"?

The U.S. Constitution was written by individuals who believed in the classical liberal philosophy of individual rights and sought to protect those rights from governmental encroachment. But since the fascist/collectivist philosophy has been so influential, policy reforms over the past half century have all but abolished many of these rights by simply ignoring many of the provisions in the Constitution that were designed to protect them. As legal scholar Richard Epstein has observed: "[T]he eminent domain . . . and parallel clauses in the Constitution render . . . suspect many of the heralded reforms and institutions of the twentieth century: zoning, rent control, workers' compensation laws, transfer payments, progressive taxation."[8] It is important to note that most of these reforms were initially adopted during the '30s, when the fascist/collectivist philosophy was in its heyday.

Planned industrial "harmony." Another keystone of Italian corporatism was the idea that the government's interventions in the economy should not be conducted on an ad hoc basis, but should be "coordinated" by some kind of central planning board. Government intervention in Italy was "too diverse, varied, contrasting. There has been disorganic . . . intervention, case by case, as the need arises," Mussolini complained in 1935.[9] Fascism would correct this by directing the economy toward "certain fixed objectives" and would "introduce order in the economic field."[10] Corporatist planning, according to Mussolini adviser Fausto Pitigliani, would give government intervention in the Italian economy a certain "unity of aim," as defined by the government planners.[11]

These exact sentiments were expressed by Robert Reich (currently the U.S. Secretary of Labor) and Ira Magaziner (currently the federal government's health care reform "Czar") in their book *Minding America's Business.*[12] In order to counteract the "untidy marketplace," an interventionist industrial policy "must strive to integrate the full range of targeted government policies—procurement, research and development, trade, antitrust, tax credits, and subsidies—into a coherent strategy. . . ."

Current industrial policy interventions, Reich and Magaziner bemoaned, are "the product of fragmented and uncoordinated decisions made by [many different] executive agencies, the Congress, and independent regulatory agencies. . . . There is no integrated strategy to use these programs to improve the . . . U.S. economy."[14]

In his 1989 book, *The Silent War*, Magaziner reiterated this theme by advocating "a coordinating group like the national Security Council to take a strategic national industrial view."[15] The White House has in fact established a "National Economic Security Council." Every other advocate of an interventionist "industrial policy" has made a similar "unity of aim" argument, as first described by Pitigliani more than half a century ago.

Government-business partnerships. A third defining characteristic of economic fascism is that private property and business ownership are permitted, but are in reality controlled by government through a business-government "partnership." As Ayn Rand often noted, however, in such a partnership government is always the senior or dominating "partner."

In Mussolini's Italy, businesses were grouped by the government into legally recognized "syndicates" such as the "National Fascist Confederation of Commerce," the "National Fascist Confederation of Credit and Insurance," and so on. All of these "fascist confederations" were "coordinated" by a network of government planning agencies called "corporations," one for each industry. One large "National Council of Corporations" served as a national overseer of the individual "corporations" and had the power to "issue regulations of a compulsory character."[16]

The purpose of this byzantine regulatory arrangement was so that the government could "secure collaboration . . . between the various categories of producers in each particular trade or branch of productive activity."[17] Government-orchestrated "collaboration" was necessary because "the principle of private initiative" could only be useful "in the service of the national interest" as defined by government bureaucrats.[18]

This idea of government-mandated and -dominated "collaboration" is also at the heart of all interventionist industrial policy schemes. A successful industrial policy, write Reich and Magaziner, would "require careful coordination between public and private sectors."[19] "Government and the private sector must work in tandem."[20] "Economic success now depends to a high degree on coordination, collaboration, and careful strategic choice," guided by government.[21]

The AFL-CIO has echoed this theme, advocating a "tripartite National Reindustrialization Board—including representatives of labor, business, and government" that would supposedly "plan" the economy.[22] The Washington, D.C.-based Center for National Policy has also published a report authored by businessmen from Lazard Freres, du Pont, Burroughs, Chrysler, Electronic Data Systems, and other corporations promoting an allegedly "new" policy based on "cooperation of government with business and labor."[23] Another report, by the organization "Rebuild America," co-authored in 1986 by Robert Reich and economists Robert Solow, Lester Thurow, Laura Tyson, Paul Krugman, Pat Choate, and Lawrence Chimerine urges "more teamwork" through "public-private partnerships among government, business and academia."[24] This report calls for "national goals and targets" set by government planners who will devise a "comprehensive investment strategy" that will only permit "productive" investment, as defined by government, to take place.

Mercantilism and protectionism. Whenever politicians start talking about "collaboration" with business, it is time to hold on to your wallet. Despite the fascist rhetoric about "national collaboration" and working for the national, rather than private, interests, the truth is that mercantilist and Protectionist practices riddled the system. Italian social critic Gaetano Salvemini wrote in 1936 that under corporatism, "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."[25] As long as business was good, Salvemini wrote, "profit remained to private initiative."[26] But when the depression came, "the government added the loss to the taxpayer's burden. Profit is private and individual. Loss is public and social."[27]

The Italian corporative state, *The Economist* editorialized on July 27, 1935, "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 at the expense of the little fellow who is squeezed out in the process." Corporatism, in other words, was a massive system of corporate welfare. "Three-quarters of the Italian economic system," Mussolini boasted in 1934, "had been subsidized by government."[28]

If this sounds familiar, it is because it is exactly the result of agricultural subsidies, the Export-Import bank, guaranteed loans to "preferred" business borrowers, protectionism, the Chrysler bailout, monopoly franchising, and myriad other forms of corporate welfare paid for directly or indirectly by the American taxpayer.

Another result of the close "collaboration" between business and government in Italy was "a continual interchange of personnel between the . . . civil service and private business."[29] Because of this "revolving door" between business and government, Mussolini had "created a state within the state to serve private interests which are not always in harmony with the general interests of the nation."[30]

Mussolini's "revolving door" swung far and wide:

> Signor Caiano, one of Mussolini's most trusted advisers, was an officer in the Royal Navy before and during the war; when the war was over, he joined the Orlando Shipbuilding Company; in October 1922, he entered Mussolini's cabinet, and the subsidies for naval construction and the merchant marine came under the control of his department. General Cavallero, at the close of the war, left the army and entered the Pirelli Rubber Company . . . ; in 1925 he became undersecretary at the Ministry of War; in 1930 he left the Ministry of War, and entered the service of the Ansaldo armament firm. Among the directors of the big . . . companies in Italy, retired generals and generals on active service became very numerous after the advent of Fascism.[31]

Such practices are now so common in the United States—especially in the defense industries—that it hardly needs further comment.

From an economic perspective, fascism

meant (and means) an interventionist industrial policy, mercantilism, protectionism, and an ideology that makes the individual subservient to the state. "Ask not what the State can do for you, but what you can do for the State" is an apt description of the economic philosophy of fascism.

The whole idea behind collectivism in general and fascism in particular is to make citizens subservient to the state and to place power over resource allocation in the hands of a small elite. As stated eloquently by the American fascist economist Lawrence Dennis, fascism "does not accept the liberal dogmas as to the sovereignty of the consumer or trader in the free market. . . . Least of all does it consider that market freedom, and the opportunity to make competitive profits, are rights of the individual." Such decisions should be made by a "dominant class" he labeled "the elite."[32]

German Economic Fascism

Economic fascism in Germany followed a virtually identical path. One of the intellectual fathers of German fascism was Paul Lensch, who declared in his book *Three Years of World Revolution* that "Socialism must present a conscious and determined opposition to individualism."[33] The philosophy of German fascism was expressed in the slogan, *Gemeinnutz geht vor Eigennutz*, which means "the common good comes before the private good." "The Aryan is not greatest in his mental qualities," Hitler stated in *Mein Kampf*, but in his noblest form he "willingly subordinates his own ego to the community and, if the hour demands, even sacrifices it."[34] The individual has "not rights but only duties."[35]

Armed with this philosophy, Germany's National Socialists pursued economic policies very similar to Italy's: government-mandated "partnerships" between business, government, and unions organized by a system of regional "economic chambers," all overseen by a Federal Ministry of Economics.

A 25-point "Programme of the Party" was adopted in 1925 with a number of economic policy "demands," all prefaced by the general statement that "the activities of the individual must not clash with the interests of the whole . . . but must be for the general good."[36] This philosophy fueled a regulatory assault on the private sector. "We demand ruthless war upon all those whose activities are injurious to the common interest," the Nazis warned.[37] And who are these on whom "war" is to be waged? "Common criminals," such as "usurers," i.e., bankers, and other "profiteers," i. e., ordinary businessmen in general. Among the other policies the Nazis demanded were abolition of interest; a government-operated social security system; the ability of government to confiscate land without compensation (wetlands regulation?); a government monopoly in education; and a general assault on private-sector entrepreneurship which was denounced as the "Jewish materialist spirit."[38] Once this "spirit" is eradicated, "The Party . . . is convinced that our nation can achieve permanent health from within only on the principle: the common interest before self-interest."[39]

Conclusions

Virtually all of the specific economic policies advocated by the Italian and German fascists of the 1930s have also been adopted in the United States in some form, and continue to be adopted to this day. Sixty years ago, those who adopted these interventionist policies in Italy and Germany did so because they wanted to destroy economic liberty, free enterprise, and individualism. Only if these institutions were abolished could they hope to achieve the kind of totalitarian state they had in mind.

Many American politicians who have advocated more or less total government control over economic activity have been more devious in their approach. They have advocated and adopted many of the same policies, but they have always recognized that direct attacks on private property, free enterprise, self-government, and individual freedom are not politically palatable to the majority of the American electorate. Thus, they have enacted a great many tax, regulatory, and income-transfer policies that achieve the ends of economic fascism, but which are sugar-coated with deceptive rhetoric about their alleged desire only to "save" capitalism.

American politicians have long taken their cue in this regard from Franklin D. Roosevelt, who sold his National Recovery Administration (which was eventually ruled unconstitutional) on the grounds that "government restrictions henceforth must be accepted not to hamper individualism but to protect it."[40] In a classic example of Orwellian doublespeak, Roosevelt thus argued that individualism must be destroyed in order to protect it.

Now that socialism has collapsed and survives nowhere but in Cuba, China, Vietnam, and on American university campuses, the biggest threat to economic liberty and individual freedom lies in the new economic fascism. While the former Communist countries are trying to privatize as many industries as possible as fast as they can, they are still plagued by governmental controls, leaving them with essentially fascist economies: private property and private enterprise are permitted, but are heavily controlled and regulated by government.

As most of the rest of the world struggles to privatize industry and encourage free enterprise, we in the United States are seriously debating whether or not we should adopt 1930s-era economic fascism as the organizational principle of our entire health care system, which comprises 14 percent of GNP. We are also contemplating business-government "partnerships" in the automobile, airlines, and communications industries, among others, and are adopting government-managed trade policies, also in the spirit of the European corporatist schemes of the 1930s.

The state and its academic apologists are so skilled at generating propaganda in support of such schemes that Americans are mostly unaware of the dire threat they pose for the future of freedom. The road to serfdom is littered with road signs pointing toward "the information superhighway," "health security," "national service," "managed trade," and "industrial policy." □

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THE FREEMAN
IDEAS ON LIBERTY

The Failure of Antitrust Policy

by D. T. Armentano

The recently proposed mega-mergers in the telecommunications industry may usher in a more activist period of antitrust regulation. This would be unfortunate since antitrust is a generally failed and discredited policy. The laws, allegedly enacted to protect consumers, have been used historically to harass efficient corporations that have increased market output and lowered market price.

How could a public policy allegedly designed to help consumers have come to hurt them instead? One explanation is that antitrust regulation was never intended to protect consumers. It was intended to shield some firms from the efficiency of other firms and, like tariffs, was fundamentally protectionist. This public-choice perspective on the origins of antitrust law is reinforced by recent historical research and by the fact that more than 90 percent of all antitrust litigation involves one private firm suing another. If it looks, walks, and quacks like a special-interest duck, it's probably a special-interest duck.

A second way to resolve the antitrust paradox is to argue that the regulators, the courts, and the academics that rationalized antitrust enforcement were fundamentally confused about certain basic economic concepts such as "competition" and "monopoly power." When a firm lowers its price, is that "competition" or is it an attempt to monopolize? When a firm gains market share, is that evidence of relative efficiency or is it an attempt to monopolize in restraint of trade? Is advertising pro-competitive or anti-competitive? Is research spending and innovation an important element of competition, or is it a "barrier to entry" that restricts competition and harms consumers? Clearly, theoretical ambiguities could contribute to a massively misdirected antitrust enforcement effort. Again, the antitrust paradox would be resolved.

Bad Theory, Bad Policy

To understand how theoretical confusion can lead to inappropriate public policy, that is, how *bad* theory can lead to *bad* policy, it might be useful to focus attention on the dominant micro-economic models and the generally accepted welfare analysis. The perfectly competitive equilibrium model dominated micro-economic theory in the 1940s, '50s, and '60s, and departures from that model's assumption or economic performance were often used to rationalize antitrust intervention. Generations of students who studied antitrust economics (or "industrial organization" as the subject came to be called) were told that "competitively" structured markets tended inevita-

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bly toward an equilibrium condition where price, marginal cost, and minimum average cost were all equal and where, by definition, consumer welfare was maximized.

According to this approach, consumer welfare could *not* be maximized if products were differentiated or if firms advertised; if some firms achieved economies of scale and scope that other firms could not achieve; or if high market share (or collusion) resulted in some "control" over market price. Firms with "monopoly" power "misallocated resources" (relative to perfect competition) and became legitimate candidates for antitrust prosecution.

The theoretical predictions of antitrust economics were accompanied by empirical research and by statistical (mostly regression) analysis. Early industrial organization economists were enthusiastic supporters of antitrust regulation because they believed that there were strong statistical correlations between market share and rates of return. Presumably "dominant firms" in concentrated markets tended to earn long-run monopoly profits; consumers could be made better off by an antitrust policy aimed at reducing market "concentration." Thus micro-economic theory and hard empirical evidence were alleged to have rationalized a vigorous antitrust (especially anti-merger) enforcement effort.

Three important strands of criticism of the tradionalist industrial organization paradigm developed in the 1970s and they help explain a modest change in antitrust enforcement in the 1980s. First, "new learning" critics (mostly Chicago-school economists) challenged many of the older empirical conclusions concerning mergers, market concentration, and profitability. With appropriate adjustments for time and sample size, much of the alleged correlations between market concentration and profit disappeared. Second, revisionist case analysis demonstrated that antitrust regulation was often employed against firms that had increased their outputs and lowered their prices. Third, the basic theoretical paradigm itself—the static equilibrium models and their welfare analysis—was subject to important criticism. The best of that criticism was based on insights associated prominently with members of the Austrian School of Economics.

Austrian Theory

Austrian economists generally held that real-world departures from perfect competition were not necessarily examples of market failure, nor could such departures rationalize antitrust intervention. Products should be differentiated if consumer tastes are differentiated; firms should advertise if information isn't perfect; lower costs achieved by innovative firms should keep high-cost firms out of markets. All of these practices were elements of a rivalrous discovery process and were not resource misallocating. That they were inconsistent with the perfectly competitive equilibrium condition was irrelevant since that condition itself was entirely irrelevant for policy purposes.

Further, Austrian economists held that the empirical studies that attempt to measure monopoly power or social welfare loss were fundamentally misleading. The divergence of price from some measure of accounting cost was a disequilibrium condition and represented nothing sinister. Indeed, such divergencies were necessary in order to provide information and incentives to entrepreneurs to move resources to their highest valued use. Business organizations that made above-normal profits were simply more efficient at managing risk, discovering preferences, and reducing costs over the long run.

In addition, Austrian economists argued that the condemnation of the dominant firm in the industrial organization literature was thoroughly contrived. The source of that contrivance was the equation of the dominant firm with the textbook monopoly. Yet the textbook monopolist misallocated resources by definition, that is, because of strict *equilibrium* assumptions that ruled out the entry of other suppliers. In the absence of equilibrium assumptions—or legal barriers to entry—it was not even possible to define a monopoly price unambiguously, much less explain why such firms would have incentives to operate inefficiently. The dominant firm antitrust cases demonstrated that such organizations gain and hold market share by lowering prices and increasing outputs, precisely the opposite conduct and performance predicted by conventional monopoly theory.

Finally, costs and benefits for Austrian economists were always personal and subjective; they simply did not lend themselves to interpersonal aggregation or comparison. This basic Austrian insight obliterated all rule of reason and welfare analysis in antitrust regulation. For example, the conventional rule of reason approach assumes that regulators can promote the public welfare by permitting mergers whose social benefits outweigh their social costs, or by condemning price agreements whose social costs likely exceed benefits. For radical Austrian subjectivists, however, such utilitarian cost/benefit calculations were simply impossible since the data could not be known to outside observers and could not be aggregated across different individuals or firms.

It is clear, then, that the Austrian theoretical perspective is extremely skeptical of traditional antitrust economics and of so-called "vigorous" antitrust enforcement. In the current case of the proposed mega-media mergers, they should be allowed to succeed or fail on their own merits. Public policy should be essentially neutral with respect to inter-firm business cooperation, mergers, and acquisitions.

The Essence of the "Monopoly Problem"

There *is* a "monopoly problem" in the U.S. economy but it is not to be found in purely private market activity such as business mergers. The essence of the monopoly problem is the existence of government *legal* impediments to rivalry or cooperation. Legal barriers to entry and prohibitions on inter-firm cooperation prevent the market from generating, disseminating, and using the information that the traders require for efficient plan coordination. Non-legal barriers and so-called restrictive agreements (such as resale price maintenance) simply don't have this effect on private plan coordination. Since antitrust regulations unambiguously lower the efficiency of the market process, and since they additionally restrict individual liberty and property rights, there's little reason to support the continuation of such regulation. In the name of efficiency and liberty, all antitrust law should be repealed. □

THE FREEMAN
IDEAS ON LIBERTY

Losing Touch

by Donald Boudreaux

I know two veterans of World War II. Both are exceptionally fine and patriotic Americans. One, call him Bill, flew as a navigator on a B-29 bomber based in the Pacific. The other, call him Joe, fought as an infantryman in Europe. Fortunately, neither was injured during the war. Although alike in many ways, a notable difference between Bill and Joe is that Bill is forever and with great relish recalling his bomber days, while Joe steadfastly refuses to mention his wartime experiences. Odd as it may seem, this difference between Bill and Joe contains an important lesson about big government and democratic politics.

Politicians, Like Bombers, Seldom See Their Victims . . .

I once asked Bill why he attended so many reunions with his former crew members and why he never tired of recollecting his war years. And why does Joe say absolutely nothing about his time in the army? Bill's response is revealing. "Joe fought in combat, face to face with the enemy. He saw lots of blood and guts and death and suffering. But for me, the war was great. Nothing bad happened to me. My buddies and I flew lots of missions over Japan and nearby islands. All I ever saw were little puffs of smoke on the ground where our bombs hit."

Reflecting on Bill's response, I realized that politicians and their bureaucratic appointees are much like bomber crews: they wreak much havoc, but seldom experience first hand the consequences of their actions. As a result, political activity is generally pleasurable. But if governing were more like infantry service and less like bombing runs—that is, if politicians witnessed first-hand all the suffering unleashed by government taxation and regulation—politicians would surely be less enthusiastic about their schemes.

Agricultural subsidies are a good example. Farm-price supports inflict all sorts of harm on millions of people. Consumers pay unnecessarily higher prices for food while taxpayers dole out more in taxes to support and administer these programs. These higher prices and heavier tax burdens, in turn, have a significant injurious secondary effect: fewer resources are available for producing other worthwhile goods and services. Also, poor people shoulder a disproportionate share of this unnecessary wealth destruction because they spend larger percentages of their incomes on food than do wealthy citizens. In short, the nation is a poorer and more unjust place because of agricultural subsidies.

Politicians know that agricultural subsidies are destructive. Washington's unremitting stream of partisan bombast and simple-minded sound bites should not be taken as evidence that politicians are stupid. They aren't. Most politicians are quite aware that agricultural subsidies confiscate enormous wealth from large numbers of people in order to give it—after much skimming by the

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bureaucracy—to a small number of politically influential farmers in a way that works against the public interest. Yet there appears to be no end in sight to such wasteful programs.

Some observers succumb to utter cynicism and argue that politicians are inherently evil. While I don't deny that representative democracy tends to select peculiar types of people for political office—perhaps people who are, typically, a bit more hungry for power and fame than is the average citizen—I don't believe that politicians' character flaws are responsible for the interest-group feeding frenzy that today characterizes democratic government.

Few politicians are indifferent to human suffering and misfortune. Most politicians in the United States come from solid middle-class backgrounds, have loving and beloved families and dear friends, and wouldn't dream of mistreating people they deal with personally. I daresay the personal values most politicians possess differ imperceptibly from the personal values motivating most of middle-class America. This is why, with straight faces, nearly every politician can look squarely into a camera's lens and insist that he or she is a good person who only wants to do what's right. Friends of liberty do their cause no favors by exaggerating the moral shortcomings of politicians or by portraying them as inherently stupid, fiendish, or sinister.

Nevertheless, politicians do many harmful things. The reason, I believe, is that—like the destruction wrought by bombers—the ill effects of most political acts are like little puffs of smoke. Politicians seldom come face to face with people whose suffering is perceptibly caused by government policies.

Of course, politicians do see stacks of statistics, charts, and graphs telling them (if they choose to pay attention) of the higher food prices caused by agricultural policies, as well as of the many other maladies inflicted by their programs. But such figures are faceless. These figures are to politicians what little puffs of smoke are to bombers: bombers know that tremendous human suffering occurs just beneath the little puffs of smoke, but because the bombers don't encounter this suffering up-close and personal, they are largely unaffected by it. Likewise, statistics, charts, and graphs seldom cause remorse or regret for politicians. It is relatively easy to harm others when you never see your victims face to face.

. . . But Politicians Do See Interest-Group Beneficiaries

The problem of faceless victims of government is compounded by the fact that there is a class of people that politicians do see face to face on a regular basis: members of organized interest groups. Interest groups are persistent in seeking special privileges from government. And such persistence pays off, partly because politicians are not diabolical miscreants. Most politicians are just like you and me: They are often willing to go out of their way to lend a hand to familiar and friendly faces. Politicians no doubt feel proud and gratified when familiar farming lobbyists shake their hands warmly, slap them on the back, and thank them for higher price supports. Just as politicians care little about victims they never see, they care very sincerely about those with whom they are in daily face-to-face contact.

It is human nature to favor friends and familiar acquaintances over unnamed, faceless others—other people encountered by politicians only as data points in various reports. The longer a politician remains in Washington (or in a state capital), the more his or her circle of friends and acquaintances comes to be composed of interest-group representatives and other politicians, all of whom are forever seeking special favors. In addition, extended time in office inevitably causes politicians to lose face-to-face contact with the folks back home—the ordinary folks, that is, rather than the special-interest groups.

Conclusion

If every politician actually saw the faces of his or her victims in addition to the faces of his or her interest-group clients, the political game would be far less biased against consumers and other persons who are not represented by lobbyists strolling the halls of government power. Unfortunately, the nature of interest-group politics is that only those groups with relatively few members can organize effectively to conduct face-to-face political lobbying of elected officials. Consequently, without some fundamental change in the scope of government or our political institutions, most citizens will continue to be victims of the policy bombs forever dropping out of Washington and state capitals. □

THE FREEMAN
IDEAS ON LIBERTY

A TAX DEDUCTION FOR EDUCATION

by Roy E. Cordato and Sheldon Richman

There is something fundamentally unfair about being penalized for choosing a private school or homeschooling for one's children. The penalty, of course, is that parents who wish to find alternatives to public schools must pay for education twice, first through local taxes and then through tuition or homeschooling expenses.

In light of the recent defeat of the Proposition 174 school-choice initiative in California, perhaps it is time to rethink the school-choice strategy. Even among advocates of choice, there have been those who have had doubts about educational vouchers. For decades they have warned that vouchers would be seen as a state subsidy to private schools and that that perception would be used to rationalize regulations from which private schools today are exempt. How, it will be asked, can "the public's money" be permitted to go to just anyone who starts a school? Most people won't think it should be allowed. Thus, they will accept as reasonable an array of regulations governing the hiring of teachers and curriculum.

Advocates of vouchers are aware of that criticism, and they tried to prevent new regulation in Prop 174. But that may have been its undoing. The *Economist* commented that the initiative "might well have passed if it had simply contained provisions requiring schools that received voucher money to meet some basic standards set by the authorities."

If so, advocates of vouchers who are concerned with the integrity of private schooling face a dilemma. What if the only voucher plan that has a chance of passing would make the private schools virtual carbon copies of the public schools? Surely, passing such a plan would not be worth the effort.

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What is needed is an alternative that cannot be mistaken for a subsidy, that cannot be used to rationalize regulation of private schools, and that will give parents at least some control over which schools their children attend.

A federal income tax deduction for private educational expenses would satisfy those criteria. Under this proposal, parents who finance their children's education directly from their own pockets would do so with pre-tax dollars. Similar to the way people contribute to an Individual Retirement Account, all parents could take advantage of this device, even if they do not itemize tax deductions. The deduction could also be available to those who paid for someone else's children's education. Tax-free education savings accounts would be another way to accomplish the same goal. Educational expenses would include tuition for any sectarian or secular private school and outlays for homeschooling.

Critics might object that an education deduction would be a subsidy because it would lower the relative cost of private education. But economic analysis suggests otherwise. Such a deduction should not be considered a subsidy but the amelioration of a general tax penalty on savings and investment. When businesses are allowed to deduct from their taxable income those expenditures intended to produce future income, those deductions are not considered a subsidy. The economics of tax policy argues that all investment expenditures, whether made by businesses or individuals, should be treated in that manner; today they clearly are not.

While some personal financial investments are not penalized (IRAs, and other retirement saving vehicles, for example), educational expenses are. Yet everyone from teachers' union president Albert Shanker to Milton Friedman acknowledges that education is an investment with some expected return. Its purpose is to enhance the future productivity and income of students. Thus, principles of efficient tax policy suggest that all personal expenditures on education, whether by parents for their children's primary, secondary, or higher education, or by adults for continuing education, should be made with pretax dollars. And since an education deduction is not a subsidy, there could be no reasonable church-state objection to including religious-based schooling.

A tax code that does not permit deductions for investment, including education, is biased against it. That seeming paradox —that apparently equal tax treatment of consumption and investment is in fact *unequal* treatment—is easily resolved.

Imagine Jane Smith is deciding what to do with the $1,000 she has just earned. She will compare the satisfaction she can obtain from direct consumption, say, buying a big-screen television, with the future income that could be generated by investing the money in a certificate of deposit (CD) at a bank. If the $1,000 is taxed at 28 percent, both the returns to consumption (the size of the television) and the returns to investment are reduced. But the tax will reduce the investment returns a second time, because the interest on the CD will also be taxed. In that way, the income tax penalizes investment more heavily than it does consumption and therefore biases Jane's decision against purchasing the CD. Were Jane allowed to buy the CD with pretax income, the tax penalty would be eliminated. It is that logic that supports business deductions for capital expenditures, including payments for employees' education, from taxable income. By forcing educational investment to be made with after-tax income, the government penalizes such expenditures in the same way it does Jane's CD investment.

What's Fair

Economics aside, the critics might persist in their belief that the tax deduction somehow would be unfair. But in a free society, the fairness argument cuts the other way. As a matter of principle, letting parents keep more of their own money to educate their children should not be thought of as unfair. The claim that such a deduction would be unfair is based on the premise that the government is entitled to all our income and that anything it lets us keep is a subsidy. That's an un-American idea to say the least.

Far from being unfair, the deduction would actually create a more even-handed treatment of educational spending. Most public schools are supported by property taxes. Property taxes are tax deductible. Thus, parents' expenditures on public schooling are tax deductible. But their expenditures on other forms of education are not. Our proposal would remove that bias by extending the deduction to alternative schooling.

A middle-class family in the 28 percent bracket that spent $5,000 for private-school tuition would save $1,400 in federal taxes, plus perhaps $500 more in state and local income taxes. That is not as much as the $2,500 that Prop 174 would have provided, but for some families it could be the margin of affordability between public and private school. The tax relief would not be as great for families in a lower bracket, although it might be enough to stimulate the launching of low-cost neighborhood private schools. The deduction might also prompt some parents to consider homeschooling, which more and more families are finding to be the best alternative of all.

Finally, it may be asked, why shouldn't the tax laws favor the public schools? They should not, because in a free society and an uncertain world, people should not be unreasonably restricted in the trial-and-error process of raising their children and improving themselves to the best of their ability. Public school administrators do not have a monopoly on wisdom. Parents and alternative providers may have a better idea. Free individuals should be able to face life's challenges with the widest latitude—and without being penalized by the tax code for doing so. □

THE FREEMAN
IDEAS ON LIBERTY

Now for Some Serious Educational Reform

by Tibor R. Machan

When the late Allan Bloom wrote his best-selling *The Closing of the American Mind* a few years ago, a debate ensued about just what might be wrong with American higher education. Bloom took what he considered to be a very serious approach to his subject matter and concluded, essentially, that American colleges and universities have become hotbeds of philosophical relativism, the position that in the end everything is equally important, there are no objective standards by which to judge educational performance or even what is important to learn and what may be less important. Bloom said, in effect, that we have a philosophical problem with our educational system, one that has serious harmful practical consequences by leaving us without a compass, by disorienting us about values.

Bloom's views were dismissed as elitist by many college administrators and professors. This means that Bloom didn't accept that everything is equal, that all views and ideas have equal merit. This elitism does, of course, fly in the face of a certain feature of American education, one that many associated with it fully embrace. This is the belief that everyone, regardless of interest, motivation, and aptitude ought to receive the benefits of education. Such an egalitarian doctrine, which is a supporting assumption of the welfare state, does indeed conflict with the view Bloom championed, namely, that education should aim to teach those who have a chance to make the most of it.

But even Bloom didn't realize the depth of the problem of American higher education. A recent report, "An American Imperative: Higher Expectations for Higher Education," paints a sorry picture of America's colleges and universities. This report emphasizes the lack of skills of students who emerge from American higher education. It points out that the majority of students graduate without any useful skills. The report also states that institutions of higher education "certify for graduation too many students who cannot read and write very well, too many whose intellectual depth and breadth are unimpressive, and too many whose skills are inadequate in the face of the demands of contemporary life."

Yet, the report's authors, 16 prominent educators, leaders of industry, heads of institutes and foundations, and others, do not make any valuable proposals other than to urge that higher education be subjected to "a self-assessment." Since the obvious seems to escape these experts, let me make some observations based on my teaching experience throughout the country's higher education system since 1967.

The most radical but also most elemen-

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tary remedy for our educational woes is the abolition of compulsory schooling. This is necessary because children are simply not suited to the sort of massive uniformity that elementary and high school education imposes upon them. Children, like adults, are individuals. Individuality means, among other things, that one should be treated as a unique human being, something that is possible only if one is offered diverse developmental opportunities in one's education. Young people are ready to learn at different speeds, different subjects, with different aptitudes, by different methods. The type of uniformity that is part and parcel of public education simply is not suited to them.

A system of higher education that follows in the steps of the schooling provided in public education is destined to serve most students very badly. While some percentage of those students will have received just the sort of education they need, most will have been miseducated. As a result, they arrive at universities and colleges without motivation, skill, interest, or even elementary curiosity.

Day after day, over nearly three decades, I have taught entering college and university students who show an attitude of disdain and a lack of interest. The main task before me has been to inspire them to learning (never mind what it is they might come to learn). Having been coerced to attend school for 12 years, most of these students treat college as prisoners treat the outside world—indulging their desires, satisfying their pleasures, resenting anyone who reminds them of what they had to do in the elementary and high schools they were forced to attend.

Many professors lack the will to apply the strict standards that preparation for the adult world would actually require. Only a few students have the discipline to apply themselves after years of having their own needs and aspirations totally ignored. That for the first couple of years of their higher education they choose not to apply but to enjoy themselves is no wonder—they have, after all, been in confinement. During these first few years all one hears from them is complaints about having to do anything at all. Tests, papers, quizzes, and the like are resented. Day after day students ask whether class might be canceled—just for the fun of it. Indeed, fun is their primary objective, having been robbed of many of their childhood pleasures by a system of imprisonment, of involuntary servitude.

There may have been a time in the past when societies required the forcible training of their young to carry out the drudgery that amounted to surviving, but we no longer live like that. We ought to realize that our society is supposed to bring up sovereign citizens, not serfs or slaves. And such sovereign citizens are not going to be educated by means that fail to take into account the budding sovereignty of children.

Yet, that is perhaps the one lesson nearly all the watchdogs of American education deny. The nearly total opposition of the educational establishment to the very idea of educational choice, never mind that it wasn't nearly the sort of choice that is actually needed, testifies to this. Educators seem to be far more attached to the orthodoxy of public school than to the actual education of our children.

Not until we realize that a free citizenry is going to be left uneducated or at least undereducated without strict attention to the need for adjustment to individual differences, to the freedom to choose from different approaches to education, will we manage to reform education for the benefit of those whose education is supposedly our concern. And higher educational institutions will continue to miseducate those who get such a very awful start in their human development. □

THE FREEMAN
IDEAS ON LIBERTY

By Any Means Necessary?

by Robert Zimmerman

Though most of my adult life has been spent in the competitive free-lance world of the film business, in recent years I have had the opportunity to observe first-hand the modern university culture, that seeming haven for Marxist extremists and the politically correct. Until I began teaching film at a large private university, the stories I heard about the lack of free thought on America's college campuses seemed ridiculously exaggerated and hard to believe.

The film course I teach requires my students to make a short film together, with each student performing the specific functions of a movie crew. In last year's spring semester, one of my students volunteered to do the production work, which included buying lunch for everyone else. To do this, Raquel passed around a sheet during one of the sessions so that her classmates could write down their sandwich orders.

Danny ordered a roast beef sandwich with a bottle of Snapple ice tea. When the class ended, Raquel immediately confronted Danny with information about a Snapple boycott. "Before you buy that Snapple drink, you should know about the boycott against them."

Danny was already looking at his lunch order to consider changing it. "What boycott, Raquel?" I asked. "I haven't heard of any boycott of Snapple."

"Well, I was at the ILGO (Irish Lesbian and Gay Organization) demonstration on St. Patrick's Day and was drinking a Snapple when someone came up to me and told me that I shouldn't be drinking Snapple because they support the Christian Fundamentalist Group from the Republican National Convention."

This sounded very interesting. "What Christian Fundamentalist Group?"

"The Christian Fundamentalist Group that was at the Republican National Convention."

"Could you be more specific?"

"That's all I know, and I thought Danny should know about the boycott before he bought a Snapple product."

It was at this moment that I began to wonder whether I had been transported back in time to medieval Europe, and was trying to stop the burning of a witch by a crowd of angry and ignorant villagers. "You can't advocate a boycott of a company on so little information. Religious fundamentalism could refer to the Moral Majority, the Evangelical movement, Presbyterians, the Branch Davidians, Orthodox Judaism, Shiite Muslims, and numerous other groups, believing many different things with many different goals. All are different, most are peaceful, and only a *very, very* few are

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extremists or violent. Which one does Snapple support, and why should we be against them for doing so?"

"Well, all I know is this guy at the ILGO demonstration gave me a hard time for drinking Snapple because they support such a group, and I wanted to let Danny know this before he bought Snapple for lunch."

During this exchange, Danny had been sitting in his seat in uncomfortable silence, watching us like someone at a tennis match, his head going back and forth.

To me, Raquel's answer was wholly unsatisfactory. "I cannot let such a position go by without protest. Boycotts hurt people. You are threatening the livelihood of thousands of men, women, and children who depend on the sale of this product. Before you can stand there and tell us not to buy it, you owe the people who work for Snapple a better explanation of why you want to deny them a way to make a living."

To this Raquel could say nothing. "I don't really know more than this."

I looked at Danny. He shrugged. "Well, I have to agree with Mr. Zimmerman. You've got to tell me more before I can participate in this boycott."

Despite Raquel's willingness to admit that her knowledge of the boycott was limited if not non-existent, I still suspect that she continued to advocate the boycott, albeit out of my presence. And despite Danny's public willingness to refuse to join the boycott when he saw how little she knew, I am also doubtful that others will either question her as I did, or resist as Danny eventually did.

In fact, I felt a very strong resentment from the several students present of my forthright questioning of Raquel. That I had exposed this so-called boycott as nothing more than a poisonous rumor did not seem to matter. Here was a cause, and I was interfering with the furtherance of this cause by my insistence on the truth.

It seems to me that we have too many boycotts today. You don't like the way the people in Colorado voted? Boycott them! Idaho's legislature did something you disagree with? Boycott them! Arizona won't celebrate the holidays you believe in? Boycott them! Pretty soon there won't be a habitable state in the Union.

Extortion

None of these boycotts actually has anything to do with the problems of our time, nor with promoting a reasoned social debate so that we can find out the truth and try to solve our problems. Whether or not one agrees or disagrees with someone's actions, this strident, incessant call for boycotts begins to look not like free speech and a form of advocacy but instead a form of extortion and the threat of persecution.

I have not found this to be an unusual occurrence on my college campus, or in the film and television business from which I make most of my living. Our cultural and intellectual community today is eager and willing to condemn and injure those that dare to disagree publicly with their orthodoxy. Without any information, Raquel had been willing to advocate the destructive use of a boycott, and no one but me seemed willing to question it.

What is even more appalling is how casually Raquel and her ILGO friend were willing to generalize the opinions, beliefs, and moral goals of the religious people within the Republican party into a single, hazy, and undefined entity called a "Christian Fundamentalist Group," and how casually my other students were willing to accept this generalization as truth.

It seems to me that the number of religious groups that attended the Republican National Convention were quite various in their beliefs, and the political positions they advocated were as complicated and various as their number.

Yet, to Raquel and her unnamed ILGO friend, these groups were all part of "the Christian Fundamentalist Group." And "Christian Fundamentalists" who attend the Republican National Convention are obviously the bad guys and must be stopped, by any means necessary.

The worst aspect of this little tale is that I know that I will be unable to convince my uninterested "liberal" friends and relatives that this kind of stereotypical and bigoted thinking is going on, and that within their own liberal community it is becoming acceptable to use force and coercion against those they disagree with. I myself had not believed the stories I had heard about political correctness and the growing intolerance on America's college campuses. Yet, it has become my experience that Raquel will find encouragement and support for her boycott of Snapple from almost all the teachers, students, and friends she will come into contact with on campus.

Ship of Fools

In 1961 Stanley Kramer made "A Ship of Fools," a film about a dozen or so people traveling by ship from South America to Germany in 1933. One of the characters is a good-natured Jewish salesman from Germany who never loses his temper, despite being ostracized during the voyage because of his religion. At one point someone asks the salesman why it doesn't worry him that the Nazis have just gained control of the German government. He smiles, and says, "There are a million Jews in Germany. What are they going to do, kill us all?"

When the Nazis advocated the boycott of Jewish businesses because they didn't like Jews, no one believed this could ever lead to wholesale genocide. Because the Nazis were crude, vicious, and didn't care much for reasoned debate in search of the truth, a country as civilized as Germany would never allow them to do everything they wanted to do.

Yet, they eventually murdered millions of Jews.

Today, I find the never-ending calls for boycotts from the left against businesses, states, and religious groups they disagree with, often based upon rumor and hearsay, frighteningly reminiscent of Germany in the twenties. Raquel didn't really care whether there was any reason or logic behind the Snapple boycott. Her friend at ILGO demanded she join it, and join it she did.

And once again, no one believes it possible that such thinking might lead to oppression. A country as civilized as America would never allow such a thing to happen.

The road to hell is paved with good intentions. I fear that we are on that road, and we travel down it at an ever-increasing speed because we refuse to read the road signs all around us. □

THE FREEMAN
IDEAS ON LIBERTY

THE MORAL HAZARD OF GOVERNMENT

by Michael R. Duff

One morning not long ago I developed a headache on my way to work. Before sitting at my desk, I took two ibuprofen tablets. An hour later, feeling no better, I took two more.

Within minutes, I began to feel even worse. Believing that I was getting progressively sicker and the medicine I was taking was too weak to alleviate the pain, I took two more tablets. Twenty minutes later, almost blind with pain, I took two more.

Less than two hours after arriving at work, I was completely incapacitated. A co-worker walked in to check on me and, after seeing me on the floor with a cold towel wrapped around my head, asked me how I was. I described the progression of this manifestly serious illness and the steps I had taken, without a hint of success, to combat it.

"You idiot!" she said, "You aren't sick, or at least you aren't as sick as you think you are. You've overdosed on ibuprofen! Eight of those pills in less than two hours would be enough to put an elephant on the floor!"

When I asked her what I should do next, she said, "STOP TAKING THE MEDICINE!" And she walked out.

Every bottle of over-the-counter pain reliever carries instructions about appropriate dosage levels and schedules printed in plain English on the label. Regrettably, some people just don't bother to read them.

For Safe Use, Read the Instructions

Just as some people risk damaging their health by diagnosing and (mis)treating their own illnesses, many in America today self-prescribe more and more government as the answer to every social pain they feel and every competitive annoyance they are forced to endure. Like people who fail to read instructions on drug labels, they fail to read the instructions for their government: the Constitution of the United States.

Those who crafted our representative government were like the family practitioners of old. They outlined in writing what was necessary to live a healthy, productive life in a nation of free people. By the examples they set in their own lives, they placed the burden squarely on the citizen/patient to employ the self-discipline and self-restraint required to follow their advised regimen in order to fully enjoy the benefits of a hard-won freedom.

In this century, however, our federal government has evolved into a kind of medicine-show quack pandering to a nation of self-indulgent hypochondriacs through the prescription of a succession of phoney, expensive "cure-alls" that cure nothing, drain the lifeblood from the private econ-

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omy, and succeed only in making matters worse.

The official recognition of a problem—whether it be urban blight, drug abuse, or illiteracy—by a federal agency has historically served to institutionalize the problem itself. The moral hazard of government first comes to light as it rewards itself with additional funding in direct proportion to its failure to discharge any significant facet of its legal mandate.

Public officials charged with solving "crises" benefit directly from planning and executing programs that serve only to exacerbate them. They are rewarded with power, tenure, and an escalating share of the budget to the precise degree that the "crises" over which they preside become so intractable that they eventually become trademarks of our national life to the rest of the world.

Stop Taking the Medicine!

Programs designed to rebuild our inner cities and the family structures of those trapped there have, hundreds of billions of dollars later, managed to turn those areas into free-fire zones where tourists are hunted for sport and the only thing cheaper than life is the hollow ring of those who say the only answer is greater government involvement.

The moral hazard presented to poor people by federal assistance programs has been well-documented. Rather than helping people off the treadmill of poverty, it speeds up that treadmill, thus making it more hazardous to jump off than to stay on. The spinning wheel traps entire generations in a culture highlighted by federal dependency and violent crime. At some point, the admonition to just "STOP TAKING THE MEDICINE!" would seem to be appropriate.

But this isn't about those examples of the initial stages of the moral hazard of government that are easily recognizable. Most large organizations, even with the best of intentions, will eventually succumb to the pathology of bureaucracy. Once individuals within an organization can no longer perceive any direct evidence of their impact on the goal the organization is empowered to achieve, they will inevitably place their own advancement within the hierarchy ahead of the organization's own long-term best interests.

Soon, those who choose to make a career for themselves within the organization will tend to do so more and more as a means of gaining access to power while insulated from the vagaries of market forces, and less and less from an idealistic identification with the espoused common goal.

This bloated, less virulent strain of the moral hazard of government is susceptible to the cyclical attempts to "reinvent" government by attacking the waste endemic to its operation. These efforts have generated more rhetoric than they have cut fat. Encouraging politicians who embark on these routine exercises to attack the "how" of government without re-examining the "what" is like cheering an armed robber for trading in his old getaway car for one that gets better gas mileage.

Trading Freedom for Oppression

Throughout history—during the Civil War, westward expansion, the Great Depression, and World War II—Americans have been called upon to sacrifice part of their freedom for some national purpose. At such times the causes most often seemed just or, at least, historically fated. The issues were largely forced upon the American people, and the relatively small amounts of individual liberty that were sacrificed, while not always temporary, were judged by many to be worth the cost.

However, the real moral hazard of government begins when it no longer reluctantly asks for these oblations in return for mounting a concerted national effort to defeat a perceived common threat. It begins when the same process is used to justify limiting freedom to advance the interests of an emerging ruling class facing "issues" or "crises" for which no effective medicinal use of government can be documented or, worse yet, when the motivation is the clear expansion of government power for its own sake.

New departments and agencies are routinely added as successive administrations are elected based on campaign pledges to deal with the "crisis" of the hour, as defined largely by the content of the latest media firestorm. For example, the "War on Drugs" provides the backdrop for the existence of special police powers which enable authorities to detain American citizens in American airports if they happen to fit a DEA "profile." Detainees are presumed guilty until they prove themselves innocent to their captors' satisfaction.

A philosopher once said that all vulgarity is the inability to resist a stimulus. While coined to describe the habits of the coarse, the maxim also brings to mind late twentieth-century environmental policy in America. Anomalies are observed and reported, and before the dynamics of cause and effect can be clinically determined, blame is assigned and laws restricting the activities of those allegedly culpable are enacted and strictly enforced.

All of this occurs in an atmosphere of hysteria created by a media whose sense of responsibility can be described by paraphrasing the above maxim in this way: all debauchery is the inability to resist *seeking* a stimulus.

What is the current state of our freedom after thirty years of environmental delirium about "global warming," "acid rain," "radon gas," and that storied "hole in the ozone layer"? An American can be sent to jail for digging a ditch on his own property if an alert neighbor suspects that it might, at some time in the past, have been a "wetland." The EPA can also hold a person financially responsible for the environmental damage done to his land 75 years before, no matter how many people have held title to it in the interim.

The Tax Bite

As a mechanism for raising revenue, the federal tax code is a complete fraud. As a system of rewards and punishments designed to modify behavior in transparent annual exercises in social engineering by reallocating income between different economic classes, all in the interest of "fairness," it is a huge success.

Small businesses that flourished as a result of the relatively enlightened tax code adjustments of the eighties are today the prime targets for the "enhanced" revenues with which the federal government seeks to fund its new ventures under the guise of reducing its debt. The moral hazard inherent in the federal tax code has become ever more obvious in the current administration's efforts to raise funds by targeting for "fairness" purposes those who can be singled out for punishment for being rich.

But there are not enough truly rich to matter. Confiscating 100 percent of the income of those who make more than a million dollars a year would operate the federal establishment for a few hours. What is necessary is a creative redefinition of the term *rich*. The taxes that could be raised and the incomes of those from whom revenues would be taken are inversely proportional until one gets to the real source of most of the money in America, the middle class.

But taxing the middle class is no longer politically palatable, at least overtly. Something else is needed so that the federal government can tap into the vast pool of middle-class income while creating the illusion of asking the rich to contribute their fair share. What is required is yet another profile, one that successfully redefines the meaning and sources of income. So revenue enhancement experts now view income from a broader perspective. Hence they broaden the definition of income for the rich to include these considerations: (1) actual income: wages, salaries, tips, and cash bonuses; (2) non-liquid compensation: the monetary value of fringe benefits; (3) deferred income: capital gains not taken; (4) unrealized income: cash values in life insurance policies; (5) theoretical income: money a person could receive if the house he owns were rented out.

One axiom concerning the moral hazard of government is that the hazard increases as the potential for satirizing it decreases. The rationale that drives a scheme to fabricate rich people out of the whole cloth of a visibly struggling middle class is self-parodying and would be humorous in and of itself if the consequences were not so severe.

The Twin Tracks of Moral Hazard

The moral hazard of government runs in two tracks. The first traces the pattern of crucial yet temporary sacrifices being asked in return for the resolution of truly national crises forming a pattern that has steadily degenerated into the habitual creation of federal departments to scratch the itch of the moment. By building constitutionally illicit public structures to resolve private issues, we commit ourselves to support gargantuan agencies with residual special powers each of which lingers long after the original "crisis," never adequately addressed, has faded from memory.

Fresh dirt has been dug in this track by current proposals to bring a full seventh of the nation's gross national product under federal management to deal with the "crisis" in health care. If the departments of agriculture and education could grow to their current sizes based on their initial limited goals, the future size of the federal Department of National Health, or whatever it will be called, simply cannot, at this time, be imagined. But this is of little consequence since, in our nation's capital, good intentions are not only presumed to be enough, but also assumed to be present in amounts equal to the task.

The second track by which we can identify the moral hazard of government is the sheer hubris with which it is operated. Two examples from the recent budget agreement will illustrate. First is the government's conceit that it will do more productive things with the new money raised through increased taxes than the people from whom it was confiscated. This new tax revenue will come directly from those most able and historically most willing to invest it in the private economy. This is the "trickle down" theory as applied to government "investment."

Second, there is the retroactivity of the tax increase itself. It is no longer enough that Americans are forced to conform their conduct to thousands of pages of tax codes and IRS regulations, strictures that are not only legendarily arcane but change almost every year. Now they must read their leaders' minds and adjust their daily activities in anticipation of future laws and regulations that will be retroactively applied.

This naked display of government power compels us to continually assess and reassess the character, motivations, backgrounds, and personality quirks of those with the power to make and enforce such laws. In having to judge the mood of those in power, the hidden agenda of spouses, the potent influence of friends, family members, associates, and former classmates, Americans are rapidly succumbing to a government that has mutated into an old-fashioned ruling class and, at the same time, shown itself to be in rapid decline.

It is decidedly NOT in the best interests of those now exercising nearly unrestrained power to be judged by the American people by the evidence of their personal qualities.

The Road to Feudalism

Retroactivity, if sanctioned by the courts, is a large step in restoring the rights of feudal tenure. Those now in power should take a few minutes from their frantic efforts to micro-manage every aspect of American life to read not only our own Constitution, but the Magna Carta as well.

The hubris that is the inevitable by-product of the moral hazard of government has intoxicated not only those at the top but also those charged with enforcing the law on a level much closer to our streets and our homes.

In September, 1993, *The Wall Street Journal* reported the story of a drug raid in Malibu, California, that went terribly wrong. A 61-year-old man was suspected of having planted and cultivated a plot of marijuana on his large ranch there. A sheriff's department swat-team conducted a pre-dawn, paramilitary raid on the man's house, and when he stumbled out of his bedroom with a gun he was shot dead.

There was no marijuana. There was no evidence that an elderly man could somehow dispose of several acres of an illegal crop in the time it would have taken to serve a search warrant in the traditional manner. The man had no history of violent behavior. Was this simply the case of over-zealous police officials acting irresponsibly with unintended tragic consequences in doing their part in a nationwide effort to eradicate the menace of drug abuse?

Not when you read further that conversations took place among the officers prior to the planning of the raid that centered on the value of the man's ranch upon its seizure and eventual liquidation.

Does anything so illustrate the degree to which the moral hazard of government threatens us all as the fact that, prior to the decision to conduct the deadly raid against an unsuspecting 61-year-old American, the police had requested and paid for an appraisal of the man's property? □

THE FREEMAN
IDEAS ON LIBERTY

What's Wrong With Democracy?

by L. Hatzilambrou

In the twentieth century the United States has been transformed from a relatively low-tax, decentralized *laissez-faire* country into a high-tax, centralized welfare state with ever-increasing numbers of laws, rules, regulations, and taxes that harass, bewilder, and regiment its citizens. Although this trend has developed to some extent gradually since the beginning of the republic, the crisis atmosphere of two world wars and the Depression of the 1930s provided a welcome rationale for those who view government as the solution to most of society's problems.

But for every problem seemingly solved by government, many more rise up to confront us. Today's problems seem insoluble, and the average person feels helpless in the face of them.

We have a democratic system of government that is supposed to produce the good society but instead results in one in which many are concerned about their safety, health, and old age, the deteriorating conditions of the public sector, persisting poverty, homelessness, and other indications of decay, the corruption of elected officials, the decline of morality, and a host of other worries. This is obviously not what people want. Something is amiss. What's wrong with democracy? Why doesn't it seem to work reasonably close to the popular perception?

Mr. Hatzilambrou, a retired Navy Department weapons analyst, lives in Scottsdale, Arizona.

Democracy versus the Market

To find the answer we have to reconcile two competing systems. On the one hand, there is the satisfaction of preferences through democracy: people get what they want by voting for it. On the other hand, the free market is also supposed to ascertain preferences. How do these two systems work together, if they do, to harmonize society? We can explore this by observing the effects of one on the other. To do this let's begin at the most fundamental level, the minimal state, and observe the effects of democracy on it.

The only functions of the minimal state are to prevent physical harm or coercion of people by others, and to protect private property and contract rights. All other voluntary acts between and among individuals are not subject to any interference by the state, such as wage, price, and rent controls, subsidies, quotas, licensing, zoning, eminent domain, mandated benefits, antitrust, or any other direct or indirect regulations or restrictions not required to maintain the minimal state. In the minimal state only those taxes can be levied that provide for the necessary minimum tasks, and a limit is placed on the total amount of taxation and spending to perform such tasks. Only those functions are allowed that are necessary to support the minimal state.

In the minimal state a completely free market—within the restrictions against fraud, theft, and violence—exists for the exchange of goods, services, and ideas. Prices are determined by the laws of supply and demand. Each individual allocates his scarce resources (monetary income, non-monetary goods, actions, and time) and makes choices that maximize his utility. An optimal society results when all individuals maximize their utilities. We call this free-market allocation of resources and satisfaction of wants *market preference*. Prices and other outcomes determined by market preference are "just right." People get exactly what they want by the most compelling criterion, viz., putting their money and other resources where their preferences are.

The optimal society resulting from market preference is not a utopia. In any society populated and governed by mortals there will always be the poor, the sick, criminals, vagrants, and others who are afflicted or discontent in various ways and for various reasons. But such a society is as good as it can be, given the real world. Any governmental interference in the minimal state will result in a net number of people worse off than before.

Logic and experience throughout history show that any movement toward the minimal state, by tax cuts, decreasing regulations, and the like, expands both the economy and personal liberties, and any movement away from it, through increased government control, does just the opposite.

The alternative to market preference is the allocation of resources by the state, which we call *political preference*. As the government responds to the desires of various individuals and groups for an allocation of resources that differs from that indicated by market preference, the result is a mixed economy such as prevails in varying degrees everywhere in the world, with some allocations determined by the market and others by politics.

In a democracy, political preference is exercised largely, but not entirely, by voting. To see what the effects are of political preference in a democracy, let's start with the minimal state and observe the effects that one measure of political preference has on it. We take as an example the allocation of resources for eleemosynary purposes, i.e., people deciding how to spend some of their income for charity. They can give money, goods, or services directly to those whom they consider deserving of their help, or through organizations, such as churches, hospitals, research centers, or other philanthropies. In either case these are voluntary contributions directly under their control, and they become a part of their total utility maximization.

Suppose, instead, that a vote is taken, and we assume here a referendum rather than a legislative vote, on giving money to a group, e.g., "the poor," however defined, with the majority deciding the outcome. We can even assume, to give the benefit of the doubt to this process, that most of the taxes for this purpose go to the designated recipients, with no graft or other waste by government officials, and only a minimum consumed by administrative costs. The minimal state has thus been modified to include a charity tax.

This charity tax differs from the individual voluntary contributions in several respects. Those who vote against the measure will be forced to support the charity tax, as well as those who vote for it. Not even all of those who vote yes are completely satisfied. Some of them may not agree with the exact amount of the tax, favoring either a lesser or greater amount. It would be surprising, indeed, if a large number of the majority supporters thought that the tax was exactly right and precisely corresponded to what they would have voluntarily contributed. Nor do all of the majority agree on who the designees of the charity tax should be.

The "no" voters range from those who are mildly against it to those who are adamantly opposed. Regardless of the degree, all of the opponents would not, with few exceptions, have given money to charity exactly in that amount and to exactly the designated group, in the absence of compulsion. Even some of those who would have done so nevertheless object to the coercive aspect. Thus there exists a sizeable group, probably a large majority, who would not have thus allocated their income through market preference.

People in this latter category must then adjust their preferences to accommodate the new tax. Prices and other market relationships and individual actions therefore change from what they were before the tax, and these distortions thereby produce a suboptimal societal outcome. The more there are who would not have voluntarily spent their money in the exact amount of the tax, or who would have taken other nonmonetary actions, the greater are the distortions and the lower the suboptimal results in society.

Expansive Government versus the Optimal Society

Any direct tax for a purpose other than to support the minimal state will have an effect similar to the above example. Any other governmental action, even if not a direct tax, also has the effect of distorting preferences, prices, and actions, and thus also produces suboptimality. Every form of action by government that tends away from the minimal state is in effect, directly or indirectly, a redistribution of income away from the optimal, and thus another step in the progress of the welfare state towards full socialism.

Although some issues are decided by referenda (in some states, but not at the federal level), most are not. A representative form of government prevails in which legislators represent voters who have little control over their representatives, except to vote for the total package that each one initially offers but who can also change some contents of that package after being elected. These legislators over the years have passed multitudes of laws at all levels of government. Rather than the handful of laws that would suffice for the minimal state, the average citizen is confronted with a bewildering array of laws. How many laws are there? Nobody knows, but the U.S. Code, which contains the federal laws in several volumes, has about 250,000 pages. The laws of each state and its subordinate governmental units are probably as numerous. Since these laws cover virtually every facet of life, peoples' abilities to control most aspects of their lives are severely circumscribed.

The more laws there are, the less people will be able to determine their own preferences and the less control they will have over their own lives. By contrast, in a free society everyone can allocate his resources exactly as he chooses. Except for obeying the few strictures of the minimal state, he has unlimited choices in the marketplace and in his personal life. The total output of the economy in the minimal state is just right, and the economy grows at the optimal rate. In a mixed economy the total output is not the right amount, and the economy grows at a less than optimal rate. The income redistribution resulting from political preference has the effect of decreasing savings and investment, thereby slowing the growth of the economy. The greater the degree of political intervention, the slower the growth. At the limit, in a pure socialist state, the economy stagnates.

This reveals the basic paradox of democracy in the welfare state, which is the attempt to discover a broad range of preferences through the political process. Real preferences can be revealed only through the free market. The delusion that the equivalent can be discerned through political preference is an attempt to square the circle, and as useless. It is asking far more of democracy than it can possibly deliver. People don't reveal their actual wants by voting, but only by matching their finite resources with their wants through the free market. There is no other way that doesn't amount to a form of wishing. Solutions that do not recognize this paradox can only be counterproductive, as people will spend ever-increasing amounts of their time in futile attempts to get what they want through the political process.

The Limits of Democracy

We can now answer the question—what's wrong with democracy?—by looking at it in terms of sovereignty. With a dictator, emperor, or oligarchy, the sovereign is either a single person or a small group of people. But in a democracy "the people" are the sovereign. The political ideas that founded and sustained this nation through its early history had their origins in Western Europe, and particularly England, where a struggle took place over centuries to limit the power of the sovereign. The American Revolution and Constitution were attempts to affirm and perpetuate that limitation. A system of checks and balances was instituted to prevent the domination of the government by any one person or group.

But this original attempt to limit power has been gradually eroded, as the Constitution has been virtually abandoned over the years, until today the sovereign people have, directly and indirectly, acquired enormous power. We are approaching the vulgar unconstrained democracies of ancient Greece, in which the people had arbitrary power, including that of life and death over any individual, e.g., Socrates. Unless the power of the present sovereign, the people, is limited by some means, the consequence may soon enough be as great a tyranny as that of any emperor, dictator, or oligarchy. That we did it to ourselves may add a bitter note of irony, but it will make it no less tyrannical.

What then is wrong with democracy? The conclusion is that democracy only works well when the issues do not violate market preference. The only issues that should be decided in a democracy are the choice of temporary leaders to govern and maintain the minimal state, and the fidelity of those leaders in executing those tasks. But when the issues involve political preference, however slight, and no matter in what form, democracy does not work.

Does this imply that, in the minimal state, government will entail only such simple acts of administration that eventually the state will wither away? Is this just a corollary of the Marxist vision? By no means. Neither the free market nor the minimal state is a utopian ideology. There is, and always will be, a great deal of work to be done in the minimal state, and by concentrating on the proper roles of government, perhaps these can be accomplished with some degree of competence. By contrast, the welfare state attempts through political preference to do everything for everyone, and thereby neglects its primary tasks while inadvertently creating a society whose actual welfare is inversely related to its efforts. The rulers of the minimal state will have their hands full to preserve domestic peace, repel foreign invasions, and protect property and contract rights.

When the strictures of the minimal state have been breached in a democracy, then for those measures enacted to further political preference, taxation with representation is no better than taxation without representation. Thus, in a democracy in which political preference predominates, questions can be raised concerning the obligation of the citizen to vote and the effectiveness of that vote. There are very few times when one vote makes any difference to the outcome of an election. And even when it does, in a society dominated by political preference, the choice is largely irrelevant, since any of the candidates would likely continue to support the system most of whose measures the citizen consciously or otherwise opposes. The welfare state thus breeds voter cynicism, apathy, and despair.

The answer is not to abandon democracy, but to strengthen it by negating its vulgar aspects. That can be done by constitutionally restricting democracy only to electing rulers whose functions are limited to those of the minimal state. In this way the people act in the manner of Odysseus, by restraining themselves so that they cannot react to the siren song of political preference. Recognition of the addiction to political preference is the first step in instilling self-discipline and vigilance in a citizenry—traits that are required to achieve and maintain anything close to the minimal state.

The people must recognize that democracy is not a remedy for all ills. It is indeed a powerful medicine. But this medical analogy suggests the fundamental axiom of toxicology, which states that it's the dose that makes the poison. A small dose of democracy can preserve the health of society, but in larger quantities it can be fatal. □

THE FREEMAN
IDEAS ON LIBERTY

Is Individualism Dead?

by Nelson Hultberg

Whatever you can do or dream you can, begin it.
For boldness has genius, power and magic in it.

—Goethe

Study any account of the growth of America and one fact always jumps out at you—the heroic self-determination of the men and women who shaped the events of our history. Throughout those sprawling colonial years, to the trying times of the Revolution, and beyond to the boom towns of the West, the railroad age, Edison, Henry Ford, and the roaring twenties, there is observable in the people of these eras an unrelenting sense of self-reliance and willingness to take risks.

It is not a history of government social agendas, with their inevitable concomitants of futility and despair. It is a history of adventurous, self-assured individuals in pursuit of great accomplishments, of personal daring and discovery. The dominant figures that built this country were not leveling bureaucrats, but dynamic entrepreneurs, pioneers, scientists, inventors, immigrants—bold individuals with "genius, power, and magic" in them, willing to rise or fall on their own merits and the strength of their faith in a just Providence.

They fought a war with a ragged little army against a mighty empire, and won. They wrote a Constitution for all the ages, and crossed a vast and death-dealing frontier with nothing but covered wagons and their own personal stamina. New inventions, miracles of production, and an astonishing wealth sprang from their unbounded ambition. They turned useless prairies into golden wheatfields, wagons into powerful locomotives, and a savage wilderness into a network of commerce and trade.

To such restless enterprising people, there was little on earth that was impossible. All they wanted was to be free, to keep what they produced, and to seek their destiny beyond the next horizon. They would work out their own security. "Just let us be free," they insisted.

It was thus that a whole new philosophy came to be, through the first stirrings of these brave men and women. It was the philosophy of *individualism*, and it stood in direct contrast to the accepted beliefs of Europe, which taught men to seek security and subordinate themselves to the dictates of the monarch, or the feudal lords, or whoever had the power of the state and church behind them. This new American philosophy declared that men were their own rulers, that they were responsible for their own lives and possessed the power within them to overcome any obstacle. It was a philosophy that exploded across a whole continent. It transformed the world and turned life into an active force for good.

For a century and a quarter, Americans adhered to individualism, and as a result, their prosperity grew to unparalleled heights.

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Abandoning Principles

Beginning around the turn of the century, though, a great many Americans began to abandon the individualistic principles that had served them so well. By the start of the 1930s, the primitive concept of *statism*, dominant throughout the monarchist age in Europe, began to re-emerge under the guise of "social progressivism." As a result, bureaucracy grew, life became less meaningful, peace became the exception, and that vital spirit of individualism faded in face of the burgeoning welfare state.

"The individual means less and less, mass and collectivity more and more—and so the net of servitude which hems in personal development becomes ever denser, more closely meshed, and inescapable," wrote Wilhelm Röpke, some 40 years ago in his great classic, *A Humane Economy*.[1] He saw all too clearly the horrible changes that were sweeping over the Western world as a result of collectivism and bureaucratism.

The fundamental question we face now is: Can the philosophy of individualism survive, or is it to wither away under the ever swelling shadow of a monster government and the womb-to-tomb security its social engineers are forcing upon us? Must we passively accept being wards of the state, or do we still possess enough of the spirit that founded America to recapture our basic rights? Do we still value freedom, or is it really state regimentation that we seek down deep in some craven corner of our souls?

If a free America is to be preserved then the first and greatest enemy of freedom must be contested. And that is the notion that freedom is no longer possible in a modern world, that individualism as a philosophy of life is a relic of the past. We hear it everywhere. In fact, we're bombarded by such pronouncements from the time we first go to school. "Individualism was a good thing in its day," we're told, "but it's no longer workable." A growing flood of socio-economic studies pours forth from the nation's universities proclaiming to Americans that, while a free market is certainly productive, the underlying fundamentals of laissez-faire capitalism were nefariously unsound. Thus we must move toward a more "public spirited," a more "nationally planned" social structure.

Such appeals speak soothingly to us, with benign and futuristic phrases: "new social vistas," "the upcoming challenges of America's third century," "the necessity to build a modern era of co-operation between the greatness of government and the productivity of the business world." It all sounds very progressive, very necessary. The world is changing, and therefore America must change also. A laissez-faire economy is just not applicable to modern times. "We cannot afford the anarchy of the capitalist system," explain the experts. "Individualism may have worked fine in a frontier society, but not in a modern technological society." And we obediently clasp such fateful declarations to our bosom without so much as an afterthought.

Should it not be obvious by now, though, in light of the world's present catastrophic economic convulsions, that it is actually the other way around—that it is actually *socialism* and *welfarism* that cannot work in a modern technological society? Witness the all-encompassing collapse of socialist principles in the USSR and Eastern Europe as viable means of societal organization. Witness the "democratic socialism" that has kept India starving for decades, with its people subjected to endless turmoil, demoralizing uncertainty and ruthless power grabs. Witness the pathetic stagnancy of Sweden this past century, into a somnolent nation of collectivist poltroons, now staggering under the debilitating taxation and bureaucratic servitude that their "state welfarism" has generated.

During the past 80 years, every nation in the civilized world, that has adopted either socialism or welfarism as its form of political-economic organization, has incurred deterioration and chaos in every conceivable area of life. Inflation has plagued their economies, distorting their marketplaces and eroding the value of their currencies. A silent and sickly moroseness has settled over the lives of their young (for who can find pleasure in living when the state determines the limits of one's dreams?) Real prosperity has diminished. True freedom is gone. Joy and exuberance and the zest that life should hold for all is non-existent.

In the more primitive parts of the Third World, the record is even worse. Barbarism and tyranny, of a sort that Americans can scarcely fathom, are commonplace. Poverty lingers. Illiteracy, disease, inhumanity, and regimentation overwhelm everyone visiting such "collectivist paradises."

Why has this happened? As predicted long ago by Ludwig von Mises, socialist systems cannot calculate prices because they obliterate the entrepreneur, and thus they have no means to *rationally* determine supply and demand. Thus they have no power to produce either a quantity or quality of productive goods. Because they are devoid of the incentives that result from private property, socialist countries can bring forth only shabbiness and squalor—for their subjects will produce only enough to keep themselves out of trouble. So the great collectivist "ideal" of the political left, that was to transform the world into a technological Eden where all men can live in harmony without worrying about such grubby pursuits as earning a living, has not materialized. In fact precisely the opposite has come about.

With the dramatic collapse of the Soviet Union in 1991 and the fading of Communist Party control over Eastern Europe, the ideology of *socialism* was dealt, in many Western eyes, a devastating death blow. But a closer look reveals that socialism is merely reforming its basic goals into a more salable ideological framework.

Incredibly the purveyors of forced collectivity in Europe and America still cling to their dream of merging Eastern socialism and Western capitalism into an authoritarian World Welfare State, where *equality of conditions* for everyone is implemented. Still they proclaim that mankind must continue on to build the collectivist ideal; it just has to be along more "democratic lines." Still they proclaim that free markets and coercive bureaucracies must merge, that with just a little more *time*, a little more *taxation*, a little more *regulation*, humanity will one day realize the collectivist paradise. What is needed is not the extreme version of Marxism, but a more moderate "middle way" in the manner of Sweden. But to consider individualist capitalism is impossible. People must relinquish the direction of their lives to oligarchic bureaucrats and professorial elites, who are so much more "qualified" to determine how we are to live. When all this has come to pass, mankind will surely have found the egalitarian kingdom.

Even in face of collectivism's squalor and despair, most pundits of the West still believe this failed ideology retains some semblance of idealism, needing only a few "theoretical adjustments."

But collectivism's ineptitude does not lie in the depravity of its rulers, or the absence of purchasing power, or lack of time to prove itself. It lies in the overwhelming irrationality of its basic conception of life. Men are not meant to live in subservience to the commands of the state. They are meant to live as the Founding Fathers of America decreed: as free and responsible beings, with obedience to neither King nor mass opinion, but to "the laws of Nature and of Nature's God."

For those who wish to prosper and find their way toward a meaningful existence, that gives back a richness of reward for one's efforts, there is only one vehicle with which to bring about such values: *the philosophy of individualism and its marketplace of liberty*. The whole history of the past 800 years in the West stands as testament to such a truth.

The Birth of Liberty

The idea of individual liberty was philosophically born with the signing of the Magna Charta in 1215, and then painstakingly built upon and honed and strengthened over the centuries by such great men as Erasmus, John Locke, Edmund Burke, Adam Smith, Alexis de Tocqueville, and Frederic Bastiat. It was never thoroughly grasped, and never perfectly practiced, and many times lost altogether, but it lifted men from the Dark Ages to medieval commerce, and out of the era of monarchies to the New World. There it brought into being a radical new social structure of *personal independence* for all people, forming in 1776 the foundation for a system of living that was to become the envy of the entire globe, luring wave after wave of immigrants to our shores.

Such a system produced unprecedented freedom and human dignity. But intimidated by the false theories of Karl Marx and his intellectual progeny, such a system has been for many decades now under severe attack in our colleges and our legislatures.

What has been taking place in America throughout the past eighty years—the bureaucratization of the marketplace and the centralization of power in Washington—is not at all the glorious march toward "justice and equality" that has been portrayed. It's a virulent and purposeful assault upon the most cherished philosophical premises of our lives. Every value, so dear to the preservation of our freedom, is being steadily eroded by the technocratic sweep of twentieth-century statism and its ideological frenzies of regimenting all men into a massive welfare-state utopia.

"In all fields," writes Wilhelm Röpke, "mass and concentration are the mark of modern society; they smother the area of individual responsibility, life, and thought. . . . The small circles—from the family on up—with their human warmth and natural solidarity, are giving way before . . . the amorphous conglomeration of people in huge cities and industrial centers, before rootlessness and mass organizations, before the anonymous bureaucracy of giant concerns and eventually, of government itself, which holds this crumbling society together through the coercive machinery of the welfare state, the police, and the tax screw. This is what was ailing modern society even before the Second World War, and since then the illness has become more acute and quite unmistakable. It is a desperate disease calling for the desperate cure of *decentralization*. . . . People need to be taken out of the mass and given roots again."[2]

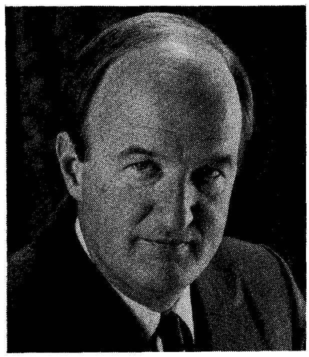
If such compulsive centralization of our society is to be checked and America's unique brand of freedom to be saved, then it will take a genuine restoration of the philosophy that our forefathers so boldly forged with blood and sinew throughout the early years of this nation. If the political brilliance that the Founding Fathers gave to us is not truly revived in America, then freedom as we know it will not remain; and in its place will come the New Orwellians of Technocracy, brandishing convoluted laws and regulations.

The educationists and editorialists who dominate today's university and media scene, and so glibly report in their manifold outpourings that we must "re-evaluate and modify the antiquated principles of individualism," that we must strive to make our government "more creative in the solving of modern-day problems," are so consumed with myopic scientism and programmatic avidity, that they can no longer grasp the principles necessary for the living of life in heroic form.

To "re-evaluate individualism" is to question the moral legitimacy of freedom itself, and the natural right of all men to personally direct the furtherance of their own lives. To say we must "legislatively modify individualism," is to say we must "forcefully modify humans," which is to make men into mechanized cogs.

What must be done in America today is to *restore* individualism, not re-evaluate it or modify it. Individualism cannot be "modernized." It cannot be made "relative to our time." It transcends time. It is a set of principles that are unalterable. It is the core, the genesis, the foundation of all freedom, all prosperity, all dignity, all life. Without it as our guide, our future will be bleak and despotic for sure. □

1. Wilhelm Röpke, *A Humane Economy* (Chicago: Henry Regnery Co., 1960), p. 17.
2. *Ibid.*, p. 7. Emphasis added.



Is This the Age of Ignorance—Or Enlightenment?

"I am more and more impressed by my ignorance."

—Herbert Stein, "The Age of Ignorance," *The Wall Street Journal* (June 11, 1993)

Herbert Stein ought to know better. He was the chairman of President Nixon's Council of Economic Advisers and an economics professor at the University of Virginia. Today he's a member of *The Wall Street Journal*'s board of contributors and an American Enterprise Institute fellow.

Yet here he is filling up a valuable page in *The Wall Street Journal* proclaiming to the entire world that he knows very little, if anything. After reading three daily newspapers and numerous magazines, watching all the talk shows, and talking to dozens of "well-informed" people, he confesses complete ignorance about the budget deficit, taxes, the money supply, the stock market, and the war in Bosnia.

"I don't know whether increasing the budget deficit stimulates or depresses the national income. I don't know whether it is M2 or M1 that controls the level of spending. I don't know how much a 10 percent increase in the top rate of individual income tax will raise the revenue. . . . I do not know how to pick winning stocks."

The New Nihilism: The Bankruptcy of the Economics Profession

It wouldn't bother me if one lonely Ph.D. economist claimed ignorance of basic economics, but the amazing thing is that Herbert Stein is not alone. He reflects a strange new malaise in the economics profession, an eerie complacency about the burning economic issues of the day. Economists all along the political spectrum are eschewing responsibility for policy decisions or forecasting the future. Will interest rates rise or fall? Are we headed for another recession, more inflation, or both? Will the stock market go up or down? The answer is always the same: Who knows?

Robert J. Barro, Harvard economist and exponent of the New Classical School, seemed to take pride in his laid-back attitude about the economy during the 1991-1992 recession: "The questions I am asked most often these days are: Why is the economic recovery weaker than expected? How will the economy do over the next year? What should the government do to help? As a first approximation, the right answers to questions like these are: 'I don't know,' 'I don't know,' and 'nothing.'" (*The Wall Street Journal*, November 21, 1991)

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Not to be outdone is Paul Krugman, self-proclaimed Keynesian professor at MIT. He asserts that economists, including himself, don't understand why there are business cycles. Furthermore, economists "don't know how to make a poor country rich, or bring back the magic of economic growth when it seems to have gone away. . . . Nobody really knows why the U.S. economy could generate 3 percent annual productivity growth before 1973 and only 1 percent afterward; nobody really knows why Japan surged from defeat to global economic power after World War II, while Britain slid slowly into third-rate status."[1] Really? Mind you, this is the professor who won the John Bates Clark Medal, a prize given every two years to the most promising American economist under the age of forty. According to the dust jacket of Krugman's latest book, *The Economist* called him "the most celebrated economist of his generation." Hmm. . . .

Daniel Hausman, economics professor at the University of Wisconsin at Madison, wrote a massive volume on capital and interest and concluded with a straight face: "Economists do not understand the phenomena of capital and interest. They do not understand why the rate of interest is positive (and thus how it is that capitalism can work). They do not know how large-scale changes in the rate of profit will affect innovation."[2] And he's a specialist!

Economists as ignoramuses can best be summed up by John Maynard Keynes, the economist-king of the twentieth century, who declared in 1937, "The fact that our knowledge of the future is fluctuating, vague and uncertain, renders wealth a peculiarly unsuitable subject for the methods of classical economic theory. . . . There is no scientific basis on which to form any calculable probability whatsoever. We simply do not know."[3]

An Admission of Failure

In some ways, the New Ignorance school of economics is a welcome sign. In the 1960s, it was the New Arrogance school of economics. Forgetting Keynes' admission of 1937, the Keynesian technocrats claimed they had the tools to fine tune the economy, control inflation and ban the business cycle forever. Now, thirty years later, the establishment economists are finally admitting that their theories and policies have failed miserably. The profession has had a terrible record in predicting recessions, inflation, and stock prices, and their policy recommendations have made things worse, not better. As Hayek stated when he received his Nobel Prize in 1974: "We have indeed at the moment little cause for pride: as a profession we have made a mess of things."[5] By the 1990s, all the major schools of economics had failed, one way or another—Keynesian, monetarist, and Marxist. Alfred Malabre, Jr., former economics editor of *The Wall Street Journal*, appropriately calls today's economists "Lost Prophets," the title of his new book.

So it is fashionable today to plead naivete. But is ignorance a virtue? St. Paul didn't think so when he warned Timothy about intellectuals who are "ever learning, and never able to come to the knowledge of the truth." (2 Timothy 3:7)

The Standardbearers of Sound Economics

Among the many schools of economics, who carries the banner of truth? I believe that the best and the brightest thinking today is coming from the Austrians, the supply-siders, and other free-market scholars. Although some have fallen into the trap of "radical subjectivism," where everything is uncertain and unpredictable, most free-market economists have established objective principles of economic behavior, and can predict with considerable certainty the benefits of economic liberty and the ill-effects of government intervention, and how certain economic policies will affect output, prices, and stock markets.

Armed with these principles, let us see how well we do with the issues raised by the new nihilists. Herbert Stein says: "I don't know whether increasing the deficit stimulates or depresses the national income." Response: Transfers from the *productive* private sector to the *unproductive* public sector inevitably depress the national income.

Stein admits, "I don't know whether it is M2 or M1 that controls the level of total spending." Hasn't he read Adam Smith or Ludwig von Mises? Purchasing power is not determined by the money supply, but by productivity and output.

Stein declares, "I don't know how much a 10 percent increase in the top rate of individual income tax will raise the revenue." Hasn't Stein read the numerous studies demonstrating that the rich pay fewer taxes when marginal tax rates go up?

Finally, Stein confesses, "I do not know how to pick winning stocks." Instead of watching all those talk shows, why doesn't Stein follow the work of Peter Lynch, Warren Buffett, John Templeton, Value Line, and other analysts who know how to pick winning stocks?

Now onto Professor Barro, who didn't know why the recession hit in the early 1990s and where the economy was headed. The answers are pretty clear: The economic recovery was weaker than expected in 1991 because of a massive tax increase passed in 1990, on top of a tight money policy. The economy began recovering in 1992 due to the Fed's easy money supply. What should the government do to create a permanent recovery? Cut taxes and business regulations immediately, across the board.

Professor Krugman doesn't understand the business cycle? The Mises-Hayek theory is a good starting place, but unfortunately MIT has had a long tradition of ignoring the Austrian school. Daniel Hausman could get some answers there too. Why are interest rates positive? Time preference, declared Menger, Böhm-Bawerk, and Mises many decades ago. These Austrians specialized in the theory of capital and interest, and the role of the entrepreneur. Technological breakthroughs increase productivity and wages, and higher profits stimulate innovation by providing more capital for research and development.

Paul Krugman doesn't know how poor nations become rich? He should investigate the economic miracles of southeast Asia. The common denominators for Singapore and Hong Kong are a strong, stable, and lean government, low taxation, high levels of saving and investment, open markets, and minimal concern with income distribution. (*Forbes*, April 11, 1994) Could these reasons also help explain Japan's post-war success story? Pro-growth government, high saving rates, low taxes on investment, emphasis on training, and quality improvements. Or why Britain stagnated? High taxes, price and exchange controls, excessively powerful labor unions, bureaucracy, and welfarism.

In short, this isn't the Age of Ignorance. It's the Age of Enlightenment, for those who are willing to open their eyes and see. Unfortunately, too many of today's economists are blind guides. "For this people's heart is waxed gross, and their ears are dull of hearing, and their eyes they have closed; lest at any time they should see with their eyes, and hear with their ears, and should understand with their heart, and should be converted, and I should heal them." (Matthew 13:15) □

1. Paul Krugman, *Peddling Prosperity* (New York: W. W. Norton, 1994), pp. 9, 24. His previous book, *The Age of Diminishing Expectations*, came out in the early 1990s, just when Third World nations began throwing off socialism and Marxism, and sensed rising expectations for the first time.

2. Daniel M. Hausman, *Capital, Profits, and Prices* (New York: Columbia University Press, 1981), p. 190.

3. John Maynard Keynes, "The General Theory of Employment," *Collected Writings of John Maynard Keynes* (London: Macmillan, 1973), p. 114. This essay originally appeared in *The Quarterly Journal of Economics* in 1937.

4. Friedrich A. Hayek, "The Pretence of Knowledge," Nobel Prize Lecture, reprinted in *The Essence of Hayek*, ed. by Chiaki Nishiyama and Kurt R. Leube (Stanford: Hoover Institution Press, 1984), p. 266.

A REVIEWER'S NOTEBOOK

Reclaiming the American Dream

by John Chamberlain

Richard Cornuelle, author of *Reclaiming The American Dream*, subtitled, *The Role of Private Individuals and Voluntary Associations* (Transaction Publishers, New Brunswick, N.J., 1993, 258 pages, $19.95 paperback), is the man who restored Alexis de Tocqueville to his rightful place in American history.

Cornuelle had worked as a young man for Garet Garrett. A good observer, he had noticed that it had become fashionable to speak of American life in terms of only two sectors: the public, a euphemism for government; and the private, or commercial sector. The division seemed somehow wrong. Cornuelle discovered the inadequacy of the two-part division by reading Tocqueville's *Democracy in America*, in which the Frenchman marveled about our tendency to handle public business through associations that had no connections with the state. Americans founded associations to give entertainments, to found seminaries, to build inns, to construct churches, to diffuse books, to send missionaries to the Antipodes, and to establish hospitals and schools.

The omission of the independent sector had resulted in a tendency to shuffle off work onto government. It ignored the Kiwanis, Rotary, Civitan, and Lions clubs, as well as the Chambers of Commerce, and some 3,500 independent private hospitals. "There were," so Cornuelle observed, "1,357 private colleges and universities, and enrollments in them went up faster than in the public schools."

There is something of a contradiction in Cornuelle's lament that conservatives failed to have programs or that liberals had some of the programs that they did sponsor. Cornuelle should be happy that the American dream worked for a hundred years. Our founders had taken pains to design a government with limited powers. Sometimes, this power resulted in a crazy intensity decorating the walls of Alcatraz Prison or in the frivolity of groups organized for treks in classic cars, or even in learning to be clowns. But the independent sector, as Cornuelle put it, is a kaleidoscope of human action, which takes a thousand forms. Sometimes the driving power of the independent sector may seem weak, but the demand to serve is none the less a compelling drive. "We see the services and their many alloys," says Cornuelle, who is satisfied to observe that "145,000,000 Americans have some form of health insurance."

Cornuelle sends me a copy of his revised book with the remark that, "Here it comes again." (*Reclaiming The American Dream* was originally published in 1965.) He says in his afterword that the Reagan mission was not to repeal the welfare state but to preserve it and to accept debt or inflation for taxation.

This was all true enough for the moment, but movements have been created by Cornuelle and others that must lead eventually to less dependence on welfare. "There is," says Cornuelle, "a sprawling politically invincible middle class, the members of which believe they could be satisfied by the free market." That is an optimistic note. It doesn't entirely satisfy Cornuelle. And I can see his point. We have a long way to go before reaching a totally free market. The difficulty we face is dealing with the ruined condition left us by the government process. □

Commager on Tocqueville

by Henry Steele Commager

University of Missouri Press • 1993 • 130 pages • $24.95

Reviewed by David M. Brown

In the 1830s, a young French aristocrat named Alexis de Tocqueville came to the United States to research its penal system, took some notes, and returned home a few months later to write the classic *Democracy in America*.

Tocqueville was interested in the effect of democracy on equality and liberty. He wanted to apply the lessons of the democratic experiment in the United States to that Old World in which democratic impulses would, he felt, inevitably gain sway. He issued warnings and he expressed hopes.

Much of what he predicted for America was not borne out in the short run, but in the present century at least one central dynamic he described seems to be playing out. So now we may ask: to what extent was Tocqueville right for the right reasons? Are the trends we are witnessing reversible? *Should* they be reversed, in whole or part? Where do we go from here?

The title of Henry Steele Commager's new book suggests a primary focus on Tocqueville, but though *Democracy in America* is indeed the starting point, what Commager really wants to do is explore "five questions that Tocqueville raised but did not— could not—answer. The questions examined are democracy and the tyranny of the majority, the price of the just society, centralization and democracy, the military in a democracy, and the contradictions between political equality and economic equality." Commager is a distinguished historian who brings a welcome historical sensibility to his task. He covers a wide range of material within a brief compass. On some issues he is careless or wrongheaded, and hesitant about hinting why others might disagree; but he can also be incisive.

As usual, key questions hinge on definitions and values. Commager liberally embraces quite opposing brands of "equality" and "rights," blurring conceptual boundary lines; and too easily succumbs to the "necessity" of big government, which he says lumbers on for at least a few very practical reasons.

And Tocqueville? Well, here he is on the allure of democratic despotism, in a passage cited by Commager:

> Our contemporaries are constantly excited by two conflicting passions; they want to be led and they wish to remain free. . . . They devise a sole, tutelary, and all-powerful form of government, but elected by the people. They combine the principle of centralization and that of popular sovereignty; this gives them a respite; they console themselves for being in tutelage by the reflection that they have chosen their own guardians.

Commager admits that centralized government has indeed been the nemesis of liberty, and that freedom has tended to flourish in those lands and in those eras when central authority has been weakest. Mid-century Italy and Germany confirm Tocqueville's worries amply enough; Hitler won power first at the ballot box.

"But were generalizations and prophecies based on some centuries of Old World history valid for America?" Commager wonders. It startles that any serious observer, witnessing the progressive trading-off of individual autonomy for democratically demanded goodies in the past decades, from Social Security to Medicare, and beyond, can yet doubt the relevance of Tocqueville's insight for the United States. To be sure, Commager does not dismiss the dangers of big government lightly, and he does point out that to be more free of government, people must make fewer demands on government. But his account of its growth both informs and misinforms.

Have wars and global interventionism fueled the growth of bureaucracy and government, even if some of Tocqueville's specific worries about the character of a democratized military are unwarranted? Yes, and many just complaints can and should be logged about how the United States has conceived its role in the world and trespassed both abroad and at home.

But these complaints need to be framed in relation to a military's legitimate purpose, namely, self-defense. That doesn't mean that freedoms and constitutional protections may be flouted at whim as long as some military goal can be alluded to. But it does mean that "military security" must be a governing concern of the federal government, even if it "makes all the difference, after all, what it is that we secure." What we're securing may not be immaculate, but we still need to fend off the Visigoths.

The growth of "big" or national government has also been impelled by the need to thwart "local" violations of liberty, such as enslavement of blacks in the old South. The engine here is the Fourteenth Amendment, which by stipulating "equal protection" of all citizens encouraged a consolidation of national authority begun by the Constitution itself.

Commager is right to laud the beneficent aspects of this centralization, but it has hardly been an unmixed blessing for individual liberty. National government can be properly large in its ability to overturn abuses or neglect of state and local governments, but still carefully circumscribed in the aims of its power.

But what if national government becomes "big" in a quite different way, exceeding its chartered mission by, among other things: protecting organized labor from competition, imposing shackles on peaceful business activity, and instituting Social Security and Medicare? In endorsing the latter exercise of power as enthusiastically as the former, Commager is welcoming the very trade-off of freedom for favors that Tocqueville warned us of. His ahistorical emphasis of the phrase "general welfare" plucked from the preamble to the Constitution, as if the Founding Fathers were all New Dealers whether they knew it or not, hardly reassures.

Commager is similarly sanguine about the national government's efforts on behalf of the environment. But here again the record is mixed at best, and in this volume the record goes unexplored. When a developer can be jailed for messing around with a "wetland" that was only defined as such after the start of the development, something is wrong. True environmental depredation is best countered by clearly defining and enforcing property rights, which would mean forsaking federal land ownership.

The main concern seems to be that we are "exhausting" our resources; a claim often asserted but yet to be proved. One can argue with that also. But more to the point for a book that takes *Democracy in America* as its launching pad, Commager offers no discussion or even clue of how special-interest conflicts and demands can and have influenced environmental legislation in directions quite askew the preservation and protection of the environment. How are democratic impulses wending their way in *this* arena? Again, liberal political preferences pinch-hit for substantive insight. Those who disagree are "imprisoned" by an outmoded world view.

When we encounter attempts to clarify concepts like equality, justice, and the like it is even harder to catch hold of Commager's argument. The liberal faith in welfarism prevails. Yes, equality and liberty contradict each other—if equality means equality of economic results, not equality of legal protection, equality of rights. Whatever Tocqueville's concerns may have been, Commager himself is puzzled, even disappointed that "equal protection of the laws" was not extended "into the economic arena" after it was finally applied to civil rights. "Neither the court nor the Congress is at this stage prepared to say that equal protection of the laws means an equal right to a job, means equality in housing, means equality in medical care. . . ," he laments. Actually, such "rights" *have* been claimed by men in power, and programs instituted on such grounds. But the warrant for them under the rubric of equal *legal* protection is less clear. Or wholly unclear. What is the nature of the rights that should be legally protected? If I have a "right" to housing, medical care, etc., is the person compelled to provide my housing, medical care, etc., being equally protected in *his* right to the freedom to retain the product of the sweat of his brow—his right to survive, live, pursue his happiness? Reading Commager's essay, I get the feeling he might regard such a question as annoyingly ideological or beside the point.

But in no other discussion could it be more relevant. The lock-step totalitarianism that would attend utter economic equality, rationalized or not by the Kantian categorical imperatives evoked during the close of this book, would go far to confirm the "generalizations and prophecies based on some centuries of Old World history" advanced by Alexis de Tocqueville. □

David M. Brown is a free-lance writer.

Reclaiming the American Right: The Lost Legacy of the Conservative Movement

by Justin Raimondo

Center for Libertarian Studies • 1993 • 287 pages • $17.95 (includes postage)

Reviewed by Jim Christie

According to Old Right, paleoconservative columnist Pat Buchanan: "To understand the new rifts on the Right, scholars have begun to research its history, to explore its roots. Latest to do so is a San Francisco writer, Justin Raimondo of the Mises Institute. In his recently released book, *Reclaiming the American Right: The Lost Legacy of the Conservative Movement*, he argues that conservatism is a cause corrupted and betrayed."

Raimondo certainly does—and with gusto, cutting right to the chase—indeed, on pages one and two—in his accusation of just who is to blame for ideological high treason.

"Today, the conservative movement is united on *nothing*, not even the traditional conservative credo of limited government," writes Raimondo. "Instead of railing against the corruption of the Republic and the depredations of the New Deal and the Great Society, [neoconservatives] are comfortable with the legacy of FDR and seek not to repeal it but only to trim it around the edges . . . In this view the American state is much like its European cousins; it is provider as well as protector, and policeman not only of its own mean streets but of the entire world."

Raimondo's writing is clearly influenced by Buchanan: if Raimondo were a boxer, he certainly wouldn't be known for many fanciful moves or for jabbing, but for fast combinations and, certainly, a roundhouse punch—delivered, naturally, from the right.

His tenacity is evident throughout *Reclaiming the American Right*, with his targets purposely right-of-center. But then again, Raimondo admits he wrote *Reclaiming the American Right* as a fighting manifesto for the emerging paleoconservative cause rather than as a complete or impartial history of the Conservative Movement.

Still, for all its exclusivity and its fight, *Reclaiming the American Right* does have a considerable amount of good material regarding the reactionary and libertarian wordsmiths of the Conservative Movement, for Raimondo serves the admirable purpose of celebrating the Old Right literary canon—hence the felicitously appropriate subtitle, *The Lost Legacy of the Conservative Movement.*

Raimondo gives Old Right writers such as Garet Garrett, John T. Flynn, and Colonel Robert R. McCormick of *Chicago Tribune* and anti-New Deal fame a sense of depth and texture that is no doubt lacking in even the handful of graduate-level courses that dare to touch on the Old Right. When such courses do, they usually tend to promote the conventional, caricaturesque, eighth-grade level history of the Old Right based on the stigmatizing of the America First movement as isolationist, xenophobic, pro-Nazi, racist, anti-Semitic, anti-progress, you name it.

Reclaiming the American Right is worth reading on that single accomplishment. Raimondo gives a much needed nuanced analysis of the Old Right, a rarity in a United States that now rarely acknowledges its anti-statist past in acceptable public debate. □

Jim Christie is with the Independent Institute of Oakland, California.

Inside American Education: The Decline, the Deception, the Dogmas

by Thomas Sowell

The Free Press • 368 pages • $24.95

Reviewed by Patrick Groff

One searches in vain for euphemistic comments about his subject in Thomas Sowell's scathing new criticism of our nation's educational systems. "I have long been appalled by the low quality and continuing deterioration of American education," Sowell bluntly asserts. From my vantage point as a longtime true insider in the educational establishment, I have grown increasingly aware of how much I share his feeling.

Since Sowell is bold, forthright, and relentless in his negative evaluation, there is no mistaking his doleful opinions about our public schools: their teachers and unions, their bureaucrats, teacher credentialing and training, the lack of accountability, "classroom brainwashing," and the implementation of assorted dogmas such as psychotherapeutic, sex, multicultural, and bilingual education. Sowell's palpable outrage at the widespread adoption among educators of "miscellaneous psycho-babble," such as "relevance, the whole person, role models, and self-esteem," springs off the pages of his text.

Sowell is no less harsh in his indictment of university education: of its professors, tenure, the massive federal spending for, and the overcharging and waste in research, the lack of accountability (again), the displacement of teaching by useless research, ethnic studies departments, racial and ideological double standards on campuses, unfair admissions practices, and the exploitation of athletes.

The impressive thing about Sowell's intense yet highly readable denunciations of these educational evils is that he makes the case against them so irresistibly compelling. Few reasonable readers of *Inside American Education* are likely to leave his volume not convinced that our education systems have "taken our money, betrayed our trust, failed our children, and then lied about the failure with inflated grades and pretty words." It will be the obstinate reader, indeed, who is not persuaded by Sowell that education in America has exploited our children in foolish experiments, in schemes for propagandizing them, and for purposes of racial balancing and bilingual programs. What reader will be able to disclaim Sowell's exposé of universities supposedly dedicated to the freedom of ideas, which actually turn out to be "the most intolerant institution in American society"? After reading Sowell's book, parents will no longer be sure that the high university tuition they spend will ensure that their children are instructed by bona fide professors, rather than by graduate students.

But while Sowell is long on revealing the numerous disgraceful shortcomings, machinations, and duplicities in American education, he comes up short with detailed solutions for them. The dramatic rhetoric that fills Sowell's book suddenly becomes muted at this point. The two pieces of advice he offers education reformers are uncharacteristically conventional, hardly the radical, spirited, and extraordinary calls to action that his book leads his readers to expect.

To achieve the "institutionalized changes" that Sowell says are needed, reform agents should (1) "mobilize enough political muscle to win decisive votes in state legislatures," and (2) should "mobilize their superior fire-power for decisive assaults on strategic objectives." Sowell leaves us in the dark, unfortunately, as to the dynamics of how such mobilization of public opinion and its follow-through can be activated, nor why it has not been triggered so far.

Sowell's book makes clear, therefore, that it is far easier to identify our present educational woes than it is to propose realistic, easy-to-implement resolutions of them. His book carries with it, then, a somber yet hidden implication: our tax-supported educational systems basically are so structurally flawed that they now are probably beyond redemption. We likely must scrap them and start over with a system that provides built-in protections against the educational evils that Sowell describes. Sowell's insight into this matter regrettably appears to stop short of this discernment.

It is not that radical start-over plans are unavailable. For this purpose Sowell could have consulted Lewis J. Perelman's *School's Out: Hyperlearning the New Technology, and the End of Education* (New York: William Morrow, 1992). To rid ourselves of the educational monster that Sowell depicts, we must outlaw academic credentials in favor of demonstrations of workplace competency, and bypass the educational establishment by privatizing schools, diverting the money saved in both cases into educational technology development and implementation, Perelman explains. □

Patrick Groff is professor of education emeritus at San Diego State University.

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
JULY
1994
VOL. 44
NO. 7

332 **The Social Responsibility of Corporations and How to Make It Work for You** *by John Hasnas*
Boom time for business ethicists.

336 **Communitarian and Individualist Ideas in Business** *by Aeon J. Skoble*
If communitarianism prevails, it will become increasingly difficult to sustain a modern economy.

339 **Duty and Interest** *by Douglas Den Uyl*
The convergence of what we ought to do with what we want to do.

343 **Ideas and Consequences** *by Lawrence W. Reed*

346 **The Worker in Contemporary Society** *by J. E. Chesher*
Expanding commerce and advancing technology offer new challenges—and opportunities.

351 **The Ethics of Affirmative Action** *by Steven Yates*
Coercive preferential programs can never allocate skills where they are most needed.

354 **The Parable of the Talents: The Bible and Entrepreneurs** *by Robert A. Sirico*
Is there a contradiction between business success and living the Christian life?

358 **Sweet Speculation** *by John Ahrens*
The role of the speculator.

361 **Art and Commerce** *by Barbara Dodsworth*
Art flourishes most dramatically when it pairs creativity with business acumen.

365 **Money and Its Image Problem** *by Daniel Lapin*
The spiritual nature of money.

370 **Commercial Banking in a Free Society** *by Steven Horwitz*
Free banking would mean safer, more efficient, and more productive banking.

373 **Regulation and Productivity** *by John Hospers*
Three examples of how regulation adversely affects the business community.

377 **Business in the Global Community** *by Robert W. McGee*
The benefits of voluntary exchange.

379 **Peace, Political Science, and Pedagogy** *by Stephen G. Barone*
Can we teach peace?

381 **The Tribal Premise of Welfare Capitalism Illustrated** *by Anne Wortham*
The dangers of "positive entitlement."

385 **Correction, Please!** *by Mark Skousen*

388 **Book Reviews**
Doug Bandow reviews *Phantom Risk: Scientific Inference and the Law*, edited by Kenneth Foster, David Bernstein, and Peter Huber; *Bankers and Regulators*, reviewed by Robert Batemarco.

THE FREEMAN
IDEAS ON LIBERTY

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PERSPECTIVE

Introduction

When I learned of the chance to edit a special issue of *The Freeman*, I did not hesitate with the topic I wanted to have explored, namely, how business is faring in our culture. I am slowly writing a book, *Business-Bashing, Why Commerce Is Maligned*, so my attention was already focused on the topic. For years I have found the phenomenon of business-bashing one of our world's greatest tragedies as well as paradoxes. In the following essays we explore how commerce is denigrated by many of the literati and why this is a mistake—and offer a better perspective on business and modern society.

A startling example of subtle denigration of at least big business is available in what film critic Vincent Canby says as a mere aside in his review of the 1992 "docudrama" movie *Hoffa*. Here is how Canby delivers his clever anti-big business punch: "Hoffa's ties to the Mafia not only cost the rank-and-file Teamsters millions of dollars but also set a pattern for corruption that tainted the entire labor movement. His is a quintessentially American story, for only in America did Big Labor become a big business to rival Big Business." (Vincent Canby, "Big Labor's Master of Manipulation," *The New York Times*, December 25, 1992, p. B1) Oddly, the bigness of much of business is in no small way due to the heavy restraints imposed on business by the anti-commercial mentality. This has made it extraordinarily difficult for small business to shoulder the legal burdens of holding the regulators at bay, of meeting their irrational and unjust requirements.

The assault on business does not come only from the intellectual left. Conservatives perceive the nature of human economic concerns no less unfavorably. Just notice *The New York Times'* conservative intellectual, A. M. Rosenthal, offering the following self-revealing comment: "In the 1992 campaign the Presidential candidates did their best to convince Americans that jobs, jobs, jobs were more important than freedom, freedom, freedom. Yes, the economy is essential and of course an economically weak American can't help the world. But those truisms became puffed up to a moral philosophy. They are neither moral nor a philosophy. Economic policy can cost or save jobs. Foreign policy costs or saves lives. History knows the difference, as do mourners." ("Zones of Freedom," *The New York Times*, December 25, 1992)

This glaringly ignorant remark is illustrative not only of the flippancy pundits are licensed to perpetrate but also of what ails some conservative thinking. We here witness the "private vice, public benefit" outlook that has characterized much of it in modern times. The view has it that economic considerations for human beings are necessary but by no means morally significant. Jobs are not ethically important; life however is. Never mind that jobs are one of the main factors that make life possible for human beings. A public policy that stifles our economic efforts is as vicious, as vile as one that stifles democracy and freedom of speech. All these are aspects of a promising human community life.

Unfortunately prevailing political ideologies demean economics as dealing with something lowly, not with the proper, moral, or noble. The contributors to this issue do not share this perspective. Their articles should shed some light not only on the role of commerce and business in our lives, but also on what happens to a culture when that role is systematically denigrated.

— Tibor R. Machan
Auburn University, Alabama

A Harmony of Interests

A man who criticizes the conduct of business affairs and pretends to know better methods for the provision of the consumers is just an idle babbler. If he thinks that his own designs are better, why does he not try them himself? There are in this country always capitalists in search of a profitable investment of their funds who are ready to provide the capital required for any reasonable innovation. The public is always eager to buy what is better or cheaper or better and cheaper. What counts in the market is not fantastic reveries, but doing. It was not talking that made the "tycoons" rich, but service to the customers. . . .

Under capitalism the acquisitiveness of the individual businessman benefits not only himself but also all other people. There is a reciprocal relation between his acquiring wealth by serving the consumers and accumulating capital and the improvement of the standard of living of the wage-earners who form the majority of the consumers. The masses are in their capacity both as wage-earners and as consumers interested in the flowering of business. This is what the old liberals had in mind when they declared that in the market economy there prevails a harmony of the true interests of all groups of the population.

—Ludwig von Mises
"The Economic Foundations of Freedom"

Aristotle on Self-Love

Therefore the good man should be a lover of self (for he will both himself profit by doing noble acts, and will benefit his fellows), but the wicked man should not.

—Aristotle
Nichomachean Ethics 1169a12

THE FREEMAN
IDEAS ON LIBERTY

THE SOCIAL RESPONSIBILITY OF CORPORATIONS AND HOW TO MAKE IT WORK FOR YOU

by John Hasnas

Are you looking for a promising new vocation? Tired of the humdrum routine of life as an investment banker, corporate attorney, or electrical engineer? Want to get in at the ground level on a field with unlimited growth potential? Then you should consider a career as a business ethicist.

Wait a minute. A *business ethicist?* Aren't they the butt of all those jokes? You know, "I looked up the word oxymoron in the dictionary and it said 'see business ethics.'" Or "One undergraduate says to another undergraduate, 'I just signed up for Business Ethics 101.' The other responds, 'It must be a short course.'"

Well, after years of being subjected to this derision, business ethicists are finally laughing all the way to the bank. For the business ethics business is booming. Since 1990, there have been approximately 100 substantial corporate contracts for outside ethics consultants each year, with about 25 to 30 major companies spending more than $50,000 and five spending more than $1 million. Ethicists can make from $25,000 to $150,000 a pop performing ethical audits of corporations and from $1,500 to $4,500 a day running ethics training programs. As Timothy C. Mazur, a veteran ethics consultant, has expressed it, "Our market has just exploded. All of a sudden huge companies need ethics training fast." Before too long, he adds, he and his fellow ethics consultants "will be driving BMW's instead of Honda Preludes."[1]

What accounts for this rash of corporate interest in ethics? Have hard-boiled, practical-minded executives suddenly seen the light? Has the Age of Aquarius finally dawned? Or is there a more mundane explanation? To suggest that the latter may be the case, let me tell you a story. I'll call it "A Brief History of the Social Responsibility of Corporations."

Before beginning, I should say a word about what this phrase means. To claim that corporations have social responsibilities is to claim that corporations have moral obligations to expend funds for socially beneficial purposes even when such expenditures have not been authorized by the stockholders and are not in the financial interest of the

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corporation. Thus, in telling a story about the social responsibility of corporations, I am not discussing either cases in which the stockholders have specifically authorized the expenditure of funds for social purposes, e.g., non-profit corporations such as the Red Cross or the Nature Conservancy and for-profit corporations in which the stockholders vote for "socially conscious investing," or those in which such expenditures are made in the belief that they will increase the firm's profitability, e.g., through the creation of customer goodwill. Rather, I am discussing the claim that corporations are obligated to make such expenditures when neither is the case.

A Story

Once upon a time, it was believed that corporations had no social responsibilities. This was because corporations were viewed as arrangements by which one group of people, the stockholders, advanced capital to another group, the corporate managers, to be used to realize certain specified ends. Under this view, the managers were "agents" of the stockholders. They were empowered to manage the money advanced by the stockholders, but were bound by their agency relationship to do so exclusively for the purposes delineated by their stockholder principals. The existence of this fiduciary relationship implied that managers could not have an obligation to spend corporate funds in ways that had not been specifically authorized by the stockholders regardless of the social benefits that could accrue from doing so.

Of course, both the stockholders and the managers were free to spend their personal funds on such projects, but when the managers were functioning in their corporate capacity, they had a duty not to divert corporate funds away from the purposes expressly authorized by the stockholders, which were usually limited to maximizing the return on investment. Therefore, there could be, as Milton Friedman has expressed it, "one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it . . . engages in open and free competition, without deception or fraud."[2]

This view, known as the stockholder theory of corporate responsibility, was supported by a very simple moral argument. The stockholders advanced their money on the condition that it be used in accordance with their wishes. If corporate managers accepted the money on this condition and then proceeded to spend it to accomplish social goals not authorized by the stockholders, they would be spending other people's money without their consent, which is wrong.

As you may imagine, this was not a very popular theory in academic circles. If corporations had no social responsibilities, what would there be for business ethics professors and consultants to do? This was clearly an intolerable situation which demanded a remedy. Fortunately, one was at hand in the form of the "stakeholder theory."

The stakeholder theory was originally a theory of *management*. It held that effective corporate management required "simultaneous attention to the legitimate interests of all appropriate stakeholders."[3] A stakeholder is anyone who has "a stake in or claim on the firm," and has been defined to include "those groups who are vital to the survival and success of the corporation,"[4] i.e., its stockholders, customers, employees, suppliers, management, and the local community. Thus, the stakeholder theory, as originally conceived, contended that a corporation's financial success could best be achieved by giving the interests of all stakeholders equal consideration and adopting corporate policies which produce the optimal balance among them.

As a management theory, the stakeholder approach implies no social responsibilities for corporations. It simply describes a method for improving corporate performance. However, if it could be converted from a management theory to an ethical theory, if an argument could be found that showed that corporate managers have a moral obligation to act in the interest of stakeholders other than the stockholders even when this would not financially benefit the firm, then it would become a true theory of corporate social responsibility. This is precisely what happened.

A Plot Twist: Staking a Claim to Autonomy

The argument that the stakeholder theory embodied the ethical obligations of managers was based upon Kant's principle of respect for persons. This fundamental ethical principle holds that every human being is entitled to be treated not merely as a means to the achievement of the ends of others, but as a being valuable in his or her own right, as an end in himself or herself. But to respect someone as an end is to recognize that he or she is an autonomous moral agent with free will and desires of his or her own. Thus, the principle of respect for persons requires respect for individual autonomy.

The stakeholder theorists applied this to the world of business by claiming that corporations are bound to respect this principle as much as anyone else. Thus, corporations may not treat their stakeholders merely as means to corporate ends, but must recognize that as moral agents, all stakeholders are entitled "to agree to and hence participate (or choose not to participate) in the decisions to be used as such,"[5] and, therefore, that they are entitled to "participate in determining the future direction of the firm in which they have a stake."[6] But, because it is impossible to consult with all of a firm's stakeholders on every corporate decision, this participation must be indirect. Therefore, the firm's management has an obligation to "represent" the stakeholders' interests by giving each equal consideration and managing the corporation so as to achieve an optimal balance among them. As a result, corporate management has a fiduciary relationship not only to the stockholders, but to all the stakeholders, and may often be required to sacrifice the stockholders' interests to those of other stakeholders.

This argument was just what the doctor ordered. It not only derives corporate social obligations from the libertarian principle of respect for persons, but these obligations are so amorphous (What does it mean to "keep the relationships among stakeholders in balance,"[7] anyway?) as to guarantee the need for countless academic articles to explain precisely what they required. In fact, its only drawback is that it is clearly unsound.

There is nothing wrong with the claim that corporations are morally bound to respect the autonomy of their stakeholders, but this implies neither that stakeholders are entitled to a say in corporate decision-making nor that the corporation must be managed in their interest. The fact that the stakeholders must agree to be "used" by the corporation implies only that no stakeholder may be forced to deal with the corporation without his or her consent. Although this certainly means that corporations are morally obligated to honor the contracts they enter into with their customers, employees, suppliers, and managers and to live up to any representations they freely make to the local community, it does not mean that these stakeholder groups are entitled to more than they freely bargained for.

Employees, suppliers, and customers negotiate for and autonomously accept wage and benefit packages, purchasing arrangements, and sales contracts, respectively. If managers were to break the agreement they have with the stockholders to maximize return on investment in order to provide one or more of these groups with benefits in excess of those they freely accepted, they would not be respecting the autonomy of these groups, but violating that of the stockholders. Thus, far from being entailed by the principle of respect for persons, the stakeholder theory requires its violation.

A Happy Ending

The fact that the stakeholder theory violates its own fundamental premise did not hinder its acceptance, however, for it was a fallacy whose time had come. For the last two decades, it has simply been ideologically unacceptable to argue that corporations could be ethically bound to "selfishly" pursue profit or that it is wrong to force those wealthy enough to purchase stock to expend funds to benefit downtrodden workers, local communities, or society in general. The stakeholder concept was so popular that in the late '70s and early '80s several corporations voluntarily amended their charters to permit managers to base their business decisions on their effects on groups other than the stockholders. This was followed by the advent of corporate "constituency" statutes which permitted (and sometimes required) corporate managers to consider the interests of employees, customers, suppliers, and communities in making business decisions. Although originally adopted as anti-takeover, rather than ethics, measures (the statutes allowed corporate management to escape its fiduciary duty to stockholders to accept generous buy-out offers by declaring that doing so would not be in the interests of one or more of the other stakeholder groups), these statutes have, to date, enacted the stakeholder theory into law in 29 states.[8]

The triumph of the stakeholder theory had a profound effect on the way corporations were viewed. The widespread acceptance of the idea that corporations had ethical obligations to serve the interests of the wider society made it possible to ascribe moral characteristics to corporations themselves, rather than merely to the individuals who comprise them. Corporations which met their obligations were described as having a good corporate character or being good corporate citizens; those that did not, as socially negligent. It now made sense to speak in terms of corporate culpability.

This had a major impact on the Federal Sentencing Guidelines for Corporations which were designed to revise and regularize the fines that could be assessed to corporations convicted of violating federal law. The Guidelines, which took effect in 1991, drastically increased these fines above previous levels, but allow for significant reductions for corporations that have demonstrated "good citizenship" as determined by a "culpability score." To receive a favorable culpability score, a corporation has to have an "effective" program to discourage illegal behavior by the firm's employees; i.e., an ethics training program.[9] The financial difference this can make is so great that one expert has stated that it would be professional malpractice for corporate counsel to fail to recommend such a program.[10]

Now, when we consider that it is ethicists who supply these programs, we may be led to suspect that it is the adoption of the Federal Guidelines that is primarily responsible for the current influx of ethics consultants to BMW showrooms. This may explain why the Guidelines are sometimes referred to as the Business Ethicist Full Employment Act. Unfortunately, it also suggests that the surge of corporate interest in ethics may not herald the Age of Aquarius after all, but is just one more example of businesses looking to their financial interest. However, like all stories that begin with "Once upon a time," this one has a happy ending. For after years of suffering cruel jokes as the ugly ducklings of the academic community, business ethicists have finally blossomed into the swans of the corporate world.

And they lived happily ever after. □

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1. Rorie Sherman, "Ethicists: Gurus of the 90's," *National Law Journal*, January 24, 1994, pp. 1, 30–31. This article is also the source of financial data in this paragraph.
2. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 133.
3. Thomas Donaldson & Lee E. Preston, "The Stakeholder Theory of the Corporation: Concepts, Evidence, Implications," *Academy of Management Review* (forthcoming).
4. *See* William M. Evan & R. Edward Freeman, "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism," in *Ethical Theory and Business*, pp. 97, 100. (Tom L. Beauchamp & Norman E. Bowie eds., 3d ed. 1988).
5. *Ibid.*
6. *Ibid.*, p. 97.
7. *Ibid.*, p. 103.
8. For a useful discussion of these statutes, *see* Eric W. Orts, "Beyond Shareholders: Interpreting Corporate Constituency Statutes," *61 George Washington Law Review 14* (1992).
9. For a useful discussion of the Guidelines, *see* Ilene H. Nagel & Winthrope M. Swenson, "The Federal Sentencing Guidelines for Corporations: Their Development, Theoretical Underpinnings, and Some Thoughts about Their Future," 71 *Washington Law Quarterly 205* (1993).
10. *See* Michele Galen, "Keeping the Long Arm of the Law at Arm's Length," *Business Week*, April 22, 1991, p. 104 (quoting Professor John C. Coffee of Columbia University Law School).

THE FREEMAN
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Communitarian and Individualist Ideas in Business

Aeon J. Skoble

One of the hottest controversies in social philosophy these days is whether communitarianism or individualism is the more appropriate theory for describing the relationship between the individual and society. The dispute reaches beyond academic social theory to have a direct impact on beliefs and practices in the business world. The split on this issue in the academy is mirrored in the beliefs and practices of the business world. This is unfortunate. It is unhealthy for the business world and has potentially damaging consequences. If communitarianism becomes the prime mover of social thought, it will become increasingly difficult to sustain a modern economy.

First, what are individualism and communitarianism? Broadly speaking, we might say that individualism is the view that each individual (but only individuals) has, and should regard himself as having, moral significance and inalienable rights. Communitarianism is the view that communities also have moral significance and certain rights. Let us add to this initial distinction with some history and some precision.

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The idea that individuals possess inalienable rights goes back in American social thought beyond the founding of the Republic to the struggle for independence, and in English social thought at least a hundred years earlier to John Locke. It has its roots in the Magna Carta of the thirteenth century. The result of these developments was that individual human beings, not kings or the government, came to be regarded as the most valuable.

Locke's *Two Treatises of Government* represented a direct theoretical challenge to the idea that kings ruled others by divine right. According to monarchist theory, the king and the land are one, and no one has any rights not granted by the king. Since the king is the personification of the social order, no one can dissent from the social order without affronting the king, and therefore the land itself. Locke's early individualism argued for the personal sovereignty of each over his own life, liberty, and property. In Locke this personal sovereignty is based on the idea that the rights of each are of divine origin, but not all individualist theories are based on this premise. Many modern individualists argue that rights are a useful social construct: respecting rights produces the greatest benefits overall. Still others derive a theory of individual rights from arguments about the necessity for personal freedom and autonomy for self-actualization and growth.

The Communitarian Challenge to Individualism

The essence of communitarian thought is that the community can be thought of as a bearer of rights, or at least as the holder of interests, to which an individual's interests may have to be subordinated in some cases. Marxist communism and socialism are clear examples of this idea, although modern American social thought is full of additional examples. Like tribalism, monarchism is an early and common example of a communitarian theory, but some communitarians are sincere democrats. Modern American thought does, indeed, contain elements of different strands of communitarianism (although whether this is a virtue remains to be seen). For instance, the idea that we should all be required to sacrifice a portion of our income in order to provide for common goods such as roads, schools, and farm subsidies—even the childless pedestrians who are consumers of farm products—is justified in terms of the "good of society." Military conscription is another such idea.

As with individualist social thought, there are many different versions of communitarianism. Although they differ in regard to, say, the relative values of the community's interests versus the individual's interests, or the nature of the community, they share the fundamental premise that communities have rights and interests which may occasionally override individual rights or interests.

Commerce: Communitarian or Individualist?

There are several aspects of the commercial world, some of which seem to rely on or demonstrate communitarian ideas and some of which seem to be based on individualist ideas. For examples let's look at two of the fundamental structures of the business world, the corporation and the entrepreneur. The corporation is a highly structured, hierarchical organization. It is typically, although not necessarily, owned by large or small groups of investors. The investors provide financing, and employ a group of executives to run the company. The top-rank executives in turn hire managers and supervisors for the various departments essential to the company's function. The company might have separate departments responsible for production, research, sales, accounting, and so forth. The result is a structured web representing the division of labor.

Each employee is accountable to someone higher up in the chain of command, right up to the chief executive. The chief executive, of course, is accountable to the shareholders. Each employee plays a particular role in the working of the corporation which aims at the overall success of the company. Like a football team, the successful corporation requires the best possible contribution from each worker, but no single employee can carry the team. Individual success is futile if the corporation fails. Just as a star player's efforts are wasted when his team has a losing season, a single employee might be the best accountant in town, but that won't matter if the company can't sell its product.

Each contributes to the good of the whole—individual achievement is valuable only to the extent that it contributes to collective success. Corporatism as a commercial mode parallels communitarianism as a social theory. The idea of being a "team player" in the corporate hierarchy parallels the idea of contributing to the "common good" in social theory. In communitarian social thought, each person is supposed to subordinate individual preferences (to varying degrees) to the good of the community, and indeed, frame his or her conception of self-interest in terms of service to the community. In the corporation, each employee is supposed to think of individual needs in terms of the needs of the company.

Of course, being employed at a corporation is a voluntary arrangement; being subject to the laws of the government isn't. I'm not suggesting that corporations *are* communitarian governments. There is simply a structural parallel between the way communitarian social thought and corporate commercial institutions depend on the idea of subordinating one's individual preferences to the common goal. In both cases, risks and benefits are pooled. This might lead corporate leaders to conclude that communitarianism is as appropriate in the political realm as corporate structures are in the commercial realm.

The Entrepreneur

Entrepreneurship is another key institution in the business world. Typically, the entrepreneur is conceived of as the bold, individualist go-getter, so it will come as no surprise that there is a parallel between the role of the entrepreneur in the world of business and individualist social theory. Unlike the corporation, the entrepreneur assumes the risks and reaps the benefits of the enterprise. In some cases the entrepreneur has a new concept, good, or service to offer which propels the venture; in other cases he or she simply offers a more efficient (or otherwise more attractive) way of performing an existing service. In either case, the entrepreneur stands for his or her own vision and gambles on his or her own ability to succeed. Like the theoretical individual of political theory, the entrepreneur makes his or her own decisions in accordance with his or her own judgments for the benefit of the enterprise.

Naturally, the entrepreneur will frequently find it advantageous to cooperate with others in order to secure some mutually beneficial end. Entrepreneurship as a practice cannot rule out cooperative ventures; indeed it may often depend on them. But this fact is not only mirrored in individualist political theory, it is presupposed by individualist political theory. For placing primary emphasis on the rights of the individual does not besmirch the value of social cooperation, and individuals will frequently find it mutually advantageous to cooperate in the pursuit of some shared goal.

What distinguishes cooperative social ventures in an individualist theory from cooperative social ventures in a communitarian theory is that in an individualist setting, all such ventures are entered voluntarily on the basis of a perceived mutual benefit, whereas in a communitarian setting, some arrangements might be imposed "for the good of society" which do not serve a particular participant's interests. The parallel in business is that entrepreneurs do things because they think it would be best, while corporate employees do things because they have been ordered to do so for the good of the company.

Individualism and Corporate Commerce

Clearly, though, not everybody in a modern economy can be an entrepreneur. There are some enterprises that are more efficiently operated as corporations. The business world needs both entrepreneurship and corporatism. But corporate commerce must beware of its affinities with communitarianism.

In short, the business world would be better off embracing individualism wholeheartedly, and rejecting communitarianism. Even though corporate structures can be interpreted as microcosms of communitarianism, they need not be. Indeed, were communitarian ideas to become predominant in our legal system, this would undermine one of the prime energizers of modern corporate commerce, namely, the initiative or choice of all corporate participants to be part of the enterprise. If, as communitarianism implies, the corporation must be an arm of public policy, it will function grudgingly, as do all who work in a condition of involuntary servitude.

What can corporations gain from embracing individualism? Business organizations certainly will continue to require the same hierarchical structure and the emphasis on team effort. But they can make changes in the way they regard employees. Managers would do well to foster an atmosphere of individualist cooperation, thereby encouraging team effort with the motivation of mutual benefit. Obviously, if the corporation does not do well, the people in the corporation do not do well. But that does not mean that management policy ought to reduce employees to cogs in a machine. A smart manager would treat each employee as an individual whose efforts are crucial to an enterprise the success of which benefits that employee. It might be impractical to treat every corporate employee as an entrepreneur, but attempts to encourage employee innovation and excellence might be enhanced by just a bit of this approach.

Furthermore, the more the corporate world endorses a theory which subordinates individuals to groups, the more society as a whole will be encouraged to subordinate both corporations and entrepreneurs to vaguely defined community interests that may benefit no one and actually be injurious to the businesses involved.

Some social critics, such as Amitai Etzioni, Michael Lerner, and, most famously, Ralph Nader, have proposed that corporations ought to be subjected to public control for the common good. If such constraints were widely accepted, corporate executives would swiftly find that business had taken a turn for the worse. Besides being the social theory that is most conducive to individual human well-being, individualism is the social theory that best serves the business world, corporate as well as entrepreneurial. □

DUTY AND INTEREST

by Douglas J. Den Uyl

It is often argued that we are in desperate need of courses or training in business ethics because business is an area more devoid of ethics than other endeavors. Indeed, it is usually assumed that there is something *fundamentally* at odds between business and ethics. Business must be tamed by ethics because by itself business has no natural affinity with ethics—it may even be antithetical to ethics! Our point in this essay, however, is exactly the opposite. Business and ethics are allied with each other at the fundamental level and only conflict at the fringes.

Aristotle held that the morally perfect individual was one in whom knowledge of what one *ought* to do was fully integrated with what one *desired* to do. If one knew what the good was and desired something else, that was a sign of moral imperfection. By the same token, if one simply did what one wanted without giving any thought to what was good, that too was a sign of imperfection. The morally good person, we might say then, thoroughly blends his or her desires with what is morally good. This could be described as the coincidence of duty and interest.

The sorts of philosophers that have dominated our own age by contrast have seen the interested and the moral to be either in inherent or likely conflict. Immanuel Kant, for example, tells us that the presence of interest lessens or destroys the moral quality of an act. J. S. Mill worries about the

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narrowness of self-interest preventing one from acting for the good of the whole. And even Adam Smith has qualms about the connection between self-interest and social well-being.

All these more abstract worries about morality and desire would certainly have an impact upon Business Ethics. For if the two really are in necessary conflict, it looks as though business—which is apparently grounded in interested pursuits—will be hard pressed to incorporate anything like ethical duty.

There is the possibility nonetheless that the very essence of business may just consist in this Aristotelian ideal! For that to be the case, duty and interest must not only be harmonized such that what is in one's interest also turns out to be one's duty, but also that in being subject to a certain obligation one is thereby furthering one's interest. While other professions, e.g., law and medicine, may suggest (undoubtedly somewhat naively) that the interests of others (the patient or client) take precedence over one's own, business turns out to be essentially rooted in the proposition that our own interests and the interests of others are co-extensive.

The Convergence of Duty and Interest

The rudiments of our point are found in the simple act of trade or free exchange. With respect to the interest side of the issue exchanges are presumably in the interests of all parties or they would not take place. The act of trade seems to leave out, however, the notion ordinarily associated with "duty," namely of there being some sort of moral obligation to others. If it were the case, however, that one made exchanges that were not only in one's interest but which one had an obligation to others to make, then duty and interest would be harmonized. As strange as it may at first seem, the modern corporate manager is in the position of having both the duty and interest to engage in trade.[1]

As a fiduciary of the corporation a manager has a duty or obligation to act in the interests of that corporation. Although it may seem as though there is now the same old possibility for conflict between one's interest and one's duty if what would be good for the corporation would not be so good for oneself, this perception is largely illusory in business. Indeed, if managers come to see their personal business interests as being in conflict with the business of the corporation, then we would describe the corporation as badly managed. To insure against this sort of conflict, corporations offer equity and other incentives to tie one's wealth to that of the corporation. In a business environment it would actually be strange to think of the corporation's interest as taking precedence over that of individual (or vice versa). As a business enterprise, the assumption is that everyone involved is interested in personal wealth maximization and corporate life (as opposed to, say, self-employment) is the mode chosen to that end. Consequently, there is no prior or essential split between self and corporate interests or obligations.

Perhaps one is inclined to object that numerous cases of conflicts of interest between managers and corporations can and do occur. A manager may wish, for example, to give some relative the contract for supplies rather than the firm with the highest quality at the lowest price. Or perhaps one is thinking of the conflicts that are sometimes said to exist between managers and stockholders (owners) over such matters as the sale of the business in a "hostile" takeover. It is not our claim here that such conflicts cannot or do not take place. Rather, our claim is that the legal conception of a "fiduciary," while perfectly appropriate to business law, can mislead one when it comes to understanding the essential character of business.

In law, a situation is corrected or operating normally when the fiduciary fulfills his or her obligation, whatever the personal interests involved. In business, by contrast, a situation is normal only when one's interest is engaged. If one is simply doing one's duty, a potential (if not actual) management problem exists. The sorts of conflicts that may arise in the business world are not solved, in other words, by the appropriate fulfillment of a role. They can only be solved when the appropriate actions are motivated by personal commitment. In business one does not make commitments to obligations, but rather one's obligations grow out of one's commitments. A business, therefore, has the appropriate managers when those managers see their own best opportunity for maximizing their wealth as being co-extensive with the work they are doing.

Disrupting the Harmony

Now there are many factors that serve to undermine this happy coincidence of duty and interest in the modern world. Some of these, we must admit, may be generated from the quasi-bureaucratic nature of the large modern multinational corporation. Yet the most significant of these factors arise from the present political climate and the social/moral claims used to support it. In business ethics the issue is put most clearly in the debate over corporate social responsibility.

The controversy centers around Milton Friedman's claim that corporations have no social responsibility beyond wealth maximization within the "rules of the game."[2] This is thought to be too limited and too economically centered a view for most writers in the field, and thus they would speak of a more expanded sense of social responsibility for business.[3] Businesses are being asked to consider the good of society as a whole, or certain aspects of society (sometimes called these days "stakeholders"), as being of equal or greater consideration than "the bottom line." Yet what can be said for Friedman's position is that it, rather than the alternatives, best serves the harmony of duty and interest as we have described it here.

Friedman's argument is quite simple: it would violate one's contractual obligations to the owners (stockholders) if one pursued anything other than wealth maximization, for that is precisely what managers were *hired* to pursue. So as managers seek profits for the firm, they are both satisfying an obligation to others as they achieve what is to their own benefit. Moreover, they are doing so in a *community* of wealth pursuers (i.e., among others doing likewise).[4] It must be the case then that to oppose Friedman's position is to claim that we ignore or otherwise diminish the pursuit of profits for the sake of other "responsibilities." In doing that, however, the harmony between duty and interest that is established within the community of wealth pursuers would be undermined in at least five ways:

1. By overriding the contractual relationship in favor of vague, limitless, and all-encompassing "obligations," there is no certainty that one has satisfied one's obligations in a business context and thus little chance of harmonizing one's interest with them.
2. With the contractual model, one's obligations flow from one's commitments; but in the corporate social responsibility model one's commitments are to be defined by one's obligations implying, as we noted above, the diminishment of interest.
3. The idea of a social responsibility beyond that of wealth maximization necessarily subordinates the latter to the former and thus, at least temporarily, drives a wedge between what the individual is in fact pursuing and what he or she ought to be pursuing.
4. Indeed, the additional "obligations" suggest the moral inferiority of the pursuit of wealth, so that if one takes a greater interest personally in the pursuit of wealth within a business context one is necessarily at odds with what one is supposed to be interested in morally.
5. Corporate social responsibility undermines the individualism implied by the harmony of duty and interest by conceiving of the corporation as the locus of moral responsibility rather than the individuals who jointly compose it.

These reasons, and undoubtedly others, should indicate how current conceptions of corporate social responsibility undermine not only the ideal harmony we have been discussing, but also the very ethos of business itself. For we can now realize that what constitutes a *business* context or relationship is one where the production or pursuit of wealth is central both morally and operationally. Corporate social responsibility decentralizes the role of wealth in business in favor of other ends, and in this respect undermines the very ethos of business.

One might say in response to all this, "Who cares about the harmony anyway? Isn't it the case that morality essentially is a conflict between what one wants to do and what one ought to do. And moreover, don't such things as pollution, poverty, unemployment, and illiteracy take precedence over wealth and the greed that comes with its pursuit?" These are complex questions with arguable underlying assumptions. They cannot be fully answered here. But if one is open to the idea that harmonizing duty and interest might be a good thing, then perhaps one might be willing to consider approaches to social problems that are more in accord with maintaining that harmony. Much has been written about various market-oriented approaches to all these issues—approaches that provide an alternative social vision to the politically dominated one espoused by advocates of corporate social responsibility. To admit that poverty and pollution are problems is to say absolutely nothing about the appropriate way to address them.

What is more pertinent to our point is the basic question of why we should care whether there is any coincidence between duty and interest in the first place. As we have noted, business does in fact approximate the ideal. But why should one care about the ideal itself? The reason is that it is within this harmony of duty and interest that one finds the basis for the moral legitimacy of business itself. It is not because of the benefits provided us that business is morally justified, nor is it because business "behaves" itself in appropriate ways. Business is at root morally legitimate because the good it seeks (wealth) is appropriate for human existence and can be sought without any fundamental conflict between what is good for oneself and what is appropriate conduct towards others. To insure that both are in harmony requires that we do nothing to threaten the centrality of wealth which makes that harmony possible.

Is wealth then the highest or only good? Is its pursuit constrained by nothing? Wealth is neither the only or highest good in human life. It is and must be, however, the central good in *business*. That means that when it comes to business, other ends must be considered in light of wealth, even if another end takes priority in other contexts. It also means that the social conditions for the integration of various ends and the pursuit of any end must be respected. This is another way of saying that basic individual rights must be respected.[5] But since that sort of respect is an obligation one has in all contexts under all circumstances, we have no *additional* obligation but rather one that makes all other social obligations meaningful. We can only begin to know what obligations we have towards others when we know what their rights are. In addition, we can only begin to cooperate effectively with others when we do so on the basis of mutual interest. And if our interests can become our obligations we shall more likely understand the moral value and propriety of business than if we think in terms of trying to transform obligations into interests or of making obligations independent of interests altogether. □

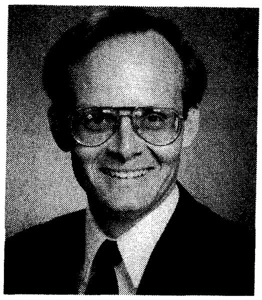
1. We focus mainly on the corporation and its managers, since this is the main focus of most of the writing on business ethics.

2. This position is reprinted in most business ethics texts. For example, see W. Michael Hoffman and Jennifer Mills Moore (eds.) *Business Ethics* (New York: McGraw-Hill, 1975), pp. 153–157.

3. One need only consult the essays conjoined with the one mentioned in the last note to confirm this point. Any other business ethics text would serve as well.

4. This argument does not rule out the possibility that some things which at first seem like they might detract from profitability might in the end contribute to it and are therefore legitimate.

5. I have expanded on these points more fully in "Corporate Social Responsibility," *Business Ethics and Common Sense*, Robert W. McGee (ed.) (Westport, Conn.: Quorum Books, 1992), pp. 137–151.



Businessmen and the War of Ideas

Years ago as a college professor of economics, I posed a question to each crop of freshman students on or about the first day of class. "Can anyone tell me," I asked, "what determines whether society is organized along socialist, centrally planned lines or as a free enterprise, private property order?" The answer to that query, I suggested, would be the same as the answer to this corollary question: "What causes societies occasionally to change from one economic system to the other?"

Rarely would I elicit the response I was looking for, in spite of all the hints I gave. The students' answers included the following: "the President," "the Congress," "the news media," "the unions," "the schools." Invariably, someone would suggest there was no determinant at all, that we were talking about mere random events—a kind of irrational and unexplainable ebb and flow of history.

At some point, the guesswork would come to an end and I would reveal the answer I was seeking. "People or the institutions they establish play important roles, but neither one is fundamental enough because neither one explains why people behave the way they do. The correct answer is that which the French author Victor Hugo once said was more powerful than all the armies of the world: IDEAS![1]

People such as politicians, activists, clerics, and teachers can often be agents of change, but ideas are the instigators. In shaping public policy that includes the larger question of free enterprise or socialism, democracy or dictatorship, ideas are of decisive importance. What people believe says a great deal (maybe everything) about how they behave, for whom they vote, what laws and rules they embrace, what kind of system they'll work to achieve. Change ideas, and you can change the course of history.

Ideas—both good and bad—can, indeed, be quite intoxicating. They evoke strong passions and spark revolutions. In this century, we witnessed first the rise of a world empire committed to the ideas of Karl Marx, followed by its dissolution and demise at the "hands" of a more powerful idea, that of freedom and free markets.

The British economist John Maynard Keynes put it well when he wrote, "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back."[2]

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It will come as no surprise to many in the business world that anti-capitalistic ideas have had a dramatic impact in this century. A public sector that imposes more regulations than ever on the private sector and consumes at least five times the share of national income it consumed in 1990 is stark evidence of those ideas.

Another disturbing bit of evidence came from a study a few years ago of network television in America: only 3 percent of business people depicted on television, the Media Institute found, were involved in "socially useful or economically productive" behavior.

The same study reported that more than half of all corporate chiefs on TV committed illegal acts ranging from fraud to murder. And a special PBS program entitled "Hollywood's Favorite Heavy: Businessmen on Prime-Time TV," declared, "By the age of 18, the average kid has seen businessmen on TV attempt over 10,000 murders."

Make no mistake about it, these developments reflect (and even nourish) a body of opinion, a complex of ideas, which at their root are inimical to free markets and private enterprise. They speak volumes about a void in our national economic education. And in a subtle but corrosive way they have been undermining the philosophical and institutional pillars of our free society for decades. "Ideas," Richard Weaver once said, "have consequences."

Because the war of ideas is so important, American business simply cannot afford to be a conscientious objector. If whether you live in a socialized economy or a free one matters to you (and it absolutely does, even if you choose not to think about such things), then failure to commit time and resources to help shape the climate of opinion around you is shortsighted and probably suicidal.

Many business executives may be quick to say, "But I *am* involved in such things. I give money to candidates, and so do the political action committees to which my company contributes." That may be important, but it's also akin to locking the proverbial door after the horse has already left the barn. Politicians usually reflect opinion and seldom generate it; what they can accomplish in office is defined and circumscribed by prevailing majority opinion. If you really want to make a difference and get the maximum bang for your buck, then you should invest in ideas. Change public opinion and the politicians will fall into line accordingly.

Business funding of public policy research (or similar so-called "advocacy" groups) is not new. What comes as a surprise to many people is the fact that a sizeable chunk of those dollars has gone (and still goes) not to "free market" groups but to those of a very different bent. Too many people in business are funding the wrong side.

In a recent edition of *Patterns of Corporate Philanthropy* (published by the highly regarded Capital Research Center in Washington, D.C.), economist James T. Bennett documented what he regards as the sad state of corporate America's support for the very system which forms the foundation of their existence, free enterprise. Bennett says that year after year, the overwhelming share of corporate donations for public affairs research groups went to those of an anti-free enterprise persuasion (61.3 percent, by his calculations).

In his introduction to the first edition of *Patterns*, Robert H. Malott of the FMC Corporation wrote, "Unfortunately, most corporations devote only a very small share of their contributions to public affairs. Worse yet, even these relatively small contributions often reflect a strategy of appeasement. Put more bluntly, many corporations actually reward the groups that most vigorously attack them."

Business support of groups and people who advocate an ever more intrusive role in the economy for government amounts to nothing more than feeding the alligator in the hope that he'll eat you last. As a stockholder, I feel betrayed when I see that happen. As a believer in the much bigger picture, the importance of a free society, I am outraged by it.

American business needs to take a hard

look at where its public affairs dollars are going and ponder the question, "Are we helping to preserve and strengthen private property, free enterprise, and individual initiative, or are we slitting our own economic throats by subsidizing groups that push for more centralized planning and control?"

Anyone in business who suffers from the illusion that ideas are too intangible to matter ought to wake up and smell the coffee. Ideas make all the difference in the world because they create the stage on which all of us perform.

Investing in ideas—the *right* ones, not just *any* ideas—is a long-term investment, but one which has a return every bit as tangible as the purchase of stock. The first priority for each individual business person is the same as that for anyone else who values freedom: educate yourself! Become as effective for freedom in both word and deed as you possibly can. Then, if your material means allow, consider investing in those groups committed to the free market, such as The Foundation for Economic Education. The return on that investment—a stronger, free society—is the one yield that *won't* raise your tax bill and *will* go a long way to assure that your children live as free and prosperous citizens. □

1. *Histoire d'un Crime, Conclusion: La Chute* (1877). Hugo's original, "On résiste à l'invasion des armées, on ne résiste pas à l'invasion des idées," has been translated and popularly paraphrased as: "More powerful than all the armies in the world is an idea whose time has come."

2. John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (1936), chapter xxiv.

THE FREEMAN
IDEAS ON LIBERTY

The Worker in Contemporary Society

by J. E. Chesher

It is nearly commonplace now for intellectuals to think that we live in the "post-modern" era in which everything is subjected to not only close scrutiny but "deconstruction," revision, interpretation, or some other possible adjustment in understanding. Yet such a reflexive way of thinking is nothing new. Philosophers have always engaged in it. With the voices of intellectuals being more widely and effectively transmitted in our high-tech era, however, the reflexive mode of thought is gaining wider promotion and impact.

One of the benefits that accrue from this assault on the tradition is the discovery of mythology disguised as common knowledge or intellectually supported doctrine. An example of this, directly relevant to our concerns in this essay, relates to the idea of the worker in modern society. The commonly received view, as evidenced by an examination of how the worker is depicted in the media, in public entertainment, and indeed, in philosophy itself, has the worker as a victim of powerful, sinister forces variously identified as corporations, or employers, or capitalists, or business, or the military industrial complex—forces that conspire to exploit, enslave, and thereby diminish the worth of those who labor for a living. Deprived of the power that comes from owning the means of production, the worker is at the mercy of the owners, the capitalists. Short of uniting and eventually seizing the means of production, or threatening stoppage of production through strikes or other collective action, the worker is doomed to remain a victim, slave to the desires of the capitalists.

This model, the reigning but aging paradigm, is clearly adversarial and pessimistic: the worker is inherently disadvantaged, at odds with the owner/capitalist, and bound to suffer injustice and hardship until he joins forces with other workers, prepared to enter into mortal combat. According to this view, the cause of worker suffering is capitalism itself, commerce in a free society. There is, of course, historical documentation of worker abuse, child labor, and hazardous working conditions that is consistent with this view, but several points are worth making.

1) As long as one human being has power over another, the possibility of abuse exists, but this is a feature of human weakness, not of free commerce as such. We ought not blame capitalism for worker exploitation any more than we should blame parenthood for abuse of children.

2) At least some portion of the plight of the worker, especially in the first hundred years or so of the industrial revolution, was due to the ignorance and crudeness that accompany the early stages of any develop-

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mental process, and not to the vicious motives of the owners of production. In retrospect, and, given the knowledge, sensibilities, and expectations that we now have as a result of experience and social-political growth, the working conditions of the early industrial worker are beyond belief, and are certainly unacceptable by today's standards. However, to assume, as the popular model does, that conditions would have been radically better had workers owned the means of production is highly speculative. Nor is it borne out by the experience of workers in Communist countries since 1917, in contrast with the lives of workers in capitalist societies.

3) The unprecedented progress in technology in the present century, resulting in an enormous increase in distributable goods, has made possible the extension of material goods to working people undreamed of in previous centuries. Pressure to distribute those goods equitably has increased in direct proportion to their production. There are, today, many workers in industrial nations whose quality of life matches that of the privileged few at the beginning of the modern era.

4) Regardless of the causes of worker plight in the early and middle stages of industrial development, there is nothing in principle adversarial in capitalism: the worker is not necessarily and always at cross purposes with management; a free market is not necessarily an arena where workers must lose. Indeed, in response to felt needs, workers have, both collectively and individually, found means of securing higher wages and safer, more desirable working conditions for themselves, from forming labor unions, to convincing employers of the cost-beneficial advantages of higher wages and improved working environments. All of this is consistent with the idea of capitalism, not contrary to it, as the popular model would have it.

5) Regardless of the early history of industrialism and capitalism, the world of industry and commerce today so little resembles its crude beginnings that a fresh look is in order, especially if we wish to understand what it is to be a worker in the post-modern era. The traditional model of the downtrodden masses is an anachronism when applied to societies of developed nations.

In attempting to understand what it is to be a worker as we approach the twenty-first century, I will be making some very fundamental assumptions about human beings, assumptions which I believe are supported by common sense, though perhaps not shared by all intellectuals. It is in terms of this view of human beings that I think we can make sense of the worker, of his concerns, of what he ought to do and expect in an ever-changing, increasingly complex, technology-intensive society. The assumptions are these: the worker is a human being who is by nature motivated to seek his own happiness, is sufficiently capable of recognizing obstacles and opportunities to happiness so as to act in the direction of happiness, and realizes that securing happiness is at least in some measure dependent upon his efforts. He knows, in addition, that success in life (i.e., securing a reasonably happy existence), requires his paying attention to the world, especially those aspects that are likely to affect his chances of success. He also acknowledges that other human beings are, in general, like him in these ways. In short, a worker is a rational, self-interested person in a world of other rational, self-interested persons, aware that reality calls upon them to live intelligently in order to achieve a good life. Of course, this is a very general description, applicable to all human beings in every era, in every place. It is also description at a very fundamental level: the truth or error of this description has profound implications for how we are to understand everything else about human life and human society. Given these assumptions, what can be said about the worker in contemporary society?

The Effects of the Global Economy

Perhaps the most significant relevant feature of contemporary life is the emerging global economy: national alliances based on mutually beneficial economic interests; foreign trade relations impacting on nearly every aspect of domestic economies; opportunities as well as competitive challenges from abroad in cheaper labor, natural resources, consumer markets, innovations in production, management, distribution of goods and services. The effects of the global economy on the worker are more dramatic and far-reaching than any other development in human history since the Industrial Revolution. Indeed, the very concept of "worker" is undergoing change, as the demand for more skilled labor and white-collar workers increases, and as technology introduces more efficient tools for the production and distribution of goods and services.

The global economy, hastened by the collapse of Communism and the parallel spread of democracy and free-market commerce, has significant implications for workers in developed nations. The available, abundant, and growing supply of unskilled workers in developing nations will increasingly compete with and eventually make obsolete, unskilled labor in the developed nations, just as industrialism over the past two hundred years has replaced human toil with machines in so many areas of life. In the developed nations, demand for skilled labor will increase, opening up opportunities for employment in expanding service, information, and entertainment industries, to name a few.

A worker about to enter the market would do well to consider what skills are likely to be in demand, and to acquire such skills as would be consistent with her aptitude, interests, and special circumstances. This might require educating oneself as to the market demands, seeking employment/career counseling, and embarking upon a course of action such as a training program, vocational school, apprenticeship, or college. Put simply, it would be prudent of a young adult about to enter the labor force, to consider economic realities, to learn of the opportunities available, and move in the direction of those opportunities.

In contrast with workers of the past, a contemporary worker should not expect to work for one and the same employer/company/industry from graduation to retirement, nor should she expect her present knowledge and skills to be marketable for a lifetime. (Consider, for example, the challenges and changes awaiting a young auto mechanic or audio-visual repairman entering the work force in 1960 and expecting to work in that field for the next 35 years!)

Workers already employed would be wise to determine the extent to which the forces of change are likely to threaten or otherwise alter their jobs. If, for example, they are in a low-skilled, labor-intensive industry, competition from abroad will be an increasing reality. It would be wise to consider retraining, education, acquiring skills that will be in demand. All of this, admittedly, goes against the demand for "job security" which in recent years has become quite pronounced, especially among members of unions and others who lobby for protective legislation.

Job Security

Job security is a contemporary economic myth worth exploding. In a free market, a job is "secure" only to the extent that there is a demand for it—that is, to the extent that there are customers willing to pay for the product or service that makes the job possible at all. Thus, to demand job security is tantamount to demanding a "guarantee" that there be customers. This would require state-mandated, coercive measures creating, in effect, involuntary servitude, a condition that exists under socialist planned economies where the state, rather than freely choosing individuals, makes economic decisions. To the extent that one person's job is "made" secure, someone else's job or freedom or opportunity to pursue one will thereby be threatened. To expect "job security," either from membership in a union, or from protective legislation, is therefore not only unrealistic, but attempts to bring it about would shift the burden of responsibility for one's life from oneself to others, and would deprive individuals of the right to make choices for themselves in precisely those areas where their welfare is at stake. Much of what goes under the name of (special) "worker's rights" as distinct from basic human rights such as the right to liberty and property, is of this nature: ultimately contrary to a free society and to the best interests of workers themselves.

A rapidly changing democratic and capitalistic world favors workers who are flexible, trainable, and adaptable. It also promises growing opportunities for creative and industrious individuals. With more people working as subcontractors, or by piece, the more familiar, traditional image of worker as wage-laborer struggling in assembly-line factories under the fierce command of greedy capitalists is all but obsolete in developed nations. In order to avoid the extra-labor expense and other burdens of having employees, many companies are sub-contracting their work to individuals, who then are effectively self-employed and who could, conceivably, enter into agreements, or joint ventures, with other workers.

For example, one company, a manufacturer of fishing tackle, has workers throughout the country assembling lures, spinners, floaters, and small jigs in their homes. Materials are sent to the workers, who assemble them at their own pace, according to their own schedules, then return the completed products by mail and are paid a set fee per certain quantity. The worker establishes his own hours, provides his own workplace, and produces according to personally set quotas, needs, and demands, rather than those of an employer. The worker may even enlist the aid of friends or family. He does not have to punch a time card, account for his every move, or go through some bureaucratic ritual to take an afternoon off or get permission to experiment with a new way to do the work. The "employer," in turn, enjoys the benefit of a nearly endless labor pool, does not have to provide an assembly plant, or pay workers' compensation insurance and fringe-benefits. This is a mutually beneficial arrangement, one that will replace, in many instances, the traditional assembly-line-factory model of mass production employment. Such an arrangement, in contrast with the old model, has less of the adversarial, "master-slave" features.

Flexibility for Workers

The new model allows the worker to work for more than one employer at a time if she chooses. It does not impose, from the top down, restrictions and regulations concerning working hours, environmental impact, and safety. Additionally, there is less government involvement, since there is no workplace, no shop, no factory for OSHA to regulate, no labor practices for the Labor Department to enforce, no need for a worker compensation bureaucracy, or the permits, licenses, warnings, affidavits, bonds, deposits, employee records, and various other documents that in-house employment requires. And yet, this is still a worker doing labor; this is still a business owner or a corporation seeking profit: in short, this is still capitalism in operation.

At the high-tech end, as the telecommunications industry expands, and as personal computers, fax-machines, and other information-processing and transmitting devices become common household items, a significant portion of office work now being conducted in commercial buildings, will be performed at home—and in increasing numbers, by workers who will likely be self-employed, hiring out their skills and equipment to companies who will no longer need to lease office space for this work. (These buildings can be converted into apartments, or refitted for other uses; traffic congestion will be eased; air quality will improve and countless other benefits will follow.) And yet, this is still a worker doing labor; this is still a business owner or a corporation seeking profit, still capitalism in operation. As the kind of work, and the conditions of employment change, so too will the relationship between employer and employee and among co-workers. Just as businesses are entering into international alliances, so too might workers unite through computer networks to exchange ideas and techniques, discuss problems, seek solutions, and form organizations that can help them market their skills and negotiate with prospective employers.

Historically, we have seen a variously progressing evolution in the improvement of life generally, and the conditions of workers specifically, over the past few centuries, certainly since the beginning of "modern" times. Some of this is due, no doubt, to the increasing replacement of human toil with machines, with the growth in productivity due to industrialization, mass production, the division of labor, and the general increase in wealth that has resulted from the expansion of commerce.

When one compares the life, the working conditions, and the prospects for alternatives available to workers in developed nations to that of workers in underdeveloped nations, the progress that commerce makes possible—for workers as well as owners—is dramatically evident. Clearly, that there were downtrodden masses at the beginning of the modern era is not in the nature of a business society, but is owing to other factors. The further we are from those beginnings, the more evident this becomes. In the developed nations, the world is catching up. The ideals of the humanistic tradition: respect for persons as persons, protection of individual rights, in short, personal sovereignty, self-determination, and human dignity, have taken hundreds of years to reach the present point, with considerable distance to go. But progress has been made, due, in large part, to the spread of democracy and the growth of commerce, especially in the last half of the present century. Workers themselves, through organized labor, increased productivity, and political action, have contributed to the growth of democracy and commerce, and thus to their own well-being. But there are limits beyond which one ought not go, even in the name of security or protection, if one is to live in a free society and remain autonomous.

Workers ought to recognize that there can be no free society without economic freedom, without free markets. It must also be recognized that human beings, the vast majority of whom are workers, are better off in a free society—have more opportunities and alternatives. Thus, it is in the best interest of workers to champion actions, institutions, and attitudes that promote freedom. With freedom comes risk, and so a worker in a free society ought to prepare for risk. If he expects others to protect him from accidents, job loss, medical costs, and old age then he must relinquish sovereignty to those who will assume the responsibility. But this is the same as relinquishing his freedom. One cannot have it both ways. Freedom means risk. Besides, to give up freedom for economic security is futile as well as foolish, since security is impossible. This does not mean that risks cannot be reduced or guarded against. There are all manner of arrangements, from insurance, to safety training, to education, to negotiated terms of employment, to a variety of worker organizations that can provide workers with protection.

At the beginning of the Industrial Revolution, there was widespread worry that machines would put human beings out of work. The very opposite has happened. As we approach the twenty-first century, global expansion of commerce, combined with advancing technology, will provide increasing opportunities especially for creative, skilled, and ambitious workers. Certainly, some industries will disappear, spheres of power and influence will shift, segments of populations will be displaced, some communities will wither. All of this is inevitable in human life. The world is entering a period of unprecedented growth, which means loss and displacement, as well as progress and opportunities. More than ever before, human beings will be called upon to be attentive, thoughtful, and responsive to matters which affect their welfare. The particulars of how this ought to be done will vary with context, but the general recipe for a successful life remains unchanged and continues to hold promise in direct proportion as societies are free. □

THE FREEMAN
IDEAS ON LIBERTY

THE ETHICS OF AFFIRMATIVE ACTION

by Steven Yates

Affirmative action has troubled the American political landscape for over three decades. Sooner or later, every ethicist must confront the dilemmas it and a variety of closely related policies—multicultural education, diversity management, sensitivity training sessions—pose. The dilemmas themselves indeed seem acute. It is true, for example, that U.S. history reveals poor treatment of this country's minorities and its powerless. Native Americans were taken from their lands and forcibly relocated. Decades of enforced discrimination left blacks well behind whites politically and socioeconomically. Women were denied the right to vote for years.

The 1950s saw the start of an extensive effort to repudiate discrimination and bring about equal opportunity. Then something went wrong. The struggle for genuine equal opportunity was lost amidst the growing clamor by an ever-increasing number of groups for special government favors. Equal opportunity laws, which initially rejected preferential policies, were replaced by affirmative action programs which could not be implemented without them.

Backers of affirmative action argued that blacks and other victims of past discrimination were so far behind in the economic race that without preferential treatment, equal opportunity would never be more than a high-sounding phrase. Thus race-conscious policies emerged with a vengeance. Employers had to keep voluminous records on the race, gender, ethnic heritage, and religious background of prospective employees so they could prove they had not discriminated against those designated by the government as victims. Government agencies expanded their reach to oversee implementation. Those found not in compliance, even innocently, sometimes saw their businesses imperiled.[1]

White males started chafing at reverse discrimination right away. Well-known cases such as *Bakke* and *Weber* resolved little, though, and future litigation seems inevitable. Meanwhile, special programs of all varieties not only failed to help the vast majority of those in targeted groups but left them worse off than before; the primary beneficiaries of affirmative action, after all, have not been the economically disadvantaged blacks and Native Americans, but middle- and upper-class women. The welfare state, another legacy of the 1960s, has now produced second- and third-generation dependents with no marketable skills and no incentive to acquire them. Victimology has become the country's largest growth industry—after government, of course.[2]

The affirmative action umbrella now

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covers roughly two thirds of the country's population, with the disabled and homosexuals the most recent entrants. Tensions between groups are at an all-time high, with skirmishes occurring constantly. The prevailing philosophy of multiculturalism which now underwrites much discussion of race, ethnicity, and gender has fueled division by emphasizing differences between groups.

What ought to concern the ethicist is the prevailing response to these problems. Instead of serious soul-searching and reexamination, an ambience of disinformation, concealment, and, when needed, outright dishonesty, has protected affirmative action and its kin for years. Begin with language. *Equal opportunity* clearly does not mean equal opportunity but preferences for some at the expense of others. Newspeak surrounds preferential policies with terms like *inclusion*, *celebrating diversity*, and *sensitivity*. Claims that affirmative action has sometimes forced businesses and entire industries to set quotas and hire by race and gender meet with belligerent denial, along with insinuations that only racists and sexists would make such charges. This tactic serves a very specific purpose: many white males, even those in positions of authority, will not question affirmative action for fear of being labeled racists. Finally, today's "sensitivity training" seems intended to inculcate in the white male who is turned down for a job or a promotion in favor of a less qualified woman or minority that, as a member of the oppressor group, he had it coming!

If affirmative action had been the boon to women and minorities its advocates claim, I doubt there would be much debate. Its benefits would be evident to everyone. What do we see instead? We see growing populations of minorities who lack the basic skills necessary for economic advancement, and are actually slipping backward. We see an educational system which seems powerless to do anything, and rationalizes its own failings with doctrines which make achievement as well as experience a group-specific notion. In the view multiculturalists espouse, schools should give minority groups "self-esteem" instead of knowledge and marketable skills. Sometimes this means rewriting their histories to invent "achievements." Afrocentrism is the best example, with its claims that the Egyptians were black, that the Greeks stole their culture from Africa (the real origin of civilization), and that two thousand years of racism has suppressed the truth.[3] Radical feminism, the noisy stepchild of affirmative action for women, is also shot through with bizarre claims about sex and rape, our pornography-driven culture, and the universal victimization of women by "patriarchal society." The war against "sexual harassment" has created a climate in which men are guilty if charged.[4]

Clearly we are on a downward spiral. Writers all across the political spectrum have observed that this balkanizing trend threatens not only basic Constitutional rights (such as First Amendment free speech protections) but the very fabric of representative democracy. Is there a better way? I think so. It's called the free market.

If transactions are voluntary and not coerced, businesses and other organizations will be free to hire according to their needs. This right will be *recognized* and *protected* by government. If personal responsibility is a central value, employers will *not* simply indulge base prejudicies or personal whims. Rather, business necessity—the necessity to remain as competitive as possible—will require employers to "cast their nets as widely as possible" and attempt to hire the best employees. A free market will ensure that information is available where qualified members of minority groups who are alert and seeking new opportunities will see it. In this sense, what has sometimes been called "weak" affirmative action will be permitted to continue on a *voluntary basis* among those who wish to continue it. As a voluntary enterprise, it may take a variety of forms which have the potential to address and solve the problems that coercive, government-driven affirmative action has been unable to touch, and without creating the dilemmas and rifts that coercive affirmative action has created.[5] Moreover, under conditions of genuine liberty, minorities will be freed from many constraints which have held them back: high taxes, licensure laws, zoning ordinances, etc.[6]

A question is in order. Given the freedom to do otherwise, will businesses and other institutions actually reach out to minorities? The mistrust evident in the question is actually misplaced. A recent study has shown that bigotry and prejudice are no longer considered acceptable to a majority of educated people.[7] *Education* has been and will continue to be the key. We should emphasize that racism is unfair to individuals whether directed by whites against blacks, or by blacks against whites. It is, in fact, a form of collectivism, and embodies its defects and follies in a particularly virulent form. Our tradition of individualism got rid of slavery. This tradition is still our best hope of keeping racism at bay.

At present, though, *coercion*, not *education*, is the norm. The proportioning of peoples by force is driving them apart rather than bringing them together. A new separation is loose in our society, fueled by the multiculturalist emphasis on how peoples differ instead of what they have in common.

Members of minority groups (and women) must be willing to question the dominant tendencies in what passes for education today. They need especially to question the collectivism and relativism inherent in multiculturalism, and affirm the values of liberty, responsibility, achievement, and toleration as values which hold universally, independently of race and gender. Then they will be motivated to obtain the skills they need to be employable, or to become entrepreneurs. This need not mean giving up a cultural or ethnic heritage but rather making an effort to preserve it in ways that don't undermine their capacity to prosper in a free society.

To sum up, government programs can never allocate skills where they are most needed. Lest the whole concept of "voluntary affirmative action" seem to place too much trust in human goodness, it is important to remember that government is the institution most responsible for the conditions minorities face. Slavery had foes as far back as the Revolutionary War, but continued under the support of government. Government instituted Jim Crow laws and involuntary segregation. Then, in our century, it passed minimum wage and licensure laws which effectively priced blacks out of the marketplace and created impassable barriers to their entry into many professions. Coercive preferential programs amount to government efforts to solve problems the government created in the first place—rather like using gasoline in an attempt to put out a fire.

For peaceful affirmative action to replace coercive affirmative action, though, criticisms by white males such as myself probably won't be enough. Women and minorities themselves must recognize that efforts by government to "help" them have proven futile. This means repudiating much of their current leadership. Fortunately, we have already seen the beginnings of such a trend in the writings of such black intellectuals as Thomas Sowell, Walter Williams, and Glenn Loury.[8] If the facts presented here and in countless other places can be shouted from the rooftops long enough, there may yet be hope for general economic advancement and intergroup peace in America. □

1. Consider, for example, what happened to the tiny Daniel Lamp Company in Chicago. In 1989 the EEOC filed suit against Daniel Lamp and forced its owner, entrepreneur Mike Welbel, to pay over $130,000 to compensate alleged victims of racial discrimination in which the only evidence was the absence of an officially approved statistical ratio. See my *Civil Wrongs*, chapter 1, for details.

2. See Charles J. Sykes, *A Nation of Victims* (New York: St. Martin's Press, 1992).

3. See for example Martin Bernal, *Black Athena* (New Brunswick, N.J.: Rutgers University Press, 1991).

4. For the latest account see Richard Bernstein, "Guilty If Charged," *New York Review of Books*, January 13, 1994, pp. 11–14.

5. Cf. Richard A. Epstein, *Forbidden Grounds: The Case Against Employment Discrimination Laws* (Cambridge: Harvard University Press, 1992).

6. For the best available account of these restrictions see Walter Williams, *The State Against Blacks* (New York: McGraw-Hill, 1982). Cf. also S. David Young, *The Rule of Experts* (Washington: The Cato Institute, 1987), ch. 12, for the effects of licensure on minorities and the poor.

7. For some statistics on white attitudes toward blacks see Paul M. Sniderman and Thomas Piazza *The Scar of Race* (Cambridge: Belknap Press of Harvard University Press, 1993).

8. For a good recent survey of "the new black vanguard" see Joseph G. Conti and Brad Stetson, *Challenging the Civil Rights Establishment: Profiles of a New Black Vanguard* (Westport, Conn.: Praeger Books, 1993).

THE FREEMAN
IDEAS ON LIBERTY

The Parable of the Talents: The Bible and Entrepreneurs

by Robert A. Sirico

The parables of Jesus teach eternal truths, but they also offer surprising practical lessons for worldly affairs. In the Gospel According to St. Matthew (chapter 25, verses 14–30) we find Jesus' Parable of the Talents. As with all the biblical parables, it has many layers of meaning. Its essence relates to how we are to use God's gift of grace. As regards the material world, it is a story about capital, investment, entrepreneurship, and the proper use of scarce economic resources. It is a direct rebuttal to those who see a contradiction between business success and living the Christian life.

A rich man who was going on a long journey called his three servants together. He told them they would be caretakers of his property while he was gone. The master had carefully assessed the natural abilities of each servant. He gave five talents to one servant, two to another, and one to the third—to each according to his ability. The master then left on his journey.

The servants went forth into a world open to enterprise and investment. The servant who had received five talents went into business and made five more. The servant who received two made two more. But the servant who received one hid the master's property in a hole in the ground.

The master returned to settle his accounts. The servant who had received five talents came forth. "My lord," he said, "you entrusted me with five talents; see, I have made five more!"

"Well done, good and faithful servant!" the master responded. "You have been faithful over a little, I will set you over much. Enter into the joy of your lord!"

Then the servant who had been given two talents approached the master. "My lord," he said, "you entrusted me with two talents; see, I have made two talents more!" The master praised the servant in a like manner.

Then the one who had been given one talent approached his master. "My lord," he said, "I knew you to be a hard man; you reap where you have not sown, and gather where you have not scattered; and being afraid I went and hid your talent in the ground. See, you have what is yours!"

The master's response was swift and harsh: "You wicked and indolent slave!

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You were aware that I reap where I have not sown, and gather where I have not scattered; you ought for that reason to have invested my money with the bankers; then, on my return, I should have received my own with interest."

The master ordered that the talent be taken away from the lazy servant and given to the one with the ten talents. "For to every one who possesses not," said the master, "even that which he has shall be taken away. Cast that useless slave into the outer darkness; there shall be weeping and the grinding of teeth!"

This is not a story we often hear from the pulpit. Our times still exalt a socialist ethic where making a profit is suspect, and entrepreneurship is frowned upon. Yet the story relays a readily apparent ethical meaning, and even deeper lessons for understanding human accountability in economic life.

A Closer Look

The word "talent" in this parable has two meanings. It is a monetary unit: it was the largest denomination of the time. Biblical scholar John R. Donovan, S.J., tells us a single talent was equivalent to the wage of an ordinary worker for fifteen years. So we know the amount given to each servant was considerable.

More broadly interpreted, the talents refer to all of the various gifts God has given us for our use. This definition embraces all gifts—natural, spiritual, and material. It includes our natural abilities and resources—our health, education—as well as our possessions, money, and opportunities.

One of the simplest lessons from this parable is that it is not immoral to profit from our resources, wit, and labor. The alternative to profit is loss, and surely the loss of wealth, especially when due to a lack of initiative, does not constitute good stewardship.

St. Matthew's parable presupposes a local understanding of the proper stewardship of money. According to rabbinical law, burying was regarded as the best security against theft. If a person entrusted with money buried it as soon as he had it in his possession, he would be free from liability if anything should happen to it. The opposite was true for money that was tied in a cloth. In this case, the person was responsible for covering any loss incurred due to the inadequate care of the deposit.

Yet in this story, the master turned this understanding on its head. He considered burying the talent—and thus breaking even—to be a loss, because he thought that capital ought to earn a reasonable rate of return. In this understanding, time is money (or interest).

The parable also contains a critical lesson about how we are to use our God-given capacities and resources. In the book of Genesis God gave Adam the Earth with which to mix his labor for his own use. In the parable, in a similar manner, the master expected his servants to seek material gain. Rather than passively preserve what they have been given, they were expected to invest the money. The master was angered at the timidity of the servant who had received the one talent. God commands us to use our talents towards productive ends. The parable emphasizes the need for work and creativity as opposed to idleness.

The Quest for Security

Throughout history, people have tried to construct institutions to provide perfect security, as the failed servant did. Such efforts range from the Greco-Roman welfare states, to full-scale Soviet totalitarianism, to the Luddite communes of the 1960s. From time to time, these efforts have been embraced as Christian solutions to future insecurities. Yet in the Parable of the Talents, courage in the face of an unknown future is rewarded in the first servant, who has been given the most. He had traded the five talents, and in doing so, acquired five more. It would have been safer for the servant to have invested the money in the bank to receive interest. For his faith in his master he is allowed to keep what had been entrusted to him and what he earned, and he is invited to rejoice with the master.

This implies a moral obligation to confront uncertainty in an enterprising way. No one does this better than the entrepreneur. Long before he knows if there will be a return on his investments or ideas, he risks his time and property. He must pay out wages long before he has any idea if he has accurately predicted future events. He looks to the future with courage and a sense of opportunity. In creating new enterprises he opens up alternatives for workers to choose among in earning a wage and developing skills.

Why, then, are entrepreneurs so often castigated as poor servants of God? Many religious leaders speak and act as if the businessman's use of his natural talents and resources to turn a profit is immoral, a notion that should be cast aside in light of the Parable of the Talents. The lazy servant could have avoided his dismal fate by being more entrepreneurial. If he had made an effort to trade with his master's money and came back with less than a talent, he would not have been treated so harshly, for he would have labored on behalf of his master.

Entrepreneurship and Greed

Religion must begin to recognize entrepreneurship for what it is—a vocation. The ability to succeed in business, stock trading, or investment banking is a talent. Like other gifts, it should not be squandered, but used to its fullest for the glory of God. Critics link capitalism with greed, yet the fundamental nature of the entrepreneurial vocation is to focus on the needs of customers. To succeed, the entrepreneur must serve others.

Greed is a spiritual hazard that threatens us all, regardless of our wealth or vocation. The term has a proportional element, meaning there is an *excessive* or *insatiable* desire for material gain, regardless of financial status. The desire is excessive when, in the depths of a person's being, it outweighs moral and spiritual concerns. This parable makes very clear that wealth as such is not unjust—for the first servant received more than the second and third. And when turning a profit is the goal of using the entrepreneurial talent, it is not greed. It is the proper use of the gift.

In addition to condemning profit, religious leaders often favor varieties of social leveling and redistribution of income. Universal health care, greater social welfare spending, and higher taxes on the rich are all promoted in the name of Christian ethics. The ultimate goal of such constructs is equality, as if the inequalities that exist among people are somehow inherently unjust. Yet this is not how Jesus tells it in the Parable of the Talents. The master entrusted to each of his servants talents according to his ability. One received five, while another received only one. The one who received the least does not receive sympathy from the master for his lack of resources in comparison to what his colleagues have been given.

We can infer from this parable, that the leveling of money or the reallocation of resources is not a proper moral concern. The individual talents and raw materials that each of us has are not inherently unjust; there will always be rampant inequalities among people. A moral system is one which recognizes this and allows each person to use his or her talents to the fullest. We all have the responsibility to employ the faculties with which we have been endowed.

We can also apply the lesson of this parable to our nation's social policy. In our existing system, the labor of workers is taxed to provide support for many who do not work. We often hear that there are "no jobs" for many of our poor. Yet there is always work to be done. A man with two working hands can find work for a dollar an hour. He makes a decision not to work. Moreover, our welfare system discourages work. It creates the perverse incentive to go on welfare unless there is a job that will pay at least as much as government relief. God commands all people to use the talents they have been given, yet in the name of charity our welfare system encourages people to let their natural skills atrophy, or keeps them from discovering their talents at all.

We encourage sin this way. The Parable of the Talents implies that inactivity—or wasting entrepreneurial talent—incites the wrath of God. After all, the lowly servant had not squandered his lord's money; he just hid it in the ground, something that was permissible in rabbinical law. The rapidity of the master's reaction is surprising. He calls him "wicked and slothful" and banishes him forever. Apparently it is not just the servant's sloth that brings such wrath on his head. He has also shown no contrition, and has blamed the master for his timidity. His excuse for not investing the money is that he viewed the master as a hard and exacting man, though he had been given generous resources. Bible scholar John Meir comments, "Out of fear of failure, he has refused to even try to succeed."

This parable also tells us something about macroeconomics. The master went on his journey leaving behind a total of eight talents; upon his return it has become fifteen. The parable is not the story of a zero-sum gain. One person's gain is not another's expense. The successful trading of the first servant does not hinder the prospects for the third servant. So it is true in the economy of today. Unlike what is so often preached from the pulpit, the success of the rich does not come at the expense of the poor.

If by becoming rich the most successful servant had hurt others, the master would not have praised him. A wise use of resources in investment and saving at interest is not only right from the individual point of view; it helps others in the economy as well. A rising tide lifts all boats, as John Kennedy used to say. Similarly, the wealth of the developed world is not on the backs of developing nations. The Parable of the Talents implies a free and open economy.

Often left-leaning Christians will cite Jesus' words: "How hard it is to enter the Kingdom of God. It is easier for a camel to pass through the needle's eye than for a rich man to enter the Kingdom of God." His disciples were taken aback at this, and wondered then who could be saved. Jesus answers their fears, "For man it is impossible, but not for God." This does not mean that our material success will keep us from heaven, yet it does imply the necessity to order our lives properly before all our material concerns. Our concern for God must come just as the servants thought of their master's interest as they pursued profit. It remains true that for all of our worldly goods and deeds, we rely completely on God to attain salvation.

But for the conduct of economics, we rely heavily on entrepreneurship, investment, risk taking, and the expansion of wealth and prosperity. We should lend a critical eye to the way our culture treats enterprise. Business magazines carry stories of business success all the time. The hero is often the forward-looking, courageous, and cheerful entrepreneur, who is much like the capable servant given five talents. Yet at the same time popular religious faith continues to extol and promote behavior endemic to the idle servant who was banished by the master.

Christianity is often blamed for the failed socialist projects the world over. And in many cases misguided Christians have been involved in building socialist constructs. The lesson of the Parable of the Talents needs to be better understood. The socialist dream is not a moral one. It simply institutionalizes the condemned behavior of the lesser servant. Where God commands creative action, socialism encourages laziness. Where He demands faith and hope in the future, socialism promises a base form of security. Where the Parable of the Talents implies the morality of freedom to trade, invest, and profit, socialism denies it.

All people of faith need to work to close the chasm that exists between religion and economic understanding. Jesus' parable is a good place to begin to incorporate the morality of enterprise and the free market into Christian ethics. □

THE FREEMAN
IDEAS ON LIBERTY

SWEET SPECULATION

by John Ahrens

A recent trip to Russia produced one of those rare, small epiphanies that makes the observation of human nature so endlessly fascinating. I had taken along a large bag of Snickers candy bars with which to appease the children of my various hosts. But these treats proved to be extremely popular with adults. They were consumed soon after dinner on my first night in Moscow, amidst repeated exclamations about how "fresh!" they were. It was explained to me that Snickers are hot commodities for Moscow speculators—they hold them for six months or so and then sell them for many times the original purchase price. This is by no means the strangest feature of the post-Communist economy that is emerging in Russia. (Counterfeit cigarettes—cheap, Russian-made cigarettes packaged in recycled Marlboro boxes—are pretty odd.) Indeed, it does not seem strange at all when it is viewed in its context. Markets are springing up in the ruins of Communism like weeds in the ruins of an abandoned building. That this is so should come as no surprise to anyone. And this, in itself, is revealing.

When the opportunity presents itself, people *will* make a buck. What is remarkable is how frequently the opportunity presents itself. The case of the Russian entrepreneur who speculates in Snickers is not unlike that of the American entrepreneur who speculates in agricultural commodities. When a commodities broker buys a farmer's wheat at a fixed price per bushel before the wheat is even planted, he is speculating (i.e., taking a risk) that the wheat will actually sell for a higher price at harvest time. The farmer, on the other hand, trades the *possibility* of a higher price (and the risk of a lower one) for certainty and security. When a Russian entrepreneur holds a shipment of Snickers for six months, he is also speculating that the price will go up. The supplier who sold him the Snickers is trading risk for certainty and, perhaps, the steady cash flow he needs to continue to import goods. And as long as some people prefer the certainty of less money now to the possibility of more money later—because they prefer security to risk, or because they need a steady cash flow, or for some other reason still—any market, even a "black" market, will provide numerous opportunities for such speculation.

The chaotic, hyperinflationary Russian economy has produced a substantial number of speculators in the brief period since the collapse of Communism—speculators in real estate, consumer goods, currency—and it has made many of them quite wealthy, at least by local standards. The response of the Russian populace to this phenomenon mirrors the response of Americans to successful speculators in our own economy. Financial speculators who reap enormous profits from correctly anticipating market fluctuations are not generally respected in the United States; they are commonly thought to be unproductive parasites, and probably criminals as well. In a like manner, Russians

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commonly lump together all successful members of the emerging business class—whether they be drug dealers or currency speculators or real estate speculators or importers dealing in consumer goods— and characterize them as "mafia." And, like Americans, they resent the disproportionate economic and political influence, and the relatively high standard of living, that accrue to successful speculation.

Of course, some speculators *are* criminals, and it is quite natural to resent those who live well off ill-gotten gains. Indeed, it is a natural, though not very laudable, tendency of human beings to resent anyone who has whatever one does not. And the results of speculation are not always entirely congruent with the preferences of consumers: Russians would like their Snickers to be fresher (and they would like to be able to buy less profitable items like needles and thread). Everyone would like to buy their food at lower prices. Americans would like to see less of the instability in large companies and financial institutions that results from unsuccessful or especially predatory speculation. These are understandable sources of resentment, even if they are not entirely rational. But I think there is something more at work here.

It is worth noting that people are generally quite resistant to the argument that speculators make an important contribution to the market—that there might be less food, no Snickers, a lower level of economic activity in general without the activities of speculators. That speculators can profit from taking risks, providing capital, improving efficiency, and so forth, is more likely to be seen as a defect in the market than a virtue of speculators. What is at work here is an idea that has been in place at least since the medieval injunction against usury.

Thomas Aquinas, along with other medieval philosophers and theologians, argued that lending money at interest is morally repugnant because "this is to sell what does not exist, and this evidently leads to inequality which is contrary to justice." (*Summa Theologica* II-II, Question 78) The speculator, like the usurer, traffics in what does not exist, at least not yet. The speculator does not grow any food or import any Snickers. From one perspective, it seems that the speculator produces nothing, but profits from the productive activities of others. From another perspective, however, one might say that what the speculator produces is the market itself (or, at any rate, that the speculator facilitates the exchanges that constitute the market). From either perspective, speculation appears to be a very pure form of capitalist practice, and thus speculation is a magnet for any resentment that capitalism engenders.

But it seems clear that this resentment is misplaced. Adam Smith's original defense of the market economy provides a crucial insight into how to think about the moral dimension of speculation. Although Smith's argument that division of labor and freedom of exchange constitute the most *efficient* mode of economic organization is most often cited by contemporary defenders of capitalism, this is by no means his most fundamental argument. For Smith also argued that the market economy is the only economic system that functions to bring self-interest into harmony with the good of society.

The Virtue of Capitalism

Smith, unlike many other moral theorists, did not construe the common human inclination to pursue one's own self-interest as inherently evil, as something incompatible with the moral life. Rather, he construed self-interest as an essential feature of individual well-being, and also as a force that might be directed toward the public good. The great virtue of capitalism, he argued, is that it accomplishes precisely this: capitalism is nothing more nor less than a framework of laws and institutions which allows people to enrich themselves (i.e., pursue self-interest) only, or at least primarily, by providing goods and services that contribute to the well-being of others. Capitalism transforms the pursuit of self-interest into the pursuit of mutually profitable exchanges with the other members of one's community, i.e., into pursuit of the public good.

Seen in this light, the speculator becomes a kind of economic adventurer, a hero of the capitalist revolution, if you will. The successful speculator is one who, through superior luck, imagination, or intelligence, is able to identify previously unnoticed opportunities for mutually beneficial exchanges. By facilitating these exchanges, the speculator expands the economic horizons of a community in much the same way that more traditional adventurers expand our geographical or intellectual horizons. However, and this is a crucial component of Smith's argument that is often forgotten, this process works only within an appropriate framework of laws and other social institutions. If the laws and institutions of a community reward exchanges which benefit (some of) the participants at the expense of other members of the community, these are the exchanges that speculators will facilitate. If economic laws and institutions reward exchanges that disrupt the economy, we can be sure that the economy will be disrupted. Thus, the task of the political economist is a difficult one—to establish a framework of laws and incentives that accomplishes this harmonization of self-interest with the public good. People *will* speculate. Whether or not this benefits the community depends largely on whether or not society recognizes and seeks to exploit the potential benefits of speculation.

The genius of Adam Smith's defense of the market is his recognition of the complexity of human nature. The natural inclination to pursue one's own self-interest is potentially anti-social, but it is also a potential source of virtually unlimited economic progress. The resentment of speculators that is pervasive in both post-Communist Russia and the contemporary United States is, at least in part, an attempt to simplify human nature by identifying the pursuit of self-interest as something inherently anti-social, and thus as something that must be suppressed in order to create a just and humane society. And this has the seemingly paradoxical implication that post-Communist Russia and the contemporary United States face essentially the same problem. Both must seek to restore faith in the value of individual entrepreneurship—Russia in order to create a market economy and the United States in order to preserve the market economy that we already have.

I am optimistic that Russia will succeed in this task. Despite the resentment of economic success that is pervasive in Russia, most Russians are quite well aware of the benefits of a more or less unfettered market, and quite unwilling to return to the managed economy of the recent past. (Even the reconstituted Communist Party claims that it does not oppose the transition to a market economy but, rather, that it simply wishes to mitigate the dislocations attendant on rapid social change.) I am less optimistic that the United States will preserve a market economy in the face of increasing resentment of successful speculators. Decades of relative economic success have created a political culture that encourages impatience and envy. Americans are no longer willing to trust the "invisible hand" of the market, or to undertake the difficult task of creating a political culture which allows this invisible hand to harmonize self-interest with the public good. Instead, they want to enjoy the benefits of speculation—a responsive and expanding economy—without the costs. □

THE FREEMAN
IDEAS ON LIBERTY

ART AND COMMERCE

by Barbara Dodsworth

Today we are aware of the presence of the arts in our society in a broader way than ever before, and we have commerce to thank for it. Business, in response to the desires of consumers, has created reproductions and adaptations of works of fine art that surround us. Few of us are without at least one or two prints of famous works; images from the history of art grace objects of all kinds, down to the workaday tee shirt. The beautiful photography which illustrates commercial art engenders a sensitivity to images in the ordinary observer.

Artists themselves are less than thankful for the presence of the business community in their lives, believing that commerce is a corrupt and discriminatory agent set on repressing free expression. In fact, it works the other way. It is because of business that artists are free to follow their creative muses in any direction they desire. Commerce and the activities of the business community have fostered a higher standard of living and increased leisure time; in short, an atmosphere conducive to the development of all varieties of visual expression, no matter how bizarre. Ultimately this is of benefit to all creators of art. Artists often confuse an inability to make a living in the mode of their choice with the concept of a concerted attempt to repress artistic expression in general. While it is true that only a tiny minority of "fine artists" can support their families with their craft, many more men and women of talent direct their creative energies into extremely productive and lucrative careers in the commercial arts.

Contrary to what most people may think, it was always this way. Artists have always been part of a service industry, creating objects that were part of the daily environment of everyone. From ancient times onward, art has been considered an essential element of life as opposed to a luxury good. There was formerly less of a division between the commercial application of artistic ability and the "fine arts."

"Fine Art" versus "Commercial Art"

Artists nowadays look down upon those of their ranks who have chosen to work in the commercial arts. This snobbery is ultimately the legacy of the self-promotional efforts of the "divine" Michelangelo, who acted the ultimate prima donna in the creation of his own cult of artist-as-superstar. Somehow artists now think it is a betrayal of one's artistic gifts to use those abilities in the service of the society's needs for the mass application of visual expression. But really this is no different from the fulfillment of a contract specification provided by a patron, just as Pope Julius II hired Michelangelo to decorate his chapel ceiling in a particular way. The result is "fine art" by twentieth-century definitions, but at the time it was hardly different from our modern concept of "commercial art." And one can scarcely

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deny the creative genius of the painter in his application of his talents to the specific project.

One reason that the modern concept of "fine art" vs. "commercial art" has developed is that the marketing systems that disseminate art are different today than in times past. The museum is a relatively recent phenomenon, and even it itself has changed its relationship to the public in the last twenty years. Art which originally was created to occupy positions in private homes, or to decorate temples and churches, has been removed from its intended setting and placed in a display mode, as if on an altar for worship. The motives of the artist in creating the pieces suddenly took on a different cast; the idea of the piece as product executed for patron for a specific place and purpose has been erased, and instead the work is seen as an expression of the personal vision of the artist.

Working artists blame museums and art galleries for their troubles in making a living, claiming that there are discriminatory practices in the showing of works, that juries of shows are corrupt, and that gallery owners and media critics are in each others' pockets. What is less commonly recognized is that the museum and the gallery system are actually responsible for the success of all artists in general, by raising the social standard of artists to the level of professional; this is in sharp contrast to the Renaissance concept of the artist as artisan (rather like our attitude to, say, plumbers today). By popularizing art in the form of prints, books, postcards, and reproductions, the museum and gallery business have fostered a desire on the part of the public to own art, and even to own original works of art. Surely many artists who do prosper do so because of this heightened awareness.

In addition, the promotion of the "blockbuster exhibition," such as the "Treasures of Tutankhamen" at the Metropolitan Museum of Art in New York City several years ago, has helped to nurture an awareness of art on the part of the public. The museum's role in this regard is not unlike that of a medieval cathedral, whose exterior, decorated with images of saints and religious stories, would have provided both entertainment and education for the great mass of illiterate peasantry.

Medieval cathedrals, however, differed from modern museums in that they were financed by the Church. The modern museum is funded by a mixture of corporate and private donations with a liberal helping of state monies. Unlike the medieval churchgoer, who paid his share of the church expenses out of his pocket directly, the museum visitor pays for his enjoyment of the art works voluntarily at the time of his actual visit (in discretionary funds) and involuntarily, in amounts which he cannot control, from money he pays the government in the form of taxes. Thus we are all forced to support the activities of public museums, whether we visit them or not.

Changing Modes of Expression

What further separates us from the past is that the modes of expression in previous eras were different from today, and had different functions. In ancient Egypt, for example, art was used as a statist device to propagate religion and state authority; as a result, the visual expression of the Egyptians remained extraordinarily static, changing very little over the course of three thousand years. In Greece, with the development of the concept of democracy and individual freedom, we see a corresponding emphasis in sculpture on the movement of the human body, and a celebration of its beauty and individuality. Art was certainly used for the decoration of temples and for political propaganda, but for the first time we see the beginnings of the concept of consumerism and art: wealthy men were interested in acquiring unique works of art to delight their eye, to enjoy in their own homes. Thus arose the surprisingly modern concept of the glamorous artist, a man who was kissed by divine genius, blessed with extraordinary creative gifts. However, those gifts were used to execute works of art which were specifically created to please the patron, either made to order by contract, or designed with a specific kind of buyer in mind.

Ancient Greece, like the Italian Renaissance, was an abundantly creative period for the arts. One cannot help speculating as to how the political structure fostered these riches. Both periods were marked by an intense feeling of competition between independent city-states, which naturally gave rise to the desire for each to outdo his neighbor in the ornamentation of public buildings and in the level of aesthetic sophistication on the part of the wealthy collector. By contrast, painting and sculpture produced in the Soviet Union were notable for their lack of experimentation, their unimaginative repetition of acceptable visual norms, their low level of creativity and interest. With the emergence of the independent republics, perhaps we will see a flourishing of the visual arts.

On the other hand, since the economic development of the United States has some unnerving parallels with the economic development of the later Roman empire, perhaps we will go the other way. The later years of the Roman empire were marred by the exorbitant increase in taxes, resulting in the erosion of the tax base and the concomitant economic depression. Art work in this period is notable for its increasingly abstract qualities, its lack of devotion to realism, its poor quality, and its reduced abundance. Typical of the period is the pre-made sarcophagus, decorated completely except for a blank medallion all ready to receive the "personalized" portrait of the purchaser, just like a modern headstone. Sound familiar?

Artists are interested in making a living just like everyone else, and will direct their energies into other fields of activity when they observe that the economic climate is not conducive to the production of their craft. It takes only a couple of generations of decline for art to lose its technical virtuosity and become slack and flaccid; no one can draw if no one is available to teach drawing.

But the artists who do make a living out of art—either in the commercial field or in the fine arts—are able to do so because of the receptivity of the environment to aesthetic pleasure. In the promotion of art works through the use of prints and similar items, museums are only developing a concept first introduced hundreds of years ago.

The Rise of the Mass Market

With the Renaissance and the development of printing techniques art was able to take on a new mass market appeal. For the first time, inexpensive woodcuts and engravings of religious themes were available to the individual buyers to take home and enjoy in private. This trend was a reflection of wider currents in social development; in Italy this took the form of what is loosely called "humanism," a cultural movement which sought to secularize Christ and Mary and in the process popularized art. Thanks to the activities of artists like Luca della Robbia, who invented a process to mass produce inexpensive terracotta casts of sculptures, it was suddenly possible for the members of the merchant classes to own works of art comparable in beauty to the masterpieces commissioned by the wealthy. Albrecht Dürer, in Germany, made himself rich by the sale of his exquisite prints; today he is revered for his lovely paintings, but it was his activities in satisfying the mass market demand for art that made his fortune.

Such objects as prints for the medieval and Renaissance public are finally becoming respectable subjects for study by professional art historians, who are fortunately beginning to move away from restricting themselves to the study of masterworks. It is not recognized frequently enough that these "masterworks" contain only limited creative expression on the part of the artists; such artists were told what to do and how to do it, by the Church or by the specific patron, and were quite circumscribed in their freedom to move beyond those specified limits. By not acknowledging the commercial aspects of what has been regarded as "fine art," a premium has been placed on the creative expression of the individual

ST. JEROME IN HIS CELL BY ALBRECHT DÜRER/DOVER BOOKS

artist, and a condescending attitude toward commercial art has developed.

Occasionally social currents worked to restrict the development of new trends in artistic expression; typically, since the time of the Greeks, the Western world had always sought out the new and exciting as fashionable. Nevertheless, events like the Black Death in 1347 could conspire with social forces to foster an environment antithetical to the experimental; people of the time believed that the disasters of the mid-fourteenth century were a result of divine punishment for the study of the pre-Christian past, causing the retardataire late Gothic movement in art of the second half of the century. It was as if Giotto, with his vision of the classical past, had never existed; and it was nearly eighty years later that painters finally felt free to express their admiration for Roman sculpture, and the Renaissance was born.

But even during the Renaissance those works that we acknowledge to be the creations of pure genius were actually charged with commercial implications and designed with business in mind. Art flourishes most dramatically when it pairs creativity with business acumen; artistic success should be measured not only by the beauty of the work, but by how well it demonstrates a response to the specifics of its creation. □

THE FREEMAN
IDEAS ON LIBERTY

MONEY AND ITS IMAGE PROBLEM

by Daniel Lapin

If there is one political reality to be learned from the past three decades it is that public perception shapes real-life outcomes. A frightening change during this period has been a war on the wealthy conducted in response to the public perception that somehow the rich got that way by stealing from the poor. This perception includes the notion that wealth-producing activities are faintly unseemly and that economic activity causes rather than cures poverty. There is a way to restore the prestige of business success that requires a return to tradition. In order to examine it we must first analyze the nature of money.

Decades before our computer-controlled "virtual laboratories," Einstein created his famous "thought experiments." They allowed him to solve problems for which actual laboratory experiments would have proven too expensive, if not impossible, to conduct. Rather than measuring gravity in an elevator dropping down a three-mile elevator shaft, the great physicist showed that we can just as well, and a lot more safely, analyze the situation from the comfort of our desks.

In the social sciences, too, we can make excellent use of thought experiments. Let us conduct a thought experiment to see if we can understand the origins of our own calendar. The protocol proceeds as follows. We deposit a young boy and girl on an otherwise-deserted tropical island. Taking care that they have enough to eat, we set up concealed surveillance equipment and observe their development.

After a century or two, they will have increased their numbers substantially. By now a full-fledged society, they remain oblivious of any other people or any human history. However, they will certainly notice periodicity in the heavens, eventually developing a calendar. After further centuries of experience, they will most likely discover that the solar year contains 365¼ days, in the same way that prolonged scrutiny of the skies will eventually yield them a lunar month of about 30 days.

However it is highly unlikely that they will adopt a seven-day week. Not only is there no visible astronomic seven-day cycle, but seven does not divide evenly into 365, or into 30, which makes it an illogical choice. They would most likely establish a five-day week, as this would make each year a calendar replica of the preceding one.

Why, then, do we have something as confusing and artificial as a seven-day week when switching it to five would make so much sense? Only because we retain a primeval, collective memory: that long ago, God initiated a seven-day cycle as a kind of

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divine circadian rhythm. It is hard otherwise to account for the wide acceptance of the seven-day week.

As the seven-day week is the product of a collective memory of a religious tradition, so too is money. While our clandestine survey will reveal the islanders bartering with one another, it is less certain that they will make the leap of assigning value to disks of metal. That, in all probability, would not happen on our island, as indeed it failed to happen in many parts of the real world. Most populations that were isolated from Bible-based religious tradition failed to make the leap from barter to coins and capital.

Where the Bible served as the earliest source of wisdom, people understood the role of gold and silver. They learned how greatly to expand trade—and therefore wealth—by employing precious metals as an exchange medium. They understood the role of private property and the role of the law in protecting that property. Naturally, these peoples enjoyed a gigantic head start over those who had to discover this all by trial and error.

The Faith Habit

There was another reason why those Western civilizations based on the Bible flourished economically. The individual character traits that Judeo-Christian thought promoted are the very qualities that best prepare people for effective roles in commerce. One of the most important of these is the faith habit. This accustoms people to the real world, wherein almost every worthwhile venture requires one to make a major commitment without assurance of success. For example, couples must marry without the help of a crystal ball that would predict all the ups and downs of their life ahead. Farmers plant and await crops that may or may not ripen. And, of course, investments of capital always involve risk.

In fact, the very act of accepting metal disks or even pieces of paper, in exchange for a day of backbreaking labor, requires enormous faith. To understand the true dimensions of that faith, observe how things change in its absence. When investors lose faith in markets, when depositors lose faith in banks, when citizens lose faith in the currency, disaster strikes.

As long as the faith habit is intact, however, people will accept payment for their goods and services. They do so out of faith that when they require some commodity, a vendor will, in turn, accept their little metal disks or scraps of paper. As long as the future remains uncertain, people who maintain Bible-inspired faith have a great advantage whether as spouses, farmers, or investors.

Judeo-Christian thought nurtures another personality trait which well serves those who practice capitalism: deferment of gratification. A religious outlook helps to promote saving rather than impulse spending. It also inculcates in people the idea that there is merit in doing the right thing for its own sake, rather than for reward. This too is a valuable mindset for the ambitious entrepreneur who must focus on filling a need rather than on other people's purses. Everybody wants money; but those who pursue it directly instead of seeking a niche, usually fail. The most conspicuous commercial successes are won by those who find a way to serve other people, or provide them with things they want.

Religious teachings that emphasize the virtue of charity, would thus fit well into business school curricula. Charity helps to loosen the tight grip many of us have on our funds. No miser ever made a great investor. Religion encourages people to raise families, the best incubators of capitalism. There, the young future business professional learns the value of labor and its specialization. From wise and responsible parents, he learns virtually all the skills necessary for a first job. Finally, religion's emphasis on family helps an economy because few great commercial enterprises are built in one generation. It is children that fuel a man's ambition to drive himself beyond the needs of his own lifetime.

For these reasons, the world still awaits a society that has embraced atheism and also operates a successful free market. That this has not happened is no coincidence, but rather a consequence of the spiritual nature of money.

The Spiritual Nature of Money

Let us further analyze the spiritual nature of money. All human activities can be located somewhere on the spectrum that is anchored at one end by spirituality and at the other, by physicality. Praying is near the spiritual end; reading and writing, composing music and making tools are its neighbors. As the source of both great sensual pleasure and also of all new life, sex might be somewhere near mid-spectrum, while eating and excreting belong over toward the physical end.

One way of identifying a spiritual act is by determining whether a chimpanzee would understand it. This is because God endowed man with His spirit and so distinguished between man and chimpanzee. When I return home from work and slump into a comfortable armchair, a primate could undoubtedly sympathize. As I move to the dinner table and begin eating, he certainly understands. When I open a newspaper, however, and hold it motionless before my face, he becomes quite confused.

This test suggests that a business transaction is more spiritual than physical. A chimpanzee would not have the slightest idea of what is transpiring between proprietor and customer at the counter of a store. Economic exchange takes place only after two thinking human beings will it. The process is spiritual.

Human beings are always slightly uneasy about pursuits that have no spiritual overtones at all. When necessary, we superimpose spirituality precisely to avoid being exclusively physical and thus uncomfortably animal-like. We apply ceremony and ritual to those of our actions that are also animalistic. Only people read a book or listen to music; hence these activities require no associated ritual. On the other hand, all living creatures eat, engage in sexual activity, give birth, and die. If we do not confer a uniquely human ritual upon these functions, we reduce the distinction between ourselves and the animal kingdom. Therefore, we celebrate the birth of a child, often by a naming ceremony; no animal does that. Even if our hands are quite clean, we wash them before eating rather than after, like a cat. We prefer to serve food in dishes on a tablecloth rather than straight out of the can, although the physical, nutritional qualities have not been enhanced. We even say a grace or a benediction. After encountering an attractive potential partner, people do not proceed directly to physical intimacy. An engagement announcement followed by a marriage ceremony serves to accentuate that all-important distinction; no animal announces its intention to mate and then defers gratification for three months while it calmly prepares its wedding and future home.

The more physical the activity, the more awkwardness and subconscious embarrassment surround it. Photographer Richard Avedon shattered a barrier by capturing images of people as they ate. Frozen in the act of chewing, humans resemble apes rather than angels. Our mothers, themselves raised in America's Judeo-Christian tradition, taught us never to eat in public. Similarly we express a normal and healthy reticence about bathroom activities. On the other hand, as purely spiritual occupations, reading and art evoke no discomfort.

Likewise, buying and selling should evoke no psychic discomfort. Economic activity is another way in which we satisfyingly distance ourselves from the animal kingdom and justify our humanity. This helps to explain why the most secular elements in America commonly lead assaults on the free market. Those who have rejected religion are eager to find other outlets for their moral expression. There is no better way than to exhibit a revulsion for ethical capitalism. Today we hear people referring to the eighties as a period of moral depravity. Being unaware of the spiritual nature of money and wealth creation, these individuals consider the miracle of economic enterprise to be the human equivalent of dogs fighting over a bone.

The Origins of Man

The great historic clash between socialism and the traditional wisdom of the West is really just a reflection of a far more fundamental disagreement. This is over the question of the origin of Man. This is not a question that needs to be debated in churches and divinity schools as much as it is a question that needs to be settled in corporate board rooms and business schools. Either God created us, or we evolved from primeval protein sludge, passing through a primate-like phase on the way. No one has yet proposed a third alternative.

If we accept the Godless alternative, then indeed we do not differ in kind from monkeys or other animals, only in degree. We are less facile in speed, strength, and hearing than some animals but we think and speak a little better. Animals do not create wealth, they merely seize the commodities they need and people obviously do the same. They may employ more sophisticated methods like bonds, debentures, and other tools of trade, but it is seizing nonetheless. Clearly, morally sensitive people must decry this activity. Sure enough, American politics and academia long dominated by those hostile to a traditional view, echo this approach. Those that most strongly advance evolution as the one and only approach to studying the question of our origins are also those that most strongly oppose the free market.

On the other hand, if God created us and touched us with His abilities, then we are qualitatively different from animals. Our ability to speak and to create is unique. Therefore, animals plunder but people profit; the creation of wealth is an expression of our godly origins. This view of Man's origins helps to subdue the feelings of guilt often brought on by success. Frequently those with little religious faith who enjoy sudden success, such as Hollywood celebrities for instance, develop an almost irrational dedication to socialist causes. The idea that we are descended from angels rather than ascended from apes has undoubtedly played a role in one of the most magnificent consequences of history: American ethical capitalism.

Revealing his own brand of genius in *Paradise Lost*, John Milton etched the Bible's centrality in man's literary consciousness. He showed how the opening chapters of the Bible focus on the eternal tug-of-war for man's soul between the angels and the apes. There is a Titanic struggle between the Divine aspirations of a person's nobility and his basest indulgences. Whom would Adam obey, God or the serpent personification of the animal kingdom? After thousands of years of human history, the lingering memory of that tussle still resonates in the human soul. All heirs to the Judeo-Christian tradition feel the need to distinguish themselves from animals and to unequivocally demonstrate who won that Eden conflict. Seizing another's property by force is animalistic and a victory for the serpent, purchasing it voluntarily for the price set by the seller finds favor in God's eyes. A store or market is one of the few places in which people interact voluntarily leaving each party happier than he was before. No wonder then that God smiles upon the marketplace. Freedom from tyranny is a necessary precondition for both worship and trade.

It is therefore not surprising that economics used to be a field of study that belonged with religion and theology. Adam Smith as well as many other eighteenth-century economists were religious philosophers before they were economists. Smith wrote *Theory of Moral Sentiments* before he wrote *Wealth of Nations*. When the great universities moved the study of economics from their religion departments to their science departments they were actually driving a wedge between capitalism and the moral arguments and spiritual dimensions that underpin its validity. After all, whether a man dissipates his money frivolously or invests it wisely and whether or not he will bend rules to earn it depend mostly on his character and on his moral makeup. No wonder that the science that seeks to predict these things, economics, is known as the dismal science. Money is spiritual and how men relate to it depends mostly on the state of their spirit.

Faith is the fuel that drives both commerce and religion.

God and the Marketplace

Establishing that a close relationship exists between God and the marketplace helps us in three crucial areas. Firstly it helps to explain why atheism and business are not natural allies. One would have supposed that a philosophy of secular humanism, recognizing no authority and sanctioning all behavior would be naturally drawn to the world of money and power. One would have expected the political Left to excuse what it calls the "greed" of capitalism and to recognize it as nothing other than Darwinian law applied to the life of modern man. Yet, this is not possible; something as truly spiritual as commerce simply cannot coexist with socialism. The atheist himself recognizes that to be true to his credo, he must reject the free market because of its Godliness.

Secondly, it helps us integrate our careers into our lives instead of regarding those daily eight or ten hours as a distasteful and isolated part of life.

Finally, recognizing the congruence between work and spiritual reality, the business professional is all the better able to sell himself and his product. His work is creative and therefore a legitimate way of emulating God and His infinite creativity. Anyone with a sneaking conviction that socialism has a point, that Man and his abilities are finite as is the economic pie and that he who brings that pie to market and slices it for customers exploits both the baker and the public, is forever handicapped as a businessman. Nobody throws himself wholeheartedly into an endeavor he secretly considers demeaning and unworthy. The difference between the animal instinct of a squirrel gathering nuts and the inherent nobility of a human being earning a living becomes clear when you perceive economic enterprise in its correct position, at the spiritual end of the spectrum.

Failure to grasp the interdependency between a people's morality and their economy can levy a high cost. People often lose sight of how a statist government and its confiscatory tax policies will force increasingly desperate citizens to become petty felons as they struggle futilely to preserve the fruit of their labors. As people inevitably begin to cut corners, they lose some of their moral self-esteem, thereby lowering the trigger threshold of their internal moral alarms. This corrosive effect ripples out to every corner of the population.

Americans are just beginning to sense that many of the social pathologies that have made life more dangerous and squalid over the past three decades have their roots in the uprooting of religion from public life. We should also realize that the furious secularization that has wreaked havoc on our schools and families has not left our economy immune. It does not require a very elaborate thought experiment to demonstrate how much our economy would be boosted by restoring a traditional view of money. We need only contemplate why so many people glorify art and music and why they treat galleries and concert halls with an almost religious fervor. They do so out of a deep human need to devote at least part of their existence to activities which uplift. Art and music elevate because they are God-given and therefore unique to humans.

America's wealth-producing institutions ought to arouse the same feelings of respect and awe, for precisely the same reasons. By joining the frantic rush to abandon every vestige of our religious tradition, we free market enthusiasts have unwittingly contributed to the sabotaging of our prosperity. Our thought experiment will show that once our business infrastructure enjoys similar social esteem to that of the art establishment which it so generously underwrites, there will be at least one very valuable outcome. Politicians will tremble in fear before venturing an assault on that fountainhead of prosperity that for so long has been American business. □

THE FREEMAN
IDEAS ON LIBERTY

COMMERCIAL BANKING IN A FREE SOCIETY

by Steven Horwitz

Although we can say a great deal about the *institutions* of a free society, and why they are desirable, speculating about the specific ways in which people will choose to organize themselves *within* such institutions is always a tricky matter. After all, the whole justification for the institutions of a free society is that only through its institutions can human beings discover progressively better ways of dealing with scarcity (of both goods and knowledge) and thus improve both our material and non-material welfare. Our ignorance of the details of a free society is precisely why having a free society is so important.

Nonetheless, this need not completely discourage us from imagining what the details of some aspects of a freer economy might look like. One way to go about this task is to look at the various ways a particular industry is unfree and imagine what removing those restrictions might do. In conjunction with such a thought experiment we might also look for historical examples where the industry in question was more free and explore the ways in which it operated and organized itself.

The banking industry is especially suited for just this kind of analysis. If we want to know what commercial banking might look like in a free society, we need only turn to contemporary regulation and the historical record to begin to piece together a coherent story.

There are four major areas in which the freedom of American commercial banks is restricted. The first area is the set of prerogatives taken away by this existence of government central banks, particularly the private issuance of currency. The second deals with restrictions on geographic location, while the third concerns the relationship between banks and non-bank firms. Fourth, as a result of the first three, is mandatory deposit insurance.

Central Banks and the Issuance of Currency

In order for central banks to undertake the activities they, or their political overseers, have deemed necessary, they must acquire a monopoly over the production of currency. This restriction on the freedom of individual banks to create the kinds of financial instruments their customers might want has large and pervasive effects on the macroeconomy and the size of government more generally. Because "customers" must use the government-issued currency, they have no way of indicating their dissatisfaction with its quality or value. This is what enables governments to use the banking system to raise revenue; if they create more

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currency, it will be accepted by someone somewhere.

Central banks also have had a notorious time, even when the political incentives to inflate can be overcome, figuring out precisely what the right quantity of money should be. In a small version of what would face a comprehensive economic planner, central bankers attempt to estimate the demand for money and create the appropriate amount in response. For the reasons so skillfully articulated by Mises and Hayek, there are enormous knowledge barriers to this kind of central planning, even in one industry.

In a free society one would expect banks to produce their own brands of currency which would compete for the business of money users. Although this may seem a bit strange, having lived in an economy with only one currency, it really is not that much different from where we are today. Firstly, banks already offer competing monies. A checking account at Chase Manhattan is a different brand of privately produced money from a checking account at Citibank. Checking accounts are liabilities of the banks that create them, making them privately produced. They also differ in various ways: interest paid or not, rate of interest, fees charged, services offered, overdraft protection, and so on. Depositors choose among banks today based on the total package of products and services that accompany a checking account. One would expect the same if currency were competitively produced.

More important, competition in currency production would give producers the incentive to neither overproduce nor underproduce currency, and therefore maintain its value. In order for banks to get their liabilities (either currency or checking accounts) accepted, they would have to make them redeemable in some commodity (such as gold) or some other asset. Customers would not accept mere paper liabilities without some connection to an item which had value outside of the banking system.

As a result, any bank which overproduced would find customers returning unwanted currency which would lead to a fall in the bank's holding of the backing commodity, reducing its ability to create loans. Banks cannot afford to risk reserve shortages like this, so they would reduce their outstanding currency liabilities until those losses stopped. Banks that issued too little currency would see their reserves piling up and would be sacrificing the interest they could earn by making loans backed by those reserves. In a free society, the same market forces that create incentives to produce the correct quantity of shoes, toothbrushes, or eggs, would apply to currency. Because the banking system of a free society would get the supply of money generally right, it would also avoid the macroeconomic problems of inflation and deflation that have resulted from unfree central banking systems.

Virtually every country on the planet has had some experience with privately produced currency. The historical evidence suggests that countries with less regulated currency production had fewer bank failures and more stable macroeconomies. The Scottish banking system of the late eighteenth and early nineteenth centuries is a good example of the benefits of freedom, especially when compared with the substantially less free English banking system of the time. The U.S. experience of the nineteenth century provides a good example of how problems can develop when even private currency production is overregulated. The recurring crises and panics of the period can be seen as unintended consequences of misguided bank regulations.

In order to make their currency monopoly work, central banks have imposed other restrictions that would be absent in a free society. For example, central banks require banks to hold certain minimum levels of reserves. Normally these are higher than banks would otherwise hold and they usually do not earn any interest. Effectively they are a tax. In addition, reserve requirements prevent the public from having accurate information about bank portfolios. Banks that could afford to hold fewer reserves because they are safer are prevented from doing so, and banks who are riskier and might choose to hold higher reserve levels, especially in the absence of government mandated deposit insurance (see below), have no need to do so. In a free society, banks could pick the level of reserves they saw fit and would have to bear the consequences of holding too many or too few reserves.

More generally, a free society would not see central banks in the way they have developed in the nineteenth and twentieth centuries. There is nothing inherent in the evolution of banking that necessitates them, and their existence results from constitutionally unconstrained politicians striving after a cheap source of revenue. Of course banks in a free society would likely develop interbank institutions such as clearinghouses, but these would have no special government privileges and would be forced to compete for members and business.

Interstate Banking

A more general way of thinking about banking in a free society is that banks will be subject to the same laws as other corporations. One example of how that is not true today is the issue of interstate banking. It is very difficult for many American banks to open up branches across state lines. Laws permitting interstate banking are made at the state level and they vary from state to state. Although most states have liberalized these laws to some extent in the last 10 or 20 years, full nationwide banking does not exist.

One result of this is that many banks are insufficiently diversified because they are too closely tied to industries specific to their state. When those industries falter, the banks fail with them. Banks that can spread their risks across different industries, by operating in different states, are less likely to fail. One bit of historical evidence for this contention comes from Canada. Canadian banks have historically been able to operate nationwide. While over 5,000 American banks failed in the 1920s and early '30s, only one Canadian bank did. Although a number of bank *offices* closed, only the one bank failed. This statistic is even more compelling when one considers that the variation in economic conditions between rural and urban Canada is greater than in the United States, posing a greater diversification challenge.

In a free society, we could expect banks to operate wherever they pleased, just as other firms do now. The need for traveler's checks, or the hassle of finding a new bank after moving, would disappear as true nationwide banking would make it far more likely that one's bank would have offices in more places. One consequence of this change would be a smaller number of larger-sized banking organizations. However, as evidence from countries which permit nationwide banking indicates, these larger banks would operate more *offices* per capita than smaller banks. This would both improve access to banking for most people and enable banks to capture the cost efficiencies of large-scale production that are now closed off.

Glass-Steagall Restrictions

One other set of regulations on contemporary American banks are so-called Glass-Steagall restrictions. As part of the banking reform acts of the 1930s, a firm may not own both a commercial bank and a non-bank business. Firms like Sears that provide financial services can only provide those services to *non-commercial* customers. These laws also prevent banks from selling insurance or underwriting securities. Many argued that such an intermixture of banking and commerce was responsible for the numerous bank failures of the early 1930s, so a regulatory wall was needed to separate banking from commerce. Subsequent research has found this explanation of the bank failures to be incorrect and the justification for Glass-Steagall restrictions has been greatly weakened. Even the Clinton administration has recognized this and included liberalization of these regulations, as well as those on branching, in its reform package.

In a free society we would expect to see financial supermarkets where one could address all of one's financial needs (banking, insurance, investment) in one firm. There are obvious efficiency gains to producers in such a situation, as well as better service to consumers with one person or group overseeing their whole financial portfolios.

Because of the activities of central banks and the various other regulations noted above, bank failures are a real worry in unfree banking systems. As a result, governments have imposed mandatory deposit insurance in order to prevent the potential bank runs that their own regulations can trigger. If banks in a free society are unencumbered by central banking and other regulations, we would expect the whole problem of bank runs to be far less significant. Given this, any possible justification for government-mandated deposit insurance disappears.

Private Deposit Insurance

Banks in a free society might choose to purchase privately supplied deposit insurance as a way to reassure customers. They might also enter into interbank mutual aid agreements, or be insured through clearinghouses. Historically, banks have used these and other methods to convey trust to customers. Before deposit insurance banks would advertise their balance sheets and list the members of their boards of directors. Providing this kind of information was a way to establish their trustworthiness to actual and potential depositors. With deposit insurance, banks need not do this. It is reasonable to expect that banks in a free society will use these ways, and discover new and imaginative ones, of creating the trust on which all banking systems rest.

Banks in a free society will be literally nothing special. What makes banking so unfree today is that banks are treated differently from other business enterprises. The rule of law that would characterize a free society would demand that banks be treated no differently than other firms. If they are fraudulent or use force, then they need to face the consequences. Otherwise, any sort of voluntary arrangement banks make with customers will be allowed. The result will not only be a more free banking system, but a more efficient, safe, and productive one. □

REGULATION AND PRODUCTIVITY

by John Hospers

People don't enjoy having their lives regulated, whether they are children rebelling against parental commands or adults whose actions are subject to legislation by government. Still, don't we need regulators with coercive power such as only government has? What would happen if everyone could, without penalty, forge checks, violate contracts, dump poisonous wastes into the soil, and manufacture cars that are accident-prone? The market some-

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times regulates itself, but not always: people will often profit by causing injury and damage to others.

The problem is that the watchdogs themselves are imperfect. They are vulnerable to bribery and corruption, and most of all, operate with gross inefficiency. Moreover, those who are entrusted with positions as watchdogs often have an inordinate desire to increase their own powers. Regulating others often gives them more satisfaction than their income does, and they spare no effort to keep on increasing their own regulatory powers. And often nobody watches the watchers.

I shall present three examples, deliberately taken from a diverse array of activities, to illustrate how this problem affects the business community.

1. Environmental Regulation

Not many people set out to make their natural environment dangerous for human habitation, or desire to render entire species of living things extinct. Laws are enacted to inhibit those whose actions have this effect. Today, however, regulations have become so all-encompassing that no business and no landowner could long survive if all the regulations now on the books were strictly enforced. For example, there are countless underlings in the Departments of Interior and Agriculture who are empowered to say to farmers, "That mud puddle in your back field is hereby declared a wetland," thus making it no longer permissible for farmers to cultivate such land although they still continue to pay taxes on it.

Thousands of letters were sent out in 1993 from the Bureau of Reclamation of the Department of the Interior, informing the recipients that the Bureau intended to look for endangered species on their land. What if the landowner refused to permit such inspection? Then, since the absence of endangered species could not be confirmed by inspection, uncultivated parcels would be labeled as habitat for endangered species.

What happens if a piece of land is declared a habitat? Strict controls on use then come into play. "When the U.S. Fish and Wildlife Service had designated a habitat-study zone, one family lost $60,000 worth of production a year."[1] Since the zone is off limits to crops, a farmer cannot replant there. Moreover, banks no longer will make loans to buy such properties because they are aware that the buyer will not be able to use the land for planting crops.

Congress passes a law; the "beef" in the law is the enabling clause which permits the regulatory agency to make whatever regulations it deems necessary and proper to implement the law. Those who are subjected to the regulations must obey every one, however trivial or burdensome, or else receive large fines or even jail sentences. Usually the act is applied by its enforcers beyond the scope of what was envisioned when the law was passed. Already every landowner is subject to the intricately detailed provisions of the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Endangered Species Act, the National Environmental Policy Management Act, and so on. They are drowning under a flood of regulations, from which the only benefit may be to the regulators, keeping them in well-paid positions at the expense of the taxpayers.

The mission of the national Biological Survey is "to catalog everything that walks, crawls, swims, or flies around this country." To do this their agents must be able to enter every parcel of land in the United States—not every decade, as with the census, but on a continuous basis. "Landowners fear that the net effect will be to transfer *de facto* control of thousands more acres to the federal government."[2]

2. Housing Regulations

In past decades, prior to the massive interference of the federal government, inexpensive housing was far less of a problem than it is today. Cheap rooms could be had, for a dollar or two a week, with no particular amenities and perhaps a bathroom down the hall shared by several tenants.[3] But in most cases American cities these "flop-houses" facilities were torn down: "We can't have people living like that." The government tore down the building and built other ones at much higher cost. Most of those who had previously occupied these buildings could not afford the new ones.

To limit the cost to tenants, rent control measures were initiated, but of course such controls only prevented new housing from being built, and massive shortages developed. Who wants to risk losing money on real estate in New York City? Landlords who can sell do so at a loss and get out.

But rent control is only the most notorious form of regulation. In most states it is illegal to refuse to rent a room or apartment to someone because he or she is a welfare recipient: the ultimate threat of the renter whose every whim is not satisfied is "I'll report you to the Welfare Board and then you'll never be able to use your buildings for rental again!" It is a pervasive desire of landlords not to rent to welfare recipients; in general, owners say, they have little sense of responsibility; they are "all rights and no responsibilities." Many tend to be slovenly and messy in their personal habits; they demand privileges not in the contract; they leave lighted cigarettes where there are no ashtrays, and leave the flushing of toilets to lesser beings. Landlords do what they can to avoid renting to them, but if they say "I'm evicting this person because she has dirty habits" they will be told "No, you're trying to evict her because she's on welfare, and that won't work."

New regulations are constantly introduced to make ownership of rental property more burdensome. Every door (in some states) must be equipped with a large metal rod on a spring so that it will automatically close in case of fire. (This costs about $50 per door.) With new regulations being continuously enacted, the landlord's margin of profit, already precarious, often disappears entirely. Moreover, it profits the tenants to break some pipes or destroy some electrical fixtures because they don't have to pay rent until these are repaired.[4]

Meanwhile a new state law (in Minnesota, for example) specifies that if the owner does not pay his entire property tax in the year it is due, the entire property can be confiscated the following year. (What happens if the owner has a bad year? The government confiscates the property, and may operate it at a loss, payable by taxpayers.)

3. Mining

In a recent Roper public opinion poll, people were asked their opinion of each industry. Of 222 industries, mining ranked next to last; only tobacco fared worse.[5] But mining was, and is, more heavily regulated in the United States than in any other industrial nation.

Mitsubishi Corporation of Japan decided to build a new copper smelter in Texas City, Texas. Japanese officials were assured by state and federal officials that all the relevant permits would be issued in 12 to 18 months. The first application was submitted in June of 1989. Then came three years of conflict among environmental groups, permitting agencies, and company management. Air-and-water discharge permits had to be obtained; the U.S. Army Corps of Engineers had to issue its own permit; and an assortment of permits from state, county, and city agencies were also required—more than thirty in all. The Army Corps of Engineers promised a decision within sixty days, but waited 21 months.

Exhausted by the attrition, Mitsubishi finally cancelled the project. The new chairman of the Texas Water Commission said that when his permit came up for review in four years he would demand zero discharge of waste water—technically a virtually impossible demand. The air discharge permit from the Texas Air Control Board would take most of a year; building the plant would take another two years, and less than a year after that the company would be faced with the zero-discharge requirement. For these reasons Mitsubishi abandoned the project in March of 1992. They decided to build the identical copper smelter in Japan, where all the required permits were obtained in 14 days and the plant was built in 17 months. The president of Key Metals and Minerals Engineering Corporation, Dr. Thomas Mackey, wrote, "This action ended a marvelous opportunity for the U.S. to acquire a minimum-pollution energy-efficient modern copper smelter which would have been strategically located on the Gulf of Mexico's coast. . . ."[6]

As a result of this and numerous similar incidents, Japan is ahead of the United States in the development of mining technology. For many years the United States was a net exporter of copper. Today the United States has been surpassed in copper production by Chile. Gradually we are becoming non-competitive.

In 1992 the Congress passed a bill which may seem trivial by itself, but taken together with a mass of similar ones, is a significant straw in the wind on the future of mining in America. As a result of the new legislation, whenever your company buys an electric motor you are now required to buy "the most efficient" one: 96 percent efficiency is now mandated, whereas the earlier requirement was 94 percent. So what, one might say—what's a difference of 2 percent? The catch is that it must be 96 percent-efficient *when operating at full speed.* The 96 percent-efficient motor is more efficient at full speed, but it has less starting torque. In fact a conveyor belt could *never get started* with the newly required motor. But since the 94 percent-efficient motor is no longer permitted, users must now go from a 96 percent-efficient motor of 100-horsepower to one of 200-horsepower, just to get the motor started.

Once the 200-horsepower motor is running, it doesn't require all that extra energy—it can easily do with 100. But since the 100-horsepower motor that would do the job is now outlawed, it is necessary to use the 200. The extra energy is wasted, but no other option exists that is not illegal. By contrast, Japan can still use the 94 percent-efficient motor. American equipment will be more inefficient and more expensive, thanks to many laws such as this one.

The new law does not save energy—it requires industry to waste energy. It does its bit to make the United States non-competitive. It is assisting the gradual process of de-industrializing America.

Conclusion

Regulation—actually, more suitably called "prohibition"—of limited scope is necessary to prevent people from harming other people—that is, when one person or group would otherwise violate the rights of others. But the vast majority of today's regulations are not of this kind, but could better be called regulation for regulation's sake. It is these that are eroding America's industrial base and making the United States increasingly non-competitive in the world economy.

It was not always so: America today would be unrecognizable to those who lived here a century ago, thanks to the labor and ingenuity of many thousands of productive individuals—inventors, manufacturers, merchants, farmers, and countless others employed by them and associated with them. But in the last half century an opposing force has gathered momentum, threatening to bring these productive advances gradually to a halt. The conflict is between those who have *created* this vast array of goods and services, and those whose aim is to *control* the creators. Will the economies of other nations, not as burdened as ours by harassing regulations, replace the United States as the economic leaders of tomorrow? At present it is far from clear what the outcome will be. □

1. Jeff A. Taylor, "Species Argument," *Reason*, January 1994, p. 53.
2. *Ibid.*, p. 52.
3. See William Tucker, *The Excluded Americans: Homeless and Housing Policies*, Regnery-Gateway, 1990, Chapter 4.
4. Albert Lee, *Slum-lord*, Arlington House, 1975.
5. *Engineering and Mining Journal*, December 1993, p. 14.
6. *Ibid.*, p. 16-B.

THE FREEMAN
IDEAS ON LIBERTY

Business in the Global Community

by Robert W. McGee

Economic nationalism is on the rise. Hardly a day passes without an article or two about the disharmony that trade causes. French farmers insist they should be protected from foreign fruits and vegetables and ask for a special GATT provision to protect themselves. The French film industry insists on quotas on American-made films in order to protect French culture. French fishermen rampage through the streets of Marseilles destroying containers of foreign fish, thus violating the property rights of business owners. American sugar interests lobby Congress to give them subsidies so they can charge three or four times the world price for sugar, a policy that destroys the sugar industry in the Caribbean.

Japanese high-tech companies, auto manufacturers, and steel companies are accused of "dumping" their products on our markets. The language takes on sinister tones, as when some domestic producer accuses a foreign producer of "invading" the domestic market with low-priced products. In recent months, our government has been "talking down" the dollar in relation to the yen, making it more expensive to buy any Japanese good. Recent articles have said that the present dollar-yen exchange rate makes it impossible for the average Japanese exporter to make a profit in the United States, which is one reason for the decline in the Japanese economy.

Trade barriers in the United States, such as tariffs, quotas, and anti-dumping laws, make it impossible for Latin American flower growers to sell their products profitably in the United States, giving them the incentive to grow marijuana or opium poppies instead. Textile protectionism in the United States has caused hundreds, if not thousands, of small Asian textile companies to go out of business because of our tariff and anti-dumping policies.

All of these restrictive trade policies reduce social harmony and invite retaliation. Wherever such economic nationalism occurs, it breeds conflict. A policy of free trade can counteract nationalistic tendencies, reduce disharmony, overcome petty prejudices, and raise the standard of living for the vast majority of the world's population.

Free trade exists only where there are no barriers to voluntary exchange. In a world of tariffs, quotas, "voluntary" restraints, and anti-dumping laws, it cannot be said that free trade exists.

The Benefits of Voluntary Exchange

Voluntary exchange has the effect of breaking down barriers, increasing tolerance, and reducing economic nationalism. It destroys provincialism and replaces parochial attitudes with a more global outlook. Young Iranians who drink Coke and watch American videos (even when their government spews forth anti-American propaganda) can see for themselves that America is not the evil place their leaders say it is.

The invasion of American jeans, videos, and other products played a substantial role in the crumbling of the Berlin Wall and the Iron and Bamboo Curtains. Western television broadcasts and products gave captive nations a realistic look at the West, which made it increasingly difficult for leaders to

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spread lies about capitalism and the non-Communist world.

One facet of economic nationalism is the belief that doing business with foreigners is somehow unpatriotic, un-American, un-French, or un-whatever. Governments and special interest groups would have us believe that it is better to buy a shoddy, domestically made product at a high price than a lower priced, better quality, foreign product. But consumers, for the most part, reject this line of reasoning. Acting in their own self-interest, consumers buy what they want from whomever they want. Most of them don't care who made a product or where it was made. They simply want the best goods they can find for the prices they can afford. Free trade allows them to do this.

What is good for individual consumers is good for the country, too. Although it is not usually the intent of consumers to increase the wealth of their country by making purchases, the effect is just that. The purchases they make increase the business volume of the companies that sell them products, thus expanding profits and employment. The fact that some consumers might purchase foreign products instead of domestically made products does not change this result.

The Seen and The Unseen

Protectionists claim that allowing consumers to buy foreign-made products causes unemployment at home. And that is true, to a certain extent. If a consumer is permitted to buy a Japanese car, Detroit loses a sale. If enough customers purchase Japanese cars, Detroit automakers will have to lay off some employees. That is what is seen. But what is not seen is the effect that buying a foreign car has on all other segments of the economy.

If a consumer can save $2,000 by purchasing a Japanese car instead of an American car, he is better off. Not only will he have the car he wants, but also $2,000 to spend on other things. The Japanese auto dealer (who is located in the consumer's town and who employs local people) also gains from the exchange. The employees who work for the auto dealer will be able to continue working because of the demand for their employer's product.

Other industries also benefit. If the consumer can save $2,000 by buying a Japanese car, he can spend the extra $2,000 on any number of other things. He can take his family on a vacation, which benefits restaurants, motels, airlines, and so forth. Or he can buy clothes or put on an addition to his home, which benefits local businesses. Even if he puts the $2,000 in the bank, someone benefits because the bank has more funds available to lend to someone else who might want to put an addition on their home or buy an automobile.

The problem is that the purchases he makes with the extra $2,000 are not easy for economists or politicians to see. All they see is jobs being lost in Detroit. They do not see the jobs that are being created in countless other industries because free trade allows consumer resources to flow to the areas they deem to be of highest value to them. Studies done by the Institute for International Economics and others have found that protecting a domestic industry by raising a tariff, implementing a quota, or having a voluntary restraint agreement with some country actually destroys more jobs than it saves. Although some tariff or quota might save 20,000 jobs in the auto industry, it also destroys 30,000 or 40,000 jobs in other industries, or prevents them from coming into existence. Some studies show that the job loss/gain ratio is more than three-to-one, which means that for every 10,000 jobs that are saved because of some protectionist policy, more than 30,000 jobs are lost or never created.

Protectionist policies do not enhance social harmony, they reduce it. Special-interest groups use the force of government to do what they themselves cannot do without committing a crime—rob consumers of a portion of their purchasing power. Free trade does just the opposite. It allows consumers to buy the products of their choice at whatever price they can find in the international marketplace. The spread of trade results in a higher standard of living for the vast majority of the population. As individuals become more familiar with the products of other countries, they tend, over time, to change their opinions of foreigners. Rather than think that their country's products should be supported at any cost, they begin to hold the view that the origin of a product is not as important as its quality and price. Thus, nationalistic ideas and provincialism take a back seat to rational self-interest.

The best way to support business in the global community is not by protecting or subsidizing various industries, but by abolishing trade barriers that prevent businesses from selling consumers the products they want. □

PEACE, POLITICAL SCIENCE, AND PEDAGOGY

by Stephen G. Barone

One of the latest fads in schools is a so-called "peace curriculum." It is wrought of the notion that peace is engendered by a certain kind of attitude: that if we teach teenagers and young adults to think and talk more about peace, or if we condition them to have a sort of knee-jerk aversion towards anything military, then the world will consequently be a more irenic place. This concerns me as a psychologist and educator, because history provides scant evidence that war can be avoided by having either peace or antimilitarism as goals unto themselves. Neville Chamberlain's overtures toward Nazi Germany prior to World War II provide one of the most salient counterexamples to this nostrum.

This is not to suggest that a careful study of what conditions precede peace within or among nations is not the legitimate province of a high school or college curriculum. But if we really want to teach what distinguishes peaceful societies from aggressive ones, or tolerant ones from those hell-bent on "cleansing" themselves of racial, religious, and ethnic diversity, then I prescribe we consider the empirical case: that what the most stable and domestically peaceful nations have in common is a viable economy with a commensurate "commercial class" of citizens.

Happily, in free societies, individuals are able to choose identities that center upon human action as opposed to an unchangeable history. Eventually, we come to think of ourselves primarily as psychologists, carpenters, or grocers instead of Germans, Catholics, or Serbs. The psychological freedom this gives one is no small thing, especially if the person is born into what he rightly or wrongly perceives to be a persecuted caste. It allows him to see himself as the best electrician in town instead of, for instance, ruminating about being a persecuted Moslem and declaring a jihad forthwith.

This tendency for individuals to develop utile self-concepts also separates them from

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stereotypes in the eyes of others. For example, there are relatively few Americans whose prejudices would cause them actively to avoid, let alone persecute, the best accountant in town because she is Hispanic, the best mechanic because he is black, or the best grocer because he is Korean. Rational self-interest engenders tolerance: the fact that we tend to value and identify with others for their respective skills or professions. As a result, we overlook the inconsequential differences among us, such as race, creed, or ethnicity.

On a larger scale, commercialism amidst freedom requires finding common and reciprocal needs across the various racial, religious, and ethnic constituents that exist both inside and outside of a heterogeneous society. Thereby, it is a more potent psychosocial inhibitor against civil war, military adventure, or institutionalized persecution than is any church, government, or army. Businesses are destroyed during domestic upheaval; import/exporters loathe whatever restricts trade among nations; and merchants crave as many customers as they can get. Hence, they resist anything that might result in civil revolt, international war, or whatever might arbitrarily exclude one group of people from doing business with another.

But when economic activity is outlawed or severely retarded by government intrusion, people are largely deprived of the opportunity to "become," so their senses of identity remain doggedly tethered to rigid and irrational lines of caste, ethnicity, religion, or tribalism. And herein lies the danger, because as scarcity always fills the void where a vital economy would otherwise operate, political and social unrest festers, ready to be exploited by those who seek dominance over their fellows. In the absence of property rights, each group will lay claim to the paucity of resources by reference to their ostensive historical predominance over the other, or even appeal to supernatural entitlements. Under such conditions, aspiring despots saw and nurtured near-maniacal levels of loyalty and cohesiveness among their homogeneous constituencies by scapegoating the blame for bad times across strictly secular lines: tribe against tribe, religion against religion, nation against nation.

This is precisely what is happening in places like Somalia and the old Soviet republics. Governmental inhibitions have retarded free enterprise and its requisite division of labor, allowing people the luxuries of prejudice, hate, and bigotry amidst the deprivations of hunger, disease, and pestilence. Conversely, the United States and Canada do not share the world's longest undefended border because their peoples practice pacific thoughts about one another. Instead, the historical peace between both countries is born of stark commercial interests. Likewise, Germany's Mexican production of Volkswagens for sale in the United States, or Japan's American production of Hondas for sale at home, does more to guarantee peace among nations than can all the good vibes in the galaxy.

In the absence of commerce, the various constituents of a diverse society revert to their most primitive senses of self. Unable to be butchers, carpenters, or storekeepers, they identify with groups made of rigid caste and mere happenstance. They are Catholic instead of Muslim, Serb instead of Croat, or black instead of white, each predisposed to blaming the other for any lack of prosperity. When such mayhem is unleashed, it cannot be squelched by armies or "peace-keeping forces." A nation that relies primarily on a militia to control human congress is the very one that is most likely to erupt into civil war at the first lapse in martial order.

Global harmony is not the by-product of kind thoughts, friendliness, and promises to share with one another; it is the direct product of human industry and prosperity. Peace tends to break out when people mind their own business. But this presupposes they have business to mind. Factions in places like Somalia, Haiti, and the Balkans will never consider peaceful co-existence until they have something more to lose than gain by continued war and hatred. □

THE FREEMAN
IDEAS ON LIBERTY

THE TRIBAL PREMISE OF WELFARE CAPITALISM ILLUSTRATED

by Anne Wortham

Two years ago I was asked by the legal representative of a New York real estate firm (hereafter referred to as "RealFirm") to provide an opinion on a housing discrimination suit brought against the company by a black couple. The plaintiffs charged that RealFirm's use of only white models in its advertisement amounted to an act of discrimination against blacks. Informed by complaints brought in *Saunders* v. *General Services Corp.*, the plaintiffs' basic argument implied the following assumptions:

1. The absence of black models is the consequence of a decision to exclude based on racial preference.
2. The absence of black models indicates, on its face, a negative attitude toward blacks.
3. The exclusion of black models in advertising causes injury to blacks.
4. The exclusion of black models causes readers to believe that blacks are not invited to purchase the product (RealFirm apartments).

The charge assumes that a business that uses only white-model advertisement is by definition not addressing black consumers, and that the failure to address black consumers is racially discriminatory. Attorneys for the plaintiffs argued that the Court could resolve the question of whether the newspaper advertisements indicate a racial preference for white residents "simply by determining whether the total exclusion of black models 'indicates a racial preference to the ordinary reader' "—a test required by the Fair Housing Act.

I reviewed the case with the understanding that every advertisement and every price tag brings bad news to consumers who cannot afford to pay the price asked. RealFirm's ads brought the bad news that not everyone could afford to rent the apartments offered. Among those who could not afford to rent were blacks who earn less than $35,000. This would be the case whether or not the ads were racially "integrated." The RealFirm advertisements were bad news only for those who desired such a residence, but lacked the resources with which to transform that desire into reality. It was of no consequence to consumers who had neither the desire nor the wherewithal.

To be sure, there have been advertisements whose racist caricatures brought the bad news that the advertiser was prejudiced against blacks as a group. However, nothing in the RealFirm ad addressed the racial characteristics of potential renters. Although all of the models in the ad were

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white, their function was to symbolize the lifestyle of the potential renter, not to represent the racial preference of the realtor. The message of the ad was not race-based, but class-based.

One could conceivably argue that the lack of black models in the ad represented the lack of a significant percentage of upper-income blacks who could afford the product. A plausible argument might be that since most blacks cannot afford the rents at the apartments, it would be pointless to suggest that they could by including black models in the advertisement. But RealFirm's choice of models was not meant to be "representative" of the greater percentage of whites among upper-income renters. On the contrary, white models were used to represent the *neutral* consumer within an income bracket, not to match the income differences between blacks and whites, or to send a message of exclusion to potential black renters.

This line of reasoning carried little weight in the face of the reinforcement the plaintiffs took from provisions of the Fair Housing Act and the policies of public agencies such as the New York City Department of Consumer Affairs. The department's position was that "the omission of African-Americans from ads for luxury goods is an important factor in how whites perceive blacks and how blacks perceive themselves. . . . While only some of the whites viewing ads for luxury products might actually be able to afford them, at least all whites, no matter what their origins, can imagine themselves in the pictures they see in these ads. The exclusion of African-Americans from most of these scenes in our major media, however, keeps them from even imagining themselves in such milieus."

Patterns of Consumption

The problem with this position is that its reading of the psychology of black consumers contradicts the consumption patterns of blacks. First of all, since the use of white-model advertising has not motivated blacks in all of their previous history to refrain from purchasing or seeking to purchase a given product, there must be other reasons for purchasing the product than whether it is represented by a black model. Secondly, the self-projection thesis assumes that blacks cannot imagine themselves in scenes that are populated by white models. But clearly the extent to which blacks are able to imagine themselves in all-white scenes is borne out by their consumption patterns. For instance, although Sears Roebuck was characterized by the New York Department of Consumer Affairs as using minorities "selectively," in its catalogues, 10 percent of black households made purchases from Sears in 1990, as compared with 14 percent of white households. Although only 4.6 percent of the 22,685 models shown in 157 catalogues reviewed by the Department were black, 32.5 percent of black families made a catalogue purchase in 1990. The insignificance of the racial characteristics of models in advertising is also demonstrated by the black tenants at RealFirm's apartments who obviously imagined themselves as renters despite the appearance of white models in the ad for the apartments.

The plaintiffs also argued that the absence of black models caused "ordinary" readers of *The New York Times*, in which the ad was published, to believe that blacks were not invited to purchase the product. Those "ordinary" readers were most likely to be persons in the upper-income brackets, whose education ranges from some college to advanced degrees, and who are employed in a range of occupations from white-collar office worker to corporate executive officer. From what we know about differences in the socioeconomic status of blacks and whites, as well as lifestyle patterns, it is plausible to assume that the majority of these ordinary readers are white. From what we know about the lifestyles of the social classes, we can hypothesize that while the incomes and occupational status of blacks are lower than that of whites, it is likely that the black readers either share or aspire to a lifestyle comparable to that of whites in the same class. For as researchers have found, as members of an ethnic group move up the socioeconomic ladder, they become more middle class in their expectations, standards of living, lifestyles, and values.

Correlation Does Not Mean Proof

A basic principle of social science research is that the existence of a correlation between two variables (the more of one variable, the more of the other; or the more of one, the less of the other) is *no proof* that one of them causes the other. Some other variable correlated with them may be the real cause. In that case the original correlation, though real, is *spurious*: it does not indicate a true causal relationship. Consider this example of a statistically accurate statement which points to a spurious relationship: Single people eat more candy than married people. Why? Not because marriage affects the appetite, but because the unmarried part of the population includes children, who generally eat more candy than adults do. This is determined by calculating the original correlation between marital status and candy consumption while holding constant the third *control* variable of age.

The arguments of the plaintiffs and statements by their expert witnesses abound with spurious assumptions that may be summarized as follows:

1. The more racially integrated real estate advertisement is, the less likely black consumers will believe they are excluded from the offering.
2. The less racially integrated an ad, the more black readers feel humiliated.
3. The perception of discrimination is evidence of actual discrimination.

The assertion that black readers view white-model ad as evidence of the realtor's preference for white tenants implies that blacks behave only in terms of their racial identification to the exclusion of their class interests. In fact, like other ethnic groups, blacks behave in terms of the interaction of their ethnic group status and their social class status, and it is often difficult, if not impossible, to fully separate out the effects of each of these variables in isolation from the rest.

Social inequalities exist between the races, while at the same time class differences within racial groups create divisions that are sometimes hard to bridge. This is illustrated by the polarization within the black community based on divergent experiences of two growing segments of the black community: hardpressed lower-class families headed by women versus upper-middle-class families with working fathers (and often also working mothers) accustomed to the secure and comfortable lifestyles enjoyed by whites of their class.

The overwhelming majority of the research on the reactions of blacks to advertising has to do not with the *reaction* of blacks to white-model advertising, but with their *attitudes* about integrated advertising. Various studies show the following: that black and white reactions to advertising stimuli are highly similar; that blacks tend to evaluate both integrated ads and black-model ads rather similarly; that while black consumers tend to react positively to black-cast television commercials, this does not affect their decision to purchase the product offered. Two important facts about black reactions to integrated advertisements emerge from the limited research conducted so far: that using black models in an advertisement does not produce a universal response in blacks; that even though integrated advertising may be designed to inform black consumers that "their kind" is being invited to purchase the offering, their reactions to integrated advertising appeared to be independent of their perceptions of the reasons why advertisers introduced it.

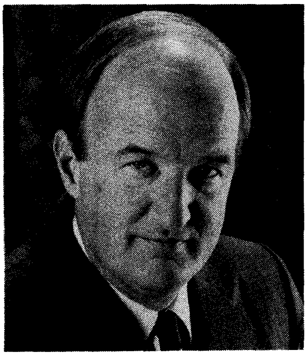
Pioneers in the practice of integrated advertising apparently interpreted the absence of criticism from blacks to mean that black consumers in general were reacting positively to their ads. But when well over a fourth of the black people they interviewed expressed negative feelings about such ads, there was reason to question the advertisers' assumption. Instead of perceiving a message of humanitarianism on the part of the advertiser, most of the consumers viewed the advertiser as being interested in selling the product to more people, particularly black people. Many saw this as tokenism motivated by greed. Others see the depiction of blacks in advertising as the reinforcement of stereotypes. Researchers at the New York City Department of Consumer Affairs report that although all the minorities they interviewed in the advertising and modeling industries want to see more minorities in advertising "there exists a wide divergence of opinion as to when, how, and where minorities ought to be depicted in advertising."

Since the studies above are of unrepresentative samples of black consumers, their results cannot be generalized to the national population. However, the findings do suggest that if courts are going to define housing discrimination in terms of the response of blacks to the biological characteristics of models in real estate advertising, they must first determine what that response is; whether it is universal; and whether it is independent of people's perception of the motives of the advertiser. Even if such data were collected it would have no bearing whatsoever on establishing whether discrimination in housing has occurred. That can only be established by an investigation of whether the advertiser refuses to enter a transaction with prospective tenants on the basis of their race.

Perhaps this explains why in its comprehensive 1989 study of the past 50 years of the status of black-white relations, the National Academy of Science's Committee on the Status of Black Americans makes no mention of the impact of advertisement on the attitudes of blacks. The Committee identifies three major sources of the persistent residential separation of whites and blacks: discrimination, black and white preferences for ethnically homogenous neighborhoods, and socioeconomic differences between the two groups. In its analysis of data on discriminatory real estate practices the Committee makes no mention of real estate advertising as such a practice. I interpret the omission as an indication of the failure of researchers to establish that the underrepresentation of blacks in real estate advertising constitutes evidence of discrimination. Researchers have placed more emphasis on actual discriminatory practices, such as steering black homeseekers away from predominantly white neighborhoods and into predominantly black areas.

As I noted above, logically the charges of discrimination against RealFirm are irrelevant. But sociologically, they are enormously significant as yet another occasion in the ongoing struggle between competing definitions of rights that fuels the conflict between claims-making groups who seek access to important social institutions and facilities such as mass media and the judicial system that control social definitions and meanings. It has nothing whatever to do with capitalism and everything to do with the transformation of American society from free market economics to economic and political collectivism. This transformation is not progressive, but represents the continued resistance to the demands of modern civilization. It reflects the desire by many to return to a world based on what today is called "positive entitlement"—the recognition of membership in or association with a primordial or ascriptive group as the basis of claims on, allocation of, or control over material rewards, positions, honor, associations, decision-making, or participation. It involves the recognition of racial, religious, or ethnic groups as distinct subpopulations having group rights that must be protected and fulfilled. It is an assault on the legal order of capitalism which holds the right to property and freedom as supreme, and its principle of justice which requires that men give or take only what they deserve, that they treat other men as independent equals, and that their relationships are the product of free, voluntary exchange.

When a society develops an economy in which group membership is granted primacy over productivity, the premise at work is what Ayn Rand called "the tribal premise of economics"—"the notion that wealth belongs to the tribe or to society as a whole, and that every individual has the 'right' to 'participate' in it." The case of RealFirm illustrates the extent to which the tribal premise has beaten back the "spirit of capitalism." □



An Ignoble Prize in Economics

"No sovereign government can be bankrupt as a result of debt in its own currency."
—Robert Eisner, *New York Times,* March 19, 1994

Let me be the first to nominate Robert Eisner, economics professor at Northwestern University and former president of the American Economic Association, for this year's Ignoble Prize in Economics. Eisner's article in the *Times,* aptly entitled "Off Balance," achieves a unique status in economic history. It contains more errors per column than any editorial ever published! I counted 15 mistakes, miscalculations, and misconceptions in the article, amounting to one error per column inch.

The subject is the federal deficit, Eisner's pet peeve. In his mind, and in the eyes of most of his colleagues, there is no deficit crisis. Never mind that the national debt has reached an astronomical $4.4 trillion, increasing at an average compounded growth rate of 7 percent over the past forty years. Don't worry that the federal government has irresponsibly failed to balance its books since 1969. Don't concern yourself with the fact that interest payments account for nearly 20 percent of federal revenues, a percentage that will invariably increase as interest rates rise. According to Eisner & Co., the deficit is no economic time bomb, it's a false alarm.

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The Federal Debt: Asset or Liability?

Some of Eisner's statements are fantastically naive. For example: "The greater a person's debt, given his assets, the less his net worth; the greater the Government's debt, the greater the people's net worth."

Say again? Eisner ought to get out of his ivory tower and go down to the Chicago Board of Trade, where T-bonds trade. He would learn that his assertion is only true if the price of government securities stays constant or increases. Yet, as bondholders painfully discovered in the first half of 1994, prices of Treasury securities can fall sharply in the face of rising inflationary expectations. Indeed, excessive deficit spending can drive up interest rates and accelerate the collapse in bonds, as the inflationary 1970s demonstrated.

The Potential for National Bankruptcy

No sovereign government can be bankrupt as a result of debt in its own currency? Perhaps Eisner should stop by the history department at Northwestern and obtain a list of governments whose debt markets have collapsed over the centuries due to runaway inflation: Germany, Austria, France, Hungary, China, Brazil, and Peru, just to name a few.

Eisner will undoubtedly be surprised to learn that there is no bond market in *cruzeiros* in hyperinflating Brazil. Like many Latin American countries, Brazil can only finance its borrowing in U.S. dollars or other foreign currencies. Even then, many Third World governments defaulted on their dollar debts in the 1980s. Refinancing and moratoriums are technical terms for bankruptcy. Textbook writers Edwin G. Dolan and David E. Lindsey soberly declare the reality of the matter: "Creating new money to cover the government deficit is the source of runaway inflation, at rates of hundreds or even thousands of percent per year, that devastated such countries as Bolivia, Argentina, Brazil, and Israel in the early 1980s."[1]

Eisner's statement, "Government's debt is the liquid assets of the American people," is true today but may not be true tomorrow. Those "assets" can quickly lose value and become illiquid in a collapsing bond market. In fact, in the 1970s, Treasuries lost half their real value and occasionally faced "no bid" days. There are many scenarios which could bring about another round of "no bids" on T-bonds and even T-bills. A devastating recession, a collapsing dollar overseas, resurging inflation, a debilitating war, loss of tax base, etc. Washington has done a good marketing job in encouraging millions of Americans—including conservatives who normally oppose deficit spending—to buy "savings" bonds and Treasury securities, but the Treasury market could face a treacherous future if U.S. finances get out of hand or the economy crumbles. Given the high level and short-term maturity of federal debt, trouble could arise unexpectedly.

I would agree with Eisner on one point. National bankruptcy is not imminent. As Adam Smith once said, "There is much ruin in a nation." We have a long way to go before the government runs out of its ability to dupe the American public into funding the deficit. The timetable in Harry Figgie's bestselling book, *Bankruptcy 1995* (Little, Brown, 1993), has been proven way off the mark. The federal deficit declined last year and is nowhere near the $730 billion level Figgie predicted for fiscal year 1994. Nor are the country's finances in such dire shape that a fiscal crisis can't be averted. A healthy tax cut, privatization, and a couple of years of budget surpluses would do wonders to the economy. Mexico was in far worse shape than the U.S. was in the 1980s, and it turned itself around. Today it is running a budget surplus.

Crowding Out and Economic Malaise

Right now the more serious effect of deficit spending is on economic growth. When billions of dollars in private savings are funneled each year into government coffers via the purchase of Treasury securities and U.S. savings bonds, economic growth suffers. Even Paul Samuelson, a fellow Keynesian, acknowledges this fact: "Perhaps the most serious consequence of a large public debt is that it displaces capital from the nation's stock of wealth. As a result, the pace of economic growth slows and future living standards will decline."[2]

Fiscal mismanagement is one major reason U.S. economic growth has been near the bottom of industrial nations since World War II. Inflation and high taxes discourage saving, investment, and capital formation. By law, Social Security and other federal trust funds must invest solely in government securities. Imagine the favorable impact on Wall Street if $1 trillion in Social Security and other trust funds could be invested in U.S. stocks and bonds!

Crowding out is real. The Treasury market has grown so rapidly that it is now the world's largest financial market and as such systematically undermines the ability of private corporations to raise the capital necessary to produce new goods and services, adopt new technology and production processes, and create jobs. Today federal, state, and local governments consume 85 percent of all new debt issues, forcing major private corporations to issue so-called "junk" bonds and pay 300 to 400 basis points above Treasury rates to raise much needed capital. "Junk" bonds are an unfortunate label imposed on a form of financing that has been responsible for much job creation and economic growth.[3] The real junk bonds are the Treasury securities, which transfer massive amounts of capital from the productive profit centers of free enterprise to the unproductive, unprofitable centers of government waste.

Crowding Out or Crowding In?

Of course, Eisner, the last of the Old Keynesians, rejects the notion of crowding out. He believes in "crowding in," that "greater spending means increases in sales, profits, orders for production and hiring of workers." Those are the *visible* signs of government spending, but what are the *invisible* effects? As Frederic Bastiat once said, "There is only one difference between a bad economist and a good one: the bad economist confines himself to the *visible* effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen." If the federal government is doing the spending, that means there are fewer funds available for free enterprise to buy, produce, and hire. And if the spending is monetized by the central bank, the result is inflation. There is no free lunch, Professor Eisner.

The Growing Threat

Hans Sennholz best sums up the ill-effects of deficit financing and the potential for serious harm: "At first, [federal debt] may consume only a small share of the individual savings coming to market, causing a slowdown in capital formation and economic development. In time, the share consumed by its apparatus of politics tends to grow until it depletes all savings and causes economic progress to grind to a halt. In a final frenzy of spending, it may actually consume capital accumulated by previous generations, and thus cause economic conditions to deteriorate."[4]

Let's hope we never reach the final stage Professor Sennholz describes. But if too many political leaders buy the arguments of Robert Eisner and become complacent about fiscal irresponsibility, it could become a reality. □

1. Edwin G. Dolan and David E. Lindsey, *Economics*, 5th ed. (Hinsdale, Ill.: Dryden Press, 1988), p. 280. Dolan and Lindsey's textbook is one of the few textbooks which acknowledge the possibility of national bankruptcy.
2. Paul A. Samuelson and William D. Nordhaus, *Economics*, 14th ed. (McGraw Hill, 1992), p. 633.
3. An dispassionate assessment of the high-yielding corporate bond market can be found in Glenn Yago, *Junk Bonds* (Oxford University Press, 1991).
4. Hans F. Sennholz, *Debts and Deficits* (Spring Mills, Pa.: Libertarian Press, 1987), p. 76.

"Correction, Please!" Column Is Vindicated

In my May column, "The Mother of All Myths," I focused on a common error in the financial press that consumer spending represents two-thirds of all economic activity. In reality, consumer spending equals only about one third of total economic activity when spending at all stages of production are measured. I also pointed out that gross business investment is by far the largest sector of the economy, not retail sales as previous believed.

Good news! *The New York Times* has now vindicated my point. In a recent business page article, the *Times* changed their statistics. A reporter wrote that retail sales "tracks one-third of all spending in the economy," not the two-thirds they and other mainstream media had previously reported. However, the *Times* continued to interpret the data as if consumer spending were the largest sector. The article stated, "retail sales figures are volatile." (They aren't.) Consumer spending "can be a good indicator of how fast the economy is growing." (It isn't.) Better indicators of future economic activity are industrial production, fixed business equipment, construction, commodity prices, and other early-stage indicators. But the change is heartening and a good beginning.

—*M.S.*

BOOKS

Phantom Risk: Scientific Inference and the Law

edited by Kenneth Foster, David Bernstein, and Peter Huber

MIT Press, 1993 • 457 pages • $39.95

Reviewed by Doug Bandow

Socialism has been defeated almost everywhere in the world—except in the United States. And nowhere is the collectivist impulse stronger than in the environmental movement.

The intellectual case against the apocalyptics has long been overwhelming and is finally receiving serious media attention in the establishment press. Among the more recent books detailing the environmental lobby's fraudulent claims are Ron Bailey's *Eco-Scam: The False Prophets of Ecological Doom*, Michael Fumento's *Science Under Siege: Balancing Technology and the Environment*, and Dixy Lee Ray's and Lou Guzzo's *Environmental Overkill: Whatever Happened to Common Sense?*

Unfortunately, ecological alarmists like Vice President Al Gore continue to dominate the political process. They also enjoy ready access to the courts. The result is "two intersecting problems," write engineer Kenneth Foster and attorneys David Bernstein and Peter Huber. "The first is the great disparity between the ease with which a controversy about a suspected hazard can begin and the difficulty in resolving the nature of the connection, if any, between the suspected hazard and a health effect. The second is the havoc the resulting confusion wreaks in the courts."

Phantom Risk goes on to address these two issues in detail, utilizing contributions from biochemists, toxicologists, physicists, doctors, and other experts. Although the book is not directed at a popular audience, its objective analysis and measured tone should make it a powerful entrant in the ongoing environmental debate.

The first set of issues addressed by Foster and his colleagues are the most dubious—"hazards whose very existence is somehow in doubt." Despite the modestness of the risks, however, the public concerns have been enormous.

For example, many household appliances, such as hair dryers, give off electromagnetic fields and have been blamed for causing cancer. Given the pervasiveness of such gadgets, many Americans have become quite frightened by everything from utility powerlines to electric blankets. Kenneth Foster of the University of Pennsylvania surveys roughly four dozen studies, finding ambiguous evidence "of a slight increase in cancer risk that is somehow associated with electromagnetic fields," but worries "that 'something is there' might be just the accumulated effect of scientific noise." In fact, scientists have yet to identify any specific hazards. Moreover, even the worst case risks pale compared to those people regularly undertake voluntarily: smoking, for instance, or failing to wear automobile seat belts.

Of particular concern to the contributors to *Phantom Risk* is the distorting impact of such issues on the court system. Writes Foster: "In science one can draw no conclusions from unexplained phenomena or inconclusive studies. But in the courtroom it is sometimes enough just to raise questions. And these studies have done that very well."

Similar is the controversy over video display terminals, which also put off electromagnetic fields and have been blamed for causing miscarriages. The reports, writes Foster, "have been overwhelmingly—but not totally—negative, finding no links between use of VDTs and spontaneous abortion or birth defects." This doesn't mean that VDTs don't cause problems; rather, the difficulties are much more mundane, what Foster calls "ergonomic and psychosocial," particularly the fact that "many clerical workers using VDTs simply have lousy jobs." Alas, these issues are not amenable to judicial solutions.

Bendectin, sold to treat nausea and vomiting during pregnancy, has also been blamed for birth defects. Evidence of causation was dubious. Observe Louis Lasagna and Sheila Shulman of Tufts University, "the scientific evidence seems sufficient to rule out the possibility that Bendectin is a powerful cause of birth defects." But that didn't stop three juries from blaming Bendectin, effectively forcing the drug off the market. The problem here, Lasagna and Shulman explain, is the legal process, particularly the inadequate review of scientific evidence and the "all-or-nothing" nature of litigation, which ignores "the subtleties of causation."

Indeed, the legal process is at fault in all of these areas. Appellate courts refused to overturn a finding of liability, despite the contrary evidence, in a celebrated spermicide case. VDTs have so far generated only a handful of cases, but many more are in the offing. In contrast, thousands of claims were filed against Bendectin, which led Merrell-Dow Pharmaceuticals to withdraw its product, despite winning most of the court cases. The American College of Obstetrics and Gynecology complained that the result was "a significant therapeutic gap." Litigation over electromagnetic fields, including the mere *fear* of harm, has led to million-dollar judgments.

Perhaps even worse have been the abuses surrounding substances that pose serious dangers in high concentrations but little risk otherwise. *Phantom Risk* demonstrates that they are even more susceptible to the inflammatory claims of the apocalyptics.

Particularly illuminating is the chapter by Bruce Ames and Lois Swirsky Gold, both of the University of California at Berkeley. They survey eight major misconceptions regarding the risk of cancer from pollution. Contrary to popular myth, for instance, cancer rates "are steady or decreasing," they write. Animal testing at fantastically high rates of chemical contamination is of little value in predicting the actual risk to normal people. Ames and Gold also point out that most carcinogens are natural, not synthetic, and that the natural ones are more toxic. Finally, technology brings benefits as well as costs, and campaigns to control pollution, such as pesticides, have to consider the very real trade-offs involved. As Ames and Gold point out, "Efforts to prevent hypothetical cancer risks of one in a million could be counterproductive if the risks of the alternatives are greater."

While much of the discussion in *Phantom Risks* may at first seem abstract and academic, the chapter by Harvard University's Ralph D'Agostino and Richard Wilson on asbestos helps demonstrate the book's relevance. Many school systems, like that in New York City, for instance, are struggling with expensive asbestos removal programs. Litigation, too, has become an ever-present nightmare.

There is no doubt that asbestos, long used as a fire retardant, increases the risk of asbestiosis (fibrosis of the lung) and lung cancer, among other diseases, though smoking remains a far more important cause and the issue is quite complicated. D'Agostino and Wilson do a good job of helping the reader sort through the morass. For example, there are different types of asbestos fibers; some are less harmful than others. Equally important, it is level of dosage, not mere exposure, that creates the risk. As for schools, they argue, "the risks in question are in most cases exceedingly small," between one-fifteenth and one-two hundredth that of the annual risk of driving a car. At the same time, extensive removal efforts have "led to unnecessary fear and expense to the public." Finally, there are risks from asbestos substitutes, such as fiberglass.

PCBs, or Polychlorinated Biphenyls, are chlorine compounds. High doses have proved toxic to some animals, but do not appear harmful to humans. In short, concludes Renate Kimbrough of the Institute for Evaluating Health Risks, "claims of association, based on epidemiologic studies, of chronic health effects such as cancer and trace exposure to environmental levels of PCBs are unjustified." Not surprisingly, given the hysterical nature of much of the environmental debate, writes Kimbrough, "People have overreacted to possible hazards from PCBs at typical environmental levels."

Dioxin has become even more controversial, leading the EPA to evacuate the entire town of Times Beach, Missouri. Dioxin has been one of the leading causes of the apocalyptics, making any reassessment of the risks particularly sensitive. Writes Michael Gough of the Office of Technology Assessment:

> Any change in popular perceptions of dioxin would be a sharp challenge to the idea that cleaning up tiny amounts of chemicals in the environment will significantly improve human health. After all, if some scientists and many others were mistaken about the worst of carcinogens, perhaps they are also mistaken about other chemicals, for which evidence of carcinogenicity and human exposure is far less certain.

Gough's analysis suggests that, in fact, many people were mistaken about the risks of dioxin. Again, what *Phantom Risk* delivers is a detailed yet accessible review of the scientific data. Gough's conclusion, not surprisingly, is that early, hysterical charges were not backed up by later, serious research.

The book also devotes chapters to three celebrated examples of radiation exposure and their effects: the Three Mile Island nuclear reactor, U.S. nuclear testing, and the Ferwald uranium plant. All of these resulted in considerable fear, even panic; all also generated enormous legal controversy, particularly among veterans exposed to the fallout from nuclear tests. In all, the fears appear to have been overblown. Typical is the conclusion of George Tokuhata, of the University of Pittsburgh: "The study found no evidence of excess cancer deaths in the five years after the TMI accident. On the contrary, residents in the area within 20 miles of the plant had *fewer* cancer deaths than expected during the 5-year period."

Phantom Risk goes on to provide a summary round-up chapter of the legal status of these groups. There are a lot of cases, some good decisions, and many bad judgments and settlements. Hundreds of millions of dollars have been paid out by private firms and public agencies to compensate plaintiffs for harms that appear dubious at best.

The book's final section involves questionable medical theories. Marvin Romsdahl of the University of Texas covers the now largely discredited cases where cancer was blamed on trauma, such as a blow to the head. The issue well illustrates the problem of junk science. Writes Romsdahl, "interest in the possible connection between trauma and cancer developed not because of any scientific breakthroughs but because of great social changes associated with the industrial revolution," including worker's compensation laws.

Today's equivalent of traumatic cancers may very well be "Multiple Chemical Sensitivities" (MCS). Michael Luster, Gary Rosenthal, and Dori Germolec of the National Institute of Environmental Health Sciences critique what has become one of the most extreme claims of some environmentalists, that exposure to even otherwise seemingly harmless synthetic chemicals may cause neurological or emotional disorders. The result has been the usual raft of lawsuits that the courts are ill-equipped to handle. Many MCS victims do indeed seem to suffer distress, but causation remains unclear.

The difficulty in trying to resolve these sorts of problems in court is ably demonstrated by attorney Richard Cornfeld and Harvard Medical School professor Stuart Schlossman as they discuss the case of *Elam v. Alcolac*, which involved 31 plaintiffs claiming that chemical exposure severely depressed their immune systems. The result was a nearly $50 million verdict yet, complain Cornfeld and Schlossman, "the court did not cite any evidence of damage which any competent immunologist would accept." They argue that the litigation showcases the inability of juries to decide complex scientific questions and should lead to the development of new rules of evidence to cover these sorts of claims.

All told, the intersection of law and science has not been a pretty one. There are two separate problems, which, warn the editors, together create chaos: first, "much confusion, error, and ambiguity surrounds risk research, at least when searching for small risks"; second, we have "a legal system that sometimes raises more questions than it settles."

Unfortunately, there is no way to avoid some problems of this nature. Science is uncertain, experts make mistakes, the courts are open to everyone, lawyers have an incentive to file speculative cases, and juries are usually authorized to decide the facts of legal cases. Still, the process could be improved. Write the volume's editors:

> Probably the best that legal reformers can do is to suggest ways to help improve the quality of the scientific evidence that is presented in court. The goal is not to raise standards of proof to levels so high that no plaintiff could hope to win, but rather to ensure that the scientific testimony that is presented to juries is as reliable as possible. Expert testimony needs to be *verifiable*, and, where possible, *consistent with a consensus of scientific opinion*. It needs to address at least three issues: the existence of a hazard, the plaintiff's exposure, and the risks associated with the exposure. In legal terms, it needs to be more probative than prejudicial.

They go on to recommend eight specific changes, which deserve to be taken seriously by judges and legislators alike. For even our wealthy society, they worry, "phantom risk remains a diversion that is too expensive."

Phantom Risk is an important book—an indispensable reference for anyone desiring to confront the environmental apocalyptics who seem dedicated to litigating and regulating our society into ruin. Rather than offering political polemics, the book's editors and authors let their abundant evidence speak for itself. Which is precisely why *Phantom Risk* presents a challenge that the environmental lobby will find difficult to ignore. □

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Bankers and Regulators

with an introduction by Hans F. Sennholz

The Foundation for Economic Education, 1993 • 176 pages • $14.95 paperback

Reviewed by Robert Batemarco

"Money is different," we are told by practically every member of the economics profession, including many who stand tall against government intrusion in every other sector of the economy. This difference, in their eyes, legitimizes government provision and control of money as well as its regulation of those private institutions which create and lend money. The contributors to *Bankers and Regulators*, the eighth volume in the *Freeman Classics* series, however, find that line of reasoning unpersuasive. So will the reader of this book, when faced with its revelations of not only the adverse consequences of those regulations but also of successfully applied alternatives to government regulation.

The book consists of a lengthy introduction and seventeen articles, all of which, at one time or another, appeared in *The Freeman*. While one (a William Cullen Bryant piece critiquing usury laws) was written in 1836, most are of recent vintage, with over three quarters of them first published within the last ten years. The age of the pieces in this collection is of little consequence, as they are based on principles which remain as valid today as when they were first written.

Bankers and Regulators is divided into three sections, which roughly correspond to theory, history, and policy prescriptions.

By no means are these divisions airtight, however, as many selections provide the reader with all three. Hans Sennholz's article on the bailout of the savings and loan industry is a prime example. The longest piece in the collection, it is an extended narrative for which his mastery of economic theory furnishes a coherent explanation. How cartels inevitably break down, the distortions created by inflation, the moral hazard entailed by government "insurance" which defies every principle of insurance, and the ever-destructive impact of price controls (in this case on interest rates) are all clearly illustrated by the events described here.

Several themes crop up over and over again throughout this slim volume. Some, such as the destabilizing effect of restrictions on branch banking, are now commonly acknowledged in the mainstream literature. Where *Bankers and Regulators* stands out, however, is in its contributors' willingness to tread where no money and banking text would dare. Where else could you find a discussion of the impact of banking regulation on the distribution of income (Sennholz's previously cited piece on the S&Ls and E.C. Pasour's discussion of the federal farm credit system) or evidence that implicates the Fed in the deterioration of the financial condition of U.S. banks since its inception (Richard M. Salsman's analysis of the "too-big-to-fail" doctrine)? You won't learn that such universally accepted features of our banking system as deposit insurance, reserve requirements, the existence of a lender of last resort, and central banking itself, are not only unnecessary on theoretical grounds, but have been absent from other banking systems with no ill effects (Donald R. Wells' comparison of U.S. and Canadian systems) in the pages of *Business Week*.

In addition to the topics mentioned above, the international monetary system and credit crisis (Ken S. Ewert, Christopher Culp), fractional reserve banking (Morris Markowitz), abolition of the Fed (Ernie Ross, Elgin Groseclose), deposit insurance (Jeffrey Rogers Hummel, Kurt Schuler), free banking (Lawrence H. White, Donald R. Wells, and L.S. Scruggs), the gold standard (Joe Cobb), and electronic banking (Elizabeth Kolar) each rate at least one chapter of this collection. The volume is strong on history, making it suitable as a supplementary text in money and banking courses, texts for which almost never contain enough historical material for my taste. It is also infused with FEE's principled position that free markets are desirable for both practical and moral reasons. The reader of this volume will be well equipped to defend the position that money is no exception to the general case for free markets. □

In addition to editing the book review section of the Freeman, *Robert Batemarco is a marketing manager for financial analysis at J. Crew in New York City and teaches economics at Marymount College in Tarrytown, New York.*

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS

AUGUST
1994
VOL. 44
NO. 8

396 **Reforming America's Medical System Through Deregulation** *by Doug Bandow*
Real solutions to America's medical care problems.

405 **Is Canadian Health Care a Good Model for the U.S. to Follow?** *by Michael Walker*
Cautions from the director of The Fraser Institute.

408 **If You Build It, They Will Come** *by K. L. Billingsley*
Medi-Cal built it, advertised it, and they came . . . in droves.

410 **Environmental Regulation: Just as Bad as Any Other** *by Gregory B. Christainsen*
The benefits of establishing new property rights to natural resources.

413 **Ideas and Consequences: The Power of Positive Example** *by Lawrence W. Reed*

415 **At Home, But Hardly Alone** *by Jim Christie*
The growth of homeschooling.

417 **The Natural Disaster Protection Act: A Disaster Waiting to Happen** *by Gary Wolfram*
Moving further down "the road to serfdom."

421 **Free Markets and Externalities: The Symmetry of Unintended Effects** *by James Rolph Edwards*
Environmental ideology and regulation often overlook the beneficial effects of industrial activities.

426 **Labor Cartels, Competition, and Government** *by Charles W. Baird*
Even the efforts of friends in high places will not rescue unions.

429 **One Information Superhighway: Take It or Leave It?** *by Eric-Charles Banfield*
The dangers of centralized control of information networks.

431 **Houston Says No to Zoning** *by James D. Saltzman*
A victory for individual rights.

436 **The Case Against Managed "Fair" Trade and Strategic Trade** *by Shyam J. Kamath*
A refutation of popular nostrums.

443 **Get a Grip, Garth!** *by Reid Schlager*
The economics of selling used CDs.

445 **Why Old Proverbs Don't Apply Anymore** *by Michael Bixby Dudley*
Homespun wisdom comes unraveled.

447 **Some International Neglect Would Be Good for Africa** *by James C.W. Ahiakpor*
Economic and political benefits.

451 **Eating the Seed Corn** *by Raphael G. Kazmann*
You can't consume something that hasn't been produced.

453 **Pensiongate: The Emerging Crisis of Church Investments** *by Charles Dickson*
The meager harvest of "socially responsible" investing.

455 **Do English Cathedrals Need Government Help?** *by James L. Payne*
Voluntary action can perform the kind of public service we often leave to government.

457 **Correction, Please! What's Missing from This Picture?** *by Mark Skousen*

460 **Book Reviews**
Jonathan H. Adler reviews *Bargaining With The State* by Richard Epstein; *Public Education: An Autopsy* by Myron Lieberman, reviewed by George C. Leef; *The Endangered American Dream* by Edward N. Luttwak, reviewed by Jeffrey Tucker.

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PERSPECTIVE

Bunnie Rabbit, Winnie, and the Grand Plan

With their uncertainties and fears and aspirations, people do much fretting and flailing. It is a hard world, to be sure. So we work and save and plan. And in our striving and struggling, the veneer of civilization is often worn very thin. It is worn completely through at times and in places, exposing our greed and gaucherie and petty preoccupations.

A vastly more attractive and assuring aspect of being is provided by furry friends. I have been blessed with companionship of my rabbit, Bunnie, and my dog, Winnie. Bunnie had to leave me some while ago, and now Winnie, too, has gone.

Both little Bunnie—she of the dainty face and long ears and button tail and velvet coat—and dear Winnie—pretty and cute and sweet and fetching—like the lilies of the field, neither spun nor sowed. They directly contributed nothing to gross domestic product. They were consumers, not producers, absorbing a bit of the world's scarce resources and returning nothing—nothing but an example of poise and patience and grace and affection.

Presumably, we shall never fully comprehend the Grand Plan of the Universe. But much of what we can suspect and infer is to be gained—if we are willing to learn—from the humble likes of Bunnie and Winnie. While people meanly scheme and worriedly strive and struggle, the Bunnies and the Winnies seem instinctively to have found their role and purpose. They play their part with an innate dignity and beauty of nature which should humble us.

There are many ways in which we can do ourselves in, individually and collectively, and the human race has worked assiduously to discover and utilize them all. Occasionally, a Shakespeare, a Rembrandt, or a Beethoven reminds us of our angelic heritage. A few of the world's peoples have grudgingly permitted some experimentation in social arrangements of freedom and individualism which can ease the pains and constrictions of scarcity. It is not surprising that progress therein is, at best, slow and unsure, for it is perversely protested and opposed by most. Unlike the Bunnies and Winnies—the supposed lesser of God's creatures—people persist in rejecting their role and subverting their purpose.

Scarcity is not confined to iron ore and arable land. The most constricting scarcities are those of character and personality. All our cleverness and wit, all our tools and technology, all our constitutions and posturings 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.

—William R. Allen

Why Medical Costs Are High

There is much consternation about the high cost of medicine in the United States. I have heard all sorts of explanations for this but none appealed to my common sense. Today I came up with one of my own, and I am sufficiently vain to think it makes very good sense. But first a bit of background.

I have medical insurance through my employer. Usually I get a checkup every year. I am now at the age when it makes sense to do this, although I have no unhealthy habits. My father died of a heart attack at 67, and I am 55, so why be complacent?

Recently my doctor prescribed a stress test to see if I might have heart disease. After I had spent eight minutes on a treadmill, technicians took pictures of my circulatory system.

As I lay there for about twenty minutes, I thought about high medical costs. And it dawned on me: Of course our medical costs are high. We have an intense desire to live!

I hypothesize that this actually explains why we spend so much money on medicine: We want to live as long as we can, and we want to be as healthy as the ingenuity of researchers and practitioners makes possible.

But it is a costly proposition. Add to this that many people also wish to strain their biological capacities with such indulgences as heavy drink, heavy smoke, and reckless driving, which can clearly put them at high risk of medical difficulties. For lack of a better catchphrase, let's say that the intense desire to live and to fill life with much enjoyment, pleasure, and adventure makes it likely that people in America will spend much more money on medical care than would people in cultures where the human life is not so highly prized.

I am not trying to justify any of this, although I will readily admit that I find none of it objectionable. I want to give a sensible answer to politicians, who worry that we pay too much for medicine. I suggest it may simply be that we want to live longer and with more intensity than people do elsewhere.

—Tibor R. Machan

Income—Earned and Unearned

We often hear that some income—notably wages and salaries, the returns on labor—is earned, while other income—notably interest and dividends, the returns on capital—is unearned. This contrast usually arises in the context of discussion of what constitutes an equitable tax system, and has hence acquired a measure of importance. The distinction between earned and unearned income is rooted in the idea that it is labor that makes for value, and hence that it is the fruits of labor alone that are earned. This idea has a respectable pedigree: Both Locke and Marx held some version of it.

In truth, however, as the Austrian School has taught, income is earned by satisfying the wants and needs of others. This satisfaction can come from various sources: It can come from labor and it can come from capital, as well as from any other factor of production.

Labor by itself may be sterile. It must satisfy some need of others, some need for which they are willing to pay, for it to result in earnings. Likewise, the mere deployment of capital may be sterile. Capital must be deployed productively—i.e., so as to satisfy the wants and needs of others as those others see it—for it to result in income. And when it does, such income is most certainly earned, as consumers—not government officials—decide by their purchases.

—Joseph S. Fulda

THE FREEMAN
IDEAS ON LIBERTY

Reforming America's Medical System Through Deregulation

by Doug Bandow

Health care has moved to the forefront of American politics and almost everyone in Washington wants to do something. In the Clintons' view the medical system is in crisis and requires radical restructuring. A number of Republicans, too, seem to believe that more federal intervention is necessary, just not quite the sort envisioned by the administration. What virtually no one is talking about, alas, is implementing the one reform program with a proven track record, but one which most policymakers perceive to be far more extreme than even the President's plan: deregulation.

Government does need to act. While there really is no health care "crisis"—the sick are more likely to be treated successfully in America than in any other nation—the medical marketplace does suffer from some serious defects. Americans are paying more than necessary for their care and some people are receiving less and poorer care because prices have been inflated artificially.

It is these problems, rising costs and millions of people uninsured, that have caused the administration to advocate the *de facto* nationalization of health care. The basic objection to the current system appears to be that it is not centrally planned. This philosophy is epitomized by the comment of Wall Street analyst Kenneth Abramowitz, that "Right now, health care is purchased by 250 million morons called U.S. citizens." The answer, he explained, was to "move them out, reduce their influence and let smart professionals buy it" on their behalf. This philosophy, of course, motivated generations of apparatchiks and bureaucrats throughout Eastern Europe and the former Soviet Union, and reflects what Nobel laureate Friedrich Hayek called "the fatal conceit."

President Clinton seems to share this conceit, having forgotten who actually provides medical care. For instance, he told one audience that "Make no mistake about it, some of the people who are giving me hell in Washington [over Whitewater] are doing it so I can't give you health." But he would not be "giving health" to anyone under his proposal. Nor would any of the scores of bureaucracies that he wants to establish.

The basic problem is that medicine is a process, not a structure; rearranging boxes in a diagram cannot account for the intricacies of human behavior. The very complexity of the medical process requires decentralized decision-making. No National Health Board, no Health Alliance, no gaggle of lawmakers and bureaucrats can substitute for a complex system in which tens of millions of patients, doctors, hospitals, insurance companies, and other participants make more than 1.3 billion medical "trans-

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Mr. Bandow, a contributing editor to The Freeman, *is a Senior Fellow at the Cato Institute and the author of* The Politics of Envy: Statism as Theology, *forthcoming from Transaction Publishers.*

actions'' a year. Yet the administration would move in precisely the wrong direction, empowering political officials and health administrators instead of restoring to patients responsibility for their own medical destinies. Asks Tom Miller of the Competitive Enterprise Institute (CEI), ''Do we really want to vote collectively (or delegate decision-making to anonymous bureaucrats) on how life-saving technology is rationed, where boundary lines are set for mercy killing, when life gets to begin and end, the manner in which we die, how we manage risks to our health, and how much further we can push our own definitions of 'good health'?''

Moreover, advocates of increased government intervention in the medical market are confusing symptoms with causes. Costs do not rise in response to, say, sun spots. Rather, costs have been rising so quickly for several reasons, particularly due to government activity. For instance, more than three of every four dollars in the health care system is paid by someone else—much of it directly by the federal government, most of the rest by insurance companies. The latter is a result of a tax code that prefers fringe benefits, particularly health insurance, to wages. Because of this pervasive third-party payment, consumers have an incentive to consume and providers to provide more and more expensive medical services than if patients were directly responsible for the cost of their care and acquired health insurance to cover the risk of catastrophic illness, not effectively to prepay routine care.

Washington also directly boosts the costs of pharmaceuticals through its byzantine drug approval process. States inflate the cost of health insurance by requiring policies to cover many extraneous benefits and by interfering with the operation of insurance markets. State governments also hike labor costs by unnecessarily restricting, through occupational licensure, the work that nurses and other medical professionals can perform. Taken together, these many interventions in the marketplace are the primary cause of today's health care ''crisis.''

Real Solutions

Thus, the answer is not one or another scheme to restructure radically the American medical marketplace. Rather, the solution lies in building on the strengths of the existing system by enhancing the operation of market forces.

The fundamental problem with American medical care is that patients have become largely disengaged as decision-makers since most of every health care dollar is paid by someone else. As a result, patients and doctors freely spend someone else's money on ever-more expensive treatments; at the same time, that someone else is increasingly fighting to hold down costs through ''managed care'' and fixed fee schedules. Thus, medicine has simultaneously grown more expensive and bureaucratic. And that will not change unless patients recover more authority over their treatment.

The increase in third-party payment reflects both the creation of Medicare and Medicaid and the rise of employer-paid health insurance. The latter is largely the fault of Washington as well, since the failure to treat fringe benefits like wages encourages employees to demand ever more comprehensive health insurance. And until recently, at least, companies were happy to comply, because premiums are fully deductible and not, in contrast to wages, subject to Social Security levies. All that matters is that the employer buy the policy.

As a result, what is viewed as the most important fringe benefit is tailored to meet corporate rather than individual preferences. Many of the problems that exist today—such as lack of insurability and portability, particularly for those with preexisting conditions—are a result of the fact that insurance is written at the behest of employers rather than employees. Workers still foot the bill, since health insurance is merely one form of compensation, but most have very little control over the specific benefits that they receive. In contrast, if workers bought their own policies, individually or as part of group cooperatives, they would demand guaranteed long-term insurability and other provisions that employers have no incentive to offer.

That the proliferation of third-party payment, which affects doctors' recommendations as well as patients' requests, has had a profoundly negative impact on the medical system should come as no surprise. Imagine the result if some combination of government and private insurers paid three-fourths of the cost of buying and maintaining automobiles. Everyone would want luxury cars, few people would seriously question repair bills, garages would recommend every procedure imaginable, and total automobile outlays would soar.

Prices Matter

It has, of course, been argued that medicine will never respond to market forces in the same way as will, say, auto purchases and repair. However, while a patient may have little discretion in deciding how he wants to be treated after a serious accident or heart attack, he can easily decide not to see a doctor for a common cold or minor cut. This sort of choice is readily apparent in the market for cosmetic surgery, which involves very little third-party payment and significant price competition. In fact, if patients didn't exercise some restraint even in today's "cost-plus" system there would be permanent health care overload.

A Rand Corporation study provides dramatic evidence that moving towards catastrophic coverage promotes cost-consciousness: people with free care (a zero deductible) incurred 50 percent higher medical bills, visited physicians 50 percent more frequently, and were admitted to hospitals one-third more often than those with a deductible of $1,000 (worth about $2,500 today). Similarly, Medicare participants have been found to up their outlays as benefits rose and co-payments fell. In 1977 the elderly spent 3.3 times as much per capita as the nonelderly; by 1987 that figure had reached 4.1.

Reducing the generosity of medical insurance would also help cut the blizzard of paperwork. Much of the administrative burden is simply filing forms and cutting checks for even the smallest expenses; increasingly important in recent years is the role of insurers' "gate-keepers" who administer cost-containment procedures like utilization review and physicians' staffers who negotiate with the gate-keepers. Again, consider the effect on the cost of auto or home insurance if every repair required submission of a form, approval of the procedure by a company representative, and issuance of a check. One estimate is that administration consumes 19.3 percent to 24.1 percent of medical spending. That was as much as $202 billion in 1992 siphoned away from patient care.

What Can Be Done at the Federal Level?

End Lavish Tax Subsidies. Congress should end its tax preference for lavish insurance policies. Washington could implement this reform by taxing employer-provided health insurance (and other fringe) benefits. (Though such action should be paired with an equivalent reduction in tax rates, since rationalizing the health care system should not become yet another excuse for government to raid taxpayers' wallets.) Moving towards catastrophic insurance would benefit all concerned: hiking a deductible from $250 to $1,000 would lower an average policy's annual premium by nearly twice as much, $1,315, today.

Medi-Save Accounts. Better, however, would be a more far-reaching proposal for medical IRAs, or medi-save accounts (MSAs). Today employers in urban areas with an average cost of living spend about $4,500 per employee on health insurance. Rather than paying that $4,500 for a standard policy, a company could instead purchase a catastrophic policy for $1,500 and give the employee the extra $3,000 to cover his deductible of the same amount (94 percent of families have annual medical expenses under $3,000). The law could be structured to allow a pay-out of leftover funds at the end of each year, or to encourage the accumulation of extra money year-by-year to cover both traditional procedures, such as eyeglasses, and unconventional treatments, such as chiropractic services, not covered by the typical insurance policy. (Some cafeteria-style fringe benefit plans include flexible savings accounts, but any unused funds revert to the employer, the opposite of the result intended by MSAs.) MSAs are not an option today because the $3,000 would be treated as income and taxed; moreover, the self-employed are currently allowed to deduct only one-fourth of their health insurance premiums and medical expenses only when they exceed 7.5 percent of adjusted gross income.

The tax law could be changed in one of two ways. Most simple would be to make catastrophic policies, with large cash payments to cover patient deductibles, fully tax deductible, while ending the deductibility of comprehensive, first-dollar-payment policies. While that would eliminate the existing bias against catastrophic plans, it would leave employers in charge of the purchase of health insurance and would not help people who lacked employer-provided coverage.

Better, then, would be for the federal government to tax any employer-provided health care benefits, while providing a tax credit or deduction for individual purchase of insurance. This would place all types of insurance on an equal basis with one other, as well as on an equal basis with other forms of compensation; the self-employed and unemployed would have equal tax standing with the beneficiary of employer-provided health care benefits. In general, more people would choose insurance tailored to their own needs.

Turning insurance back over to workers would have two additional, important effects. First, it would give individuals more choice; today only a third of employees of even mid-to-large firms can choose between policies. Second, it would help guarantee portability and insurability. Today roughly 15 percent of workers either remain in their current jobs or change jobs largely due to health insurance. If they purchased their own insurance they, unlike their employers, would have an incentive to acquire insurance configured to meet their own needs.

To further reduce third-party payment problems, Congress could apply the MSA principle to both Medicare and Medicaid. That is, rather than have Washington (in conjunction with the states for Medicaid) run mammoth fee-for-service insurance plans for the poor and elderly, the government should provide either vouchers or refundable tax credits towards a participant's purchase of an approved policy. Such an approach might initially increase federal budget costs, but in the longer term should moderate overall medical expenses and improve participants' care.

States could also promote MSAs, although their ability to do so is much more limited than that of the federal government. States could, for instance, publicize the efforts of private firms that have developed programs that promote catastrophic health insurance coverage. States could also offer accounts for their own employees and, with federal approval, for Medicaid recipients. In the latter case states could provide vouchers to program participants for the purchase of private insurance plans with cost containment provisions.

Pharmaceutical Deregulation. Access to new prescription drugs must be improved. Federal regulatory policies have heightened the perception of a health care crisis both by raising the cost of pharmaceuticals and discouraging development of prescription drugs that would lower overall health care costs. Indeed, drugs, which account for just eight percent of U.S. health care expenses, offer real potential for helping to moderate future cost rises because new substances could forestall doctors' visits, hospitalizations, surgeries, and other expensive procedures. Until federal policy is changed, however, this promise is likely to go unfulfilled.

Complaints about high drug prices are legion, yet the industry is competitive—there are some 22 major drug firms, and no company has more than a 7.2 percent market share. Indeed, the industry was even more fragmented in 1962, before more stringent federal regulatory standards, passed in the aftermath of thalidomide-induced birth defects, drove smaller companies out of business. The new FDA "regulations created pronounced economies of scale for drug innovation, which steadily increased over time," reports author Terree Wasley.

But reducing the industry's competitiveness was not the only impact of the federal government's more restrictive regulations. In the name of safeguarding the public from harmful drugs, the FDA is protecting the public from useful drugs as well. The problem is two-fold. First, the federal regulatory process is unnecessarily cumbersome and expensive. Companies must file separate applications, which typically run 100,000 pages, for different treatments by the same drug, and the approval process averaged 12 years before the Bush administration made some modest reforms. The average cost of developing a drug runs $359 million, according to the Office of Technology Assessment, and estimates are that the FDA may be responsible for as much as half of this cost.

Second, the FDA's power is excessive by any measure: drugs cannot be released until the FDA certifies not only their safety, but also their efficacy. Yet the problem with thalidomide, which spurred Congress to give the FDA a stranglehold over the pharmaceutical market, was that it caused birth defects, not that it didn't work. Unfortunately, the requirement that firms demonstrate efficacy further lengthens the time necessary to win approval of new drugs. This problem is exacerbated by the natural bureaucratic tendency to be risk averse. To approve a drug that is either ineffective or harmful will hurt one's career far more than holding up approval of efficacious, helpful products.

As a result, families with a member suffering from Alzheimer's disease have been frustrated by the agency's refusal to authorize the use of the drug THA, available in other nations, despite evidence that it helps four of ten patients who take it. Delays in bringing propranolol, a beta-blocker for use in treating angina and hypertension, to the U.S. market may have cost 100,000 lives; nearly as many may have perished from the lack of availability of the anti-bacterial Depra. Thousands have also died waiting for misoprostol, a drug for gastric ulcers, and streptokinase and TPA, for heart conditions. Equally costly has been the delay in bringing anti-AIDS drugs, such as AZT, to the market. Only enormous pressure from AIDS activists and Vice President Dan Quayle's Competitiveness Council caused the FDA to speed up trials of potentially life-extending drugs.

But these delays are still too long: people continue to resort to "buyers' clubs" to obtain pharmaceuticals approved elsewhere in the world but banned by the FDA. Even FDA Commissioner David Kessler, a Bush appointee held over by President Clinton, acknowledges that "Back in the 1960s and 1970s, post-thalidomide, the agency's mission was to keep unsafe products off the market. But in dealing with AIDS, we have learned in no uncertain terms that our job is not only to keep unsafe drugs off the market but to get safe and effective drugs to the market."

Alas, supposedly learning this lesson has not prevented the FDA from attempting to extend its reach over such products as vitamins and herbs, as well as possibly cigarettes under the pretense that manufacturers add nicotine. The agency also regulates advertising: aspirin makers are not allowed, for instance, to tell consumers that use of their product may help prevent heart attacks. Yet advertising is a critical means of promoting an educated citizenry.

Because of this panoply of restrictions, the FDA, contends Michael Tanner of the Cato Institute, is "one of the most destructive of all federal government agencies," a bureaucracy that "is clearly an unnecessary burden to the American health care system." At the very least FDA decision-making should be decentralized and streamlined. Better would be to restrict the FDA to monitoring safety, leaving the question of effectiveness to pharmaceutical companies, doctors, and patients. After all, none of them are interested in promoting ineffective drugs. Best of all, the FDA should be turned into a certification agency even for safety, to compete with private entities, such as the Underwriters Laboratory, which tests electrical appliances. Unapproved drugs could be marketed as such, with doctors, pharmacists, hospitals, and insurers all operating as "gate-keepers" advising patients. The potential for product liability lawsuits, too, would remain a potent constraint on pharmaceutical practices. Overall, the danger of allowing the sale of a few ineffective drugs pales compared to the benefit of allowing patients access to additional effective ones.

State Opportunities for Reform

While states cannot reach such issues as the federal tax deductibility of health care insurance, there is still much they could do to help reduce health care costs. In fact, one of the virtues of federalism is that states can operate as laboratories for policy experimentation. Unfortunately, few have taken good advantage of this opportunity. Rather, most states have exhibited the same penchant to regulate as has the federal government.

End Expensive State Regulations: Certificate of Need Requirements and Benefit Mandates. Rising costs are a problem in and of themselves, but they also contribute to other problems. Nearly two-thirds of those who are employed but lack insurance labor for firms with fewer than 100 workers. For those companies cost tends to be the principal deterrent to offering insurance. Thus, it is critical for states to reduce regulatory burdens that unnecessarily hike medical expenses.

One problem is state control over the offering of medical services. Past federal subsidies led to an expansion of hospital capacity and extra beds; thus, during the 1970s states began to require a "certificate of need" (CON) for hospital construction and equipment purchases. These restrictions, in the name of consumer protection, limit competition and almost certainly push up prices, especially in rural areas, where medical services are scarcer. Moreover, the CON procedure itself is costly. The Federal Trade Commission has concluded that "hospital costs would decline by $1.3 billion per year if states would deregulate their CON programs."

Another concern is state control of benefits offered by insurance companies. State meddling in this area is pervasive, as governments force private insurers to cover specific conditions. There were just eight such requirements in 1965 and 48 in 1970; 20 years later there were nearly 1,000, involving "everything from life-prolonging surgery to purely cosmetic devices," write John Goodman and Gerald Musgrave of the National Center for Policy Analysis, including hairpieces, pastoral counseling, and sperm bank deposits. Luckily, federal pension law (ERISA) exempts companies that self-insure. Roughly half of companies that self-insure do so in order to avoid these restrictions.

States should eliminate (or Washington pre-empt) mandated benefits. Second best alternatives include exempting small business and, something implemented by roughly half the states, allowing insurers to offer a no-frills alternative policy. The cost of the mandated benefits vary widely, but some are quite expensive. For example, outpatient mental health care raises premium prices an average of 10 percent to 13 percent, while substance abuse benefits add six percent to eight percent to the cost. Maryland's Blue Cross/Blue Shield figures that mandated benefits are responsible for 13.3 percent of claims paid out.

By raising costs, state mandates make it more difficult for poorer workers to purchase insurance. Goodman and Musgrave estimate that the percentage of uninsured who lack coverage because mandated benefits have priced them or their firms out of the market ranges from 15 percent in Arkansas to 64 percent in Connecticut, and about 25 percent overall. Similarly, the Council of Economic Advisers complained in 1991, "These requirements raise the cost of health insurance and make it too expensive for many individuals and firms."

Insurance Law Reform. Hailed by some as compassionate social policy, courts have often ruled in favor of the most liberal interpretation of benefits due the insured. This phenomenon, in conjunction with other factors, such as the employers' enhanced role in choosing policies for workers, has badly skewed the health care market. Courts making such rulings view their decisions as being pro-patient, of course, and they are in the case before them. But overall, such rulings inflate expenses for all insurees. They also increase risks for insurers, the burden of which falls particularly heavily on smaller firms, and discourage aggressive cost containment efforts. Thus, negotiations over health insurance need to be taken out of not only the hands of legislators—who, as noted earlier, interfere through mandatory benefit laws—but also out of the hands of judges. State legislatures need to act to allow insurers and insurees to cut whatever bargain they prefer, and to have that agreement enforced in court. Only through true market competition are we likely to see the development of the variety of policies necessary to meet the differing needs of 250 million Americans. Among the possibilities, according to CEI's Miller:

> A few contractual devices might include incorporation of different medical practice guidelines, delegation of difficult decisions to an identified panel of medical experts, providing a specific process for resolving disputes over medical appropriateness, offering different levels of access to technology based on cost/benefit assessments, inserting clauses that expressly waive the insured's right to have a policy construed liberally against its drafter, varying standards for malpractice liability, and, most of all, adjusting premiums to reflect any of the above choices.

At the same time, states should reverse past interventions in the marketplace, such as forcing insurers to use community ratings. The temptation is great to attempt to manipulate the insurance market in this way to guarantee insurability for all. The result, alas, is unfairly to penalize those who are healthy and to prevent insurance rates from reflecting behaviors that affect the insured's health, such as smoking. In New York, for instance, legislation requiring community ratings and guaranteed issue has triggered staggering price increases for many citizens —a doubling and trebling, in some cases. Acknowledged one state official, "some people will not be able to afford these increases." The rise has fallen most heavily on the young, who tend to earn less than their elders. In short, the government is impoverishing some to assist others.

A far better approach would be directly to subsidize the roughly seven-tenths of one percent of people estimated to be uninsurable. This could be done with the government underwriting either medical expenses or the cost of insurance. Another option is to create assigned risk pools, a means used to ensure the availability of auto insurance for poorer drivers. In fact, roughly half of the states already offer such programs, though many of the existing systems are flawed. But states could redesign their assigned risk pools to offer the equivalent of MSAs to the uninsurable, with subsidies, best raised through taxes rather than special assessments on insurers, to make the plans affordable. As Mike Tanner of the Cato Institute argues: "If as a society we have made the decision that individuals should, for whatever reason, be subsidized in the purchase of insurance, the cost of that decision should be borne by society as a whole rather than a particular segment of society."

Occupational Licensure Reform. There is also a supply side to the medical equation, which is particularly important given the disproportionate role of labor in the cost and provision of health care. States, and the federal government, if it is willing to use its vast Commerce Clause power to pre-empt state rules, could increase the availability of medical providers and lower health care costs by reducing physicians' stranglehold over the provision of medical care. The problem is two-fold: doctors have successfully lobbied for laws that confine treatment to MDs and limit the number and activities of MDs.

First, most states unnecessarily restrict the activities of advanced practice nurses (APNs), who include nurse practitioners, nurse-midwives, clinical nurse specialists, nurse anesthetists; registered nurses (RNs); licensed practical nurses (LPNs); physicians' assistants (PAs); nurse's aides; and similar professionals. These providers dramatically outnumber doctors—there are 2.2 million RNs, three times the number of MDs, and nearly one million LPNs alone, while the number of APNs, well over 100,000, is about half of the number of physicians providing primary care.

Although APNs, RNs, and LPNs are capable of handling many simple and routine health care procedures, most states, at the behest of physicians, allow only MDs to perform "medical acts." The anomalies are many: "I can take care of a patient who has broken an arm, treat them from top to bottom, but I can't give them an adequate painkiller," complains Maddy Wiley, a Washington state nurse-practitioner. Instead, such treatment can only come through the government-created doctors' oligopoly, into which entry is restricted.

Even more virulent have been physicians' attacks on alternative professionals. Medical societies have worked to prevent chiropractors, for instance, from gaining privileges at local hospitals, and remain generally hostile today. (Doctors lost an antitrust case in 1990 for such practices.) MDs have similarly opposed osteopaths and podiatrists. Many states ban midwives from handling deliveries. Optometrists are usually barred from such simple acts as prescribing eye drops; the Federal Trade Commission and economic researchers have found that advertising restrictions on eyeglasses and contact lenses sharply raise prices. In half of the states only physicians can perform acupuncture. Over-regulation of pharmaceuticals, which prevents patients from self-medicating, also acts as a limit on health care competition. Allowing over-the-counter sales of penicillin, for instance, could save patients on the order of $1 billion.

The second manifestation of physicians' monopoly power is the panoply of anti-competitive restrictions on the profession itself. Doctors have helped drive proprietary medical schools out of business, reduced the inflow of new MDs, and for years prevented advertising and discouraged members of local medical associations from joining pre-paid plans. Up into the early 1980s the American Medical Association attempted to restrict walk-in clinics that advertised themselves as providing "emergency" or "urgent" care. Moreover, federal immigration law and state requirements limit foreign doctors from entering the country and often prevent them from finding work. None of these rules has anything to do with consumer protection.

Some states have begun moving slowly in the right direction. Mississippi, for one, does not regulate the practice of PAs. Nearly half of the states, among them New York, already allow nurse practitioners to write at least some prescriptions. Moreover, in this area, at least, the administration is moving in the right direction, pledging to "remove inappropriate barriers to practice." Specifically, the administration would break down state restrictions on the ability of APNs to offer primary care—prenatal services, immunizations, management of chronic but standard conditions like asthma, prescribing medication, and treating common health problems—and to receive insurance reimbursement for such services. This effort is not, of course, going unchallenged: The California Medical Association has attacked the Clintons' proposal as "dangerous to the public's health." A Georgia doctor said such an action would be a "catastrophe for the patient." An AMA report argued that expanding the role of nurses would cause unimaginable harm, including hurting patients, fragmenting care, and even *raising costs*.

There is, however, no evidence that the public health would be threatened by allowing non-MDs to do more. The most obvious method would be to let professionals perform work for which they are well-trained without direct supervision of a doctor. At the very least states should relax restrictions in areas, particularly rural, which have the greatest difficulty in attracting physicians, allowing those with the fewest options to seek treatment from professionals with less intensive training. PAs, for instance, receive two years of instruction to work directly for doctors and could perform, it has been estimated, roughly 80 percent of the primary care tasks conducted by doctors, such as taking medical histories, conducting physical exams, and ordering tests. Similarly, the Office of Technology Assessment estimates that nurses with advanced practices could provide 60 to 80 percent of the clinical services now reserved to doctors. Mary Mundinger, dean of Columbia University's School of Nursing, argues that nurse practitioners have been providing primary care for decades and no research, even that conducted by doctors, has ever found any problems. "There is not a single study that shows any lapses," she contends. In practice, nurses regularly perform many simple aspects of primary care far more often than do doctors and, as a result, are better qualified to handle it in the future, whether or not they work in the presence of a MD.

Patients should also be allowed greater use of alternative, unorthodox medical practitioners. In 1990 one-tenth of Americans—primarily well-educated and middle- to upper-income—went to chiropractors, herbal healers, massage therapists, and the like. Health insurance covered few of these treatments. Some of these procedures may seem spurious, but then, practices like acupuncture were once seen the same way but have gained credibility over the years. The most important principle is to allow patients freedom of choice in determining the medical treatments that they wish to receive. This requires relaxation of legal restrictions on unconventional practitioners and a more individual-oriented health insurance system, which would allow those inclined towards alternative treatments to acquire appropriate insurance policies.

Moreover, states should address the role of the MD, since even increased reliance on other health care professionals would not fully compensate for the artificial limit on physicians. Earlier this century, before the AMA's monopolistic activities had achieved their full effect, the U.S. had more doctors than other medical personnel, the reverse of today's situation. It is time for states to reconsider the entire regulatory system for which there is surprisingly little intellectual basis. Empirical evidence demonstrates that licensure reflects professional rather than consumer interests. Opines Andrew Dolan of the University of Washington, the proposition that occupational licensing is necessary "to protect patients against shoddy care" is "unproven by almost any standard."

At a minimum states should eliminate the most anti-competitive aspects of the existing licensing framework, particularly barriers that make it so difficult for people to become doctors and so hard for physicians to compete vigorously. These include doctors' power to control entry into their own profession and restrict competitive practices. But ending these practices should only be a start, for, as Goodman and Musgrave explain: "Virtually every law designed to restrict the practice of medicine was enacted not on the crest of widespread public demand but because of intense pressure from the political representatives of physicians."

More far-reaching reform proposals would establish a genuine free market in health care, backed by private certification and testing and continuing malpractice liability. Such an approach might seem shocking today, but only in the context of the vast regulatory structure that has been erected over the years. Full deregulation would also do much to achieve the administration's goal of encouraging both more minority and primary care physicians.

The potential benefits of attempting to deal with the supply side of health care are substantial, especially if the federal and state governments worked in tandem. For instance, in the late 1980s, New York City and Seattle allowed paramedics on the scene, rather than doctors in a hospital, to administer the drug TPA, approved by the FDA only after arduous delays. The result of more flexible government policy was better care for patients. Still, MDs criticize the prospect of increased competition from non-MDs. Complains Los Angeles physician Michael Stefan, "I spent 11 years in medical school, and you're telling me someone else could do it better and for less money with less education? That's ludicrous." That's not what anyone is saying, however. Not every patient needs to see someone with 11 years of education and even more expensive experience. Patients deserve a fuller range of options combined with the right to choose their preferred provider.

Conclusion

There are legitimate reasons to be concerned over the state of Americans' health care, but none of them justifies federal proposals for social engineering on a massive scale. The only genuine health care crisis today lies with the public sector that the President would entrust with control of the entire system. Thus, what the American medical marketplace really needs is a return to a free market in health care, built on the solid foundation that already exists.

To do so, the federal government should eliminate the tax bias in favor of third-party payment. Washington also should reform the drug approval process, as well as refashion Medicaid and Medicare. States, too, have an important role to play in reforming the health care system, since they can help address the third-party payment problem, deregulate the health insurance industry, and allow patients to choose who will treat them. The foregoing may seem prosaic to Washington policymakers, but unlike proposals to nationalize the health care system, these solutions actually could achieve the President's goal of providing better care to more people for less money. □

Is Canadian Health Care a Good Model for the U.S. to Follow?

by Michael Walker

As usual, I continue to have the most interesting job in the world. On February 9, it took me to Washington, D.C., where I had been invited by the Ways and Means Committee of the U.S. House of Representatives. The Committee is in the process of considering which one of the health care reform proposals it will back or how it will combine them to come up with its own proposal. It is a foregone conclusion that they will come up with a variant of reform which involves sweeping changes to the U.S. health care system. As becomes apparent when you listen to the evidence presented to the Committee and hear the

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questions they pose, it is far from clear what the real motivation is.

One thing which is crystal clear is that those who propose it as an alternative, have an entirely idealized vision of the Canadian health care system. They imagine that in our system access is equal, free, and unlimited. They are certain that merely adopting it will solve the problems of high infant mortality and shortened life expectancy amongst low-income members of their communities. And they think they will be able to accomplish all of this while saving money because the Canadian system is cheaper. No evidence presented to the Committee seemed to deter them in any way in their enthusiasm. But the evidence they heard should at least have made them think twice.

First, let me say that I think that the Canadian health care system has been one of the best in the world. We have been able to provide a very good quality of health care to the vast majority of Canadians. However, it is just as important to note that the quality of the system is changing and that there are definite signs of deterioration. The main point is that these signs of deterioration are traceable to structural characteristics of the Canadian system which also are embedded in the proposals for reform in the United States.

Premium Capping

The silver bullet in the plan proposed by President Clinton is premium capping—that is, the provision that the premium for the standard required health care package will be allowed to increase only by the rate of inflation and the rate of population growth. In other words, the plan freezes the quantity of health care resources at the present per-capita level in real terms. There will be no increase in the real cost per person from 1995.

The silver bullet that controls the costs of the (ten) Canadian health care system(s) is the fact that the provincial governments have acted gradually to cap the budget allocations for health care. The methods differ by province, but essentially the attempt has been made to cap the budgets of hospitals for operating expenses, for special surgical procedures such as by-pass surgeries and hip replacements, and for the acquisition of technology. Meanwhile province after province has adopted a form of cap for the incomes of physicians thus controlling the overall cost of health care. These controls have not prevented health care expenditures from escalating from 5.5 percent of GDP in 1960 to about 9.5 percent at the moment. In fact Canadian costs look good only by comparison with the United States, which is now spending 13.5 per cent of GDP—up from the same 5.5 percent as Canada in 1960.

In economics we say that there is no such thing as a free lunch. The question is: how has Canada been able to save the four percentage points of GDP? What have we done without? The Democrats on the House Ways and Means Committee believe, along with many Canadians, that we have sacrificed nothing, simply controlled the excesses of private enterprise medicine.

To cast it in sharp relief, it is interesting to restate what this belief implies. "The replacement of the dollar-focused, profit-driven judgment of the competitive market by the socially focused, well-meaning judgment of government bureaucrats has been successful in producing a better quality health service, for more people at a lower cost." The first clue that something may be awry is provided by substituting, the word "automobile," or "postal service," or "airline," or "gasoline," or "bubble gum," or "architecture," or "movies," or anything else for "health service," in the sentence. In fact, based on a tremendous amount of evidence and direct experience it is now possible to say the sentence would not be true for any other product or service. And there is evidence, which others and I provided to the U.S. Congress, that Canadian health care has not succeeded where all these other attempts at government coordination have failed.

The Fraser Institute survey of hospital waiting lists, which I presented to the Ways and Means Committee of the House of

Representatives, shows that nearly one percent of our population is waiting for surgery. That survey also shows that, unlike the myth, access is not uniform across the country but varies enormously by province. That is not surprising, of course, because health spending also varies by province. One would expect the more a province spends, the closer it would come to the U.S. experience of no or very short waiting lists. The shortest waiting times are measured in Ontario which spends $7,200 per family of four on health care, nearly double the amount spent in Prince Edward Island, which has the lowest cost care at $4,800 and the longest waiting times.

Technology Gap

A comparison of technologies shows that many Canadians do not have access to the latest diagnostic machinery and enough treatment facilities at their disposal. To pick a topical example, we have one-tenth the number of nuclear magnetic resonance imaging machines per capita as the United States. While there will always be the question (with no definitive answer) of how many is enough, the fact that private NMRI facilities are opening in Alberta and British Columbia, and that Canadians are going into the United States to get such diagnostic imaging done, suggests that we have not kept pace in this area.

The Congress learned from Dr. William Mackillop of the Kingston Regional Cancer Centre that cancer patients are now getting less radiation therapy for specific cancers than they were getting ten years ago, to their detriment. Less radiation therapy means more surgery, more disfigurement, and less longevity than otherwise would be achieved. Dr. Mackillop pointed out that there was a shortage of radiation therapy units, a shortage of people to operate them, and a shortage of people to train people to operate them. This, he noted, in spite of the fact that the current increasing demand for cancer therapy had been well forecast as early as 1975 because the incidence of cancer is age dependent and the average age of our population is increasing in a very predictable way. The bureaucrats had simply not reacted to the foreseeable need, he pointed out.

Perhaps the most important comment he made to the Congress, concerned a comparison he had made of waiting times for radiation therapy between Canada and the United States. The comparison he offered was based on a comprehensive survey of cancer centers in Canada and the United States. Dr. Mackillop asked the centers to provide the number of weeks that a patient could expect to wait for therapy for cancers of specific types. He found that in every case Canadian patients were waiting longer than American patients. In the case of some cancers, the median wait was three times as long in Canada as it was in the United States.

While Dr. Mackillop had many nice things to say about the Canadian system, about how unnecessary surgeries and treatment were kept to a minimum, he betrayed a concern about whether the system of bureaucracies in government was capable of anticipating and reacting to the health care needs of the population in the way that it should. He in particular thinks that cancer patients are not receiving the treatment they need and should be getting.

Our testimony was given some real-life impact by the testimony of Lisa Priest of the *Toronto Star* newspaper. Ms. Priest has been doing a series of articles on how waiting lists affect particular patients in Ontario. Her stories are both heart-wrenching and effective in pointing to the specific problems which beset our health care system. Ms. Priest surprised observers, however, by coming to the paradoxical conclusion that faults and all, she would choose the Canadian health care system over the American system, because, she noted, there are two things Canadians fear when they go to the United States: that they will get shot or get sick. Evidently those who go there to get the health care—including the cancer therapies about which Ms. Priest writes—are not included in this assessment. □

THE FREEMAN
IDEAS ON LIBERTY

If You Build It, They Will Come

by K. L. Billingsley

Critics of the government are not always right that taxpayers don't get what they pay for. Sometimes they get more. For example, the government of California has recently provided a lesson in the link between human behavior and economics that the best university would be hard-pressed to duplicate. But the lesson proved both expensive and difficult to learn.

In California, no government agency exists to provide health care for middle-class working people and their families. There is, however, a system for the poor called Medi-Cal, which the taxes of middle-class working people pay for, but which remains off-limits to them.

A number of press accounts have pointed out massive fraud in the Medi-Cal system, which is limited by law to California residents. But people from countries as far away as India have flown in, received operations costing hundreds of thousands of dollars—in one case $2.7 million—and quickly departed the country leaving the bill to California taxpayers who can't use the system themselves.

In some cases, Medi-Cal's own personnel helped people to commit this fraud and tried to cover up investigations. Here a bureaucratic principle was at work. More "clients" means bigger budgets, which means a bigger allocation from the state and increased job security. So the bureaucratic incentive, unlike the private sector, is to ignore fraud and bloat the budget.

Democracy is not simply the counting of heads but involves the rule of law. In 1986, the United States government granted blanket amnesty to millions of people who had flouted American immigration laws. Federal and California officials rewarded not only them but those whose status remained illegal.

In 1988 Medi-Cal began providing prenatal care to illegal immigrants residing in or even *intending* to reside in the state. California even launched an advertising campaign called "Baby-Cal," spending $78,000 for spots on Spanish-language radio and television stations transmitting from Mexico. The state quickly got what it paid for, and more.

"If you build it, they will come," was the phrase from the movie *Field of Dreams*. California not only built it but advertised it on television. And they came, in droves.

According to the most recent figures cited in a *San Diego Union-Tribune* study, undocumented aliens gave birth to nearly 96,000 babies in the state during 1992. This constituted a full 85 percent increase over the last three years and does not include those covered under amnesty who also used Medi-Cal. The costs for 1992 came to $230 million. That same year 40 percent of Cali-

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fornia's 237,000 publicly funded births were to undocumented immigrants. And 41 percent of those who used Medi-Cal for maternity care also used the welfare system after delivery.

There are several lessons here. First and foremost, as fiscal conservatives have often pointed out, you get what you subsidize. For example, if you subsidize single-parent families, you will get single-parent families. If you subsidize indigence, you will get indigence. If you subsidize the births of foreign nationals in the country illegally, you will get what you pay for. But state officials are just now learning that lesson.

Medi-Cal's John Rodriquez told the *Union-Tribune* that in his "wildest imagination" he never imagined the program growing so fast. "I think," he added, "we are seeing a magnet effect." Precisely.

America has been and always will be a country of immigrants. Historically, however, immigrants have traditionally come through legal channels in search of opportunities, not through illegal channels in search of handouts. The "Baby-Cal" fiasco shows how welfare state fraud has corrupted immigration. And as Cuban-American author George Borjas points out, most people now coming are unskilled and may wind up on welfare even if such programs were not their original attraction.

As the Medi-Cal episode also proves, good intentions can have disastrous consequences. And contrary to what one often hears, there is no "free" health care, something California's four-billion-dollar debt confirms. Federal politicians might see a warning here, but they seem to be missing the point.

On the contrary, they are now promising universal health care for every American and claim that a tax on cigarettes and changes in Medicare will pay for it all. The failed statist medical experiments of other countries provide some prospects as to its possibilities of success. And California's Medi-Cal program gives some clues as to what we can expect in the way of waste and fraud. American nationals will hold no monopoly in pillaging the system. If you build it, they will come. □

THE FREEMAN
IDEAS ON LIBERTY

Environmental Regulation: Just as Bad as Any Other

by Gregory B. Christainsen

Two sweeping studies of government regulation and deregulation, respectively, have been published in recent years. The findings of these studies deserve to be better known. The studies also merit attention for what they did *not* say about environmental regulation.

The first study, by Robert Hahn and John Hird, was published in the *Yale Journal on Regulation* in the winter of 1991. It surveyed all of the major benefit-cost studies on regulation that had appeared before the authors wrote their article. The authors concluded that in only two areas, the environment and highway safety, could one plausibly argue that the benefits of regulation had outweighed its costs. It should be emphasized that, with respect to the areas outside of the environment and highway safety, the authors were not claiming that regulation had had no benefits. They were claiming, however, that in light of its costs, people generally would have been better off if regulation had not occurred.

The second study, by Clifford Winston of the Brookings Institution (*Journal of Economic Literature*, September 1993), surveyed areas where significant deregulation has taken place, such as airlines and trucking. Environmental deregulation was not studied because little such deregulation has occurred. In every single case examined by the author, however, deregulation was found to have had net benefits.

It should be pointed out that the article in the *Yale Journal* was written before the Clean Air Act Amendments of 1990. Even before that legislation went into effect, Paul Portney of Resources for the Future estimated that the amendments would impose costs far in excess of their benefits. The annual costs were estimated to be on the order of one-half percent of the entire U.S. gross national product, a huge impact for one piece of regulatory legislation. When this legislation is considered in conjunction with other environmental measures (noted below) that were not considered in the *Yale* article, it seems very likely that environmental regulation has had the same overall impact as other regulation. In other words, it has been generally harmful.

The authors of the *Yale* article are well aware that benefit-cost estimation is a very imprecise science, especially so in the case of the environment. The likelihood that various measures will improve, or harm, human health simply is not known. There are also serious philosophical questions that can be raised about the relevance of benefit-cost estimates for public policy decisions. However, the research findings are in some cases so dramatic that basic conclusions can nevertheless be drawn about the efficacy of regulation.

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Any net benefits from environmental regulation prior to 1990 seem to have been due primarily to air pollution standards for factories. Estimates by Myrick Freeman of Bowdoin College indicate that emissions standards for new trucks and automobiles have probably had costs well in excess of their benefits. Virginia McConnell of the University of Maryland has found that the performance of vehicle inspection and maintenance programs—for example, smog tests for used cars—has been even more dismal. According to Freeman, it is likely that water pollution control efforts have also failed to pass a benefit-cost test.

Numerous other examples can be given of perverse environmental regulation. It now appears that the "Superfund" toxic-waste program will cost more than the government bailout of failed savings-and-loan associations. The activities of the California Coastal Commission, which regulates the use of one of the most valuable coastlines in the world, cannot pass a benefit-cost test. Notwithstanding some recent court decisions that have narrowed its scope, the Endangered Species Act has emerged as one of the most economically destructive pieces of regulatory legislation ever passed.

Even factory air pollution control has not been nearly so efficient as it could have been because firms are not always allowed to use the least-cost method of emissions abatement. It is still the case, for example, that firms must use abatement technologies dictated by the U.S. Environmental Protection Agency, regardless of their cost.

On the other hand, there has been limited progress in reforming the control of air pollution. A factory may now, for example, be able to pollute somewhat more than it formerly could if it can find, and pay, another factory to pollute somewhat less (so as to compensate for the increased pollution of the first factory).

Factories have incentives to enter into such arrangements insofar as one factory can abate pollution more cheaply than another. Suppose one factory could abate some pollution at a cost of $50,000. Suppose a second factory in the area could abate the same amount of pollution at a cost of $40,000. Under such circumstances, if the first factory paid the second factory $45,000 to undertake the abatement in question, both factories would be better off by $5,000. That is, the first factory would save $5,000 by paying the second factory instead of abating the pollution itself. The second factory would gain $5,000 by receiving a payment in excess of its (relatively low) abatement costs. The air quality in an area can thereby be maintained at lower overall cost than would have been the case under the old rules; in the past, factories were not allowed to make such agreements.

It would be a mistake, however, to conclude that, as a general principle, regulation can be successfully reformed or undone without fundamental changes in the structure of government itself. For every case of reform or of outright deregulation, several examples could be given of new regulation that is exceedingly harmful. The 1990 Amendments to the Clean Air Act, for example, require that a certain number of vehicles in cities with dirty air run on alternative fuels, whether or not improved air quality could be had in a cheaper way.

The problems go much deeper than calls for "regulatory reform" or "reinventing government" would suggest. After all, the negative impact of regulation under the existing form of government is simply a mild version of the ills of socialism. That is, when governments attempt to direct the use of resources, they are subject to two major difficulties: (1) they are subject to perverse political pressures (what economists call "the public choice problem"); and (2) even when government officials are well-intentioned, they cannot have all the information necessary to make efficient decisions. (This is what Austrian economists refer to as "the knowledge problem.")

Limiting Government

The structure of government itself must therefore be changed so that its power to direct resources is limited or eliminated. A modest proposal would involve restoring respect for property rights under the Fifth and Fourteenth Amendments to the U.S. Constitution. Prior to the Great Depression, the U.S. Supreme Court would consider the impact that regulation had on property owners and whether it was "essential" for a "legitimate public purpose." Under such "strict scrutiny," as the Court called it, regulation was often struck down as unconstitutional.

Such a stance limited regulation's excesses. Especially after 1937, however, the Court refused to interpret the Fifth and Fourteenth Amendments in the same way. Now, regulation can pass constitutional muster without the necessity of taking the interests of property owners into account, unless it involves the outright confiscation of land, or unless it drives the value of the property to zero.

A more radical suggestion for constitutional change would be to deny government the power to regulate the use of property altogether. From this perspective, environmental problems could be addressed, not by restricting the rights of existing property owners, but by establishing *new* property rights to the natural resources in question. If groundwater basins were converted into private property, for example, the new property owners could sue anyone who polluted them.

In a similar vein, environmental organizations could be given title to members of various endangered species. For example, an ornithological society could own the bald eagles in an area. If a bald eagle were shot, the society would be owed compensation, which it might use for, say, a breeding program. On the other hand, the society would be liable if an eagle killed or maimed a lamb of a sheep ranch owner. To be sure, there would be enforcement problems, just as there are enforcement problems if a species is covered by the Endangered Species Act. The main point of such changes is to reduce conflict in society. People could not legally undertake actions that would directly harm the person or property of others unless they paid compensation.

As matters stand, opposing parties are encouraged to engage in political conflict to promote their interests. A political gain to one party constitutes a loss for the opposing party. For example, once bald eagles have been declared an endangered species, sheep ranch owners must stand idly by as birds maim their lambs. The ranch owners are not entitled to compensation.

Economists are just beginning to understand why governments habitually fail, and they have only begun to appreciate the importance of private property rights for the allocation of resources. Natural resources are no exception to Jefferson's maxim: The government is best that governs least. □

The Power of Positive Example

As an academician and former professor who taught at the college level for seven years, I feel that being with students again is much like coming home. There is much about the academic environment that shines as a beacon for the rest of society—not the least of which is the principle of genuine intellectual inquiry—a tolerance, an openness, and indeed, an encouragement of new ideas and a wide range of perspectives.

An institution of higher learning is a marketplace of ideas, where ideas are shared, discussed, debated, sometimes debunked, but always treated with respect, never dismissed without thought or reason, and never feared. In the spirit of true academia, truth is not advanced by stereotyping, by shallow epithets, by innuendo or insinuation, or by suggesting that those with different views should not be heard. Those who labor and study in our centers of learning must be made of stronger stuff than that. If they are not, the prospects for a free, virtuous, and compassionate society as a whole are slim. We should judge ideas as we should judge the people who bring them to the marketplace—on their merits. The thing I have always found refreshing about the traditional academic environment is the premium it places on thinking. True thinkers can disagree without being disagreeable. By nature, they reject the thought police.

Graduates, you are about to step into a world you will shape for years to come. I know it's customary, maybe even hackneyed, for commencement speakers to say at least a dozen times in their address: "You are the future." We all know that. What I would like to prompt you to think about is, *How* do you want to shape that future? *How* do you want your influence to be expressed?

I would like each of you to close your eyes for just a few seconds and think of one or two people who have motivated you, encouraged you, spurred you on. . . . Ask yourself, was it because of what they *said,* or what they *did*?; how they *talked,* or how they *behaved?*

My guess is that for most of you what those people did and how they behaved—in other words, the example they were (or are) for you—has had the more lasting and meaningful impact. Certainly, no one is inspired in a positive way by the hypocrite or by the unprincipled. Paraphrasing Emerson, "What you are speaks so loudly I cannot hear what you're saying."

If you reflect further, I believe you will agree with me that each of us is inspired far more by the power of positive example than by command or threats. This is not to say that those who have wielded great power at the point of a gun have not had profound impact. But doesn't it mean so much more to us to *earn the* respect of others as opposed to *commanding* it? How much have we really won, if others pay attention not because they want to but because they have to?

This month's column is an adaptation of the commencement address delivered on May 7, 1994, by Lawrence W. Reed to an audience of 6,000 at Central Michigan University (CMU) in Mount Pleasant, Michigan. Dr. Reed, a newly elected trustee of FEE, is an economist and author and President of the Mackinac Center for Public Policy in Midland, Michigan. CMU bestowed on him an honorary doctorate during the graduation ceremonies.

I can think of so many things I wish more people would do. I wish they would value education more highly and read to their children. I wish they would show more concern for those around them in need and do something about it. I wish they would work harder at being the very best at whatever they've chosen as their life's work. I wish they would take more seriously the responsibilities of being free citizens in a democratic society. I wish they would show more respect for the lives and property of others. I wish they would be better neighbors, more caring friends, more honest politicians, more responsible business associates.

I suppose we could devise all sorts of laws that would attempt to coerce more people in these directions and that would penalize them if they failed to comply. But that approach, frankly, leaves me with a feeling of hollowness. I don't want a society in which people do the right thing just because they have to, when they really don't want to. And I believe strongly that the most effective teaching method—and at the same time, sadly, the most underappreciated teaching method—is the power of positive example. It isn't a quick fix, it doesn't promise instant gratification, but in the long run, it makes all the difference in the world.

Forcing a person to go to church doesn't make him religious any more than forcing him to stand in a garage makes him a car. You don't make a person truly loyal by forbidding disagreement. You don't make a person charitable by robbing him at gunpoint and spending his money on good things.

The test of a true *leader,* it's often been noted, is not how many people you can coerce into submission or intimidate into silence, but how far others will go to follow you because they are attracted to your mission of their own free will. The attraction is the power of your example.

The late Leonard Read, founder of The Foundation for Economic Education, was fond of relating a story which I would like to paraphrase here and apply to myself: I'm terrible at golf, but I golf anyway. When I show up at the course, not surprisingly, no throngs appear. No one watches me to see how it's done. But let a Palmer or a Nicklaus or a Watson or a Trevino show up, and instantly the crowds gather, seeking his tutelage. The British statesman Edmund Burke once said, "Example is the school of mankind, and they will learn at no other." I especially like the way Mark Twain said it, "Few things are harder to put up with than the annoyance of a good example."

I am sure that no one here is entirely happy with the world the way it is. To some extent, all of us are would-be reformers of the world, whatever our personal philosophical inclinations may be. What we sometimes forget in our haste to reform the world is that we must first reform *ourselves,* one at a time, and none of us has yet done all we can in that regard. We chronically underestimate how much influence for good we can be by simply being better individuals—not *pontificating* about doing good, but actually *being* good—and doing it with our own resources, not someone else's—living it, serving as an inspiration for others. By underestimating our ability to shape the future of society by shaping ourselves first, we sometimes meddle in the lives of others while allowing our own to fall into disrepair.

In recent years, we have been treated to a great deal of public moralizing from some who have postured as our self-appointed moral authorities. But moralizing and morals are two different things and sometimes are not found in the same person. Individuals who preach about the morals of the rest of us while living their own lives to the very standards they prescribe do certainly exist, but I suspect that the greatest influence for good comes from those quiet folks who make morals, not moralizing, their vocation.

An item from a newspaper caught my eye some years ago because it made this very point. The story came from the little town of Conyers, Georgia. When school officials there discovered that one of their basketball players who had played 45 seconds in the first of the school's five post-season games had actually been scholastically ineligible, they returned the state championship trophy the school team had won a few weeks before. If they had simply kept quiet, probably no one else ever would have known about it and the school could have retained the trophy.

The really amazing thing was that the team and the town, dejected though they were, rallied behind the school's decision. The coach was quoted as saying, "We didn't know he was ineligible at the time . . . but you've got to do what's honest and right and what the rules say. I told my team that people forget the scores of the games; they don't ever forget what you're made of."

In the minds of most, it didn't matter that the championship title was forfeited. That coach, and that team, were still champions, and in more ways than one. We should ask ourselves, "Could I have mustered the courage to do the same?"

I suppose some of you might be thinking, "Okay, so he's telling us to be good. So did Mother. What else is new?"

What I'm saying is, keep your youthful zeal for doing good and for changing the world. Some may call you idealistic, but progress is never made without ideals, and those who champion them are the examples we most admire and remember.

Resolve that you will indeed make your mark and shape society for the better, but understand that it is not enough to preach to others, no matter how good it might make you feel inside. It is not enough, indeed it's almost always counterproductive, to try to shape the world by the use of force or political decree. You have it within your power to wield great influence. Just recognize that how great that influence will be, is in direct proportion to your ability as a shining example to attract others to your cause.

Graduates—with the degrees you've worked long and hard to achieve, you have a head start on success in life. Now it's up to you to rise to the duty of becoming the very best examples you can possibly be in every aspect of all that you do. □

At Home, But Hardly Alone

by Jim Christie

Any time the leaders and followers of certain causes—like, say, civil rights, gay rights, and abortion rights—descend on Washington, D.C., flexing their political muscle, those who may be opposed, indifferent, and just plain uninterested are lectured on the grandeur of direct democracy.

But when, let's say, a movement that is little known and completely uncovered by the media, like the homeschooling movement, does something similar—in this case with a recent massive telephone campaign to Capitol Hill—the press sounds all sorts of alarms that a clear and present danger is at hand.

After all, many homeschoolers are Christian activists. The telephone campaign was orchestrated by one Michael Farris, president of the Home School Legal Defense Association and a Christian conservative who unsuccessfully ran last fall for lieutenant governor of Virginia.

Liberals in the press can be mean enough to Christians. (Remember the flap last year after a *Washington Post* reporter in a story essentially called Christians a bunch of trailer trash?) But the coldest cuts are often

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the sectarian ones, like that delivered by a San Francisco columnist who most often writes from a conservative perspective.

In a column on Farris and the homeschoolers' telephone campaign, for instance, this right-of-center journalist called the homeschoolers "lemmings."

That's just plain mendacious and misses the point completely. There are *many* solid reasons why the homeschooling "lemmings" united to exercise direct democracy, albeit at the behest of a Christian activist, a member of the official strawman class for the 1990s.

In all too many public schools, reading, writing and arithmetic, are taking a backseat to backseat-of-the-car subjects. Some parents have come to the conclusion that there is an unstated effort in the public schools to promote promiscuity even though not much good has come from years and years of sex-ed as the country's teen pregnancy and sexually transmitted disease rates soar.

And let's face it, public schools are also on the skids academically. Certainly, bleak SAT scores and drop-out rates prove this. Just ask any employer or college-level instructor, and you will hear that young adults are not only lacking in basic skills but in basic manners.

Then there's the politically volatile issue of cultural curricula in politicized public schools. Now, for instance, instead of learning the broad themes of assimilation and cosmopolitan tolerance, children are subject to politicized multicultural sloganeering—while being used all too many times as cannon fodder in the continuous power grab of teachers unions.

To borrow from the title of one of the more celebrated special-interest texts, Heather may have two mommies, but can kindergartners appreciate lesbian studies? And must we subject small children to all the shrill self-esteem-based racial and ethnic cheerleading (and its distortions and frequent outright lies) in many new textbooks even as many American classics, like *The Adventures of Huckleberry Finn*, are denounced by the oversensitive?

Besides, children in public schools just aren't going to have enough time to bolster egos, sink into guilt trips, and absorb every "ism" if Ms. Marple is keeping them busy in class with letter-writing campaigns to governors and legislators any time education budget cuts or school reforms are in the news. For example, throughout California public schools last year, much class time was devoted to badmouthing the concept of school vouchers.

And let's not forget some basic and shocking truths about our public schools, like the fact that parent input into educational matters is kept to a minimum, by bureaucrats. Why else does busing still persist when in practically every public school district, whether white, black or other, parents want their children close to their own neighborhoods—and want funds for their neighborhood schools to be made top-notch instead of being used to subsidize social engineering?

Then there are purely selfish reasons for a family not to send their children to some public schools. Simply put, some public schools are no better and no safer than prisons, often featuring police-state details—metal detectors, drug-sniffing dogs, armed guards, barbwire—that leave the impression that education, when it's there, and even indoctrination, is of secondary concern to coercive efforts to maintain order.

Instead of depicting homeschoolers as tools of a nefarious Christian right plot, the media ought to look into why as many as 350,000 families want to keep government from getting its hands on truly *private* education.

The findings may not mesh with the welfare state advocacy of liberals within the press, nor sit well with conservative journalists who consider anyone on the right and outside the country club gates to be part of the dangerous rabble, but they would hold the hard truth of life in the public schools up for view.

Then it would become clear why a growing number of Americans aren't keeping their children from getting an education, but simply keeping them out of school. □

THE FREEMAN
IDEAS ON LIBERTY

The Natural Disaster Protection Act: A Disaster Waiting to Happen

by Gary Wolfram

The Natural Disaster Protection Act[1] provides an example of what the nineteenth-century French political economist Frederic Bastiat called "the seen and the unseen."[2] While it would appear to reduce the federal government bailout of those who have natural disasters befall them, it would instead create a substantial liability for the federal government, increase exposure to natural disaster, add to the regulatory burden of the economy, and increase the size and scope of government. Its actual effect would be to reduce our individual freedom and move us further down what F.A. Hayek termed "the road to serfdom."[3]

The legislation would amend the Robert T. Stafford Disaster Relief and Emergency Assistance Act[4] in order to, among other things: (1) require "disaster-prone" states to adopt a model building code and enforce this code on new construction, either directly or through their local governments and submit to the Federal Emergency Management Agency (FEMA) a disaster mitigation plan; (2) require any new federal building *or building which has been assisted by federal funds* to meet the new building code standards; (3) create two new federal insurance programs: (i) a primary insurance program and (ii) a reinsurance program whose rates would be set by FEMA; (4) create a new natural disaster mitigation and planning advisory panel to FEMA; and (5) require insurance companies to notify their policyholders of their nonparticipation in these new programs if the insurance company fails to participate and require insurance companies that participate in the current federal flood insurance program to notify FEMA of policyholders living in flood plains and required to have flood insurance who refuse to purchase the flood coverage.

Can anyone look down this list and answer "no" to the question Albert Jay Nock suggests we put to any federal program: "Does this add to the power of the state?"[5] There is no question that this bill further extends the arm of government into the lives of everyone and will add to the cost of construction. But will it accomplish its purpose and at reasonable cost? In order to answer this we must go back to Bastiat:

> In the economic sphere an act, a habit, an institution, a law produces not only one effect, but a series of effects. Of these, the first alone is immediate; it appears simultaneously with its cause; it is seen. The other effects emerge only subsequently;

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they are not seen; we are fortunate if we foresee them.

There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.[6]

As the new Act adds ten new purposes to the Stafford Act (as well as 29 new definitions), we can be excused for summarizing them in order to simplify our answer. The Act itself is really a response to the large losses suffered in the United States in recent years due to natural disasters. In the past two years we have had hurricanes in Florida and Hawaii, floods in the Midwest, and earthquakes and fires in California. This has led to concern that insurance companies will become insolvent, reinsurance will be unavailable, and the federal government will be saddled with huge payments for disaster relief in the face of ongoing attempts to reduce the deficit. Let us, for now, take as given the fact that the Act will mean a large intrusion of the federal government into the building industry and the insurance industry. Will this result in improved solvency of insurers? Promote reinsurance? Reduce exposure to (or at least reduce the cost of) natural disasters? Reduce the taxpayer burden for natural disasters? Unfortunately the answer to each of these is "no."

Solvency of Insurers

Let us take these questions in order. Why would the Act not improve the solvency of insurers? The answer is to be found in acknowledging that the bill is really what Gordon Tullock identified as rent-seeking behavior,[7] in this case of the property casualty insurance companies. The insurance companies are seeking to get the government (taxpayers) to share the risk of insurance against natural disasters. How could the insurance industry be in danger of insolvency from natural disasters? There is only one answer: they have been selling insurance at too low a premium.

Premiums, in a freely operating industry, will cover losses after accounting for the investment earnings of the insurance company. If a company is selling insurance for a premium which does not cover the expected loss minus the investment earnings, it will eventually go out of business. This is the discipline of the market. As Ludwig von Mises pointed out, it is this market discipline which results in efficient use of resources, insuring that the value of the resources used in production at least equals the value to consumers of the service or good produced with these resources.[8]

What the Act will do is to allow insurance companies to sell insurance at below-market rates, with new federal programs acting, in effect, as the subsidizing agent. If the market is not providing reinsurance because the expected losses (the probability of the occurrence times the loss) are not calculable, then why should we expect that FEMA can figure out what the premiums should be? Since this is a government program, and thus rates will be set through the political process no matter what the statute says, we can expect the rates to be underpriced. The net result is that insurance companies which would not survive the market test will continue to survive, and thus improperly price resources, and all insurance companies will take on greater risk than they otherwise would. This must result in either increased paid losses from natural disasters, and thus create just as much danger of insolvency for insurance companies, as it will now be cheaper to locate in disaster-prone areas, or increased government regulation of the insurance and building industry in order to offset this incentive.

Reinsurance

The Act surely will not promote the strengthening of the reinsurance market. The fundamental problem, as has been pointed out in a recent article in the Federal Reserve Bank of Cleveland's "Economic Trends," is that natural disasters are low-frequency, high-impact events.[9] As such they create two problems for insurance. First, they are difficult to predict and thus price. Second, they are subject to "adverse selection": those most likely to purchase disaster insurance are the ones most likely to need it. Persons living in the San Fernando Valley of California are much more likely to purchase earthquake insurance than those living in Michigan or Ohio. The people who purchase insurance will be much more likely to suffer from a disaster than the average person.[10] This complicates the insurance market because insurers attempt to assemble a pool of uncorrelated risks.

There also is the problem of "moral hazard": once I am insured against an accident, I am less likely to take precautions to avoid the accident.[11] Is there any reason to believe that a federal government reinsurance program, managed by FEMA, and advised by a newly created, politically appointed board, is capable of solving these problems? Even if it could, what if the actuarially sound premiums for reinsurance were so high that no one would participate? Is it likely that FEMA would stick to these premiums? Isn't it more likely that there will be political pressure to set premiums sufficiently low to give the appearance that the problem has been solved?

Exposure to Natural Disasters

By reducing the cost of insurance, and by increasing the number of persons who purchase insurance, the Act will result in greater exposure to natural disasters. Suppose I have just had my house destroyed by an earthquake around Malibu. My insurance company says, "Fine, we will pay for this damage, but there is no way we are going to get stuck again and we are not willing to provide you with further insurance." I now find that I must bear the whole risk of building another $2 million home in an earthquake-prone area. Am I less likely to build my home in this area under these circumstances than if my insurance company says: "We now participate in the new Primary Insurance Fund and thus can now provide you with insurance for your home at reasonable cost"? To ask the question is to answer it. It is obvious that reducing the cost of locating in disaster-prone areas must do only one thing: increase the amount and value of buildings in such areas. When disaster does strike, as it inevitably will, then my house will now be standing there to be destroyed.

Burden on Taxpayers

Can the Act reduce taxpayer burden for natural disasters? It cannot reduce the value of buildings placed in disaster-prone areas by reducing the cost of insurance. The current government policy of providing de facto insurance to everyone in disaster-prone areas makes the point. In *The Constitution of Liberty*, Hayek warned that when the government undertakes ad hoc policies it will inadvertently be setting a principle.[12] By providing disaster relief on a regular basis, people come to expect government relief in the face of a disaster. The Act itself is a response to the fact that reducing the risk of locating in dangerous areas results in activity which creates greater exposure. It is an attempt to replace the de facto insurance program with an explicit program. However, at least there was some uncertainty under the old program. Congress might say "no" to relief, or provide minimal relief. With the Act, this modicum of uncertainty will be eliminated and there will be even greater reason for people to expose themselves and their property to risk. The government will now be under legal pressure to provide the relief which it now grants simply under political pressure.

Is the result likely to be more taxpayer exposure, or less? People who argue that it will be less will say that persons who didn't purchase insurance before will purchase insurance now, because it will be cheaper or more available. Thus, there will be less loss to taxpayers, since the premiums will go toward providing the relief. But with the increase in the number of persons with insurance, the adverse selection and moral hazard problems, combined with the fact that premiums must be set through the political process, the likely result will be greater taxpayer exposure in the long run. What happens when the federal reinsurance program comes up $25 billion short? It will, of course, borrow from the Treasury under the Act. And if several hundred thousand voters who own homes are now forced to pay much higher premiums in order to pay off this debt, will there be no political pressure simply to extend the length of the debt to the Treasury? Will this not especially be the case if the debt of the reinsurance fund is carried as an asset on the books of the federal government, and thus does not add to the perception of the federal debt? In the end, the debt of the reinsurance fund will never be repaid and it will result in the same loss to the taxpayer as if the taxpayer had directly provided relief.

Given that there is nothing inherent in FEMA to allow it to price disaster insurance and reinsurance more accurately and more cheaply than the market, what must happen as the exposure to disasters increases and the premiums rise for a large group of homeowners? The same thing that happened when the federal government provided insurance for deposits of savings and loans and banks: greater regulation. The insurance companies and homeowners will be faced with more and more government control. The types of insurance required, the premiums that may be charged, where buildings may be placed, how they may be built, what materials must go into building them, where they can be located—all this and more will be mandated by the federal government. The Act itself already sets up the mechanism for doing so and begins the process.

Karl Marx was certainly correct in pointing out the inevitability of the process.[13] Eventually, just as happened with Social Security, more and more persons will be required to purchase insurance, "in order to spread the risk," which really means in order to subsidize those who are located in the most risky areas. Required premiums, set by the federal government through FEMA, will be the way that the government indirectly taxes people to pay for the results of the massive program that will have started "because catastrophic natural disasters . . . pose particular problems in terms of substantial long-term consequences . . . and inadequate insurance and reinsurance coverage."[14]

Let us admit that Hayek was right, people must take responsibility for their own actions.[15] Harsh as it may seem, providing de facto insurance to persons who locate in disaster prone areas results in greater loss of life and property than would otherwise be the case. It took us decades to learn that our welfare policies have created a larger problem than they were meant to solve. Let us admit that we must simply reduce our proclivity to rush to every disaster with "federal dollars." Before we once again embark on a Promethean journey, let us simply admit that the problem of natural disasters is not too little insurance, but rather too much de facto insurance. □

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1. H.R. 2873, 103d Congress.
2. See his essay, *Ce qu'on voit et ce qu'on ne voit pas*.
3. This is the 50th anniversary of his *The Road to Serfdom*, University of Chicago Press.
4. 42 U.S.C. 5121 et seq.
5. See *Our Enemy, The State* (Delavan, Wisc.: Hallberg Publishing, 1935), 1983.
6. See note 2.
7. Professor Tullock provided the seminal treatment of the subject in his "The Welfare Costs of Tariffs, Monopolies, and Theft," *Western Economic Journal*, 5 (June 1967), pp. 224–232.
8. See, for example, his major work, *Human Action* (New Haven: Yale University Press, 1949).
9. "The Economy in Perspective," February 1994, p. 2.
10. Cf. George Akerloff, "The Market for Lemons: Qualitative Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*, 84 (1970), pp. 488–500.
11. For a brief discussion of moral hazard, see Hal Varian, *Microeconomic Analysis* (New York: Norton, 1978), chapter 8.
12. The University of Chicago Press, 1960. See the Gateway Edition, Henry Regnery, 1972, p. 111 (chapter 8, Section 6).
13. See Karl Marx and Frederick Engels, *The Communist Manifesto*, Pathfinder Press, 1987 (originally published 1847), especially chapter I.
14. Sec 101.
15. *The Constitution of Liberty*, chapter 5.

THE FREEMAN
IDEAS ON LIBERTY

Free Markets and Externalities: The Symmetry of Unintended Effects

by James Rolph Edwards

Someone once said that the world is not only a stranger place than we know, it is a stranger place than we can know. Whether that is true or not, upon close examination it often turns out to be quite different in crucial respects than we had previously believed. Consider the theory of externalities, in which a distinction is made between the social costs and private costs of human actions and transactions. Normally, the voluntary trades that characterize production and exchange activities in market economies are mutually beneficial to the parties involved *a priori* because each exchanges something they want comparatively *less* for something they want comparatively more. Each bears the private costs of his actions generated by alternate uses forgone in the decision to use the resources employed in the way that they were. A meaningful difference between the social costs generated by these actions and the *private* costs exists, however, when *unintended* costs (often termed *external* costs) are imposed on third parties. In such cases, too many resources will be employed in the industry or activity involved, because only the private costs and benefits are being considered by the parties generating the externalities, and the private costs are by definition less than the true social costs.

The quintessential examples are air and water pollution, which affect the environment adversely and often pose human health hazards. It has come to be accepted by many economists that in such cases the government is justified in imposing some sort of coercive regulatory policy to reduce the external costs generated and to obtain a more correct resource use. Other observers—including many leaders of the environmental movement—extend this logic to a more radical conclusion. They believe that pollution and waste are so pervasive and threatening that government must either socialize the economy, taking full control of industry to end pollution, or force an end to industrial/technological market society itself in order to save the human race.

A variety of arguments can be marshaled in opposition to these views. First, solutions more consistent with the maintenance of a free society, such as specification of private property rights (since externalities are a common-property problem) and tort law (in which those harmed sue for compensation) can often be applied to solve or reduce externality problems.

Second, industry and technology—in the

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forms of such things as medicine and sewage, and water treatment—have often been intentionally employed to *improve* human health.[1] Indeed, as measured by mean life expectancy—the single best summary indicator of environmental risks faced by human beings—people face fewer such risks now than ever before in human history, and do so as a direct result of technical and economic progress in the market economy.

Third, the whole externality effects of industrial market society are being mischaracterized. As industry and technology develop, some forms of pollution are generated and others are *eliminated*. The electric stove largely ended the breathing of wood smoke in the home. The automobile ended the scourge of horse manure in cities, which would otherwise constitute a terrible source of pollution and a public health threat. As an inherent element of technological development, firms have progressively discovered and employed more and more efficient sources of fuel and power generation in order to reduce costs under competitive market pressures. This caused pollution per unit of output generated to decline steadily long before the EPA and the 1970 Clean Air Act were created. Indeed, according to economist Paul MacAvoy, there is no evidence that those regulatory mechanisms improved on that record.[2]

A closely related point constitutes the central argument of this paper. While it is true that market activities often generate externalities, and new technologies often have unintended side effects, *nobody has ever offered a convincing reason why such external effects should more frequently be detrimental than beneficial.* Creation of the automobile generated traffic and mobility problems that Henry Ford and other developers of the technology never foresaw, but it also eliminated local monopolies and monopsonies by integrating markets (as well as eliminating horse manure pollution), which was also no part of their intent. Environmental ideology, however, and the regulatory policy it drives, are biased toward finding the detrimental side effects of market industrial activity, and ignoring or mischaracterizing the beneficial effects. The example of industrial CO_2 emission is striking.

Carbon dioxide is quantitatively the largest single emission of free market industrial/technological society, and over time these emissions have begun to add substantially to atmospheric CO_2 concentration. Automobiles contribute heavily by emitting carbon monoxide, which is unstable and quickly mixes with atmospheric oxygen to form carbon dioxide. Most economists and all environmentalists treat CO_2 as an unqualified pollutant; that is, a substance which generates only external costs. As one of the primary greenhouse gases, industrial CO_2 emission is accused of being a primary factor generating global warming, that is, raising lower atmospheric temperatures over time. Such rising temperatures are asserted to be eventually capable of melting the ice caps and causing deserts to expand, threatening disastrous loss of land area and increasing famine. Consequently, the argument goes, massive government controls and interventions must be employed to reduce industrial CO_2 emission.

Actually, the evidence that global warming is even occurring, much less that human CO_2 emission is generating such warming, is very weak. Most ground station atmospheric temperature time series show no warming in the last forty or fifty years, though one data series does show a very slight temperature rise.[3] Tyros N satellites, in orbit since 1979, may eventually settle the matter. They use an extremely sensitive system of microwave radiometers to measure lower atmospheric temperature. The satellite observations cover a large area at a time (a circular "footprint" 110 km in diameter) and are not restricted to land, as are most surface based temperature recording systems. Over this period in which, by global warming theory, temperatures should have risen more rapidly than ever before in human history, since industrial CO_2 emission has been larger than ever before, the satellite data show *no* upward trend in global temperature *at all.*[4]

If the effect of industrial CO_2 emission on lower atmospheric temperature is obscure and debatable, however, certain other effects are not, or at least should not be. CO_2 is the primary nutrient that plants use in transforming sunlight into plant matter (carbohydrates) through photosynthesis. That is, plants *grow* by transforming CO_2, other nutrients, and sunlight into plant matter. For various natural reasons, many of which are unknown, atmospheric CO_2 concentration has varied widely over the earth's history. The last Ice Age seems to have reduced the CO_2 level far below concentrations existing in earlier historic periods. Indeed, it may have reached a level within 100 parts per million (PPM) of being too low to sustain life on earth.[5]

The significance of this is that industrial CO_2 emission is correcting what is, in terms of the Earth's geological and ecological history, an imbalance of atmospheric CO_2 on the low side. In particular, as Sylvan Wittwer, Professor Emeritus of Horticulture at Michigan State University explains, at current atmospheric concentrations (about 365 PPM), CO_2 is the *limiting* nutrient in plant growth, the one plants cannot obtain in adequate amounts. Increasing atmospheric CO_2 concentration *increases* plant growth. Wittwer explains that it also makes plants healthier and tends to benefit common food plants more than it does common weeds.[6] The beneficial effects of CO_2 are well established in the scientific literature, and the knowledge is so common in some circles that nursery owners have been deliberately enriching the CO_2 content of the atmospheres in greenhouses to as much as 1,000 PPM for decades.

In economic terminology, the point is that, at current atmospheric concentrations, industrial enrichment of atmospheric CO_2 has a positive marginal product for plant growth. Many hundreds of scientific experiments have been conducted to determine CO_2 productivity effects on particular plants, which often yield startling results. Recently, for example, Sherwood Idso, a well known soil physicist at the U.S. Water Conservation Laboratory in Phoenix, Arizona, planted two groups of orange trees in the ground in identical soil and climate conditions. In similar experiments the plants are usually grown in laboratory pots, so Idso's experiment more closely approximated real world conditions. Then he enriched the atmospheric CO_2 content around the second group of trees by 75 percent and observed the two groups over time. Trees in the CO_2 enriched group bore fruit a year earlier than the control group, and after three years were 2.8 times as large on average. Their fruit yields were enormously larger, and by every measure of plant vitality they exceeded the control group.[7]

A Greener World?

Evidence is accumulating that industrial CO_2 emission is increasing plant growth around the world. For example, scientists at the Finnish Research Institute, in a recent study of European forests, discovered that there had been a 25 to 30 percent increase in the growth and growing stock of those forests between 1971 and 1990, which they attribute at least partly to the increase in atmospheric CO_2 over the period.[8] They strongly hinted that this process is probably operating world wide. Other data indicate so. At Mauna Loa recording station in Hawaii, scientists measure the amplitude of the oscillation in atmospheric CO_2 concentration between summer, after spring plant growth has reduced the concentration, and winter, after much vegetation has died and returned CO_2 to the atmosphere. The scientists report that this oscillation, which is known as the "breath of the biosphere," has increased by 15 percent since 1959, indicating that plant sequestration of CO_2 has risen that much in the northern hemisphere over this period.[9] If so, this CO_2 "fertilization" effect must be *more* than offsetting deforestation in the tropics. Indeed, it may *automatically* compensate as rain forest trees are cut and stop sequestering atmospheric carbon through growth, leaving more in the atmosphere to generate and be removed by plant growth elsewhere.

The world is actually getting *greener*, then, due to the beneficial effects of industrial CO_2 emission, contrary to the dismal projections of the environmental apocalyptics. On the basis of the Mauna Loa data, Patrick Michaels computes that the probability that the world is *not* getting greener is only 3 percent. Consumers driving their automobiles, instead of feeling guilty for using depletable fossil fuels, as environmental apocalyptics so ardently wish them to, might justifiably take satisfaction in helping to feed the world's billions, since that is *exactly* what they are doing. It is safe to say that economic models which exclude such a systematic, beneficial externality, cannot generate accurate estimates of the costs or benefits of CO_2 emission abatement, and must systematically *overstate* the amounts of such emission abatement that is economically justified. They may even get the justified direction of change wrong.

Blinded by Ideology

How can economists studying environmental issues and other effects of technical change and industrial development miss all this? It seems odd that they would, since the theory of externalities makes specific reference not just to external costs but also to external benefits possibly resulting from human actions. Environmental ideology seems to blind most analysts to those benefits. In a recent paper on the issue of global warming policy, William Nordhouse makes the following amazing admission in a discussion of the costs and benefits of CO_2 emission abatement:

> In contrast to the cost function, we know little about the shape of the damage function . . . We suspect that higher levels of greenhouse gases will hurt the global economy, but because of the fertilization effect of CO_2 or the attractiveness of warm climates, the greenhouse effect might on balance actually be economically advantageous.[10]

Later in that paper, following a discussion of the various factors that must be considered in assessing the impacts of CO_2 emission and of emission abatement on the global economy, Nordhouse adds the following:

> These remarks lead to a surprising conclusion. Climate change is likely to produce a combination of gains and losses with no strong presumption of substantial net economic damages. This is not an argument in favor of climate change, or a laissez-faire attitude to the greenhouse effect. Rather, it suggests that a careful weighing of costs and damages will be necessary if a sensible strategy is to be devised.[11]

Unfortunately, though Nordhouse is among the fairest and most moderate of modern economic analysts dealing with such issues, these observations appear to be unrepresentative of his general philosophy. In an even more recent paper on the same subject, Nordhouse not only completely fails to mention the "fertilization effect" of CO_2, but expresses a highly pessimistic perspective on the risks associated with human industrial activity. That paper begins with a statement, phrased in the best apocalyptic style, that mankind is playing dice with the natural environment through a multitude of interventions. The usual bleak list follows, with none of the potential beneficial effects or side effects of scientific/industrial progress mentioned.

This attitude carries through to the last section of Nordhouse's paper, titled, symptomatically, *Uncertainties and Anxieties*. He remarks on the relatively small amount of coercive governmental controls for emission abatement his and other economic models justify, with some apparent disappointment, which becomes clear as he then writes the following:

> Yet, even for those who downplay the urgency of the most likely scenarios for climate change, a deeper anxiety remains about future uncertainties and surprises. Scientists raise the specter of shifting currents turning Europe into Alaska, of mid-continental drying transforming grain belts into deserts, of great rivers drying up as snow packs disappear, of severe storms wiping out whole populations of low-lying regions, of surging ice sheets raising ocean levels by 20 to 50 feet, of

northward migration of old or new tropical pests and diseases decimating the temperature (sic) regions, of environmentally induced migration overrunning borders in search of livable land. Given the potential for catastrophic surprises, perhaps we should conclude that the major concern lies in the uncertainties and imponderable impacts of climate change rather than in the smooth changes foreseen by the global models.[12]

Nordhouse clearly reads different scientists than I do. Most of the elements in this list of potential disasters seem highly unlikely. But notice his uniform concentration on *catastrophic* surprises, with *no* hint that *beneficial* surprises might be equally possible. Nordhouse goes on to point out that society often has to make decisions in the absence of complete information, and that a reasoned decision process lists events that may occur, assigns them probabilities, and weighs the expected values of costs and benefits under alternate courses of action in such a way as to maximize the expected value or utility of the outcome. This standard neoclassical economic argument is difficult to deny. But any society whose intellectual opinion makers and governmental decision makers—like Nordhouse—only presume *disasters* to be likely, and never beneficial surprises, would arrive at incorrect and harmful policy decisions with unnecessary frequency. Indeed, the progressive extension of controls such myopic disaster prevention policies entail would eventually end the very freedom that has been a precondition of modern human well-being. □

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1. See Steven Gold, "The Rise of Markets and the Fall of Infectious Disease," *The Freeman*, November 1992, pp. 412–415.
2. Paul W. MacAvoy, *Industry Regulation and the Performance of the American Economy* (New York: W. W. Norton & Company, 1992), pp. 96–103.
3. The data and surrounding issues are discussed clearly and exhaustively in Patrick J. Michaels, *Sound and Fury: The Science and Politics of Global Warming* (Washington, D.C.: The Cato Institute, 1992). Michaels was Virginia State Climatologist for several years, and was President of the American Association of State Climatologists, 1987–1988.
4. See Roy W. Spencer and John R. Christy, "Precise Monitoring of Global Temperature Trends from Satellites," *Science* 247, March 30, 1990, pp. 1558–1562.
5. Michaels, *Sound and Fury*, p. 10.
6. Sylvan Wittwer, "Flower Power," *Policy Review*, Fall 1992, pp. 4–9.
7. Idso's experiment is reported both in Michaels, *Sound and Fury*, pp. 109–110, and Wittwer, "Flower Power," p. 7.
8. Pekka E. Kauppi, *et al.*, "Biomass and Carbon Budget of European Forests, 1971 to 1990," *Science* 256, April 3, 1992, pp. 70–74.
9. Michaels, *Sound and Fury*, p. 12.
10. William Nordhouse, "To Slow or Not to Slow: The Economics of the Greenhouse Effect," *The Economic Journal* 101, July 1991, pp. 920–937. The quotation is from page 933.
11. Nordhouse, "To Slow or Not to Slow," p. 933.
12. William Nordhouse, "Reflections on the Economics of Climate Change," *Journal of Economic Perspectives* 77, Fall 1993, pp. 11–26. The quotation is from page 23.

THE FREEMAN
IDEAS ON LIBERTY

Labor Cartels, Competition, and Government

by Charles W. Baird

A cartel is a group of sellers of a product or service who, instead of competing with each other in an open market, band together and try to eliminate that competition. Some cartels are illegal, and some are legal. For example, if General Motors, Chrysler, and Ford conspired together to raise automobile prices and standardize market shares, government would prosecute them for violating the Sherman Antitrust Act. On the other hand, if the employees of General Motors, Chrysler, and Ford conspired together to raise wages and standardize working hours and conditions, government would applaud them for unionizing.

Economic theory tells us that all cartels are inherently unstable. If government doesn't do anything to force cartel members to refrain from competition and to keep interlopers from competing with a cartel, it soon disintegrates. As George Stigler put it, "Cartels are gentlemen's agreements, but they seldom are and never do."

In spite of the protection afforded unions by the National Labor Relations Act, only 11 percent of the American private sector labor force is unionized. According to Leo Troy, of Rutgers University, by the year 2000 that figure will be below seven percent. Unions are desperate for even more government protection. And the Clinton Administration seems eager to comply.

Much has been written about the pro-union appointments President Clinton has made to the National Labor Relations Board and his new National Commission on the Future of Worker-Management Relations (which one commentator calls FOU—Friends of Unions). The president's promises to sign such legislation as the bill to make it illegal for employers to hire permanent replacement workers during economic strikes and a bill to repeal all laws that protect workers from compulsory union membership are also well known. But far too little attention has been paid to the president's pro-union intervention in labor disputes.

A New Era?

Last Thanksgiving, with much fanfare and publicity, Clinton intervened on the side of the union in the flight attendants strike at American Airlines. Under political pressure, American capitulated to union demands. The Association of Professional Flight Attendants, which represents workers at other major airlines as well as American, immediately hailed Clinton's intervention as a victory that would "set the tone"

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for future negotiations in the industry. Clinton justified his action on the grounds that the Thanksgiving holiday was a peak travel time, and the public would be greatly distressed by continued interruption of flights. Labor Secretary Robert Reich said that this intervention was based on unique "extenuating circumstances" and that the Clinton administration did not plan to get involved in other labor disputes except in extreme circumstances. In contrast, the AFL-CIO lauded the president's action as the beginning of a new era in which management would no longer have the upper hand in labor disputes.

The president's pro-union intervention in the American Airlines strike was soon followed by a similar intervention in a labor dispute at United Airlines. While American flight attendants were on strike, machinists at United were "working to rule" to protest United's refusal to agree to a union plan to acquire majority ownership of United. The union proposed to pay for the buyout merely by accepting some wage and work rule concessions which would reduce United's labor costs. Clinton dispatched Reich and Transportation Secretary Federico Pena to pressure United into agreeing to reopen talks with the unions on the buyout. He also sent Felix Rohatyn, a member of his commission to study the national airlines, to "mediate" the talks. In March of this year United agreed to a buyout of at least 53 percent of its equity shares by its unionized pilots and mechanics in exchange for wage and work rule concessions that were not appreciably different from those United initially turned down. Even with the concessions, United's labor costs will still be much higher than, for example, those at rival, nonunion Southwest Airlines.

Coal Strikes

Then there were the coal strikes. Starting on May 10, 1993, the United Mine Workers of America (UMW) undertook an expanding program of "targeted" strikes against members of the Bituminous Coal Operators' Association (BCOA). More than 17,700, out of 30,000, unionized miners were pulled away from their jobs. The seven-month strike ended on December 7.

The UMW said its principal goal was "job security." Actually, the strikes were nothing more than a desperate attempt by the UMW to prove that it is still relevant in the coal industry. From the union's point of view its members are important only insofar as they serve the institutional interests of the UMW.

UMW mines have suffered a sustained decline of market share since 1970 when union coal amounted to 70 percent of total U.S. coal production. In 1980 the figure was 44 percent; in 1990, 30 percent; and in 1992, 28 percent. Union mines are losing market share to more efficient nonunion mines. Of the 2,800 active mines in the United States, only 800 are unionized. As more and more established union mines are shut down because of depletion or because the falling price of coal relative to union-driven costs makes their continued operation uneconomic, new, union-free mines are opened.

The reasons behind this declining market share have nothing to do with employers trying to rip off workers. For example, under the terms of the 1990 Clean Air Act, coal burning utilities are gradually being forced to switch from high sulfur, eastern coal to low sulfur, western coal. By 1995 many high sulfur mines, many of which are unionized, will be made obsolete by law.

Competition is the biggest part of the UMW's problem. In addition to the fact that 2,800 American mines compete with each other, foreign competition from such countries as Australia and Canada has been increasing. Expressed in 1987 dollars, the average price of coal in 1980 was $34.20 per ton. By 1991 the price had fallen to $18.24—a 48 percent decline. For a mine to stay open and continue to provide employment to miners, it must keep costs of production in line with these falling market prices.

Increased productivity is the single most important means to reduce cost. In union mines productivity is 27.9 tons per miner per day. In union-free mines the figure is

47.6—70 percent more. Even if hourly wages per worker were the same at nonunion and union mines, the big productivity difference would give the nonunion mines a huge advantage in cost per unit of output.

The productivity difference is not the result of sweatshop conditions at union-free mines. Rather, it is because at such mines: employees are hired and assigned based on ability rather than seniority; work rule restrictions, such as requiring an electrician to plug in a power cord, are absent; scheduling is flexible; and contracting-out of repair and maintenance work is permitted. Interestingly, the UMW had already agreed to many of these productivity-enhancing practices at a few unionized mines that compete with BCOA mines; yet, the union refused to discuss the issue with the BCOA.

Average hourly wages and benefits received by nonunion miners ($24.21) exceed those received by union miners ($23.90). That doesn't include work incentive payments paid by many nonunion mines with which a nonunion miner can receive several thousand dollars more in wages and benefits per year than his unionized counterpart.

Nevertheless, unionized mines have higher overall hourly labor costs ($31.64) than union-free mines ($26.95). This is mainly due to spiraling health care costs. Unionized mines pay $3.14 per hour per existing employee for health policies with no deductibles and no coinsurance. Nonunion mines pay $1.83 for policies with deductibles and coinsurance. Moreover, the unionized mines are required by the 1992 Coal Mine Retirees Health Benefits Act to pay health benefits to retired unionized workers whose employers have gone out of business. That is unfair, but it is not the fault of the BCOA or the nonunion mines.

In the face of falling prices, higher overall labor costs, and much lower productivity, the UMW demanded that all existing union jobs be preserved and that all union miners receive full pay even if, for any reason, they are out of work. This is what it means by "job security."

Some BCOA mines are owned by parent companies that also own nonunion mines. As part of its plan for job security, the union demanded that the parent companies, which were not part of the bargaining, force workers in their nonunion mines to unionize. More and more miners are telling the UMW to get lost. Desperately afraid of losing dues payers, the union sought to take free choice away from workers in two ways.

First, the union demanded that management in nonunion mines *already* owned by parents of BCOA members remain silent when the UMW tries to organize their employees. In other words, it demanded that management give up its right of free speech during organizing campaigns in those mines. Second, the union demanded that management in *new* nonunion mines acquired or opened by parents of BCOA members automatically recognize the UMW on the basis of signatures on authorization cards. In other words, it demanded that management take away the employees' right to vote on whether to unionize.

Authorization card signatures are collected on a face-to-face basis, and workers are often intimidated by union organizers who are seeking their signatures. The only target unionists prefer to any employer is a worker who wishes to be union-free.

The UMW has a reputation for violence. For example, during the seven-month strike equipment was sabotaged; tires were punctured; truck and car windows were broken; rocks, steel balls, and bolts were launched from slingshots at guards and supervisors; at least one truck was burned by a Molotov cocktail; one supervisor was shot, and gunshots were fired at a mine office. The UMW is now fighting a $52 million fine imposed on it by a Virginia court for its violent activities during the 1989 ten-month Pittston strike.

The only way that BCOA mines can provide genuine job security to their employees is to cut costs to remain competitive. UMW demands are inconsistent with that goal. Yet, Clinton dispatched Reich and William Usery, a member of the National Commission on the Future of Worker-Management Relations (FOU), to "encourage" the BCOA to accept the UMW's job security demands. On December 7, 1993, the BCOA announced its capitulation.

Reich said the agreement was "a testament to the tenacity and conviction of Richard Trumka and the UMW." Trumka is the president of the UMW. In my judgment, the only conviction that Trumka had was that if he held on long enough, Bill Clinton would come to his rescue. When Reich was asked about the propriety of the administration's actions he lamely asserted that, like the American Airlines case, the coal strike involved "unusual circumstances." One wonders if there will be any major strikes that will not involve "unusual circumstances" which justify pro-union political intervention during the Clinton presidency.

Not since Franklin Roosevelt has the United States had a president so eager to subordinate the rights of employers, consumers, and union-free labor to the interests of cartelized labor. It won't work. Clinton may be able to slow down the rate of union decline, but he cannot reverse it. In an increasingly competitive world economy, unions will, like all cartels, eventually disintegrate. □

One Information Superhighway: Take It or Leave It?

by Eric-Charles Banfield

A key question about the "information superhighway" remains unanswered: Why only one? Americans have been led to expect the information revolution would bring us not one, but possibly hundreds of competing information networks. Now the future of telecommunications and cable will be dominated by a single system created under U.S. government jurisdiction and subject to U.S. government oversight.

Until just recently, the evidence suggested that the free market, without central government direction, would be allowed to establish information networks according to the needs of consumers. Technology, advancing rapidly, had been driving costs down at a rate that promised increased affordability of multimedia services over time. The sheer economics precluded any possible "need" for government assistance. The market process, without central direction, would develop not one "infrastructure" but instead many networks from which consumers could choose. In that free market, if a consumer disliked the level of performance or security offered on one service, he or she would be free to use a different one. Firms that did not satisfy consumers would have to adapt or fold, at their own expense.

But now the U.S. government asserts control over this evolution. It has worked out an arrangement with the large cable and telecommunications firms: The government will let these firms merge and will loosen a few other restrictions. In exchange, the firms will develop a single, centralized, fiber-optic cable information superhighway,

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called the "National Information Infrastructure" (NII), according to government standards. Presumably, most transmissions would have to use that one central highway.

The government wants to subsidize the building of that highway so that its price will be low enough to attract others from any market-based network that might offer a competing service. After using its power to price out market-based networks, the government would have de facto control over virtually all telecommunications. The government has also decided that in order to subsidize access to NII "for everyone," it must levy a tax on all phone, cable, and other information services. Of course, that means "everyone" would have to pay that tax, at least indirectly.

One irony of this intrusion is that, in the name of "promoting competition," the government claims it wants to "force competition." No one in the industry, it seems, has pointed out that competition cannot be "forced." Competition is only one element of sound markets, and it must evolve spontaneously. The monopolies the government officially wants to avoid are possible precisely because of the government's involvement. No monopoly could survive the modern telecommunications era without government protection or privilege. Under free markets, without government meddling, competition is guaranteed.

But apparently the big multimedia firms don't want competition. They prefer the easier life of government privilege and protection. They want the government to control and structure the market to their advantage. Cable and telephone firms, citing the large investments needed to begin laying cable, told the government they were reluctant to begin, unless officials would carve up the market in advance and let the corporate players know who their limited competitors would be in each region. Then they could proceed with "certainty." The government was all too happy to comply. That means free markets and competition in communications and entertainment have been sacrificed to power-hungry corporations, legislators, and bureaucrats.

The first casualty of that communications monopoly is consumer privacy. As the telephone, computer, and cable services merge, the Clinton administration is already pushing a bill to allow the Federal Bureau of Investigation, the National Security Council, and other law-enforcement agencies to tap into citizens' voice and data transmissions over the NII.

The second casualty, common in business-government arrangements, is the freedom of suppliers to select their customers. The regional phone companies (the seven "Baby Bells") will have to make the NII available on a "nondiscriminatory" basis. The government wants "universal service," meaning advanced telecommunications services "available to all." It also wants the system's developers to put schools, libraries, and hospitals "on-line" for free. If not, it will "re-regulate" the system. Declaring telecommunications a "necessity," Vice President Al Gore said, "Congress, the executive branch, the FCC, and the states will share responsibility for revising universal service [and] will share responsibility for meeting those obligations. . . ."

Citizens, including multimedia firms, should resist the idea of a single superhighway created under government fiat. Indeed, some personal computer makers have already expressed "disdain" for the government's single-superhighway idea. Competition and choice requires free markets, not rigged games benefiting those corporations with the most political weight. Consumers should not be satisfied with any centralized monopoly, especially in such an important area as communication of information. □

THE FREEMAN
IDEAS ON LIBERTY

Houston Says No to Zoning

by James D. Saltzman

"Zoning goes down for third time" read the morning headline of *The Houston Post* last November 3. As they had in 1948 and 1962, Houstonians voted once more to remain America's largest city without a zoning ordinance.

"We've got to stop the cancerous erosion of the quality of life in many of our neighborhoods. Those people are crying out for help. Zoning is the answer," said the president of the Houston Homeowner's Association last August.[1]

Yet, the vast majority of Houstonians were not crying out for zoning. Hispanics and low-income blacks voted overwhelmingly, 58 percent and 71 percent, against a measure touted as the way to "save" their neighborhoods.[2] In a low-turnout referendum, only 10 percent[3] of the city's registered voters gave their nod to zoning, disproving the pro-zoners' claim of widespread discontent among Houstonians with their "under-regulated" land market.

In fact, with 17 separate land-use ordinances covering things so specific as trailer parks, rendering plants, and commercial landscaping, property in Houston is not exactly "under-regulated." However, the evidence from this debate in Houston highlights the advantages of a large city that relies more than any other in America on the market to determine land use.

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Exaggerated Risks

With zoning, a city can regulate the location and design of all land uses, from houses to gas stations to bars. Its supporters said that homes unprotected by zoning risk a loss in property value if a business or apartment locates nearby.

Not necessarily. Drive around central Houston and you'll find plenty of expensive new houses built across the street from or adjacent to existing commercial or apartment buildings. The people who build and buy these homes are not dumb. There is obviously a strong market for homes in convenient urban settings.

This casts doubt on the need for zoning to protect or boost property values. Within Houston are two small, independent cities, Bellaire and West University, with zoning. Between 1970 and 1980 home prices in Bellaire and West University climbed more slowly than in many Houston communities, including those lacking private neighborhood restrictions against businesses and apartments.[4] In fact, between 1990 and 1993, average annual home sale prices actually fell in the two zoned cities while sprinting up in a number of Houston neighborhoods, restricted and unrestricted.[5] The financial risks to homes unshielded by zoning are, at best, greatly overstated.

Another exaggeration is that single-family neighborhoods without zoning are likely to be overrun by businesses and apartments. In the Houston Heights, a century-old neighborhood of 300 blocks, only about 5 percent of the residential blocks have private restrictions.[6] Also, a Prohibition-era law left over in the Heights bans liquor sales. Those are the only controls on property in the Heights for the last 100 years, apart from city codes.

Yet single-family homes occupy almost 86 percent of the lots on interior streets. Businesses take up 7 percent; industrial uses, less than 2 percent; apartments, less than 2 percent; churches and schools, 4 percent.[7] Similar distributions in land use have been documented for other unrestricted inner-city neighborhoods.[8] Why does this happen?

In Houston land uses tend to segregate themselves as investors respond to market incentives. Under the Houston system, heavy industry voluntarily locates on large tracts near rail lines or highways; apartments and stores seek thoroughfares; gas stations vie for busy intersections.[9]

With the market at work there's no need for government-imposed districting. Businesses that open inside quiet residential neighborhoods will compete poorly with establishments that enjoy the visibility and traffic count of a heavily traveled street. Businesses that thrive amidst homes often serve strong local demand.

"Shade-tree" mechanics appear in low-income neighborhoods to service old cars owners cannot afford to replace. "Mom and pop" grocery stores supply those who have no cars. In Houston's West End, an area with a large population of artists, stylish and expensive townhomes exist beside framing factories and studios. Around Houston, such mutually beneficial mixtures of commercial and residential uses reflect the market's sensitivity to consumer needs, a sensitivity unimpeded by the tastes of politicians and bureaucrats.

Pro-zoning fears ignore the self-regulating qualities of the market. In locations with stable demand for single-family homes, healthy real estate values are likely to prohibit many "noxious" uses—like junkyards and machine repair shops—that want cheap land. Without realizing it, the homeowners have "zoned out" such uses through their own free choices. As zoning expert Bernard Siegan says, "the most effective of restrictions [is] competition."[10]

Self-Buffering

Since the market creates predictability in land use, anyone can buffer himself according to his own standards from uses he dislikes. He can pursue his own notions about quality of life without the local government imposing its version on him.

People who like proximity to retail services can live on or near heavily traveled streets and assume the risk of facing more noise and traffic than individuals who seek the peace and quiet of an interior residential street. The need to keep bars away from residents is a frequent justification for zoning, but one Houstonian said he likes living near a bar because "patrons to establishments and pedestrian traffic are deterrents to crime."[11] In Houston, to each his own.

Even without zoning, home buyers wanting control over the development of land in their neighborhood have a choice called "deed restrictions." Usually, these deed restrictions are initiated by an original developer to cover all property purchased in a subdivision for 25 or 30 years. Restrictions are often renewable after that period, and most homes in Houston built since World War II have such renewable restrictions.[12] Enforceable by civic associations with help from the city, the document can prevent businesses or apartments from entering the neighborhood. It can even require residents to keep their lawns manicured or their homes painted only certain colors. However detailed, deed restrictions contain rules voluntarily accepted by home buyers, unlike the edicts issued to property owners by a zoning commission.

Predictably, zoning proponents criticize deed restrictions for not providing air-tight protection against mixed uses. Restrictions end at subdivision boundaries, leaving residents at the neighborhood's edge possibly unbuffered from an apartment or business. Zoning supporters want guarantees of protection that neither deed restrictions nor the market's natural separation of land uses can provide.

But are such guarantees possible, even under zoning? In Fort Worth and Dallas, two zoned cities, one can notice an eight-story office building overshadowing nearby homes, a high-density apartment complex and a shopping center across a narrow street from homes, and a junk dealer and a tire store next door to homes. Even in tightly zoned central Connecticut, one can find a factory right beside a home, a new supermarket being built next to homes, and a bar across the street from homes—all mixes routinely denounced as "incompatible" by zoning advocates in Houston.[13]

In land-use patterns and in the predictability of those patterns, Houston and zoned central cities are more similar than prozoners admit.[14] The difference is that Houstonians internalize risks (quite successfully) that zoning attempts to control elsewhere by managing the property rights of citizens.

The Houston Advantage

That's the Houston advantage: private property rights. True, Houston has many strict ordinances, but without zoning, citizens in Houston maintain over their property much of the control that other cities give to local government. Zoning dramatically increases the opportunity for public officials to manipulate private property for maximum political benefit and "impose costs on others at no cost to themselves,"[15] writes economist Thomas Sowell. Under zoning, local goods and services reflect regulatory costs Houstonians avoid.

One such good is housing. Without zoning, Houston ranks consistently as the leader among major American cities for housing affordability. "It's more affordable here than any other large city in the nation," said University of Houston economist Barton Smith.[16] According to Smith, one reason for this affordability is Houston's lack of zoning.[17] And a federal report in 1991 cited zoning as a leading cause for the shortage of affordable housing in America.[18] How does zoning push up the cost of housing?

The proposed Houston zoning plan showed how. It contained density controls that would have forced higher rents for many new apartments and higher prices for many new townhouses.[19] In one case, a planning commissioner effectively froze the renovation of a low-income apartment building by having it zoned into a district just for single family homes. In this way, the structure became a "non-conforming" use, discouraging lenders from risking money on the project.[20] In the long run, zoning increases the cost of housing by restricting its supply. Ironically, zoning makes such bad policy a predictable choice for municipal authorities because they are sensitive to the desire of politically influential homeowners to limit development near their neighborhoods.[21] In unzoned Houston, developers can adjust the number of dwelling units per lot to suit consumer demand, not the agendas of zoning insiders.

Zoning proponents say they just want bargaining power with a developer of land near homes. Ideally, they argue, a compromise on use or design could be struck that would create a "win-win" situation for everyone.

Well, not exactly everyone. Concessions to build fewer dwelling units in an apartment could raise rents there, pricing some individuals out of the complex. And the likelihood of construction delays fostered by zoning procedures and squabbles will price some builders out of their market as well. For example, according to one journalist, zoning and related land-use regulations have boosted the cost of development in Austin, Texas: "Problems—whether they involve neighborhood opposition, new ordinances, unclear policies or moratoriums—mean delays and delays cost money."[22] The interests of the most vulnerable consumers and producers are protected by secure private property rights, not by zoning.

Such rights also provide Houston with employment opportunities that zoning would have removed. One case involved Forged Vessel Connections, a manufacturer of special parts for pressure vessels. The company has been in its location in the largely black community of Acres Homes for the last 17 years and employs residents from the surrounding neighborhood. But the plant was zoned into a residential district, meaning the building could not expand, meaning the end of plans to add 35 new jobs by 1996.

In unzoned Houston home businesses are common and operate relatively freely wherever they are not prohibited by deed restrictions. But the zoning plan had a different approach:

No employees on site except residents. No signs. No parking spaces for customers. No external evidence of commercial activity.[23] For Houstonians, a taste of the regulation plaguing home businesses in 90 percent of American cities.[24] And the Houston Homeowner's Association, a leading pro-zoning interest, assured its members that there was no reason why home business "standards have to be limited to these prohibitions,"[25] suggesting that more rules could be added later.

Zoning would have created undue hardship for many entrepreneurs. For example, one single mother started a telephone answering service in her own home, hiring other women from the neighborhood for help. Zoning would have forced her to fire her employees or rent office space. She might have applied for an exemption and prayed that her aspirations suited her neighbors and city officials. This scenario offends the principle that the opportunity to use private property for employment is a right, not just a favor granted by local government.

The greatest beneficiaries of Houston's abstention from zoning are not the rich, greedy developers as zoning proponents would claim. Big developers in zoned areas enjoy the reduced competition brought by zoning and can afford the lawyers and other consultants needed to acquire variances from zoning rules. Those who have the most to gain from the free exercise of rights to private property are the unemployed and the poor, those who can least afford the costs of regulation.

Examples occurred during the 1980s when Houston lost 250,000 jobs[26] during the "oil crash." As one Houston reporter recalls: "Because there were a handful of neighborhoods where there were no significant barriers to home businesses, the bust became an opportunity instead of a devastation. Time and time again I saw the unemployed become entrepreneurs."[27] Time and time again in Houston's Hispanic neighborhoods entrepreneurs also emerge from homes.

Affordable housing near retail services, home businesses unhindered by excessive regulation—these are the blessings, not cancers, of a city in which the people determine the use of their property.

If anything, the presence of zoning, not the lack of it, can be cancerous to an old neighborhood. Real estate economist Jack Harris explains that, "zoning causes problems in transitional neighborhoods. Although the market may indicate the need for change in land use, zoning attempts to prohibit change."[28] Harris is saying that the market is smarter than bureaucrats and politicians. Unfettered by the realities of the marketplace, they may attempt to "improve" or "preserve" a neighborhood by zoning out most businesses and apartments, as if declining communities can be economically revived just by legislating non-existent demand for single-family homes.

A free market in land use does not guarantee neighborhood revitalization. But letting people decide what to do with their property can assist the recycling of land, especially when commercial or multi-family construction may capture the only viability a neighborhood has.

In the end, zoning restrictions only inspire their circumvention. A speculator will purchase tightly zoned properties for their artificially deflated price and then turn a hefty profit by negotiating with the proper officials for a less restrictive classification.[29] Such a scheme favors those with political clout. At least without zoning, larger benefits go to the original property owners, who can sell their land at its actual market price. Either way, market forces prevail. Zoning just slows them down and makes them costlier.

But zoning makes intolerance less costly. Some pro-zoners demanded the separation of houses from low-income apartments. "These ramshackle complexes contain hundreds of people of minimal educational and economic attainment, with value systems completely foreign to the majority of homeowners,"[30] complained the vice president of the Committee to Zone the City in August of 1990. In other words, it is not just the wrong kind of land uses that are "incompatible" with homes but the wrong kind of people as well. Such efforts to exclude the poor cannot prevail where the property rights of landlords and developers are secure.

Moral Costs

Zoning makes business activities and housing more expensive, but the greater cost of zoning is moral. In essence, zoning grants a cadre of public officials and favored private citizens the free exercise of state power to force their designs on the use of someone else's property. This process trivializes the individual's basic right to self-determination. By voting down zoning, Houstonians have strengthened their claim to that right. □

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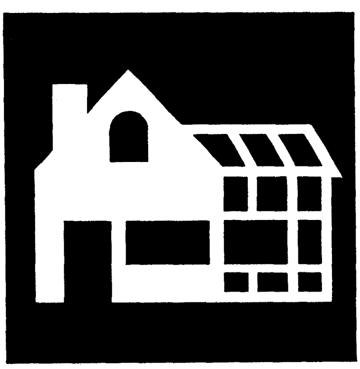

THE FREEMAN
IDEAS ON LIBERTY

The Case Against Managed "Fair" Trade and Strategic Trade

by Shyam J. Kamath

The administration of President William Jefferson Clinton was voted into power in 1992 by a minority of the American electorate on the basis of its promise of "change." As a centerpiece of its platform of change, the new administration promised a "new economic paradigm," a major tenet of which was to create a liberal trading environment through strategic intervention in the process of international trade. Such strategic trade policy involved government intervention to open "closed" foreign markets (the example that was offered was Japan), government activism to serve the national interest in supporting "strategic" industries (e.g., commercial aircraft and semiconductors) and selective targeting of trading partners who were trading "unfairly" by subsidizing their exports or dumping them in the U.S. market.

In spite of the victories in Congress on the North American Free Trade Agreement (NAFTA) and the Uruguay Round of Negotiations of the General Agreement on Trade and Tariffs (GATT), neither of which was initiated by them, the Clinton administration remains wedded to a philosophy of managed and strategic "fair" trade as witnessed by recent confrontations with Japan, China, India, and a host of other nations on issues ranging from the opening of "closed" markets to human rights.

The slogan of "fair" trade has regularly inflamed the passions of the American people since the founding of the republic. Yet successive presidential administrations and the majority of the American people, have on balance been champions of free trade and have thereby made the U.S. the richest country in the world. As the champion of multilateral free trade through the active encouragement and sustained support of the GATT, the U.S. has also been instrumental in supporting world development and making people in other free-trading nations prosperous.

Yet, America in the eighties and early nineties has witnessed the rise of protectionism in the form of retaliatory tariffs and other forms of administered non-tariff barriers. Its "Japan problem" has given rise to a groundswell of popular support for "managed" trade and for punishing its partners for alleged "unfairness," even under the ostensibly free-trade administrations of Ronald Reagan and George Bush. The Clinton administration evidences an activist strain of the protectionist virus that has plagued the nation's movement toward freer trade, in spite of appearances to the contrary.

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Free Trade vs. "Fair" Trade

It is a commonplace of elementary economics that voluntary exchange creates benefits/wealth for all parties to the exchange. When it comes to trade between nations, the same principle applies since it is once again individuals who are involved in these exchanges. In fact, the classical theory of comparative advantage underlying the case for free trade argues that such trade is good for a country even if other countries do not return the favor.

Yet, the case for managed "fair" trade continues to be made on the grounds that free trade results in the loss of jobs, the deindustrialization of America, the loss of "strategic" industries to "unfair" foreign competitors, the loss of American economic leadership and, most recently, is alleged to be the cause of global environmental pollution and needs to be made contingent on the achievement of a common standard of human rights. Both the logic and experience of free trade convincingly refute each one of these claims.

The "They Took Our Jobs" Myth

Trade creates jobs as economic activity expands. The experience of the most free-trading nation on earth, Hong Kong, clearly illustrates this point. With no natural resources, except its people and one of the world's finest natural harbors, but with complete free trade, Hong Kong has witnessed an increase in its per capita income over twenty-five fold and an increase in employment of over twenty times within a short span of forty years. Today, its per capita income is greater than that of the United Kingdom, of which it is still a colony. This stellar economic performance has been achieved while the population of this largely barren island-peninsula colony increased from around 300,000 to six million over this period. The experience of the other "tigers," Singapore, Taiwan and South Korea, is similar. Lest these examples be considered atypical, the cases of western Europe, North America, and Japan have been similar both before and especially after the two World Wars.

The common argument that is advanced in favor of "fair" trade is that trade deficits (i.e., excesses of imports over exports) cause job losses. While this argument reveals a lack of understanding of what trade deficits imply in the standard system of balance of payments accounting, it is pertinent to note that over 21 million new jobs were added between 1980 and 1990 even as the U.S. ran up huge trade deficits with the rest of the world. And the majority of these jobs paid rather well, contrary to the "McJobs" myth. Job growth was mainly in those sectors that were largely unprotected against foreign competition such as computers and data-processing, telecommunications, petroleum and chemicals, pharmaceuticals and health-related products, scientific and photographic equipment, banking and finance, entertainment, leisure and recreation, hospitality and tourism, and the service professions.

Meanwhile, protectionist measures designed to "save" jobs in such industries as automobiles have not kept employment in them from shrinking drastically and, in fact, may have added to their troubles. The quotas (euphemistically called "voluntary" export restraints—VERs) against Japanese autos imposed by the Reagan administration in the early eighties did not prevent the net loss of over 200,000 jobs in the U.S. auto industry.

Robert Crandall of the Brookings Institution has estimated that the 27,000 direct jobs that were saved in the U.S. auto-manufacturing sector cost around $160,000 per job saved (in 1984 dollars) in terms of economic welfare losses in production and consumption. The VERs added about $2,000 to the price paid by consumers, reduced consumer choice, reduced the competitiveness and efficiency of American producers, and resulted in windfall profits for American and Japanese (and other foreign) automobile manufacturers, leading to the shift of Japanese auto production to luxury cars and further exacerbating Detroit's woes in this high-margin segment of the industry. Japanese transplant factories that were set up in the U.S. in order to avoid protectionist sentiment and restraints, reduced the magnitude of the job losses in the auto industry and the other pernicious effects of VERs.

The experience in steel, textiles, and a host of other industries such as dairy products, shipping, and meat-packing was similar. These industries continued to shrink while protective tariffs and subsidies were lavished on them to "save" jobs. For example, in the late eighties, consumers spent $27 billion on textile and apparel subsidies alone, and the cost per direct job saved was $42,000 in an industry with an average wage of $12,000. In the protected dairy products and shipping industries the cost per job saved was estimated as $220,000 and $270,000 respectively in 1987. In the carbon-steel industry for the 9,000 direct jobs saved, the cost was a phenomenal $750,000 per job. The impact of these high-cost "saved" jobs is the diversion of scarce resources from other, more market-oriented industries with perhaps a much larger number of jobs that never came into existence.

Restricting steel imports destroyed jobs. It is estimated that in the 1980s, steel restraints protected 17,000 jobs in the whole industry, while they cost 54,400 jobs in steel-related industries, for a net loss of over 35,000 jobs. Higher steel costs added to the burden of steel-using industries that were trying to compete against foreign manufacturers. Thus, for example, expensive steel raised the cost of building cars in Detroit and promoted Japanese auto imports.

The Deindustrialization Myth

The widespread belief that the U.S. has lost its manufacturing base in the face of foreign competition is simply wrong. Deindustrialization never happened. In terms of absolute output, America's manufacturing lead continues to increase, not fall. The U.S. share of total output of OECD countries (the 24-nation Organization for Economic Cooperation and Development, comprising the bulk of the market-oriented industrial economies of the world) increased from 36 percent in 1973 to 39 percent in 1986, and its share of the industrialized world's manufactured exports was estimated to be 18 percent, the same as in 1980, and ahead of Japan's current 17 percent share. Moreover, the absolute productivity level of U.S. labor in general, and manufacturing labor in particular, continues to be the highest in the world. American manufacturing productivity increased at the fastest pace among the OECD nations in the eighties. The U.S. share of OECD manufacturing employment also increased from 24 percent in 1962 to 28 percent in 1985, while the share of countries like France, Germany, and the United Kingdom fell.

If rising incomes and technological innovation raise the demand for services instead of manufactured goods, economic and social survival require that such services be supplied. The decline in the U.S. of the share of manufacturing in total output and employment has been the result of relatively fast productivity growth in manufacturing and an increase in the demand for services as compared to manufactured goods. The result has been very similar to what happened to the American agricultural sector in the early part of the century—unprecedented gains in agricultural productivity and a rising demand for manufactured goods led to a decline in the share of output and employment in agriculture. This "deagriculturalization" was not only desirable, given the shifts in demand and productivity, it also occurred amidst a period of rising trade surpluses in agricultural products. In any case, many of the countries with some of the highest standards of living in the world today specialize in the provision of services.

The Industrial Policy Myth

Another common complaint against free trade and argument for "fair" trade is that other countries, most especially Japan, are targeting and subsidizing "strategic" industries for takeover and ultimate market domination. The argument is that the U.S. government should create a "level playing field" with countervailing tariffs, or subsidies and industrial policy. Once again, the logic and evidence of actual trade belies this view.

The logic of "strategic" targeting and industrial policy requires that government officials possess vast amounts of information about the future and be able to outguess private entrepreneurs with money at stake. This is, as F.A. Hayek taught us, impossible because of the knowledge problem involved in collecting vast amounts of dispersed knowledge in order to predict successfully an unknowable future. Communist nations suffered from the fatal conceit that government planners could perform such impossible feats before their ill-constructed policies eventually collapsed.

Secondly, strategic targeting, even if possible, would lead to a cycle of retaliation and counter-retaliation which would ultimately make everyone worse off. The results of the infamous Smoot-Hawley tariff in the early thirties illustrate the point. Escalating subsidies and industrial policies will distort the price signals essential for the functioning of a dynamic economy, leading to unintended consequences that are worse than the original alleged disease.

The United Kingdom suffered from the disastrous consequences of its post-war protectionist and interventionist industrial and labor policies. It was the "sick man" of Europe until free-market policies in the eighties restored some of its economic dynamism.

Japan is presented as an example of successful strategic targeting and industrial policy. Yet the actual evidence seriously questions this alleged success. If Japanese strategic targeting had been successful, the original company that later became Sony would have never mass-produced the transistor radio and, in fact, the present-day Sony Corporation may have never come into existence. Similarly, Mr. Shoichiro Honda would have never manufactured Hondas if he had taken the Japanese government's advice.

While some Japanese industries clearly capitalized on the opportunities provided by government subsidies, low-interest loans, and import protection, a large number of targeted industries simply did not do well, or actually became inefficient and/or failed. These include the highly protected and inefficient agricultural industry; the heavily subsidized and low-interest loan-financed coal mining, petroleum refining, and petrochemical industries; the protected and politically mollycoddled wholesale and retail distribution industries; the largely unsuccessful and government-assisted aerospace and large commercial aircraft companies; and the government-supported shipbuilding industry which, after an initially successful period in the late sixties and early seventies, ran into heavy weather and had to downsize massively in the late seventies and early eighties. Japan's most successful and internationally competitive industries such as the automobile and consumer electronics industries have enjoyed practically no special government favors. The industrially targeted steel industry actually yielded below-market returns and has been judged by sophisticated analysts as an example of unsuccessful targeting.

What industrial policies and protection did do was to keep the Japanese standard of living lower than what it otherwise would have been. In 1988, the Japanese standard of living, adjusted by purchasing power exchange rates, was estimated to be around 72 percent of the American standard of living. Most of the improvement of its standard of living has occurred in the last fifteen years as it has dropped its tariff and non-tariff barriers.

The Japanese "Unfair" Trade Myth

Another common myth about "fair" trade is that Japan severely restricts imports. In fact, Japan's formal and informal trade barriers are lower than those in the U.S. and other industrial countries. For example, Japan's average tariff on industrial products was 2.9 percent in 1981 as compared to 4.3 percent in the U.S and 5.8 percent in the EC. Non-tariff barriers such as quotas, licenses, and VERs in Japan were found by a World Bank study to be no different than those in the United States, with the Japanese using more non-tariff barriers to protect agriculture, while the U.S. protects more of its manufactures in this fashion.

Japan was the world's third largest importer in 1990, taking in $235 billion worth of goods and services, imports that were almost as large as the GNP of India and larger than the GNP of Sweden. Japanese imports grew by almost 85 percent since 1985. In terms of imports per person, Japan imported $1,900 compared with $2,050 for the U.S. Yet, the typical Japanese person spent more on American products than vice versa—$372 in 1990 as against $357 for the United States. Over the 1986–91 period U.S. exports increased by 91 percent, while Japan's exports grew by around 17 percent and the average OECD growth was around 25 percent. U.S. exports to Japan during this period were especially strong, doubling to $46.1 billion by the end of 1990. The growth of U.S. exports was strongest in the manufacturing sector.

Sophisticated econometric analyses by a number of serious and scholarly analysts such as Gary Saxonhouse of the University of Michigan, Ed Leamer of UCLA, and T.N. Srinivasan of Yale and Koichi Hamada have shown that Japan does not "under-import" (as unmeasurable and illogical as that concept may seem) as a number of trade "revisionists" such as Clyde Prestowitz and James Fallows have contended. In fact, they have shown that Japan's total imports and imports of manufactures are well within the margins of what would be expected for a country with its natural resource endowments and demographic characteristics.

In fact, it can equally well be argued that it is the U.S. which is the unfair trader. In his book, *The Fair Trade Fraud*, James Bovard has documented that the U.S. has over 8,000 tariffs, 3,000 clothing and textile import quotas, and a variety of quotas and other non-tariff barriers for steel, autos, sugar, dairy, peanut, cotton, beef, machine tools, and other industrial products. Bovard estimates that these trade barriers cost U.S. consumers $80 billion on an annual basis, or more than $1,200 per family per year.

The Cleaner Environment Myth

A more recent argument for managing trade has been raised by environmentalists. According to them, free trade will lead to greater pollution as production expands in the trading countries. Therefore, only environmentally "safe" industries should be allowed in the newly industrializing countries, or trade policy should be linked to tough environmental pollution control laws in the developing countries.

The greatest cause of human misery in the underdeveloped nations is poverty. Free trade and free markets are the only viable way to achieve sustained growth and alleviation of this poverty. Restricting trade or slowing growth for environmental reasons will continue and perpetuate human misery in these nations. The existence of the knowledge problem implies planners cannot know enough to achieve "environmentally responsible" managed trade and economic growth.

In fact, if the economic development of the industrialized countries is any guide, free trade and free market policies will most likely lead to a cleaner environment. Julian Simon and others have shown how economic development in the context of a free market, private property rights economy has inevitably led to a cleaner environment while simultaneously alleviating poverty.

A recent report published by GATT shows that since the richer countries pollute less, and trade makes countries richer, protection or managed trade is likely to cause more, not less, pollution. For example, Princeton economists Gene Grossman and Alan Krueger have shown that air pollution in cities rises with national per capita income to around $5,000, but then falls as income increases further. Trade also helps cleaner technologies to spread.

The Strategic Trade Policy Myth

A major influence on the thrust toward managed trade is the presence of "strategic traders" in its ranks. Recent research in the field of international economics has given rise to what is called strategic trade theory where some of the world's leading trade theorists have shown that under certain stylized circumstances (for example, where a single national firm is in combat with a single other-country rival say, like Boeing and Airbus in the commercial aircraft industry), strategic support (for example, with a subsidy) of a domestic industry against its foreign competitor can be in the national interest and provide it with a "strategic advantage." Such arguments have been seized upon by the strategic traders, a group of public policy entrepreneurs and journalists, as evidence of a fatal weakness in the theory of comparative advantage and the case for free trade. Nothing could be further from the truth.

There are many good reasons for rejecting the temptation to implement strategic trade theory. The most important reason is that the knowledge problem makes it impossible to identify which industries to encourage. In any case, targeting one industry with a subsidy will draw away scarce resources from others so that strategic trade policy on behalf of one industry is simultaneously strategic trade policy against other industries. With the likelihood of government policy failure being very high due to the knowledge problem and a host of other problems (called problems of "public choice" by economists), strategic trade intervention is likely to prove most detrimental to the economy.

Secondly, real-life competition in most industries is unlike that depicted in stylized strategic trade models. Seldom is one national industry "champion" pitted against another solitary rival (even in the Boeing-Airbus case the analogy is seriously flawed), and when there are more than two rivals the outcomes are likely to be more varied and run counter to the desires of the strategic policy maker.

Thirdly, the basic premise of the strategic traders and the competitiveness advocates is patently false. Strategic traders portray nations as being like giant corporations with monopoly power pitted in mortal combat with each other. President Clinton himself has characterized nations as "big corporations competing in the global marketplace." This leads to ill-founded fretting about the "competitiveness" of a nation.

Not only is the concept of the competitiveness of a nation difficult to define, there is no equivalent counterpart to the one indicator of the competitiveness of a corporation—its bottom line in terms of profit or loss. When we say that a corporation is uncompetitive, we mean that it is making a loss and that, if it does not improve its market position in terms of profit (or cash flow), it will cease to exist. No such statement can be made about a nation's competitiveness since it does not have a definable bottom line and does not go out of business (the trade balance is clearly inadequate and inappropriate since countries running trade deficits often are attracting huge sums of foreign investment as did the U.S. in the last decades of the nineteenth and early decades of the twentieth century and as Mexico has done in recent years).

Countries also do not compete with each other like corporations since international trade is not a zero-sum game. While IBM and Hitachi tend to be successful at each other's expense in the same market as they wrestle for market share, countries normally comprise each others' export and import markets. This means that if China is successful in exporting a large amount of goods to the U.S., it simultaneously becomes a large market for U.S. goods. The gains from international trade and specialization accrue to both nations unlike the case of IBM and Hitachi competing for market share.

Human Rights

The most recent argument for managed "fair" trade has focused on the issue of human rights and workers' rights in developing countries. The Clinton Administration has threatened countries like China with the loss of most favored nation (MFN) status for its human rights record, and a host of other countries such as India, Indonesia, Brazil, and Thailand have been placed under "super 301" (named for Section 301 of the

U.S. Trade Act of 1974) sanctions for these and other reasons.

Free trade has been a powerful force for the establishment of human rights and workers' rights the world over. It is no accident that human rights and workers' rights have been and continue to be violated routinely in countries which do not participate in a major way in international trade. Even if international trade has not always resulted in the quick establishment of human rights, it is nevertheless a bad idea to use international trade as a political lever.

The argument for using trade as a weapon to enforce a uniform human rights standard can very quickly become the thin edge of a wedge to demand "fairness" in trade for favored domestic industries and pressure groups by the imposition of sanctions, embargoes and protectionist measures. This could very well degenerate into a name-calling "beggar-thy-partner" trade dispute. Looking for policy, institutional, and moral differences as sources of unfair trade is contrary to rule-based trade regimes such as GATT. It results in challenging every policy in the name of "fair" trade, making managed trade inevitable and putting bureaucrats and politicians in charge of a highly politicized trade regime.

It is very easy to see disputes about workers' rights degenerating into the prevention of trade on the basis of genuine comparative advantage such as lower wage labor. There are many who regard it as "unfair" for Mexican or Chinese workers to be paid a fraction of the wages of American workers and call for tariffs or trade barriers to redress the balance. Such arguments are very easily extended to "working conditions" and other labor costs. They are destructive to the aspirations of developing nations since they deny the basis for comparative advantage for these nations. Moreover, the call for workers' rights is often only a thinly disguised call for universal unionization of labor.

Globalization

The strongest argument against managed "fair" trade is the reality of the existence of globally integrated multinational corporations like IBM, AT&T, and Procter & Gamble, and the interdependence of the inhabitants of our "global village." It is estimated that over forty percent of world trade is carried out by over 2,000 multinational corporations that do not have a national identity and that produce and distribute through a globally-integrated operational network. Any attempt to impose "fair" trade on ostensibly "foreign" competitors through countervailing measures such as anti-dumping duties is more than likely to end up hurting ostensibly "domestic" corporations. This has been the experience with U.S. Section 301 sanctions against foreign countries and trade agreements such as the semiconductor agreement, which resulted in injury to "domestic" corporations like IBM, DEC, Apple, and so on.

The comedy of the recent "buy American" campaigns that preceded and followed the 1992 presidential election illustrates the futility of national policies and efforts to protect "us" from "them" in the face of this globally interlinked trade. Today, anyone wishing to "buy American" may have to purchase a car with a nameplate like Honda or Mazda rather than Chevrolet, Dodge, Ford, or Pontiac. Some of Lee Iacocca's much touted new line of American-built cars such as the Intrepid are not even built in the U.S.—they are built in Canada.

In Conclusion

Logic and hard evidence dictate that we resist the siren song of "fair" trade if we wish to maintain and enhance our standard of living in an interdependent world. Free trade is still the best option for promoting American prosperity in spite of our current problems and the exhortations of our politicians. Managed "fair" trade can only lead to costly mistakes and policy errors and an ever-escalating cycle of retaliation and counter-retaliation putting our world trading system and our futures at risk. Our economic and social future depends on keeping our borders open and the goods and services flowing! □

THE FREEMAN
IDEAS ON LIBERTY

Get a Grip, Garth!

by Reid Schlager

Garth Brooks has received considerable publicity in recent years, and deservedly so. The country music star has been one of the most popular celebrities in any field. His income over the last two years placed him ninth on *Forbes*' 1993 survey of the highest paid athletes and entertainers. However, he also made news for attempting to prohibit the sale of his latest compact disc recording at stores that sell both used compact discs and new ones. The reason, of course, is that selling used CDs would cheat him out of royalty income.

His position seems to be somewhat paradoxical for someone who:

- earned $47 million the last two years,
- has already retired once, and
- stated in previous interviews that he already had more money than his grandchildren's grandchildren could spend.

NBC's *Dateline* recently noted Mr. Brooks' business savvy, attributing it to his having received a college degree in marketing. However, judging by his stance on used CDs, he falls short in his knowledge of free markets. Basic economic laws explain why selling used CDs will not reduce his precious royalties. Economic principles tell us that the value of a capital good equals the present value of all future benefits the good provides. Future benefits are discounted by an interest rate, whose components are the pure rate of interest, the inflation premium, the tax premium, and the risk premium.

The pure rate of interest is the market price of credit in a world without risk, inflation, and taxes. It indicates the market's preference for spending today versus spending a year from now. Stated differently, it's the market-clearing price of credit that causes the supply of savings to equal the demand for borrowing.

Added to the pure rate are inflation, tax, and risk premiums. The market sets the inflation and tax premiums based primarily on government policies. The risk premium is the market's perception of uncertainty of future benefits.

Of these four components, only the risk premium is a function of the good itself. Thus, in discounting future benefits to establish current market values, the discount rate varies only as a result of uncertainty of the future benefits, not the nature of the asset. (The item itself is significant when there are different tax rates on capital gains and ordinary income. However, the tax rates and definitions of capital assets are arbitrarily set by government policy rather than the nature of the good in question.)

To illustrate, consider a bottle of wine, which will not be ready to drink for ten years. Assume that its value as a consumable good will be $100 a decade hence. Anyone purchasing the wine today will not pay $100, but will discount the value at the

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market rate of interest. If that rate is 10 percent, the bottle of wine would sell for $38.50, as that is amount of money invested today at 10 percent which would grow to $100 in ten years.

In others words, the bottle of wine is the same as a $100 zero coupon bond which yields a 10 percent rate of return. If the risk of owning the bond is perceived by the market to be the same as the risk of holding the wine, consumers would be indifferent to holding the bottle of wine or the $100 bond that matures in ten years. Since they are substitutes in terms of monetary value, both the bottle of wine and the bond would sell for $38.50 today, and be worth $100 ten years from now.

This principle applies to all goods. No matter what asset you consider, its capital value change plus its net service flow must be equal to the rate of interest, after adjusting for the risk involved. In short, all assets are valued at the present value of all future benefits. The value of any share of stock is the present value of all expected future dividends. The value of a bond is the expected value of all future interest payments plus the return of principal. The value of a college education is the expected increase in future income resulting from that education.

Of course, there may be some consumption value in addition to the investment value. College can be fun for a lot of people and provide psychic benefits (such as prestige), which cannot be measured in monetary terms. A college degree may also serve as an insurance policy—as something on which to fall back. This would be especially true for athletes and entertainers, such as Garth Brooks. Their market values, as measured by their incomes, generally have little to do with academic knowledge or intelligence. However, there is also a very high rate of failure in these professions, and the possibility of quickly fading into oblivion for those who do achieve success. As a result, it would not be irrational for athletes who expect to make millions of dollars to obtain a college degree as a kind of insurance against a career-ending injury.

The value of an asset may also include non-monetary personal services derived in the interim. For example, if a tree yields no personal service in the interim, its value must rise at the market rate of interest, just as the bottle of wine. But a tree may also yield personal service by providing shade and beauty, just as stocks pay dividends, houses give shelter, and works of art give aesthetic pleasure. (Unlike the wine, the tree may also increase in value through biological growth.) In these instances, the total return—the increase in value plus the value of the services provided—add up to the risk adjusted interest rate.

Why must all goods provide the same rate of return? Because investors (or speculators) will buy and sell various goods to take advantage of any mispricing. If they can earn 10 percent in a zero-coupon bond, but can purchase the bottle of wine for only $10, they will buy all the wine they can get their hands on, with the intention of selling it for $100 per bottle in ten years. Soon, the demand generated by these investors, combined with the limited supply of wine, will push the price up to the equilibrium price of $38.50, thereby generating the equilibrium rate of return of 10 percent on the purchases of wine.

Now, suppose you're the author of a book. You don't like used-book stores, because you think they cut into your book royalties. You collect royalties on the sale of new books, not on used ones. Based on economic logic, this simply is not true.

The initial sale price of a book includes the second person's usage. While some people undoubtedly will pay twenty dollars for a new book, a larger number would be willing to buy it if the price was only twelve dollars. Someone who pays twenty dollars for the book, and then sells it to a used-book store for eight dollars, has, in effect, purchased the book for a net cost of only twelve dollars.

Unless people are consistently irrational and thereby defy the laws of economics—as Mr. Brooks' theory of human behavior seems to assert—some people who pay the full price for the book would not have done so without the opportunity to resell it in the secondary market. Lacking this alternative, they would have three others, each of which reduces or eliminates the author's royalties:

1) Borrow the book from a library and pay nothing.
2) Wait for the paperback and pay perhaps six dollars instead of twelve dollars.
3) Decide to not read it at all.

Compact discs are no different from books and other goods. Just as some consumers factor in the resale value when choosing which new car to purchase, some consumers will purchase compact discs only if there is a secondary market for them. Certainly you would not pay as much for a car if the only choices were to store or destroy it when it was no longer useful to you.

The same is true with CDs. One reason CDs can command a higher price than phonograph records is their greater durability. This certainly increases their value in the secondary market. If royalties are calculated based on sales dollars rather than the number of units sold, the higher prices that result from greater durability would also increase the artist's income.

Trying to abolish used CD sales benefits neither musicians nor record companies. This fact, while apparently unknown to Garth Brooks, has been known to book publishers for many years. It should also be known to record companies.

If Mr. Brooks makes good on his recent promise to retire again, perhaps he will spend some of his free time and $47 million on a good economics textbook, and pass along the wisdom contained therein to his grandchildren's grandchildren. □

Why Old Proverbs Don't Apply Anymore

by Michael Bixby Dudley

Proverbs have served as common sense guidance for millennia. However, as every student of history knows, there are times when logic flees in the face of hysteria, and the world seems topsy-turvy. The '90s are such a time.

A man's home is his castle. Aside from the fact the word "man" is sexist, this used to be true. Not anymore. The Comprehensive Crime Act of 1984 (a good year for its enactment, don't you think?) has put this old-fashioned notion behind us. The Act allows your house to be seized and confiscated based on "probable cause" you may have engaged in an "illegal activity." No conviction is necessary for this confiscation. Since modern law is so comprehensive and complex, many Americans unknowingly undertake "illegal activities" every day. Remember, ignorance of the law is no excuse. In order to get your castle back, you must hire a lawyer and file suit to prove it was never the scene of (or "used to facilitate") any "illegal activity," whatever that means.

Sticks and stones may break my bones, but names will never hurt me. This outdated adage is no longer applicable, because, as

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one New Age "philosopher" has decreed, "words are the same as bullets." Therefore, speaking ill of people is now the moral equivalent of shooting them. So-called "speech codes," such as that being considered by the American Bar Association, provide for severe punishment for prohibited speech.

Two wrongs don't make a right. Modern jurisprudence and legal practice have shown it to be an anachronism. Affirmative action, which mandates present discrimination against one racial (or other) group as a "just remedy" for past discrimination by a different racial (or other) group, is now the law of the land. The fact that the alleged discriminator is long deceased does not enter into the equation. Clearly, under the law, past discrimination is the "fault" of the living.

Don't cry over spilt milk. This ancient proverb does not apply if you are a modern dairy farmer. Much milk has been spilt lately because it is "contaminated" with an artificial hormone which is the exact chemical equivalent of the natural hormone which makes cows produce milk for their offspring. Groups with names like "Save Our Children" have poured out (for the TV cameras) hundreds of gallons of milk that don't contain bovine growth hormone, and dairy farmers, are, indeed, crying over it.

An ounce of prevention is worth a pound of cure. Zealous reformers have obviously discarded this shopworn homily. Several billion pounds of cure are seemingly required to ensure "health care security" for all Americans. Forget the ounce of prevention —it is no longer sufficient.

A stitch in time saves nine. Similar to "an ounce of prevention," and outdated as well.

Charity begins at home. Clearly archaic, as much of the support for "charitable" organizations comes from taxpayer dollars. According to the Urban Institute, "federal support to the nonprofit sector alone amounted to $40.4 billion in 1980." Charities now have huge budgets. In the Atlanta area, for example, nonprofit budgets are "four times larger than the city budget," according to *Foundation News*. These days, charity begins in walnut-paneled offices with deep plush carpeting and matching social agendas.

It's an ill wind that blows nobody good. There are no such ill winds anymore. Look at Hurricane Andrew. First, the residents of Florida got clobbered by the winds themselves. On top of that, the residents of Oshkosh and Peoria got clobbered with higher taxes to pay for the damages caused by those same ill winds. Indeed.

You can't cheat an honest man. Of course you can. Just make each and every law, rule, and regulation so obscure that even those who draft and interpret them haven't the faintest idea what they mean. That way everyone can be cheated at the same time, and no one will be the wiser.

Take care of the pennies and the pounds will take care of themselves. While you were watching your pennies, some folks in Washington started looking over your shoulder. They imposed a new retroactive tax, which relieved your hard-earned pounds of several "windfall" pence.

Do unto others as you would have them do unto you. Not true if you are Congress. If you are in government, it is your duty to exempt yourself from all laws which affect everyone else. Feel free to remove yourself from the encircling tentacles of OSHA, CERCLA, Equal Opportunity Laws, Fair Employment Acts, Social Security, and so forth. If you actually write laws, be sure to include the phrase, "This law shall not apply to the state or any political subdivision thereof." This way, you don't have to worry about what others would do unto you—you are exempt by law.

If at first you don't succeed, try, try again. This prescription for success was obviously written in the Dark Ages. Modern times demand a totally different strategy. First, see above: have a law passed to exempt yourself from even having to try in the first place. If that doesn't work, proclaim yourself a "victim" and demand compensation for your lack of success.

A rolling stone gathers no moss. No one has ever been able to figure out what this one means, so let's pass a law against its use! □

THE FREEMAN
IDEAS ON LIBERTY

Some International Neglect Would Be Good for Africa

by James C.W. Ahiakpor

Many African governments and leaders of thought fear increased marginalization and neglect of their continent in the so-called New World Order following the collapse of Communist regimes in Eastern and Central Europe and the former Soviet Union. This fear has been triggered by the enthusiasm of governments in the industrialized West to help financially the former Communist countries develop into democratic and private-enterprise economies.

Africans believe that the countries of Europe and the former Soviet Union receive far more sympathy in attracting funds from governments of the industrialized countries than their own. After all, it has been suggested frequently in the West that helping the former Communist countries financially is in the West's own security interest. Such help, it has been argued, is far cheaper than spending on armaments to protect against renewed Communist threats, should these countries revert to their bad old regimes. This is why President Yeltsin, for example, receives billions of U.S. aid money while little by way of serious economic or political reform takes place in Russia.

Africans also have heard or read such comments as "It would be far easier to absorb people from Europe into American society than, say, a thousand Zulus from South Africa." In sum, many African governments and their Western sympathizers believe that given the closer ethnic affinity between peoples of the former Communist countries and the industrialized West, help to Africa is liable to receive little consideration on the international agenda. The recent withdrawal of U.S. troops from Somalia adds to this fear.

But the anticipated neglect of Africa has potential benefits for Africans that are seldom discussed. The benefits include (a) a much better functioning of their economies, (b) escaping from further international indebtedness at the governmental level, and (c) relief from their countries being used as proxies to fight East-West ideological wars. Consider these points in turn.

Deteriorating Economies

Most African economies took a turn for the worse during the 1970s, and many continued on that path throughout the 1980s. Today many are characterized by inadequate production of food and other basic necessities, high rates of inflation, low interest rates that penalize saving (nominal returns are wiped out by inflation), official currency exchange rates that bear little relation to the demands for their currencies in international exchange, severely underutilized capacity in public sector manufac-

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turing industries (less than 50 percent), large and persistent government budget deficits, and bloated government bureaucracies. These features are, of course, the creations of African governments, although Marxists and neo-Marxists may claim otherwise. But the conditions also have been exacerbated by governments of the industrialized West as well as international agencies, even if unintentionally.

Inadequate production of food and other necessities, which is really part of a general decline in production, has arisen mainly from African governments' misguided attempts to make food available cheaply to urban populations by dictating low, unrewarding prices to their rural food producers. (Many Western governments do the opposite, subsidizing their farmers and storing up excess produce, later to be used as foreign aid.) Farmers have reacted predictably by cutting back their production, some turning to subsistence cultivation.

Enter Western governments and other international "donors" with food aid (e.g., the World Food Program) and loans to alleviate the shortages created by the price controls. This international "good will" also attempts to alleviate the shortage of savings by granting loans at below-market rates of interest and on easy repayment terms. The loans are also meant to fill the so-called foreign-exchange gap incorrectly believed to be responsible for the countries' inability to import enough raw materials to increase capacity utilization in industrial production.

Indeed, some of those responsible for these unwise international "assistance" programs truly believe that market forces do not work well in the less developed countries. They are unable to make good meaning of trading on black markets in food, foreign currencies, gasoline, or spare parts in Africa. Others correctly understand that the black market reflects the economic rationality of its participants, but nevertheless feel constrained by their relations with African governments, or the dictates of their agencies, not to focus on removing the injurious policies themselves. When pressed on the ineffectiveness of their actions for the overall good of the economies, international "helpers" plead the necessity of going slow or employing palliatives lest the host governments are overthrown by their own people. Thus one now reads excuses from the International Monetary Fund (IMF) and the World Bank about not insisting on the quick removal of bad economic policies as a condition for granting "Structural Adjustment Program" loans in the Third World.

Facing Up to Reality

But suppose these governments do not receive any "food aid" or concessionary term loans to deal with their economic hardship. A few may stick with their unwise policies if they are strong enough to contain their citizens' anger, as countries such as North Korea and Myanmar (Burma) have done. But most would finally face up to reality and take the necessary painful steps toward an efficient economic system.

Take the case of Ghana, for example. While the country's economy tumbled during the mid-1970s in response to several unwise and inward-looking government policies, external aid increased (from $40 million in 1970 to $82 million in 1978, and to $129 million in 1980). But there was a sharp drop in 1982 (to $94 million) when Marxist rhetoric-reciting radicals took over the government. Failure of the government to acquire as much aid as they demanded from the World Bank and the IMF, and the sharp contraction in the economy that year (negative 7 percent in real terms), finally forced some dramatic changes in economic policy in 1983, particularly with respect to rigid price controls. Although international financial assistance later increased, those reforms culminated in the removal of practically all price controls by 1988. Today open markets in foreign currencies (a phenomenon abolished by law in 1961) flourish in Ghana and more private funds flow in than out.

Some of the international aid money has gone to finance government budget deficits in Africa. In some cases, such foreign financing amounts to more than 75 percent of the budget deficit, e.g., in Burundi, Cameroon, Chad, Congo, Gambia, Madagascar, Mali, Mauritania, Nigeria, Senegal, Togo, and Zaire during the 1980s.[1]

Now anyone who runs the family budget on such a principle must soon be burdened with unmanageable debt and go bankrupt. Indeed, some of these countries in 1990 had debt greater than 100 percent of their national income, including Mali (101 percent), Nigeria (101 percent), Madagascar (134 percent), Congo (204 percent), Mauritania (227 percent), and Somalia (277 percent).[2] Others with equally disturbing amounts of debt as a percentage of income in 1990 include Zaire (141 percent), Zambia (261 percent), Tanzania (282 percent), and Mozambique (385 percent). And who bears the burden of repayments? Not the governing elite, but the poor producers of export crops such as cocoa, coffee, peanuts, palm oil, and in some cases local labor employed in oil and other mineral extracting industries. This is why General Olusegun Obasanjo, a former military ruler of Nigeria, believes that the "most humiliating index of [Africa's] decline is the increase in infant and child mortality resulting directly from our debt problem."[3]

Although the peace dividend from the end of the Cold War may have evaded the people of the United States, for example, Africans stand to gain a great deal from the New World Order, if they could be left alone. Several of the civil wars in Africa, including those of Angola, Ethiopia, Mozambique, Somalia, and Zaire, really have been proxy ideological wars between the United States and its allies and the former Soviet bloc. Indeed, it was to contain "Marxist" Ethiopia that the United States sustained the Somalian dictator, Siyad Barre, in power with military and financial support until the end of the 1980s. Thus, "Operation Restore Hope" may justifiably be considered an atonement to the people of Somalia for past collaboration in their repression and economic ruin, rather than mainly altruism.

A Soviet academic put it best when he suggested, at a Soviet-Canadian African Studies conference held in Moscow in 1990, that debts owed by their African clients, especially Angola and Ethiopia, be canceled since they took the form of armaments with which those countries destroyed their own economies. The same can be said for Somalia and Zaire with respect to their governments' debt to the United States.

Bad Advice

What about foreign economic advisers as part of foreign aid to Africa? Would African economies still benefit if Western governments and international financial institutions such as the IMF and the World Bank did not send them technical advisers? In the first place, these advisers must be paid for by the recipient countries, and thus are part of their international indebtedness. Second, they may offer good advice but cannot force their implementation. Third, many of them offer bad advice. And in the case of Africa, as Mahbub ul Haq of the United Nations Development Program (UNDP) was recently quoted in *The Economist* to have observed, the continent "has perhaps received more bad advice per capita than any other."

A recent autobiographical account of foreign advising by Benjamin Higgins tells it all.[4] His client states included Lebanon, Haiti, Sri Lanka, Brazil, Indonesia, (pre-oil) Libya, Malaysia, Mauritania, Morocco, and the Philippines, mainly during the 1950s, 1960s, and 1970s. Other international development experts have focused on Bangladesh, India, Pakistan, Mexico, Kenya, and Tanzania. But when one looks for success stories in economic development, one finds Hong Kong, Singapore, Taiwan, and South Korea—countries that largely escaped the attention of development experts during the 1950s through the 1970s.

The experience of Eastern and Central European countries that followed advice from Western economic experts during the 1990s is not encouraging either. This is why it is most instructive that Higgins rates the success of the "international development

Customers in an electronics store in Ghana.

effort" not in terms of how countries most affected have fared, but by the establishment of a "genuine 'international civil service,' of which the top members are of very high quality and thoroughly committed, . . . and who have achieved a certain unity of ideas . . ." and against whose policies and proclamations, "governments the world over are reluctant to be in open opposition."[5]

Besides some specific details of implementation, the kinds of economic policy that encourage economic growth and development in a country have been outlined in Adam Smith's *Wealth of Nations*. These have been restated time and again by the likes of Milton and Rose Friedman and Peter Bauer. Governments around the world have resisted heeding such policy prescriptions because they do not suit their interventionist tastes or political ends. This is why foreign economic experts frequently are of little help in the Third World.

Of course, the flow of aid money to African governments will not cease in the New World Order. Donor countries still want to retain their spheres of international influence. But the adoption of efficient economic policies that would likely follow the curtailment of Western aid would be good for the continent. □

1. World Bank, *African Economic and Financial Data*, 1989.
2. World Bank, *World Development Report*, 1992.
3. O. Obasanjo and H. d'Orville, eds., *Challenges of Leadership in African Development* (New York: Crane Russak, 1990), p. 28.
4. Benjamin Higgins, *All The Difference: A Development Economist's Quest* (Montreal & Kingston: McGill-Queen's, 1992).
5. *Ibid.*, p. 267.

THE FREEMAN
IDEAS ON LIBERTY

Eating the Seed Corn

by Raphael G. Kazmann

One of the most telling and widely used arguments made by politicians seeking office is that, if elected, their policy will create jobs. The implication is that governmental actions can create jobs in the private tax-paying sector, not tax-eating jobs in the public sector.

Bitter experience has taught us that production must come before consumption—you can't consume something that has not been produced. Equally painful experience has shown us that nothing can be produced without the expenditure of capital. To produce something new, or to increase the production of a commodity already on the market, you must invest capital. That is, you must have enough saved out of current consumption to support you while you build the new facility and enough to support the employees while the commodity goes to the market and is sold in sufficient quantities to make the enterprise viable.

This is the situation that faces the farmer as he puts aside edible seed corn for use during the next year. It is the situation that faces the miner, as he explores for economic quantities of metallic ore, of the wildcatter, looking for natural gas, and the writer of software as he works on a new, improved computer program. All enterprises require the investment of capital. Without capital investment there can be no new jobs, and even jobs in existing enterprises may be lost for want of capital for modernization.

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It should be evident that the larger the physical plant and the greater the investment of capital, the greater the potential for production and income of the population. More jobs, from a politician's viewpoint, mean a greater tax base and a reservoir of potentially larger taxes.

What Actually Happens

Yet despite these truths two major confiscatory policies conspire to consume capital (eat the seed corn) before it can be invested (planted): the inheritance tax and the capital gains tax. After a relatively small exemption of $600,000 for a single person ($1,200,000 for a married couple), the inheritance tax climbs to 28 percent and then to 55 percent. At a time when a modest house in the suburbs sells for from $125,000 to $250,000, a $600,000 exemption protects very little investment capital. And the value of the exemption is eroded every year by the inflation.

Proponents of the inheritance tax argue that the rich will gain a stranglehold on the economy unless part of their capital holdings are taxed away by the federal (and state) government. This is based on the assumption that rich people are organized and wish to dominate the gigantic array of competing interests in the marketplace. Of course, there is no way that this can be done without governmental coercion.

In an economy whose gross domestic product is estimated to be $6 trillion, the whole idea is ludicrous. Moreover, since the economy is not static, unless capital is deployed in accordance with market conditions, it is likely to be lost. Where are such industrial giants as Gulf Oil Company, Pan American Airways, and U.S. Steel—all dominant companies in the U.S. economy in the 1960s? They have either gotten much smaller or have been incorporated into competing firms because they couldn't meet the test of the market. So the inheritance tax, which tends to cripple the economy by reducing the supply of investment capital, is based more on the politician's desire for more money to hand out than on a rational examination of the facts.

The second major program to consume capital is found in the "capital gains" tax, which recently was increased from 20 percent to 28 percent. This rate applies to investments that have been held for more than one year. A capital gain earned in less than a year is taxed at the ordinary income tax rates—a maximum of about 40 percent. The value of the capital is not indexed for inflation. So if, during the course of holding a $10,000 investment for a period of three years, an inflation totaling 30 percent occurred, and the investment is sold for $13,000 a paper profit of $3,000 would be noted and of this "profit" $840 would be due in taxes. Actually since the investment did not grow but would actually buy the same basket of goods and services for $13,000 that it could have bought originally for $10,000, there was no real growth in the investment and the taxman simply confiscated the investment capital of the owner and the productive potential that had existed.

In effect the government first devalues money by running the printing presses and reduces the value of all bonds and corporate debt, then it confiscates capital because of the change in the dollar value that resulted from running the printing presses! It is a prescription for economic disaster.

But if we set aside the inflation factor, a person cannot readily channel funds from one profitable investment to another, potentially more profitable one without allowing for a 28 percent loss in any capital gain that the first investment had achieved. Suppose you had invested $10,000 and its value after 3 years (ignoring inflation) was $13,000, an average of increase of 10 percent a year. Now suppose that you have found an investment that, potentially, might grow during the next three years by an average rate of 12 percent (it might also be a loser). If you sell your original investment, you will have $12,160 to invest, after taxes. After three more years your investment will be worth $16,538. If you keep your original investment and the average rate of return remains at 10 percent, the value of the untouched investment will be $16,900. So switching your money to a more profitable investment (12 percent rather than 10 percent), which is risky, gives you less capital than if you did not switch. Because of this chilling effect on the movement of capital, rational beings will be reluctant to undertake new ventures—even when an increase in the return might change from an average of 10 percent a year to 12 percent a year.

Taxation and Confiscation

In a dynamic economy, where new ventures are constantly being proposed, the tax on capital gains is an important factor influencing the investment of capital. In any rational system of taxation, an increase in productive capacity (which necessarily involves investment of capital) would be welcomed and all irrelevant issues, like capital gains taxes, would be removed. And since a dynamic economy, which moves capital based on economic considerations alone, will create products and employment more rapidly than one laboring under the handicap of capital confiscation, rational government should be the first to remove the handicap and widen the economic base.

It is of interest to note that President Alberto Fujimori of Peru (an economist by training) has eliminated inheritance taxes and has a established a zero tax on capital gains and dividends. According to James Davidson in the *Strategic Investment Bulletin* of February 23, 1994, tax collections have doubled as a percentage of GDP as compared to the receipts before Fujimori superseded the parliament.

Our own situation is less optimistic. A dictum of Robert Heinlein, slightly modified, comes to mind: *"Anyone who cannot cope with elementary economics and mathematics is not fully human. At best he is a tolerable subhuman who has learned to wear shoes, bathe, and not make messes in the house."* This would seem to describe many elected politicians and government policy advisers, who claim they can create jobs. Economic ignorance is disastrous for the economy and society. □

THE FREEMAN
IDEAS ON LIBERTY

Pensiongate: The Emerging Crisis of Church Investments

by Charles Dickson

The average pastor, spending some 30 to 40 years shepherding the flock while contributing to a church-operated pension fund, hopes to find a golden egg at the end of the journey. In an increasing number of cases, it's not happening and hopes for a comfortable retirement vanish in the light of reality.

What's happened? That's the question being asked by clergy of many denominations, but the situation appears to be most acute in the Evangelical Lutheran Church in America (ELCA). The ELCA and its constituent Board of Pensions have been involved in litigation in Minnesota courts over the past four years and prospects appear strong for this situation to continue. At stake is the management of the funds generated from the pension contributions of its more than 17,000 pastors, who are discovering their golden egg has become both shriveled and tarnished.

Why should the returns on the portfolio of ELCA clergy be so much less than the money earned by similar programs operated for corporate and government employees? Are ELCA pastors being short-changed by the investment philosophy of a Church Council which divests itself of many companies with a history of high yield performance in favor of lesser ones with whom it may be in philosophical agreement? Recent lawsuits brought against the ELCA and its Board of Pensions by a group called the Pension Defense Fund allege that this practice, termed "social investing," is precisely what is happening and they are asking to withdraw their funds. Their requests have been summarily rejected by church authorities, thus precipitating the lawsuits.

Under the leadership of Pastors Tom and Matthew Basich of St. Paul, Minnesota, and Judith Boal of Beaver, Pennsylvania, the growing roll of plaintiffs now includes clergy and layworkers from 17 states acting as one voice, to ask that not only they as plaintiffs, but that all pension plan members, be given the right to withdraw their pension accumulations upon demand. Such a right is already guaranteed to corporate and other employees who participate in plans which operate under a 1974 federal law called ERISA (Employee Retirement Income Security Act) but from which church pension plans are exempt.

This exemption from regulations allows such plans considerable flexibility to "run their own show" without having to justify their decisions to any outside governing board or agencies including the body of contributing members whose money is being spent. In the ELCA situation this translates into a 35-member Church Council, under the direction of Bishop Herbert

Dr. Dickson is an ELCA clergyman and college teacher who writes for national magazines and journals.

Chilstrom, who have the final say in regard to both policies and investments.

This absence of regulations has also meant that this governing board is under no obligation to divulge either the names of corporations in which the pension monies are invested or the amounts invested. All attempts to secure such documentation by various contributing members have met with failure.

Despite maintenance of a closed-door policy there has been some leakage of information that has served further to fuel the controversy. The fundamental dispute going on in the ELCA appears to involve those who, as Pastor Basich points out, "believe that the conventions, pulpits, and money of the church should not be used in support of any political agenda, left, center, or right." The plaintiffs in the litigation allege this is precisely the case. They point to the investment blacklists (screens) drawn up by the Lutheran Office for Corporate Social Responsibility in cooperation with the Interfaith Center on Corporate Responsibility which are forwarded to the ELCA Commission for Church in Society. Blacklisted corporations approved by this commission are then forwarded to the ELCA Church Council which imposes its divestment decisions on the Board of Pensions. One ELCA clergyman in learning of this process, commented, "It really upsets me greatly to think that my pension contributions may still be at risk of being used for somebody else's political agenda."

In the divestment process ELCA officials have dropped some of America's most economically sound corporations in favor of much less profitable ones, but who are more philosophically acceptable to the Council. Some "blue-chip" companies which have felt the ax include Borden, Colgate-Palmolive, Goodyear, 3-M, Bristol-Myers, John Deere, and Mobil. As one official of the Board of Pensions lamented, "We had to sell off the cream of the crop." This selloff, members of the Pension Defense Fund maintain, is resulting in significantly diminished returns to members of the plan.

In a report by Judith Boal, a clergywoman with experience in life insurance products and securities, eight generic plans offered in the secular market were compared to the church plan. The report demonstrated that a member could start with the same lump sum, plan to take 10 percent a year off the previous year-end balance, and in each of the secular plans, end up with a total figure that far outstrips the ELCA plan, plus leaving a sum to heirs as well.

These findings appear to be supported by other independent studies such as that reported by analyst Marcia Berss in a June 24, 1991, issue of *Forbes*. Berss wrote, "There is evidence socially-conscious investors underperform the market. Five mutual funds with socially responsible portfolios have been around at least five years and not a one has done as well as the Standard & Poor's 500."

Signals to Investors

Rates of return in financial markets are like prices in other markets. They are signals to investors of the relative values, in the judgment of the general public, of alternative uses of investment funds. Church officials who ignore those signals substitute their subjective value judgments of the merits of competing investments for the collective judgment of millions of ordinary people. That is not morality, it is hubris.

Church officials responsible for such social investing justify their actions by stating they are producing a "Christian witness" by selling the stock of companies with whose policies they disagree. This was particularly true with companies who either operated in or did business with South Africa. Church officials felt that divestment of stock in such companies was a means of punishing them. In reality, opponents of this approach have discovered that those who are ultimately being punished are the thousands of clergy and lay people whose contributions no longer benefit from the once-solid investments of the many "blue chip" companies which have been deleted from the portfolio.

Those who oppose what they believe are high-handed policies on the part of church leaders do so not only because they feel such policies have proven to be economically unsound, but also in the belief they are ethically and morally indefensible. While they rejoice with the church hierarchy that South African apartheid has ended, they do not feel divestment of high-yield stocks was an appropriate way to go. For them punishment by divestment is a way of dealing with a human problem that is, as H.L. Mencken put it, "an answer that is clear, simple, and wrong."

They point to a Gallup Poll in 1989, which revealed that 95 percent of the white population and 82 percent of the blacks in South Africa opposed sanctions, and to a survey by *Harper's* magazine which found that since 1980, three and a half million South African blacks lost their jobs as a result of divestment.

Members of the Pension Defense Fund recently received a shot in the arm for their case in the battle with ELCA hierarchy. On February 7 a Minnesota District Court judge denied motions for a summary judgment which would dismiss the lawsuit filed by the pastors and lay members, thus opening the door for further litigation. Their attorney noted that by denying the defendant's motions for summary judgment the district court judge was signifying that he agreed with the plaintiffs that in this pension dispute there are issues of fact which can only be determined at a trial on the merits of the case.

Meanwhile both sides recognize the long-range consequences of the outcome. "The forthcoming trial," reports Basich, "should produce sober thoughts in other denominational executives who may be toying with the temptation to use pension funds to achieve social and political goals." □

Do English Cathedrals Need Government Help?

by James L. Payne

One assumes that a great cathedral, having stood for centuries, will go on standing forever, but the truth is it is always falling down. If someone doesn't shore up the shifting foundation and replace the eroded stone facing, it will become a ruin. Stepping in to save dozens of glorious English cathedrals from this plight is a remarkable tribe of volunteers and philanthropists. In their quiet way, they show how voluntary action can perform the kind of public service we often leave to government.

In our visit to Britain last year, my wife, Judy, and I came across many volunteer efforts in the cathedrals. We were especially impressed by the range of activities at the cathedral in Wells, a small city in Southwest England. We spotted our first volunteer in the gardens behind the cathedral, a woman clipping roses. She was one of the "flower ladies" who decorate the cathedral (since the group now has a male member, they're

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looking for a new way to identify their group!). At the door, we were met by one of the welcomers, volunteers who greet visitors and hand out the guide pamphlet.

Our leader for the free guided tour was Daphne Shillingford, one of a team of some sixty volunteer guides. These guides are probably more professional, and certainly more enthusiastic, than paid staff would likely be. They have to prepare themselves by studying cathedral history and following the tours of other guides. Then they face a final exam: the chairman of the guides follows their trial tour around, lurking behind pillars, to evaluate their performance. "You see grown men, retired bankers and solicitors, quaking in their boots," reports Daphne.

The cathedral has a famous ancient clock in the north transept that, on striking the hour, sets mechanical horses galloping round and round. Naturally, tourists flock to watch. The bishop has wisely decided to make this an opportunity to introduce a religious point in what is, after all, a house of worship. After the clock has struck, a priest says a brief prayer, and then visits with the tourists. These prayers are conducted by voluntary chaplains.

Other supporters include voluntary vergers who keep the cathedral open late in the summer for tourists, voluntary bell ringers, voluntary stewards in the library, voluntary stewards at concerts, and a voluntary choir when the regular choirboys are on vacation. All these volunteers give a great sense of warmth to the cathedral. "You don't get this feeling of voluntary care in cathedrals on the Continent," said Daphne. Having visited the gloomy cathedrals of Spain, Judy and I can confirm her point.

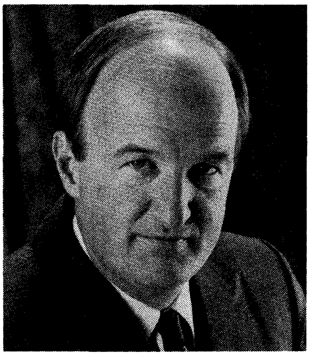
Another key group is a fund-raising branch called The Friends of Wells Cathedral. Founded in 1933, it has some 3,700 members, including a number of Americans. The Friends raise money to pay for stonework and structural restoration, as well as work on the organ, the bells, and woodwork, and to purchase new equipment. Their achievement has been funding the restoration of the Chapter House—which has cost about $1 million.

There is a worrisome note, however. Last year, the Dean of the Cathedral made history by accepting the first government grant. The amount (£15,000 to help clean some stonework) is insignificant financially, but the negative symbolic effect of the government connection could be harmful. If the government is going to fund the cathedral with tax money, prospective donors and volunteers will start asking, why should we exert ourselves to nurture it? The Dean failed to understand that when a voluntary group starts taking funds raised involuntarily, it compromises the spirit of idealism on which it depends.

For an example of how government funding can transform a voluntary group, consider what has happened to Britain's Poetry Society. Founded in 1908, the organization was getting along fine until it started accepting government money. The first grant, a mere $7,500, came in the 1970s. As the funding grew, high-salaried professional managers took over, sold the beloved old headquarters building, moved into a new office building that was closed to the public, and spent $14,000 on new, custom-designed desks. Membership fell, and the audience at poetry readings shrank to a handful of insiders. In 1993—shall we call it poetic justice?—the government put the Society on probation, threatening to cut off its $222,000 annual support on the grounds that it had become ineffective.

Government has a way of embracing noble causes and then disabling them with its largesse. Let's hope English cathedral volunteers realize the danger in time. □

Correction, Please! **by Mark Skousen**



What's Missing From This Picture?

The New York Times

BUSINESS
Digest

The Markets Last Week

DOW 30 Industrials	DOLLAR vs. Japanese Yen	OIL Nymex Spot	BONDS 30-Year Treasuries
3,773.45 +1.23	103.60 Yen -1.75 Yen	$18.48 +$0.36	7.31% +0.04

The New York Times, that bastion of conventional wisdom, is missing a key element in its digest of financial markets. It leaves out the single most significant asset that each day reflects accurately the level of economic, political, and military stability around the world.

The commodity? Gold!

Instead, *The Times* uses oil, a crude and misleading substitute commodity, to measure inflation. Apparently the Midas metal doesn't "fit" the *Times'* definition of headline news.

The New York Times isn't the only establishment publication to fundamentally misread how the world works. *The Wall Street Journal*'s front-page summary of the markets highlights stocks, bonds, currencies, and commodities, including oil. There's plenty of room to list the yellow metal, yet gold is omitted—deliberately.

The reason is simple: The establishment prefers fiat money over the gold standard. It wants government rather than the market to maintain authority over money. It doesn't want to legitimatize a "non-performing" asset that might be warning of trouble down the road. The establishment is quite happy that the "barbarous relic" has been relegated to the commodity trading pits. "Gold is just another commodity," they say.

Oil—A Misleading Substitute

The majority view is that gold is an impractical monetary metal unrelated to real economic activity. Oil is a much better choice, they say, because energy is a critical determinant of the ups and downs of the economy. After all, didn't the energy shocks precipitate the recessions of 1973–75, 1979–82, and 1991–92?

Well, not exactly. All major industrial nations suffered sharp economic downturns in 1973–75, the time of the first energy crisis, but since then the relationship between the price of oil and economic performance has been cloudy. For example, Japan, which imports virtually all its oil, avoided the 1979–82 recession even though crude prices more than doubled. Germany, also a heavy

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oil importer, escaped relatively unscathed, while the United Kingdom, a net oil exporter, suffered the worst recession among industrial nations in 1979–82.

In 1986, crude prices fell by half, from $28 a barrel to $14. According to the establishment view, lower oil prices should have boosted economic growth. "If energy were an important ingredient in business cycles, you should have had a worldwide boom," declares energy economist Douglas Bohi. "There wasn't one." (*Forbes*, January 31, 1994, p. 66)

Bohi, director of the energy and natural resource division of Resources for the Future in Washington, D.C., is one of the few economists who have studied carefully the impact of energy costs on economic growth. After examining the evidence in the United States, Japan, Germany, and the UK, he concludes that oil prices did not have the impact on economic activity that most economists believed.[1] Bohi discovered that energy accounts for only 3–4 percent of the total cost of producing goods and services in the United States. Oil itself accounts for only 2 percent. The cost of energy is simply too small to have a significant impact on economic growth. Also if the oil price goes from $18 a barrel to $14 a barrel, that's a 22 percent drop for oil—but the reduction in costs for the economy as a whole is less than one-half of 1 percent. By the same token, Bohi does not expect the current increase in oil prices to reduce economic growth.

The Tie Between Money and Gold

If oil isn't the driving force behind economic boom and bust, what is? Bohi is convinced that monetary policy has a much broader influence on economic activity. Higher energy prices often reflect a general inflation, forcing most central banks to tighten money and bring about a recession. But not always. In 1979–82, when most world economies were suffering a recession, Japan did not impose a tight money policy and therefore escaped recession.

What better monitor of monetary inflation exists than the price of gold? There has been a strong correlation over the years between monetary policy and the price of gold. When central banks adopt easy-money policies, gold tends to rise. When they impose tight money, gold tends to decline.

The Midas metal is an ideal compass for monetary policy. Gold has certain unique features that make it the most sensitive measure of inflationary fears. It is not just another commodity. Unlike oil, soybeans, or pork bellies, gold is indestructible and is never consumed. Thus annual production is only a tiny fraction of the world's total stock. Annual production seldom exceeds 2 percent of the outstanding gold supplies. The fiat money supply may rise rapidly or fall sharply, depending on the whims of central bankers (usually more the former than the latter). But gold supplies never decline and seldom increase significantly. Even during the gold rushes in California, Alaska, Australia, and South Africa, world gold supplies never increased by more than 5 percent per year.[2]

In his exhaustive historical and statistical study of the purchasing power of gold, Berkeley economist Roy W. Jastram concludes, "Gold does maintain its purchasing power over long periods of time. . . . Its purchasing power in the middle of the twentieth century was very nearly the same as in the midst of the seventh century."[3] A $20 St. Gaudens gold coin would buy a tailor-made suit in the 1920s. That same coin, worth over $500 today, can still buy a tailor-made suit.

In short, gold is as steady as a rock, a standardbearer by which all currencies can be accurately measured. If the price of gold is volatile, it is not because gold itself is volatile, but because government policy is reckless and unstable.

Sharply rising gold prices are a sign of trouble ahead, whether it be inflation, war, or some other man-made crisis. Lower prices mean a return to normalcy and the avoidance of chaos or war. Stable gold prices suggest genuine prosperity and stability. Skyrocketing gold prices in the 1970s reflected a high level of inflation and financial crisis. The decline in gold in the 1980s suggested a disinflationary environment. The recent rise of gold in the 1990s implies a growing fear of more inflation. It is not surprising that Alan Greenspan and other central bankers are using the price of gold as an important gauge of inflationary expectations. Take heed, Wall Street! □

1. Douglas R. Bohi, "On the macroeconomic effects of energy price shocks," *Resources and Energy* 13 (1991), pp. 146–62.

2. See chapter 11, "The Gold Standard," in my book, *Economics on Trial* (Irwin Professional Publishing, 1991, 1993), pp. 128-44. In this chapter, I outline all the arguments for and against the gold standard, and expose several common myths about the yellow metal.

3. Roy W. Jastram, *The Golden Constant: The English and American Experience, 1560-1976* (John Wiley & Sons, 1977), p. 189.

BOOKS

Bargaining with the State

by Richard Epstein

Princeton University Press, 1993 • 322 pages • $35.00

Reviewed by Jonathan H. Adler

In *Takings: Private Property and the Power of Eminent Domain* (Harvard University Press, 1985), University of Chicago law professor Richard Epstein challenged the constitutional legitimacy of nearly every federal government action since 1937. He could scarcely do it again: "Once the New Deal has been declared unconstitutional (as only an academic can do), it is hard to do it a second time." Therefore, with his newest book he has moved to a more limited but intricately related project to ensure "that useful projects go forward in a sensible fashion." Where *Takings* focused on constitutional limits to the power of government to regulate and "take" private property without giving compensation, *Bargaining with the State* assesses the lesser known doctrine of unconstitutional conditions which limits the government's power to "give."

This doctrine holds that the state should not be permitted to condition the conferring of benefits "upon the individual waiver of constitutional rights." To protect freedom of speech, government must restrain privileging certain forms of speech, through subsidies and the like, just as it must refrain from censorship. As Epstein notes, "The power to contract and to grant, when lodged in the hands of government, may well prove to be as dangerous as the power to take and to regulate." For instance, by controlling access to highways and selectively granting incorporation privileges the state can wield an inordinate amount of influence over the lives of individuals. Because of the potential for abuse, this doctrine "is the necessary counterweight to the federal government's exercise of monopoly power." When state power is increased through a Byzantine array of tax codes and regulatory strictures, the dangers posed by its improper use increase exponentially. If the size of the state itself cannot be controlled, the doctrine of unconstitutional conditions can at least rein in its destructive power. Epstein describes this approach as "a 'second-best' approach to controlling government discretion."

To illustrate the doctrine of unconstitutional conditions, consider the recent Supreme Court case *Nollan* v. *California Coastal Commission*. The Nollans owned beachfront property in Ventura County, California, upon which they wished to build a home. The California Coastal Commission, however, refused to issue a building permit unless the Nollans were willing to allow public access to a path along their property. The Nollans rightfully objected, claiming that the only grounds for attaching such a condition to a construction permit would be if the state could prove that the proposed house "would have a direct adverse impact on public access to the [public] beach."

In his majority opinion, Justice Antonin Scalia ruled that if the California Coastal Commission (CCC) needed land for a public pathway, it could use the power of eminent domain to take a portion of the Nollans' property and compensate them for their loss. However, the CCC was in no way entitled to hold hostage the Nollans' right to build a house on their own land to achieve its objective. Scalia ruled that "unless the permit condition serves the same governmental purpose as the development ban, the building restriction is not a valid regulation of land use but 'an out-and-out plan of extortion.'" The Court ruled that the only means that the CCC could use to obtain the desired path was to pay the Nollans for it. Only then would the CCC be abiding by the Fifth Amendment dictum "nor shall private property be taken for public use without just compensation."

The *Nollan* decision was not nearly as sweeping as one might like, but it illustrates the general principles behind the doctrine of unconstitutional conditions. The court did not challenge the state's power to regulate land-use decisions, but it did proscribe how the state could exercise that power. This doctrine holds that even if the state is granted a particular power, that does not imbue the state with unlimited discretion in how that power is used. If the state is empowered to build and manage roads, for example, there are still limits to what conditions the state can impose on those who use the roads. Reasonable limitations might include prohibitions against drunk driving, speed limits, and include generic guidelines, such as driving on the right side of the road. However, the state is in no position to condition access to a "public" road on anything that does not promote the state's interest in maintaining a usable road. Constitutional conditions require some "nexus" between the benefit provided or right protected and the condition imposed. "Some 'related' conditions may be improper," writes Epstein, "but the nexus requirement weeds out many 'unrelated' conditions that are manifestly improper."

Even when the state owns, manages, or doles out a good, service, or privilege, it cannot act as would a private owner in attaching strings to various operations. This is because "unlike a private monopolist, its power cannot be eroded by the entry of new firms, but is perpetuated by a legal prohibition against entry by new rivals." As in the *Nollan* case, if the state is the only entity empowered to issue building permits, landowners cannot take their business elsewhere, so to speak, if the state attaches unreasonable conditions to the permit. If such permitting powers are to exist (hardly a forgone conclusion) the doctrine of unconstitutional conditions is necessary to limit their use.

While the argument put forward in *Bargaining* is highly persuasive, some may be uncomfortable with its reliance on utilitarian analysis. Epstein wants to carve out as much space for the competitive marketplace as is possible in today's constrained political climate. His justification is that infringing upon the market "leads to suboptimal social results." In his view, "The goal of constitutional law should be to maximize overall surplus by the maintenance of competitive markets." Epstein's conclusion is sound, though some may question how he got there.

Nonetheless, Richard Epstein has provided us with another immensely important work. Epstein's thought is a refreshing departure from the mainstream of legal thought that preaches an extension of state power at the expense of the individual. Voices such as his should be heard more often. □

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Public Education: An Autopsy

by Myron Lieberman

Harvard University Press • 1993 • 400 pages • $27.95

Reviewed by George C. Leef

As chance would have it, I was reading Myron Lieberman's book *Public Education: An Autopsy* at the same time the Michigan legislature was struggling with the issues of educational finance and quality reform. Juxtaposing the two, the ultimate futility of the legislature's endeavors was obvious. If Lieberman's powerful analysis is correct—and I am convinced that it is—changing the tax mix which funds public education and instituting marginal quality adjustments in the schools is the equivalent of rearranging the deck chairs on the *Titanic*. This ship is sinking and nobody can do anything about it.

At the outset, it is important to specify exactly what it is that Lieberman says has died, necessitating an autopsy. Notwithstanding his title, he is not claiming that public education is dead. As any taxpayer can tell you, it is still alive and kicking. Rather, Lieberman maintains, the *rationale* for public education is dead. The intellectual case that public provision of educational services is optimal or at least preferable to the market alternative has sustained such devastating rebuttals that it is, in the author's words, "beyond life-sustaining measures."

Standing alone, Lieberman's book goes far toward proving his point. He examines the standard defenses for public education (the public goods argument, the contention that it is necessary to instill democratic values, and so on) and exposes their logical and factual defects. Of course, he is not the first to perform this task, and if read in conjunction with other hard-hitting critiques of public education which have been published recently (books by Thomas Sowell, John Chubb and Terry Moe, Chester Finn, Charles Sykes, to name some of the more prominent), Lieberman's contention is, I believe, indisputably true. The notion that public education serves the nation well now stands on a par with the geocentric theory of the universe.

Not only does Lieberman argue that the rationale for public education is dead, he also contends that demographic changes in the United States will so undermine its base of support that it will eventually give way to a market-oriented system. Low birth rates, the aging of the population, stronger international economic competition, rising juvenile crime, and a host of other factors will create an increasingly hostile environment for public education. He predicts that in the future, we will return to the three-sector educational industry we had during the nineteenth century: public schools, denominational and other non-profit private schools, and schools for profit. (The inclusion of schools for profit is, in Lieberman's thinking, crucial. Competition from them is essential if non-profit schools, public and private, are to function optimally.)

On this point, I wish I could be as optimistic as the author. The public education establishment has proven itself adept at using public relations and political muscle to expand over the last twenty years, despite the presence of undermining factors. As the Post Office demonstrates, governmental monopolies are very tough breeds, capable of surviving demographic and economic factors which would kill or cause major changes in any ordinary business. I hope that Lieberman is right, but I am skeptical.

The theme which recurs throughout the book is that public education is dominated by the producers—the teachers and administrators. Their funding comes directly from government rather than from satisfied customers and when it comes to influencing the government, well-organized interest groups (such as the National Educational Association and its state chapters) have an enormous advantage over unorganized parents. They employ full-time staffs to lobby for the enactment of new laws that will make their position more secure and comfortable and they spend lavishly on political action. Against that, the consumers have about as much chance as a glider against an F-15.

The fact that public education is so dominated by the producers enshrines an unsatisfactory status quo. Lieberman writes, "[T]he largest cost of producer domination is the impossibility of fundamental improvement. The past few decades have witnessed significant improvements in health care, transportation, financial services, telecommunications—virtually every major service except education." What has led to improvements in those fields? Competition. Competition is the great force which brings about progress, but competition is anathema to the education establishment. Any policy proposal which would bring about even a modicum of real competition will be opposed to the fullest by the forces of the NEA and its allies.

How different would things be if we had a market system of education? On a host of educational issues, Lieberman shows how the competitive process of the market would give us far more satisfactory results than we get from the monopolistic status quo. For example, he argues that report cards do a poor job of communicating student performance since there are so many disincentives to candor in the present system. But under competition, "effective schools would have strong incentives to expose the deficiencies of ineffective schools. Under these circumstances, schools would not be able to deceive parents over a long period of time." Thus, competition would minimize if not eliminate the problem of grade inflation.

Indeed, perhaps the greatest of the book's virtues is that it shows non-economists how incredibly much better they are served by markets than by politics. After reading *Autopsy,* it would be nearly impossible for anyone to take the benefits of market competition for granted or to remain oblivious to the inevitable waste and inefficiency which result from politicization. Lieberman is not an economist, but he has produced an excellent proof of what public-choice economists have been saying for years, namely that the incentives built into governmentally controlled systems are such that the results are certain to be poor—except for the producers.

Every book has its omissions. An omission in Lieberman's is the matter of teacher strikes. Strikes and the threat thereof, although illegal, give teacher unions powerful leverage to obtain the terms and conditions they want. In a market system, strikes would be far more risky to the strikers, since customers driven away might never come back. In a market educational system, there still could be strikes, but they certainly would be less frequent and less devastating than are teacher strikes in a public education monopoly. Discussion of this issue would have made a strong book even stronger.

Public Education: An Autopsy is a carefully reasoned book by a man who has spent a lifetime in education. If you are really concerned about the future of American education, read this book. □

George C. Leef, an adjunct scholar with the Mackinac Center for Public Policy, has taught for more than ten years at Northwood University.

The Endangered American Dream

by Edward N. Luttwak

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Reviewed by Jeffrey Tucker

Edward Luttwak, of the Center for Strategic and International Studies, is obviously a brilliant man. His prose is concrete. It packs a punch. He marshals enough facts and anecdotes to his side of the debate to provide the appearance of an infallible case. It is easy to see how his previous book, *Pentagon and the Art of War*, became a bestseller.

But at the heart of *The Endangered American Dream* lies a deception. For all Luttwak's attacks on free trade, his frenzied warnings of Japanese "economic power," his aggressive call for centralized industrial planning, his desire for a global war for American economic supremacy, what he really seems to fear is a return to normalcy after the Cold War.

In a very revealing passage, Luttwak writes that America "has only two modes: internal strife over ideas . . . or a marvelous cohesion in the presence of a threatening external enemy. The Soviet Union performed that function very well for more than forty years," but now that threat is gone. A "basic instinct of American society is to search for an external enemy that can assure its cohesion—and Japan is the only possible candidate."

This passage has marvelous explanatory power. If it were written to demonstrate what's really behind Japan-bashing—culminating in the Clinton administration's walking out of trade talks in February 1994—he makes a compelling point. But, instead the passage is troubling, since the author's protectionism is designed to unite the citizenry in loyalty to the central state.

He is far from the only one in Washington to fear our present lack of some grand international mission. The entire industry of big government would find itself in mortal danger in the absence of an ominous foreign threat. Rather than fret about foreigners, the public would be likely to ask some interesting questions. The foremost is: What do we get in return for sending $1.5 trillion to Washington each year besides pork barreling, a permanent welfare class, and bureaucratic trouble? Frenetic fears of foreigners are powerful enough to drive such fundamental questions out of public debate.

According to Luttwak, we are supposed to fear Japan's "investment" in high technology, its state-subsidized industries, its high levels of education, its long work hours, and its tribal loyalties. If the United States doesn't match them trick for trick, Luttwak warns, especially by jettisoning whatever free trade principles we have, we are going to be economically sunk.

In Luttwak's world, there is no peace or mutually beneficial trade. All economics is war. When foreign corporations invest in new technologies, they are not attempting to make a buck or satisfy consumers; they are trying to drive our companies into the ground, humiliate us, and rob us of our national pride. When American companies invest in foreign countries, they are not boosting profits, but invading the enemy territory and striking where they are most vulnerable.

Luttwak views every trade slight as a bomb lobbed at American shores. Hidden trade barriers are the "geo-economic equivalents of the ambush," circumventing GATT rules amounts to "customs-house conspiracies," subsidized technology is "the equivalent of weapons innovations," and state-guided capital investment is "firepower." This is Cold War thinking gone mad: he has yet to make the psychological transition from war to peace, or the mental switch from geopolitics to plain economics.

There is no reason to fear Japan's Ministry of International Trade and Industry, or MITI, the way the CIA fears the KGB. It is a government bureaucracy, much like the Commerce Department, with the usual share of calculation errors. Government agencies are going to win sometimes and lose other times. Recall that MITI recommended that Honda should stick to making motorcycles, a point which does not receive prominent notice in Luttwak's book. History demonstrates that in the long run, it's the "unpicked" industries that have done well in the marketplace.

During economic decline, there's always a temptation to emulate any economy with a faster rising Gross Domestic Product. In the thirties, for example, the New Deal brain trust tried to copy the Soviet system under the mistaken impression that the Russian GNP was zooming. During the 1990 U.S. recession, moreover, hatred and envy of Japan was at its height. So was the Japanese stock market. Nowadays, the economic fortunes of the two nations have crisscrossed.

Mixed economies like the United States and Japan ebb and flow, depending on a whole variety of factors, including the rate at which the central bank expands money and credit, and the degree to which tax and regulatory police successfully interfere with economic decision-makers. It's best to stick to economic principles rather than hastily lunge from one central-planning fashion to another.

Nonetheless, Luttwak is a compelling prophet of doom. If you're looking for bad news, this is the place to find it. As he points out, our savings rate is at historic lows, and this is causing harm to long-term prosperity. But Luttwak concludes from this that we need a new consumption tax to skew the benefits and penalties the other way. Like Clinton, he wants more "investment" in the private sector by the public sector (based again on the alleged Japanese model), though there is no evidence that this would help at all.

A more sustained attack on the present state of American public education hasn't been published anywhere. That is to be appreciated. But in the end, Luttwak spoils even this by his call for federal government standards and testing, two "solutions" that are somehow never connected to the problem.

Throughout *The Endangered American Dream*, we are treated to masterful polemics, stunning pieces of information, and a sweeping understanding of national trends and economic troubles. Missing is any coherent theory as to why the American dream is indeed endangered. The real reason has to do with the cost of government, but Luttwak is not interested in discussing this. His supposed solutions actually present a greater danger than the status quo itself.

If we adopt his prescriptions—and we seem to be doing so under the current administration—we'll never return to that normalcy Luttwak so fears. That's unfortunate. A nation stuck in the mire of the mixed economy needs internal strife over ideas most of all. Only this kind of battle—not that kind that Luttwak longs for—will bring back liberty, which is the core of the American dream. □

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THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
SEPTEMBER
1994
VOL. 44
NO. 9

468 **Is Politics Insoluble?** *by Henry Hazlitt*
Is a science of government possible?

474 **Property Rights, American Constitutionalism, and International Human Rights "Law"** *by Daniel F. Walker*
Individual rights under siege.

478 **Rights Versus Entitlements** *by Steven Yates*
Granting entitlements leads to an expanding and costly government.

480 **Ideas and Consequences: America's Economics Knowledge Deficit** *by Lawrence W. Reed*

482 **Economic Illiteracy Makes Bad Law** *by Mark S. Pulliam*
When courts overthrow private contracts they undermine the system of private property and exchange on which business rests.

486 **"Thou Shalt Not Steal"** *by Jan Michal Malek*
Protection of private property is essential for economic progress.

491 **Treachery?** *by Scott Alexander*
The importance of trust.

493 **How Japan Realized Her "Impossible Dream"** *by Toshio Murata*
It was hard work, saving, entrepreneurship, and trade that enabled the Japanese to pull themselves up from ground zero after World War II.

501 **Science—Coming Out of the Closet** *by Eric W. Hagen and James J. Worman*
Beware of the predictions of environmental experts with political bias.

505 **A Crisis in the Making: Europe's Welfare Burden** *by Nicholas Elliott*
Financial crises threaten entrenched programs.

508 **Are Women Exploited by the Free Market?** *by John Chodes*
Before the enactment of "pro-labor" laws, women competed successfully on the market for work and wages.

514 **Singing the Ticket Scalping Blues** *by David N. Laband*
When ticket holders are prohibited from offering their tickets to others, the wishes of the most eager would-be buyers are frustrated.

516 **Transitting Away from the Free Market** *by Robert A. Condry*
New subsidies for mass transit.

518 **What Is a Capitalist?** *by Roger M. Clites*
Should a capitalist be maligned for self-denial (saving) and producing for others?

520 **FDA and the Market in Natural Medicine** *by Stephanie Hiller*
Restricting the ability of individuals to care for their own health needs.

525 **Correction, Please! The Free Market Works Fine, Except . . .** *by Mark Skousen*

528 **Book Reviews**
Bettina Bien Greaves reviews *The Ghost of the Little House: A Life of Rose Wilder Lane* by William Holtz; *The God of the Machine* by Isabel Paterson, reviewed by John Attarian; *Russian Currency and Finance* by Steve H. Hanke, Lars Jonung, and Kurt Schuler, reviewed by William H. Peterson; *Angry Classrooms, Vacant Minds* by Martin Morse Wooster, reviewed by John Hood; *Code Blue: Healthcare in Crisis* by Edward R. Annis, M.D., reviewed by Frank J. Primich, M.D.; *Man and Nature*, The Foundation for Economic Education, reviewed by Raymond J. Keating.

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PERSPECTIVE

A Word From the Guest Editor

For many years I have been on the Foundation's staff. When people asked me what I did, I would tell them, "I read, I write, and I look things up." That about covers it. Occasionally I edited an article for *The Freeman*. But this is the first time I have actually edited an entire issue.

The quality of the articles included here is impressive. A thought-provoking article on government by the late Henry Hazlitt leads off. Daniel Walker, Mark S. Pulliam, Scott Alexander, and Jan Malek deal with the very fundamentals of a market society—private property, contract, and trust. And Japanese professor Murata destroys the myth that MITI's "industrial policy" is invincible. These and the other articles in this issue are described briefly in the Table of Contents.

Being Guest Editor has been a challenge, also fun. Through it all, I have gained much respect for those before me, especially Paul Poirot and Brian Summers, who, month after month, and year after year, put together a journal of well-written, interesting, educational, and thought-provoking articles.

—BETTINA BIEN GREAVES

Justice

The utilitarian economist does not say: Fiat justitia, pereat mundus. [Let justice be done even though the world be destroyed.] He says: Fiat justitia, *ne* pereat mundus. [Let justice be done so the world will not be destroyed.] He does not ask a man to renounce his well-being for the benefit of society. He advises him to recognize what his rightly understood interests are. In his eyes God's magnificence does not manifest itself in busy interference with sundry affairs of princes and politicians, but in endowing his creatures with reason and the urge toward the pursuit of happiness.

—LUDWIG VON MISES
Human Action

Quality

I still remember my teachers in Switzerland some fifty years ago hammering into our heads that only will we succeed in the bigger world, if we produce *quality*, to make up for the small size of the homeland. "Our country has no natural resources," they used to preach, "but we have people, and if they excel, they will be noticed. If every move you make is more courteous, the workplace cleaner, the food you prepare better, you will succeed. Not everyone is cut out to be great and to do *great* things, but as long as you do even *little* things in a great way, you will not only survive but triumph."

—GINA KINDSCHI BLOOM

Variety

It is easy to point to evil in the world. But if men are free and at peace with their neighbors, the good that comes from social cooperation overpowers the bad. Individuals with different aptitudes, interests, talents, wants, and goals benefit by specializing and exchanging the products of their labor. This is the market. Songwriter Jan Conn reflects on the good that comes from "variety" in her musical, *Run to Catch a Pine Cone*:

The world needs lots of variety.
Think about it and you'll agree.
Because the world needs variety. . .
That's why the world needs me.
You can't paint a picture with only one color.
With only one color, life couldn't be duller.
But when you add contrast the picture will live.
So let me be me, I'll have much more to give.
Variety, Variety, the world depends on it, yes siree.
Mountain and flatland, desert and sea.
Because I'm different this old world needs me.
A tune with just one note is no tune at all.
The magic begins when the notes rise and fall.
So let me sing my song, whatever it be.
The world will be richer because I am me.
Variety, Variety, look around you and you will see,
The old world thrives on variety.
That's why the world needs me.

—JAN CONN
Run to Catch a Pine Cone

The Human Mind

Thomas J. Watson, Jr., chairman of International Business Machines Corp.: "There is really no comparison between the human mind and the most fantastic computer ever imagined. There are many things that a machine has never done, cannot do today, and will not do tomorrow; in fact, will never do. The human mind holds billions of pieces of information, all cataloged we know not how, all brought to mind or retrieved we know not how, all synthesized into knowledge, into intelligence, into creativity, and all available to guide every one of us as we move through this complicated world—available to give us morality, character, sympathy, and countless other human traits."

—*The National Observer*,
November 18, 1968 (p. 14)

Toleration

It is not the diversity of opinions, which cannot be avoided; but the refusal of toleration to those that are of different opinions, which might have been granted, that has produced all the bustles and wars.

—JOHN LOCKE
"A Letter Concerning Toleration"

THE FREEMAN
IDEAS ON LIBERTY

Is Politics Insoluble?

by Henry Hazlitt

H. L. Mencken was fond of saying that most of the problems men agonize over are inherently insoluble. A haphazard search among his books has failed to turn up a supporting quotation, and perhaps my memory misleads me. He may merely have said "some," not "most" problems. In the latter case, at any rate, I agree with him. I would include at least two whole categories of problems among the insoluble ones. First, all problems commonly classed as metaphysical, ontological or cosmological—such as "How can we tell the really real from the apparently real?" or "What was the First Cause?," or "What is mankind here for?," or "What is the purpose of the universe?" And so on. The second category contains all the really basic political problems.

There are differences, of course, in what is meant by "insolubility" as applied to each of these sets of problems. The metaphysical problems are forever insoluble because man's limited five senses, narrow experience, and finite mind cannot possibly encompass eternity, "ultimate" reality, or infinity. The basic political problems on the other hand, are insoluble because . . . well, for one thing, because we are not even sure what we mean by a "solution."

Suppose we address ourselves to this problem first. What is a "solution"? It is easy to cite an illustration. A man's car fails to start on a cold morning. He finds that his battery is dead, or that his spark plugs are fouled, or that a wire is disconnected, or that the carburetor is flooded, or that he has run out of gas. Once this basic "cause" is discovered, he probably knows how to fix it or have it fixed. Or, again, the man feels some distress; and his doctor identifies it as diabetes and prescribes insulin. Once a doctor has correctly diagnosed a disease with a known palliative or cure, he has "solved" his problem.

In the physical sciences, then, the problems commonly arise because something is working unsatisfactorily, and if we have identified A as the cause and M as the solution, we know we have found the cause and the cure if we can in that and similar cases make things work satisfactorily once again.

But when we turn to the social sciences, and particularly to politics, this kind of certainty or confidence is no longer to be found. Let's take a typical broad problem: What should the state do about the poor and the needy? Historically the answers have run from nothing to everything. The nothing answer has run typically like this: "It is not the function of the state to try to help the needy or provide relief. The proper function of the state is simply to prevent force, theft, and fraud, and maintain internal and external peace."

Henry Hazlitt (1894-1993), a founding Trustee of this Foundation, was a noted economic journalist and author of the best-selling Economics in One Lesson. *He also made major contributions to the critique of Keynesian economics and the foundations of morality. This article first appeared in the Fall 1976 edition of* Modern Age, *pp. 395–401.*

Such an answer immediately confronts obstacles of several sorts. The first concerns its humanity or even its practicality. Suppose, for example, that a child has been hit by an automobile and is found bleeding and unconscious in the street. Are we to hope that whoever finds him proves to be a good Samaritan? And also well enough off to have the child driven to a hospital and to guarantee to pay the bill if the parents are not found or are unable to do so?

"All right," the answer may come, "let the state at least provide for emergency help of this sort." But how far shall we carry this answer? How far shall we extend the definition of "emergency" help? Should the state pay every hospital bill of everybody who claims he cannot pay? Should it put everybody on relief who claims he cannot find a job? How high should the relief be? At just what level will it seriously undermine the incentives to find or hold jobs? At just what level will it undermine the incentives to work and save of the taxpayers who are asked to support the idle? At just what level will it bankrupt the state?

Government and the Needy

There are people who are untroubled by these questions. They want to "guarantee everybody a decent job," or a minimum income, or even equality of income, regardless of all individual differences of effort, ability, or contribution, regardless of the effect on incentives, regardless of any other social consequence. So, in fact, not only historically but today, the answers to the question, "What shall government do about the needy?" still run from nothing to practically everything.

Most people who have given serious thought to the problem have proposed or accepted some compromise. A typical compromise proposal is that we should assure the needy or the unemployed an "adequate" relief payment for a "reasonable" time, but not enough to "undermine their incentives" to find jobs or improve themselves, and not enough to undermine the incentives of the working and productive taxpayers who are being asked to shoulder the bill.

There are inherent difficulties in this compromise. It is something of a self-contradiction. If the relief recipient himself considers his dole "adequate," this is almost equivalent to saying that he has no incentive to take a job or otherwise expend effort to increase it. At all events, the compromise lacks any precision. On the one hand, even a high standard dole may fail to meet the urgent needs of some families. On the other hand, almost any dole of any amount may tend to undermine some people's incentive to a certain extent. As a result of such difficulties, it is hard to get any two people to agree on what should be the amount of a proposal or actual dole, or on who should be eligible for it, or how long or under what conditions it should continue to be paid. So there are hundreds of different answers to these questions.

I do not use this last figure rhetorically but literally. It can be illustrated even within our own country. If we take the federally financed program of Aid to Families with Dependent Children, we find that the average monthly payment per recipient in August, 1975, for example, was different for each of the fifty states, ranging from $14.41 in Mississippi to $105.39 in Alaska. In the "general assistance" program we find a similar range of variation for the same month—from $11.94 per recipient in Mississippi to $144.95 in the District of Columbia. And when we turn to state unemployment insurance systems, even though these also are federally aided, we find not only a similar wide range in weekly benefits, but in the proportion that the benefits bear to the recipient's previous wages, and in the number of weeks in each year for which such benefits are payable.

When we come to comparing not only different states in our own country but different countries, we encounter an enormously greater range of differences in both the amounts and formulas used for calculating relief or so-called unemployment insurance payments. Great Britain, for example, pays its unemployed three-quarters of their previous salaries (which makes its recent prolonged unemployment rate not surprising). In many countries, on the other hand, nothing whatever is paid for unemployment insurance or even relief—not primarily because national sentiment does not favor it, but because the funds do not exist.

If we turn from relief to, say, education, we find a similar wide range of opinion and practice among national governments concerning how much education to make compulsory or how much the state should pay for. It ranges from governments that provide no education at all, through those that provide free public schools, or free high schools, or subsidized college and university education. The prescribed age ranges for compulsory education are similarly wide.

There is one generalization we can make that applies both to relief and education, and, in fact, to any other intervention of the state, once the principle has been granted that it should be allowed to undertake that function at all. The intervention will tend to be indefinitely expanded. The individual amount of relief will tend to grow, the period of payment to be lengthened, the eligibility requirements to be relaxed, the number of recipients to be enlarged, and additional forms of relief to be piled on to those already offered. The like will tend to apply to the length and coverage of state education. Public expenditures will always tend to grow. Because of the politicians' fear of increasing taxation correspondingly, deficits will be increasingly tolerated and rationalized, and inflation will appear and tend to accelerate.

The Limits of the State

In the last hundred years the historic tendency nearly everywhere has been a constant increase in government intervention in the economy, a constant increase in government paternalism and in government power. Each new power that any government has acquired has almost inevitably been used by it to obtain still further powers. It is hardly to be wondered at that a small but perceptibly growing number of political thinkers are beginning in desperation to go beyond even their previous belief that the role of the state should be limited to trying merely to prevent force and fraud, and have begun to advocate a complete abolition of the state.

It is hard not to feel some sympathy with them. It is pleasant, indeed, to draw up attractive pictures of what an ideal anarchistic society would be like. But all these dreams would be shattered by the almost certain outcome. If there were no established government, the country would be taken over by the criminals and gangsters. Eventually one gang would subdue or wipe out its rivals, and that gang would become the new de facto government. It would systematically exact tribute from all the rest of us, only this would again in time be called taxes. In brief, it is impossible to maintain a peaceful anarchy unless some authority is set up to enforce it.

This points, indeed, to the probable origin of the state. We need look no further back than the middle of the last century, when the "vigilance committees" were formed in our own wild West. One of these, for example, was organized in San Francisco in 1851, and promptly arrested, tried, and hanged a goodly number of desperadoes. If this and similar committees had not been formed in California and elsewhere, the desperadoes themselves would no doubt in time have become the de facto government.

But we need not speculate afresh at this time concerning the probable origin of government. That has already been done quite satisfactorily, and by no one better than by David Hume in his essay "Of the Origin of Government" in the mid-eighteenth century. His conjectures are at once so simple and plausible that they warrant direct quotation:

> It is probable that the first ascendant of one man over multitudes began during a state of war, where the superiority of courage and of genius discovers itself most visibly, where unanimity and concert are most requisite, and where the pernicious effects of disorder are most

> sensibly felt. The long continuance of that state, an incident common among savage tribes, inured the people to submission; and if the chieftain possessed as much equity as prudence and valor, he became, even during peace, the arbiter of all differences, and could gradually, by a mixture of force and consent, establish his authority. The benefit sensibly felt from his influence made it cherished by the people, at least by the peaceable and well-disposed among them; and if his son enjoyed the same good qualities, government advanced the sooner to maturity and perfection; but was still in a feeble state till the farther progress of improvement procured the magistrate a revenue, and enabled him to bestow rewards on the several instruments of his administration, and to inflict punishments on the refractory and disobedient. Before that period, each exertion of his influence must have been particular, and founded on the peculiar circumstances of the case. After it, submission was no longer a matter of choice in the bulk of the community, but was rigorously exacted by the authority of the supreme magistrate.

There may have been somewhere, as a few eighteenth-century philosophers dreamed, a group of peaceful men who got together one evening after work and drew up a Social Contract to form the state. But nobody has been able to find an actual record of it. Practically all the governments whose origins are historically established were the result of conquest—of one tribe by another, one city by another, one people by another. Of course there have been constitutional conventions, but they merely changed the working rules of governments already in being.

But however the state may have originated historically, we confront a fundamental dilemma: No small group of men, and certainly no single man, can be completely trusted with the power to rule, yet somebody must be trusted with that power. And if we cannot peacefully agree on who is to be granted that power, and how much, somebody is going to seize it by force, and impose whatever coercion he finds expedient. So some limited power must be voluntarily granted to somebody to rule. But this one practical conclusion merely presents us with a score of further problems. What limits should we set on this power? How can we hold the selected rulers within these limits? Who is to do the selecting? By what process? For how long a term?

Concerning most of these problems we have been able to arrive, at best, at only makeshift and temporary agreement. In addition, in politics we confront, so to speak, a double layer of problems. Suppose one of us is able to devise an ideal form of government. Suppose he has found exactly where to draw the limits around the powers that ought to be granted to a government. How does he convince a majority of his fellow citizens that his answers are right? And what dependable devices does he propose to hold government powers within the limits he has prescribed?

In the West there is some semblance of political agreement because most of us accepted some time ago a magic password—democracy. If it were not the best of all conceivable forms of government, then, as the comfortable joke went, it was at any rate the "least worst." Yet we never quite arrived at any agreement even about the meaning of the word. Does it mean merely government by majority consent, or must there be majority "participation"? And which majority? Of the whole population? Of adults? Of male adults: Of "eligible" voters? And what should be the requirements for voting eligibility—of age, property, literacy, language? Hardly any two governments set exactly the same standards.

And does democracy mean presidential government or a parliamentary form? Here, again, in practice, we find endless variety. I implied, a while back, that democracy has become almost a religion; yet perhaps this statement should be put in the past tense. Even a superficial observer can begin to detect a declining faith in it. Almost everywhere we look—in Latin America, Africa, Asia, Eastern Europe—we find a similar pattern or cycle repeating itself: full democracy—the welfare state—inflationism—a trend toward socialism or Communism—and then a military dictatorship either to preserve or reverse the trend. Even in recent months we have seen the great subcontinent of India changed almost overnight, and without a shot being fired, from an apparent democracy to one-woman rule. . . .

Americans have come a long way since 1917, when they went to war, under Woodrow Wilson's slogan, "to make the world safe for democracy." Yet if many in the West have been losing their faith, and beginning to wonder how to make the world safe *from* democracy, they have found no definite alternative. There are today more than 130 separate nations. Some of them have parliamentary governments, some presidential; some of them are extreme democracies, some absolute dictatorships. But no government is precisely like the other. In fact, few of them are precisely like they were a little while ago or will be in a little while from now.

It is not merely that nations are constantly changing the particular persons or parties in power; they seem to be chronically dissatisfied with the very nature of their governments. Thumb through an annual like *The Statesman's Year-Book* at haphazard. You will find Costa Rica: "The constitution, promulgated on 7 Dec. 1871, has been modified very frequently, last in 1949." Or Nicaragua: It had a new constitution in 1963. "On 31 August 1971 the Congress voted in favor of dissolution of the Constitution. A 100-member Constituent Assembly started its discussions on a new Constitution in May 1972." Or Guatemala: "Following the revolution of June 1954 the Constitution of 1945 was replaced in August 1954 by a 'Political Statute.' On 1 March 1956 a new Constitution came into force. This Constitution was in 1963 replaced by a Fundamental Charter of Government. A new constitution was promulgated on 15 September 1965 with effect from 6 May 1966."

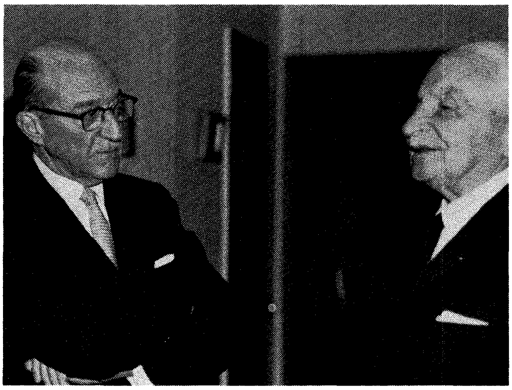
We seem to have made very little advance since the sixteenth century, when the Reverend Richard Hooker was writing: "He that goeth about to persuade a multitude that they are not so well governed as they ought to be, shall never want [for] attentive and favorable hearers."

So where are we left? Generations of mankind, and great philosophers, have wrestled with these basic political problems, and said some penetrating things about them—Plato, Aristotle, Machiavelli, Hobbes, Locke, Montesquieu, Hume, Rousseau, Burke, Bentham, the Mills, Spencer, Dicey, Acton . . . . But have they come up with anything that the majority of our contemporaries are willing to accept as definitive? And can their successors ever hope to do so? Is it possible to lay down in politics any propositions to which we can confidently add: Q.E.D.? Can we prove anything? In brief, is such a thing as political *science* possible?

Raising this question reminds me that at least one of the great philosophers mentioned above, Hume, published an essay in 1752 with the very title: "That Politics May be Reduced to a Science." That a philosopher remembered chiefly for his skepticism would venture to raise such a hope seems especially encouraging. Yet a modern reader will find the argument of Hume's essay vague and disappointing, consisting of a few generalizations, drawn partly from a priori grounds and partly from history, that strike one as plausible but hardly as proved.

And yet—there may be examples in one or two other social disciplines to give us reasons for hope. By the reasoning and research of scholars, and more particularly by thousands of judicial decisions, jurisprudence, or legal philosophy, has been raised to the level of a near-science. We find there an increasing area of accepted and established principle, and neither the enormous diversity in theory or practice that we find in the wider area of politics.

Still more promising is what has been achieved in economics. Since the eighteenth century a series of great thinkers— including Hume, Adam Smith, Ricardo, Bentham, Menger, Böhm-Bawerk, and Ludwig von Mises—have succeeded in creating a genuine social science. As described by Mises:



Henry Hazlitt and Ludwig von Mises in the 1960s.

"Economics is the youngest of all sciences . . . . It opened to human science a domain previously inaccessible and never thought of."[1] It "deals with a regularity in the concatenation and sequence of phenomena that is valid in the whole field of human action."[2] Economics, in fact, is merely a branch, though the hitherto best elaborated branch, of "praxeology"—the science of human action. "In all its branches this science is a priori, not empirical. Like logic and mathematics, it is not derived from experience; it is prior to experience. It is, as it were, the logic of action and deed."[3] "It is a science that aims at the ascertainment of universally valid laws of human conduct."[4]

True, this is not the description of economics that we commonly get. It is—or at least once was—almost peculiar to Mises. But it correctly describes, I think, the nature of modern economics, which was not put on a truly scientific basis until the appearance of the so-called Austrian school of thinkers. It is very important to keep in mind, of course, what kind of science economics is. It has its own methodology. It is a mistake to try to turn it into an imitation of the physical sciences. It is an absurdity to assume, for example, that we can use it to predict the general economic future, and say what the course of profits or employment or GNP is going to be in the next six months or the next year—though hundreds of professional forecasters pretend that they can do just that. There are too many thousands of imponderable factors to be taken into account. All such predictions must forever remain mere guess work.

But predictions of a certain kind—always with the proviso "other things remaining equal"—can confidently be made. We know, for instance, that if the government attempts to fix the price of any commodity or service below what the unhampered market would produce, then—"other things remaining equal"— it will inevitably bring about a shortage of that commodity or service. We know that if a government issues more money faster than more goods are produced, it will bring about inflation and raise prices. We know that if a government makes its own irredeemable paper money legal tender, while gold or silver coin remain outstanding, people will pay off their debts in the irredeemable paper money and hold on to their coins: "Bad money drives good money out of circulation." And we can make hundreds of other predictions of the same kind. We know that any government intervention in the market must in the long run produce results unforeseen by its advocates, and usually less satisfactory even in their judgment than the situation they were trying to improve. And we know this not because that was the result of a previous similar intervention, but inevitably from the inherent nature of the action.

Any hopes for the future, however, based on the analogy of what we have achieved in economics, cannot excuse us from recognizing the present, still wretched state of the theory of politics. Can we some day get beyond such basic dilemmas as the one we formulated earlier—that no small group of men, and no single man, can be completely trusted with the power to rule, yet that someone must be trusted with at least some power to rule? Can we eventually build up a series of interconnected propositions, a solid edifice of theory, that will be entitled one day to be recognized as a science? Perhaps. But right now that day seems far, far distant. □

1. *Human Action*, p. 1.
2. *Theory and History*, p. 203.
3. *Epistemological Problems of Economics*, pp. 12–13.
4. *Ibid.*, p. 68.

THE FREEMAN
IDEAS ON LIBERTY

Property Rights, American Constitutionalism, and International Human Rights "Law"

by Daniel F. Walker

As readers of this journal realize, property rights are not the rights of buildings and land, but the rights of humans to own, use, and dispose of property—tangible and intangible, real and personal. Over the last six decades, American courts have greatly diminished the judicial recognition of constitutional protection of property rights, though the Supreme Court in recent years has begun occasionally to "rediscover" those rights.

To no surprise, the ethereal world of international human rights law reflects America's diminished appreciation and defense of property rights. One need only examine three of the primary documents of international human rights, and review recent American constitutional history, to recognize the low legal regard for property rights at the domestic and international levels.

Consider Article 21, paragraph 1 of the *American Convention on Human Rights*, born of the Organization of American States:

1. Everyone has the right to the use and enjoyment of his property. The law may subordinate such use and enjoyment to the interest of society.

At least paragraph 2 offers some minor comfort:

2. No one shall be deprived of his property except upon payment of just compensation, for reasons of public utility or social interest and in the cases and according to the forms established by law.

"The law may subordinate such use and enjoyment to the interest of society." A rhetorical barrier such as the "interest of society," "public utility," or "social interest" is no barrier at all to government interference with property ownership; all a government entity need do is declare that a government "acquisition" of private property is done in the "interest of society," and the victimized property owner is legally powerless.

Private Property Rights in America

Followers of the demise of constitutional protection of property rights in America

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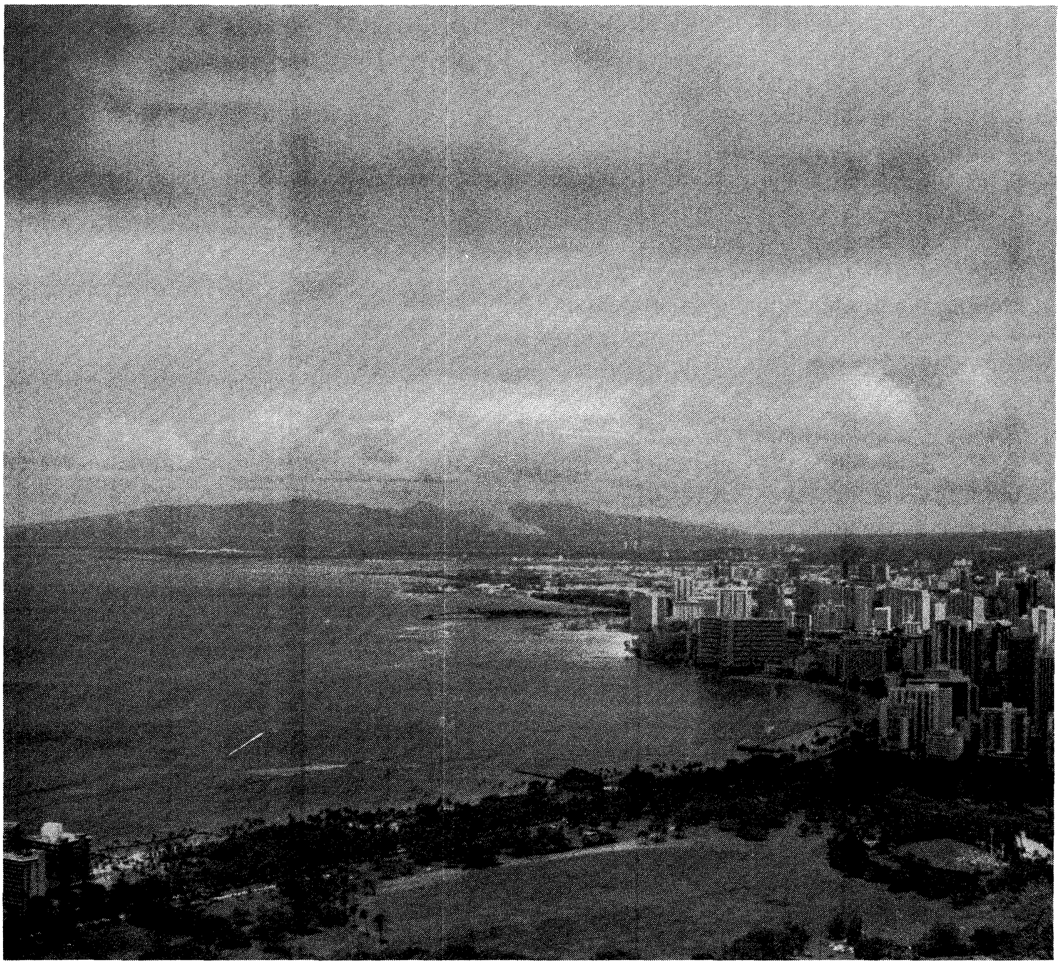

A view from Hawaii's Diamond Head. Approximately half of Hawaiian land is owned by the federal and state governments.

understand this; at one time, private property was not to be taken by government unless for a "public," as opposed to "private," use. "Public use" historically implied such items as public roads, military installations, or buildings and land to be used by government to carry out its limited, enumerated duties. The U.S. Constitution is clear; as stated in the "takings clause" of the Fifth Amendment, " . . . nor shall private property be taken for public use without just compensation."

Now labeled by scholar Richard Epstein as the "invisible" public use clause, the U.S. Supreme Court nearly erased the clause from the Constitution in the 1954 case of *Berman* v. *Parker*, an urban renewal case. In 1984, an allegedly "conservative" Supreme Court finished its mission of constitutional deletion in *Hawaii Housing Authority* v. *Midkiff.*[1]

At issue was a law which empowered land tenants to enlist the aid of the Hawaii Housing Authority to take by eminent domain the leased land owned by the Bishop Estate charitable trust, the ultimate purpose being that the tenants would then purchase land from the Authority. The Ninth Circuit Court of Appeals declared the law unconstitutional, stating, "We must decide whether the Federal Constitution permits a state to take the private property of A and transfer its ownership to B for his private use and benefit. It is our view that it was the intention of the framers of the Constitution and the fifth amendment that this form of majoritarian tyranny should not occur."[2]

A unanimous Supreme Court disagreed and upheld the law.

Associate Justice Sandra Day O'Connor dismissed Contract Clause and due process attacks in a footnote. Focusing discussion on the Bishop Estate holding title to 9 percent of the land in Hawaii, she wrote, "The Hawaii Legislature enacted its Land Reform Act not to benefit a particular class of identifiable individuals but to attack certain perceived evils of concentrated property ownership in Hawaii—a legitimate public purpose."[3] By inference, one could conclude that private concentrated ownership is bad, but government concentrated ownership is good; the federal and state governments owned 49 percent of Hawaii land. Justice O'Connor's opinion was silent regarding the percentage of government-owned land.

The government did not condemn the property in order to construct a government building, or to build a street, or for reason of military defense. The government interfered with private property rights solely to intervene in the private housing market, for the benefit of private citizens, contrary to the ownership rights of the landlord and the contractual relationships between the landlord and tenants. Justice O'Connor destroyed the public use requirement and substituted a "public purpose" requirement, stating that "where the exercise of the eminent domain power is rationally related to a conceivable public purpose, the Court has never held a compensated taking to be proscribed by the Public Use Clause."

As a matter of constitutional law, the "public use" clause is a dead letter. It might as well be the "interest of society" clause in the *American Convention on Human Rights*.

(At least certain state constitutions are explicit, if jurisprudentially repugnant, in their language. For example, the Florida Constitution states that private property may be taken for a public *purpose* rather than *use*, thus the government's legal power to take private property is acknowledged as legally legitimate for many more reasons than if only for public "use.")

The United Nations versus Private Property

For an even more depressing look at the absence of property rights recognition at the international level, consider Article 17 of *Universal Declaration of Human Rights*, courtesy of the United Nations:

1. Everyone has the right to own property alone as well as in association with others.
2. No one shall be arbitrarily deprived of his property.

Wonderful. The government cannot take your property arbitrarily—that is if the government draws your name, deed, or title out of a hat. Otherwise, presumably, if the government has some desire for your property, and has some non-arbitrary procedure or protocol for taking the property, then the government gets your property.

Even more shocking, in the collective opinion of the United Nations the government should not be required to compensate you once it has your property. At least the "just compensation" constitutional requirement retains some life in American law— if you have a good enough legal team to assure that the government does justly compensate you.

(The much discussed *Lucas* case from the 1992 term of the Supreme Court revolved around the just compensation issue, and the sole ray of jurisprudential light from that case is that if a government regulation removes all viable economic value from a property, then the government must compensate the property owner. While the *Lucas* decision was a victory for property rights proponents within our constitutional system, the victory was but a successful skirmish.)

The *Universal Declaration* certainly is a product of twentieth-century minds, and more's the pity. While certain rights, properly understood, are deemed worthy of protection, so is a laundry list of entitlements to other persons' property via social security, public insurance schemes, ad infinitum—the usual "social" or welfare "rights." As pointed out by Gottfried Dietze, any document produced to provide some sort of legal bridge among communist, capitalist, and social-democrat nations cannot contain strong provisions on behalf of private property; furthermore, the weak regard for private property "was due to the fact that Western democracies had become sympathetic to a social appreciation of property, whether they openly professed such a sympathy in international negotiations or not. No matter how gradually and imperceptibly it may have happened, a social conception of property has become so generally accepted by the so-called free societies that it constitutes a veritable *ius gentium*."[4] American legislatures and courts began to severely diminish property rights in the 1930s and 1940s. It is no surprise that if America would not stand fast for the human right of property ownership, neither would the rest of the world.

The European Experience

But what of the European experience with regionalized international human rights? In the *First Protocol to the Convention for the Protection of Human Rights and Fundamental Freedoms*, a product of the Council of Europe's member nations, property is addressed as follows:

Article 1

> Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided by law and by the general principles of international law.
>
> The preceding provisions shall not, however, in any way impair the right of a State to enforce such laws as it deems necessary to control the use of property in accordance with the general interest or to secure the payment of taxes or other contributions or penalties.

"Public interest." "In accordance with the general interest." "Secure the payment of taxes or other contributions or penalties." Again, we see a document which provides a slight acknowledgment of property ownership, and provides no shield against government encroachment upon the sphere of individual sovereignty made more robust by private property. Europe we need not look to.

Fortunately, neither the *Universal Declaration* nor the *American Convention* have any legal effect upon domestic American law. The Senate has not ratified either treaty, despite considerable legal-academic and "progressive" support for incorporating the provisions of these "human rights" documents into the framework of fundamental American law.

Still, the rhetorical surrender by successive American administrations regarding property rights as human rights reflects three generations of Americans living off their inherited philosophical capital—with little understanding of what happens when the capital of property rights is exhausted by social engineers in the "interest of society."

Proponents of "international human rights" and strong constitutionalism would do well to read the words of Canadian attorney and columnist Karen Selick, who recently addressed the topic of "property rights as human rights" quite elegantly:

> In fact, property rights are the inevitable extensions of those most basic of human rights, the rights to life and liberty. If a person chooses to spend some of his precious time on earth converting his energy into property (i.e., working for a living), then depriving him of that property later is equivalent to retroactively depriving him of that portion of his life which he spent working. It's like expropriating an entire chunk of his life. It's like enslaving him.[5] □

1. *Hawaii Housing Authority v. Midkiff*, 467 U.S. 229 (1984).
2. *Midkiff v. Tom*, 702 F.2d 788, 798 (9th Cir. 1983).
3. 467 U.S. at 241.
4. Gottfried Dietze, *In Defense of Property* (1975), p. 171.
5. Karen Selick, "Property Rights Are Human Rights, Too," *Canadian Lawyer* (June/July, 1993), p. 46.

THE FREEMAN
IDEAS ON LIBERTY

Rights Versus Entitlements

by Steven Yates

Many people today speak of rights. We hear of rights not just to life, liberty, and the pursuit of happiness, but to a host of other things as well, including rights to employment, education, a certain level of income, a certain quality of housing, race and gender representation in the workplace, freedom from economic insecurity, and health care. Often these claims are made on behalf of some group; thus we hear of women's rights, the rights of minorities *qua* minorities, the rights of gays and lesbians, the elderly, children, the handicapped, and sometimes even the rights of animals. Usually a careful appraisal of what the advocates for these various groups are saying indicates their belief that their rights can be fulfilled only by acts of government. Hence they petition the government for new laws or other favors.

If we consider the original rights expressed in the Declaration of Independence and enumerated in the U.S. Constitution, it should be clear that there are massive differences between those rights and these new ones. The original rights were rights to live by one's personal efforts without the interference of others, and in particular, without interference by government. That is what the founders of the United States were declaring independence from, after all. The Declaration of Independence speaks of the right to *pursue* happiness; it does not offer a guarantee that one will *achieve* happiness. This makes all the difference in the world; for in a free society there can be no guarantee that effort will meet with success.

Nevertheless, today we see plenty of demand for such guarantees, and more and more promises being made by government in response to these demands. Take the minimum wage. What this "right" does is force an employer to pay a higher wage than employees' services might be worth under free market conditions. Or consider the "rights" to access now mandated by the Americans With Disabilities Act. This legislation requires businesses and other organizations to make extra-economic accommodations but does not clearly spell out what they have to do to comply. Such ambiguity is another characteristic of many recently discovered "rights."

Given the vast differences between what is stated in this country's founding documents and the demands we now see, accuracy and honesty call for a different term than *rights*. The term *entitlements* crept into our political and socioeconomic lexicon to refer to federal programs such as Social Security and Medicare. It is notable that the decision to partake of the fruits of these programs was not left up to the individual. By law, he had to participate, and this meant relinquishing an important aspect of freedom. Moreover, entitlements are always

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financed by compelling others to pay. Thus, they lead to more and more interference with individual freedom as government grows in size to administer its programs, seizing the fruits of individuals' actions both to support itself and to fulfill its entitlement guarantees.

In other words, there is a hard and fast difference between *rights* and *entitlements*, a difference which the past seventy years of government policy has blurred to the point of indistinguishability. A free society must recognize the distinction. Otherwise, it has no way of knowing which claims of rights to acknowledge and which to reject as spurious. Legitimate rights are easy to recognize. They can be acted on by individuals without the assistance of government and without forcibly interfering with other individuals. Entitlements, on the other hand, cannot be fulfilled *except* through specific government actions which require forcible interference with others. Protecting rights is thus compatible with limited government. Granting entitlements requires an ever-expanding and increasingly meddlesome state. The more entitlements the state grants, the more it must extend itself to make good on its promises, and the greater its level of interference with people's actions. Moreover, by interfering with successful actions, government becomes a drain on the individual's energies. The individual must expend more and more effort to get the same personal benefits. This translates into a disincentive to produce, and when less is produced, there is less to seize and distribute. Soon, the state can no longer keep its promises.

Today, government sees itself as in the business of providing guarantees in the form of entitlements; new, spurious "rights" such as those named at the outset are manufactured by the hundreds of pages of new legislation our government churns out every day. A government which knows its place, however, will shun entitlements. Attempts to provide guarantees to citizens, no matter how well intentioned or how well orchestrated, cannot be made without introducing more and more interferences with genuine rights as the government grows exponentially in order to administer the programs.

The government that sees itself as in the business of fulfilling entitlements soon finds itself under pressure to grant more and more. Then, faced with burgeoning bureaucracy, declining opportunities, declining prosperity, and a general malaise, it soon finds that it cannot grant anything worthwhile at all. Today's entitlement-granting machine is leading the country into the economic equivalent of a bottomless pit. Only time will tell if we can reverse the process by recovering the distinction between rights and entitlements and redefining the purpose of government as protector of the former, not guarantor of the latter. □

America's Economics Knowledge Deficit

Economics is a subject that dominates public life and important policy discussions these days, but those Americans who rely on what they've learned of it in the public schools are entering the intellectual battle unarmed.

According to an informal survey in my state of Michigan, 72 percent of the state's high schools offer economics. But of those, 51 percent make it a required course while 49 percent offer it as an "elective." Only a tiny fraction of students choose to take the subject when the choice is up to them. Barely 49 percent of Michigan students had actually completed one economics course before graduation in 1992.

The survey involved no value judgments regarding the kind of economics taught. Some courses deal with little more than "consumer" issues: how to balance a checkbook, how to find the best deals in the market, or how to borrow money at the lowest interest rate. Those are all useful things to know, but the mental tools and essential principles needed to analyze and evaluate the paramount issues of the day are too often missing.

Moreover, even a cursory examination of textbooks used in high school economics courses reveals a dismal level of understanding or outright bias by the text authors themselves. Students are sometimes reading, for instance, that Americans are undertaxed, that government spending creates new wealth, and that politicians are better long-term planners than private entrepreneurs. It is not uncommon for texts to portray free market competition and private property in a suspicious light while presenting government intervention with little or no critical scrutiny. It therefore may actually be a blessing rather than a curse that so few students are exposed to what passes these days in the schools as "economics."

Stripped of bias, the study of economics is immensely important. Indeed, without it we miss an understanding of much of what makes us the unique, thinking creatures we are. Economics is the study of human action in a world of limited resources and unlimited wants—a lively topic that cannot be reduced to lifeless graphs and mind-numbing equations that occupy the pretentious planner's time.

What Economics Teaches

Economics teaches us that everything of value has a cost. It informs us that higher standards of living can only come about through greater production. It tells us that nations become wealthy not by printing money or spending it, but through capital accumulation and the creation of goods and services. It tells us that supply and demand are harmonized by the signals we call prices and that political attempts to

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manipulate them must produce harmful consequences.

Economics explains that good intentions are worse than worthless when they flout inexorable laws of human action. It reminds us to think of the long-term effects of what we do, not just the short-term or the flash-in-the-pan effects. It tells us a great deal about the critical role of incentives in shaping human behavior.

In short, economics is a blueprint for a free and sound economy, which is indispensable to satisfying human material needs and wants. When the subject is well understood, people learn that leaving other people alone is a far more likely path to well-being than shoving them around with political dictates.

When people have little or no economic understanding, they embrace the "quick fix" and support impractical "pie-in-the-sky" solutions to problems. They may think that whatever the government gives must really be "free," and that all it has to do to foster prosperity is to command it.

Economically illiterate people are easy prey for currency cranks who argue that manufacturing more money will make us wealthier. They may even think that trade is a bad thing, that if we shut the borders to the flow of goods our living standards will rise. They will be not only unable to identify economic snake oil, but also untrained to detect its harmful consequences.

Arguably, America's great economic problems have their roots in widespread ignorance of economic principles. When the noted economist John Maynard Keynes was asked in the late 1930s if we should be concerned about rising debt and printing press money, he reportedly responded with this flippant remark: "In the long run, we're all dead." Today, as the late Henry Hazlitt countered, is the tomorrow that yesterday's bad economists like Keynes told us we could safely—but wrongly—ignore.

From the Clinton health care plan to financing schools and highways, Americans are being asked every day to form judgments and cast votes for programs and proposals that are largely economic in nature. It would behoove us to start talking about how we provide the missing tools we need to make those and other such decisions, so that we don't dig ourselves deeper in the muck of poor thinking and bad public policy.

Mandates Are Not the Answer

So, you say, the answer is to *mandate* the teaching of economics! If the schools aren't teaching the subject, well, then let's *make* them do it! Oh, there's that tempting but utterly counterproductive "quick fix" again—a symptom, in fact, of the very illness I am describing.

Passing laws to require the teaching of economics, as some states have already done, is precisely not the answer. In public education that only politicizes the subject and guarantees that too many people who don't understand it or don't want to teach it are instructing bored youngsters who couldn't care less. The vast majority of public school teachers are decent citizens of good will and great talent, but as government employees they labor in an environment naturally hostile to the critiques of government action that sound economics inevitably produces.

The idea of government-mandated economics teaching strikes me as likely to be no more effective than government-mandated teaching of anything else. Aren't we in the midst of a national *education* crisis as it is, with test scores and other measures of student aptitude plummeting to disgraceful levels? Is there any reason to believe that government can teach us economics any better than it teaches us mathematics?

The remedy for America's economics knowledge deficit is really the same remedy for our general knowledge deficit: a combination of demonopolizing the education system and diligent self-instruction.

If economics is as important as I've suggested, then a market-driven, choice-focused, performance-based, and fully accountable education system would surely do a better job of teaching it than a government monopoly that gets subsidized whether it teaches for the real world or not. Make education a product of the marketplace instead of politics and much more than just economics will be taught, and taught well.

Formal schooling, though, even in a thoroughly privatized environment, can only be part of the economics teaching equation. What we learn on our own, especially if we hope to inspire and persuade others, may be just as important. Looking back on my own economics training, I note that most of it was under the auspices of private groups like the Foundation for Economic Education and by way of publications such as *The Freeman.*

In any event, the relative absence of economics from America's classrooms is a problem that requires our attention. Many private efforts to solve it deserve our support. But no one should be fooled into thinking that putting government in charge will resolve it. □

Editor's Note: Thanks to sharp-eyed reader John Augustine of Hastings, Minnesota, who raised a question about Dr. Reed's July 1994 column. The last sentence of the first paragraph of page 344 should have read:

"A public sector that imposes more regulations than ever on the private sector and consumes at least five times the share of national income it consumed in 1900 is stark evidence of those ideas."

Economic Illiteracy Makes Bad Law

by Mark S. Pulliam

The great jurist Oliver Wendell Holmes once said, speaking about judicial decisions, that hard cases make bad law.[1] This may often be true, but that is not the only explanation for bad judicial decisions. There are other reasons why judges sometimes get things wrong—they may intend to reach a desired result, and bend the law to get there; or the lawyers for the parties may do a poor job arguing the case; or, more typically, judges simply make mistakes. In a case with potentially far-reaching implications decided by the California Court of Appeal for the Fourth Appellate District in San Diego, the court made a serious mistake; the reason was economic illiteracy. The case, *John Ellis* v. *McKinnon Broadcasting Co.*,[2] was a dispute between a TV station and a former employee of the station, an advertising salesman, over commissions that the salesman claimed were owed him. The salesman voluntarily resigned from the station and sued for a 20 percent commission on ads he had sold prior to his resignation but that were not paid for until after he left. The salesman had a written contract with the station that specified that "[n]o commissions will be paid to the Employee on advertising fees received by the station after the Employee's final date of actual employment."

There was no dispute that the salesman had received all salary he was due and full

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commissions on all ads that had been paid for before his last day of work. Because the contract specifically said the salesman was not entitled to commissions on revenues received after termination, this would seem to be an easy case. In fact, the salesman's lawsuit would seem to be frivolous on its face. That is what the trial court concluded by ruling in favor of the station. Wrong. Welcome to California, where no claim is frivolous and where easy cases routinely make bad law. In a unanimous decision, the Court of Appeal ruled in favor of the salesman and ordered the station to pay him $19,768.12 plus his costs on appeal.

How can such an obviously incorrect decision be explained? The station argued that the contract was not ambiguous. The Court of Appeal *agreed*: The contract "clearly purports to deny [the salesman] any commissions on advertising fees paid to [the station] after the termination of his employment." The salesman was not a minor, nor was he incompetent (due to insanity or illness) to enter into a contract. The station did not defraud him or force him to sign the contract under duress. He signed the unambiguous contract knowingly, voluntarily, and, in the words of the court, "without any objection or attempting to modify it." How, then, could the salesman possibly win this case?

The short answer is that the court refused to enforce the contract because it found the unambiguous denial of commissions on post-termination revenues to be "unconscionable." The real answer is that the court failed to apprehend the economic principles involved in the case. The court found that the contract was "unconscionable" for several reasons: the salesman did not read it carefully at the time he signed it; the contract was in a standard pre-printed form used by the station; the parties had "unequal bargaining power" because the salesman was an individual and the station was a corporation; and the challenged provision of the contract was, in the court's view, unreasonable. (I am not making this up.)

The court's decision reveals a disturbing lack of familiarity with basic economic concepts—economic illiteracy—on both a practical and a philosophical level. On a practical level, the court has undermined the certainty and predictability on which business, trade, and commerce depend. Under this decision, all contracts, no matter how clear, express and voluntary, may be challenged after the fact if one party fails to read it carefully (or claims not to have read it). Careless and sloppy behavior is encouraged, even rewarded. The courts will become an arbiter after the fact of the "reasonableness" of terms previously agreed to and relied upon by the parties. All commercial transactions—and many transactions between individuals—depend on contracts, and the expectation that agreements, once made, will be enforced. A deal must be a deal. The decision in this case invites chaos in California's business community, not to mention needless litigation. A legal system justly viewed as contributing to an unfavorable business environment has just made things worse.

On a philosophical level, the decision is even more troubling. Our nation was founded on certain political and economic principles, including individual liberty, private property, and limited government. A free-market economy—call it what you like, capitalism, the free enterprise system, or freedom of contract—is an indispensable requirement for personal autonomy and individual liberty. When relationships among people are formed voluntarily, in the absence of fraud or duress, both economic efficiency (or "consumer welfare") and personal freedom are maximized. Accordingly, one of the principal responsibilities of government is the enforcement of contracts. The refusal of government to enforce a valid contract is an interference with and violation of the most fundamental individual liberty citizens have in a free society—the right to determine their relationships on mutually agreeable terms.

The court's opinion not only refuses to enforce an unambiguous contract between competent parties, it does so for dubious reasons. There is no such thing as "unequal bargaining power" among consenting adults. In order for a voluntary exchange to take place, both parties must be *willing* to trade something of value to the other. By definition, both parties to a contract believe they will be better off as a result. This principle of voluntary exchange is inherent in every economic transaction we enter into. The allocation of all goods and services in a free economy is determined by the desires expressed by willing buyers and sellers. When a consumer enters a Sears store, or a K-Mart, or a Wal-Mart, his "bargaining power" is the same as it would be at a swap meet, a yard sale, or a Middle Eastern market.

The consumer is not *required* to buy anything, and will not purchase an item unless he regards it as being more valuable than the amount of money being charged for it. Whether that price is established unilaterally by the seller or as the result of negotiation with the buyer is irrelevant. There will be no agreement unless the price is acceptable to both parties. Whether the buyer is a corporation or an individual is also irrelevant. Absent fraud or duress, all voluntary economic exchanges are equally consensual. As recent events have illustrated, even the mightiest Fortune 500 corporation (IBM and General Motors come to mind) cannot force consumers to buy their products if better or cheaper alternatives exist in the market, or if consumers simply don't want them.

At the outset of the employment relationship, the TV station in the *Ellis* case was not legally required to pay commissions to the salesman. It could have paid only a salary. The station was not required to pay a 20 percent commission; it could have offered a 5 percent, or 10 percent, or 15 percent commission instead. Of the many (indeed, infinite) permutations of conceivable terms of employment, the station offered a particular formula of compensation consisting of a specified salary and a specified commission on specified sales. It is not the business of the government (and courts are just another branch of government) to censor terms of voluntary exchanges or to review their "reasonableness." The salesman agreed to the particular package of compensation and benefits offered by the station. The terms were explicit and unambiguous. If the salesman didn't like the terms, he was free to say no, to find another job. But he did not. He entered into a contract with the station. After the fact, he went to court and asked the government to require the station to pay *more* than it had agreed to pay. The court obliged, reciting a litany of nonsensical reasons. The case was an easy one, yet it produced a bad decision. And while the amount in dispute in *Ellis* was relatively small, the court's erroneous reasoning will hold sway in other, more substantial cases. It is a sad commentary on our judicial system that basic economic concepts are so poorly understood. As a consequence, it does not take a hard case to make bad law; for economic illiterates, *any* case will do.

Federal appeals court Judge Alex Kozinski once described a similarly misguided decision of the California Supreme Court as "more resembl[ing] a brick thrown from a third story window than a rule of law."[3] To the TV station in this case—who, after winning in the trial court and incurring attorneys' fees to defend the appeal, is ordered to pay almost $20,000 in commissions that were never bargained for, upon the basis of an argument that was never made by the appellant—the decision in *Ellis* is more like a drive-by shooting. Unfortunately, while the TV station may be the random victim, the *Ellis* decision reflects more than an isolated lapse by a particular panel of appellate judges in California. There is a disturbing phenomenon underway across the nation. At the urging of litigants (both individuals and corporations), courts are increasingly intruding into business and personal relationships. Scholars such as Peter Huber and Walter Olson have documented the "litigation explosion" in America and the accompanying changes in the nation's legal system.

Judge Kozinski, one of the few jurists to decry these changes, has pointed out that the trend toward intrusion into contractual relationships "generates serious costs and uncertainties, trivializes the law, and denies individuals the autonomy of adjusting mutual rights and responsibilities through voluntary contractual agreement."[4] According to Judge Kozinski, the result is that "both the commercial world and the courts are needlessly burdened: The parties are hamstrung in developing binding agreements by the absence of clear legal principles; overburdened courts must adjudicate disputes that are incapable of settlement because no one can predict how—or even by what standard—they will be decided."[5] The arrogance of judges who wish to rewrite parties' contracts, with no apparent understanding of the business world in which they interlope, is, in the words of Judge Kozinski,

> symptomatic of a more insidious disease: the novel belief that any problem can be ameliorated if only a court gets involved. Not so. Courts are slow, clumsy, heavy-handed institutions, ill-suited to oversee the negotiations between corporations. . . .
>
> Moreover, because litigation is costly, time-consuming and risky, judicial meddling in many business deals imposes onerous burdens. It wasn't so long ago that being sued (or suing) was an unthinkable event for many small and medium-sized businesses. Today, legal expenses are a standard and often uncontrollable item in every business's budget, diverting resources from more productive areas of entrepreneurship. Nor can commercial enterprises be expected to flourish in a legal atmosphere where every move, every innovation, every business decision must be hedged against the risk of exotic new causes of action and incalculable damages.[6]

"Progressive" judges willing to interfere with the contractual arrangements of others, aside from creating obstacles to commerce, are engaged in an odd exercise of historical atavism. One of the defining characteristics of Western society, and the essence of its emergence from medieval feudalism, is the movement from status to contract. Friedrich Hayek wrote that "the conception of status, of an assigned place that each individual occupies in society, corresponds . . . to a state in which rules . . . single out particular persons or groups and confer upon them special rights and duties. The emphasis on contract as the opposite of status is . . . that the law supplies [the instrument] to the individual to shape his own position."[7] As a matter of history, the simultaneous development of contract principles and a market economy liberated mankind from the squalor and oppression of rigidly hierarchial, status-based feudal systems that had prevailed in Europe for centuries. In the name of protecting individual rights, modern-day judges spurn the freedom of contract that is essential to liberty in favor of status-based classifications that are incompatible with liberty.

This is the supreme irony of our legal system's infatuation with itself and its presumed ability to improve upon the spontaneous, private ordering of the market. That grand conceit, like the conceit of all government regulators, is just another step down the road to serfdom. As Judge Kozinski has warned, the overreaching of government officials into private relationships should be viewed with no less suspicion just because they happen to wear robes.[8] □

1. "Great cases, like hard cases, make bad law" (dissenting opinion in *Northern Securities Company v. United States*, 193 U.S. 197, 400 [1904]).
2. 18 Cal. App. 4th 1796 (1993).
3. *Oki America, Inc. v. Microtech International, Inc.* 872 F.2d 312, 315 (9th Cir. 1989) (Kozinski, J., concurring).
4. *Id.*
5. *Id.*
6. *Id.* at 316.
7. Friedrich Hayek, *The Constitution of Liberty* (Chicago: University of Chicago, 1960), p. 145.
8. 872 F.2d at 316.

THE FREEMAN
IDEAS ON LIBERTY

"Thou Shalt Not Steal"

by Jan Michal Malek

Poland and the other post-Communist countries of central and eastern Europe are struggling to establish a market society with freedom for all citizens. Advisers from the West who recommend U.S.-type government regulations, banking, and welfare state programs, on the theory that to institute free markets the former Communist nations should follow the U.S. example, are doing the people of those countries no favors. The essential ingredient for turning back Communism and establishing a free market society, as Mr. Malek makes clear in this article, is the protection of private property. The original and longer first version of this article was published in Polish in the Warsaw weekly "Najwyzszy Czas!" on December 11, 1993. That text directed to "common men" was intended to show the main difference between the political Right and Left on the plane of economy.

In the *Communist Manifesto* Marx and Engels stated that the Communist theory could be expressed in one single phrase—"abolition of private property." Various names have been coined to describe Marxian programs—collectivism, nationalization, socialization of the means of production. When put into practice, however, these programs all have one common denominator —reliance on the forceful expropriation by the State of the property of its citizens. If called by its proper name, it would be known simply as theft.

The true Marxists, "Reds," Communists, and the "extreme Leftists," are the most antagonistic toward private property, especially private ownership of the means of production, and are the most radical in their programs to take control over people's property. Others in the Leftist camp—the socialists—are more moderate, proposing a gradual* or partial expropriation or limitation, through state intervention, of the rights of individuals to freely dispose of their property. The more Leftist is the attitude of some parties, groups, or particular people, the less respect they have for individual rights and economic freedom.

Opposing the Leftists are the "Rightists." One main feature of all the Right is its anti-Communism, and subsequently its defense of the right of people to own and freely dispose of all kinds of property, including factors of production. A person deprived of property rights is no longer a free human being. So, by respecting property rights, the "Rightists" are defending freedom.

Whoever claims to belong to the Right, but who advocates giving the State the authority to dispose of the citizens' honestly acquired property (that is, not acquired by

Mr. Malek, born in Poland, has lived in the United States since 1967, working as an engineer, inventor, and real estate investor and developer. He still maintains close ties with friends and relatives in Poland. Mr. Malek has translated into Polish and published Ludwig von Mises' The Anti-Capitalistic Mentality, *and sponsors the translation and publication of other books explaining and promoting the free market.*

**A known official statement in the Communist countries was that "Socialism is the road to Communism."*

way of violence, deceit, or theft in any form), misleads himself and other people; he acts on behalf of the Left. On occasion it may be necessary—because of a real threat to human life, human freedom, or other people's property. Even then, it must be in exchange for just compensation.

In view of the above, the "extreme Right" label should be applied to those who defend most vigorously the sanctity of legally acquired private property and of the principle "Thou shalt not steal!"

A Natural Right

The notion of property rights has existed in all cultures and in all regions of the world since the beginning of mankind. The right to property, indeed, is seen as a "natural right." People realized very early that violating this right, by engaging in theft of any kind was harmful and dangerous to the community. For that reason theft was punishable under the unwritten common law or in accordance with written regulations such as those in the Babylonian Code of Hammurabi nearly 4,000 years ago. The penalties imposed aimed at insuring the security of people's property and the maintenance of order in the community. The greatest religions of the world condemn theft, that is, the violation of property rights. The Seventh Commandment explicitly forbids theft.

For millennia throughout history, there have existed castes and social classes of people—slaves or serfs—who were essentially the property of others. Those persons had almost no right to own property and possessed virtually nothing. As slaves or serfs generally constituted the great majority of the population, the opportunity to exercise property rights was very limited. The denial of property rights to such a large segment of the population accounted for the slow material progress for thousands of years. Only as new laws permitted the previously underprivileged to enjoy full property rights did individuals begin to gain freedom: first mainly in the Netherlands, then in England, and finally in other Western countries. This freedom brought with it rapid material progress. Later, the capitalist system that evolved—based on respect for property rights, private ownership, and the freedom to own and dispose of the means of production—led to a real outburst of material progress, bringing to the capitalist countries economic welfare such as had never been known before.

If respect for private property yields such beneficial results, could the lack of such respect also have positive economic and social consequences? Suppose some individuals, even the state, disregarded the ancient ban against violating property rights and taking property from others? Could this possibly be beneficial? How about the effect of the loss of respect for private property in countries where it was traditionally, or still is, nominally protected, or at least tolerated?

In truth, the fact that some people and their governments assume the right to take private property from some and distribute it to others wastefully is the main source of most contemporary economic and social ills. Those deprived of their property are victims; and frequently the supposed beneficiaries are victims, too, as their moral standards, freedom, and initiative degenerate. Other innocent people and society as a whole also suffer because of such actions.

"Social Justice"

From its beginning Christianity promulgated the sanctity of the Commandment to love your neighbor. The Left substituted for this Commandment the notion of "social justice," which is supposed to be something better than what is understood as "justice." The concept of "social justice" however, takes no account of the Tenth Commandment—"Thou shalt not covet anything that is thy neighbor's." Moreover, it also ignores the Seventh Commandment—"Thou shalt not steal."

Often, people are misled to believe that the Left's ideas on "social justice" are similar to the teachings of the Church in regard to helping the sick and the poor. This is wrong. The Church teaches that the people have to help the needy with their own funds and means (as well as with acts of a non-material type, such as providing moral support). On the other hand, the Left, when in power, confiscates income from productive people to distribute among other groups of people. A small part of this largesse goes to the needy, who in exchange are expected to support the Left's efforts to stay in power. The state bureaucracy then consumes or wastes the major part of those funds acquired by coercion and theft of various forms.

In its plan for "social justice," Leftist governments devise social welfare programs to provide free health care, education, transportation, and recreational facilities. Obviously these services are free to the direct beneficiaries only; the taxpayers must foot the bill. The services offered under these programs are allocated by politicians, administrators, and bureaucrats. As these officials usually look out for their own interests, the programs soon become very expensive. Overhead costs increase. Indirect costs mount also as the implementation of these social programs calls for anti-free-market state interferences that upset the natural market processes. Negative economic and special phenomena follow, such as the inflation, recession, depression, unemployment, experienced by the social democracies of the West. All these negative phenomena arise as the state interferes in economic life and violates the property rights of its citizens. Countries of the Far East with capitalist or similar systems have adopted only very few, if any, of these social programs and are now flourishing economically and beginning to catch up with the West.

In the task of spreading the truth about the evils of violating property rights, which conflicts with the Commandment "Thou shalt not steal," the political Right in essentially Christian countries such as Poland, has, or should have, strong support in the institutions of the influential Catholic Church. Unfortunately however, there are a few clergymen who prefer to avoid discussing in depth the Seventh and Tenth Commandments and who like to criticize, sometimes even from Leftist positions, free-market capitalism. They are critical of capitalism even though that economic system is based on respect of property rights and, therefore, respects the Decalogue's Commandment "Thou shalt not steal."

The criticism by these clergymen usually relates to capitalism's alleged lack of sensitivity toward the poor, exploitation of workers by the rich, and the drive for profit and material things to the detriment of the spiritual life. Yet the capitalist system has improved the conditions of mankind more than any other economic system.

It has raised standards of living to an almost unbelievable extent and substantially lengthened the average lifespan. The dictate of the capitalist system is service to other people—customers, clients, patrons, collectively called consumers. The capitalist who does not serve consumers well by producing goods or delivering services to meet the material needs of the largest number of people, will not be profitable. He may lose his business and his capital, and so cease to be a capitalist.

I believe that one need not go far to perceive here an analogy and an affinity to Christ's Commandment of serving your neighbor. The Christian who does not do good and is not useful to others becomes an empty vessel. So, it is worth pointing out that the dictate or command of serving other people, though in various ways and for completely different reasons, is common to Christianity, other major religions, and free market capitalism. They also have in common with the political Right respect for the property rights of individuals. Without such respect one cannot serve others well. This is one important reason why the Left, which disrespects and violates those rights, always fails in its economic programs.

Even though Christianity, Judaism, Islam, and many other religions stand firmly for the sanctity of the Commandment "Thou shalt not steal," relatively few people realize the vast meaning and implications of that imperative.

The Politics of Good Intentions

How many people are aware that trying to benefit some at the expense of others, even when done with the best of intentions, leads to detrimental consequences, often directly contrary to what had been intended?

Here are several examples:

1. *Government allowances for poor girls and single women with children.* The idea seems noble enough. Yet, when put into practice in the United States and other countries, such programs have led to drastic increases in the number of illegitimate children, fatherless families, and mothers with children dependent upon the state, which becomes a sort of the "head" of the family. Every poor woman with a child may qualify if the father fails to provide; the allowance comes to her automatically as a kind of reward for having children out of wedlock. Generally, the more children, the higher the welfare benefits. Often each child has a different father(!)* As a result of such policies, during the last quarter of the century the number of illegitimate children has increased several times and is still growing in the United States. These children very often become non-achievers, school dropouts, and drug addicts. Once physically mature, they reproduce themselves and the cycle continues. As the number of women and children on welfare increases, the scope of poverty widens, the institution of the family disintegrates, criminality soars, and the society gradually degenerates.

2. *Progressive taxation* was specifically recommended in Marx's *Communist Manifesto*. By taking the profits of those who are most productive and can best satisfy the material needs of consumers, progressive taxation penalizes those who are most successful in helping others. It also prevents or inhibits the accumulation of capital needed for investment. By hampering new ventures, progressive taxation leads to fewer jobs and more unemployment, lowers productivity, reduces living conditions, and contributes to economic backwardness.

By raising the expenses of employers, progressive taxation may force them to lay off employees or prevent them from hiring new employees or contractors. The funds collected may then go toward unemployment benefits or toward the upkeep of state officials. Thus, the money from progressive taxes is invested in idleness. Productivity declines still further.

3. *The offer of government subsidies attracts more and more applications for handouts.* When unemployment benefits are raised, the number of "unemployed" increases. When benefits for the homeless are raised, more homeless are found. As the state "invests" more in a program to overcome one social problem, more people apply for "benefits" and the problem generally becomes more serious. Private industry withers under the higher and higher taxes needed to pay the costs. At the same time, the bureaucratic welfare "industry" prospers and expands as the numbers of poor unmarried mothers, fatherless children, unemployed, and homeless increase. The bureaucratic "industry" thus has a vested interest in the increase of human misery.

4. *The manipulation of market prices by the state* through "price regulation" may be intended to prevent "unjustified" price rises. Their effect, however, is to deprive manufacturers or service providers of some part of the value of their production, and to transfer that portion to those who obtain the goods or services. This discourages the incentive of producers or service providers to continue or expand production or services. Thus, "price controls" always produce shortages and "black markets" where goods or services are offered at prices higher than they would have been in a free market. Instead of lower prices, therefore, higher prices result, the difference being covered

**Otherwise, the welfare officials of the government would presume that the father stays and supports or will support the family, and that, therefore, the mother does not qualify for the welfare benefits. So it is a financial disincentive for her to run the risk of living permanently with one and the same man, or to marry and have legitimate children.*

by consumers. These consequences of introducing "price controls" in the name of "social justice" are usually blamed by the government and the ignorant public, not on the regulations, but on speculators and "profiteers."

As the above examples show, government social welfare programs deepen people's poverty. They are not a war against poverty; they are a war against the poor.

The Proper Role of the State

The main purpose of the state should be to ensure the freedom and physical security of citizens and to protect their property from aggression. When the state collects taxes proportionally to insure the safety of the country and the equal protection of all citizens and their property, it acts in conformity with its duties and in agreement with its legitimate purpose. On the other hand, when the state, instead of protecting the property of its citizens, "takes" property from some in order to favor others, then it abuses its powers. In doing so, it shows disrespect for property rights, and acts in conflict with the Commandment "Thou shalt not steal." The distinction between what is allowed, and what is not, becomes blurred. Many then cease to distinguish between right and wrong: When the state justifies its immoral behavior by claiming that it is for the "public weal," that it is in the "public interest," or for the sake of "social justice," private citizens and common men can also find some justification for immoral behavior. This, in turn, contributes to rising crime rates.

The above presentation shows that social and economic programs based on, or involving the rejection of, the Commandment "Thou shalt not steal" bring about results contrary to those intended. In fact, such rejection of property rights by state policies brings misery to the people. In this author's view the injunction and Commandment "Thou shalt not steal," in its broadest sense, is an economic imperative. If the science of economics is meant to provide instructions on how to use, in a most materially efficient and socially beneficial way, the resources available to a nation or other community, this imperative is, or must be, at work in any economic program of the true political Right.

The goal of the Right is to improve the living conditions of the poor by moral and effective means. The disabled, the sick, underage orphans, widows without pensions, the aged without family protection, and the unemployed, should be helped by voluntary, self-help organizations, private, religious foundations, charitable institutions, or guardians operating in local communities and churches. The Right says *yes* to every such truly social welfare program; *no* to government-operated, state welfare programs.

Only the Right can lead the society to prosperity. To achieve the leadership role however, the Right should pay more attention to the economic aspects of its programs, and to undertake an educational offensive of propagation of economic truths among the people. □

THE FREEMAN
IDEAS ON LIBERTY

Treachery?

by Scott Alexander

My profession involves me in an aspect of the manufacturing process—surface finishing—in which the opportunity for treachery abounds. My Macmillan Dictionary uses four striking words in its definition of the word treachery—*willful betrayal*, and *violation* of a *trust*. My job is basically two-fold: To assist in the selection and supply of appropriate polishing/buffing equipment and to consider for recommendation products and methods which might improve a production process. To betray my customers or violate their trust in either task would be treachery.

Surface finishing is an ancient art and mysterious craft. Doubt not that buffers and polishers played critical roles in the earliest of industries, from flint-knapping and arrow-fletching to amulet-shining and stone-carving. In my day, surface finishers perform key steps in the preparation and completion of innumerable objects for industry, technology, commerce, medical prostheses, and cosmetology. These articles include hammers, computer chip boards, credit card imprinters, artificial knees, and fingernail buffers. People who are fond of cooking or eating might be surprised to learn that a good quality spatula like a Dexter, is a very highly engineered and refined masterpiece of metallurgy, plastics technology, woodcraft, machinery design, and surface finishing. Accomplished chefs and expert short-order cooks wouldn't be caught dead flipping an egg without the right balanced, bended, beveled spatula.

Such products must meet the demands of the person purchasing them. The demands are seemingly endless! Even when a fry cook will settle for any old spatula in a pinch, he or she still expects one to be available at the closest dimestore or discount outlet and at a reasonable cost and right now! Purchasers also have at their disposal large numbers of advisers like advertisers, experts, know-it-all family members, and trendsetters who shape, influence, and increase their demands. These further demands must be met at a reasonable cost and right now!

Rarely will a purchaser settle so easily. Usually a product must be the right size, of the right material, the right quality, durable, clean, and pretty! Of course, it must also be available at a reasonable cost and right now. Superior surface-finishing method is used to prepare objects' surfaces for fit or further processing like electroplating or to make mundane objects gleam and glisten like gems or clear crystals.

Therein lies a great challenge. Despite the notions some technocrats have of our society being able to categorize, quantify, and standardize just about everything, especially in manufacturing, I insist it can't be done. I say there are two broad reasons for this inability: 1) long before the process of examination, standardization, and publication of approved (licensed?) products and procedures is completed, the initial demands change, and 2) the human beings who attempt to perform the several tasks of production at any level of capitalization do not do so uniformly from person to person nor individually from hour to hour! I really do believe that the way one person pushes a button is different from the way another pushes the same button, despite the obvious similarities.

All this notwithstanding, I daily deal with enterprises which I must not fail to help achieve fabulous finishes measurable to surface scratches of less than one one-millionth of an inch in depth. Results must be attained consistently and without regard to many

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Mr. Alexander owns an industrial surface finishing supplier, Better Buff Co. in New Milford, Connecticut. He drew upon FEE materials to complete a bachelor's degree in Operations Management at SUNY.

constantly changing circumstances. If this process does not succeed, I may be suspected of having behaved treacherously, with having sent the inappropriate abrasive, perhaps through ineptitude, or perhaps to invalidly increase my profit. It's a little scary!

Last Christmas-time, I was able to escape from all that by going gift shopping with my wife, Kathy, to an entire village of shoppes selling crafts-works. I could see that many people are appreciative and receptive of the talents of highly skilled and artistic crafts-workers. I could see why those wonderful articles are so treasured. They are beautiful, interesting, reminiscent, unique, whimsical—or all of the above. It's almost transforming to watch a coppersmith fabricate a lamp using no modern tools, or a weaver in jeans, a baggy sweatshirt, or a depression-era calico dress staring into the loom and threads and s-l-o-w-l-y widening yardage, each crafts-worker doing his or her best to produce a quality product that will merit some purchaser's trust.

As we made our circuit of these specialty shops, in search of unusual gifts, I envied the craftsmen and their products. An adoring public filled their shops, cooed with love over every misshape, broken warp or woof, or peculiar nick, each prized as proof of quality and precious personality.

Producers in an industrial setting where mass production prevails have essentially the same goal—to produce a quality product their customers will want. But they face a different problem—to produce quality products in quantity that are uniform. The time factor also presents a challenge; products must be available here and now.

Part-geometry-standardization required for mass production (accomplished, hopefully, through capitalization) is perhaps the single greatest accomplishment to meet that challenge. Increased productivity makes for increased wealth. Individual skills and performance make for individual productivity. Capitalization makes for more productivity. If the people I serve stopped working or were prevented from pursuing efficiency or employing their genius, we'd all need to return quickly to the handcrafts, weaving, and copper tinkering—or starve!

My experience pointedly illustrated a fundamental fact of the marketplace: An able buyer buys what an able buyer desires, if, as, and when the desire occurs. No amount of training or "paying dues" in the seller's experience is even considered by the buyer. Some buyers want whimsy, a marked absence of uniformity. Others want uniform products immediately that can only be supplied through mass production—products of the right size, right material, right quality as they see it.

So, it was back to the grind; holiday over, I went back to buff-mania! I resumed the fabrication and order-filling of quality finishing fixtures and furnishments. I also began the compilation and summation of the quarter-end and year-end figures for sales tax, use tax, employment tax, etc.

Most manufacturing costs are anticipated. They may be planned for by researching materials costs, labor and facilities costs, and such. Business men and women must know within pennies what their basic costs per hour are. They must have some idea regarding expected selling prices and potential profits.

One very large business consideration which unfailingly eludes the most brilliant business minds and mavens is the impact on operations and costs of a governmental regulation amended with little or no advance notice. It isn't unusual to hear cost analysts or business leaders talk about damages in new tax rates or the need to "right-size" their enterprises according to a newly announced regulation which might affect already-bought-and-paid-for resources.

If a business person has a contract with another business person who arbitrarily alters the agreement, demands more money, more rapid remuneration, increased authority with less expertise—well, you get it! Wouldn't this be a betrayal of the prior agreement? A violation of trust? Wouldn't that be treachery?

Suppose the government does the same? Suppose it alters a previous regulation, fee, or tax, demands more money retroactively, more rapid payment, increased authority? I leave it to the reader to answer. □

THE FREEMAN
IDEAS ON LIBERTY

How Japan Realized Her "Impossible Dream"

by Toshio Murata

Eight months after the end of World War II, in the spring of 1946, I brought my men of the Army Field Hospital in Hangzhou, China, back to Japan. When we got off the train at their home station, we found the whole city destroyed, devastated by some powerful bomb or incendiaries. No buildings, houses, or trees were to be seen. Only new shacks here and there. Ichiro Watanabe of our group, who had lived there with his family and had had a store near the railroad station, was so shocked by the hellish scene that he suddenly started singing a lullaby, a requiem to his beloved children. The name of the city was Hiroshima.

Fortunately, my home in Kochi on the island of Shikoku was intact, although the main part of the city had been seriously damaged by bombing on July 4, 1945. As a result, we had an unobstructed view of the whole city from our house. The reconstruction of Japan had to begin, so to speak, from "Ground Zero."

Professor Murata has taught economics for many years at Yokohama Commercial College in Japan. He earned a master's degree at New York University, writing his dissertation under the late Ludwig von Mises. He has also translated several of Dr. Mises' books into Japanese, including, Human Action.

Post-World War II Hardships and Inflation (1945–1949)

The soldiers and civilians who returned from the war aggravated the food and unemployment situation. Production nationwide was in disarray. Of Japan's eighty million or so people, close to 10 million were non-producers, either in the military or on some other government payroll. Land reform, abolition of the peerage system, and the liquidation of big financial combinations had overturned the entire prewar social structure. Bank deposits had been frozen; depositors could withdraw only a limited amount each month. The prewar privileged were hard-pressed to survive, while some who had experienced hyperinflation and other calamities abroad had learned how to make a fast buck. There was a serious shortage of food. Farmers were more fortunate than most as they were able to trade their rice for jewels, furniture, kimonos, wedding costumes, or whatever, with those who were trying to supplement their insufficient rations.

In those post-war days, the Japanese could "escape" for a few hours by watching American movies. Beautiful American houses and appetizing food on the screen were the envy of the Japanese. "Catch up and pass America" became their goal. But at that time it seemed an "impossible dream."

The government tried to cope with the shortages by printing money, i.e., inflating. When prices rose because of the demands for commodities by the new money recipients, the government attempted to fix prices, at least of the major staples. The government's Price Control Board had to hire more clerks to keep pace with the increased applications from businessmen for price increases. But government controls and government employment could not bring economic development to Japan. That would take the energy and genius of entrepreneurs who were freed to compete on world markets. Eventually Japanese business produced steel, refined oil, built ships, manufactured automobiles, and developed a wide range of consumer electronics goods. Honda, Toyota, Nintendo, Sony, and Canon became household words throughout the world.

Recovery Begins

The Reconstruction Finance Bank (RFB), founded in January 1947, floated bonds, most of which were underwritten by the Bank of Japan, and loaned money to producers of priority goods— food, coal, steel, ships, electricity, etc. The RFB's loans increased the production of coal, iron, steel, and rice, but at a high price: accelerated inflation.

An American adviser, Dr. Joseph M. Dodge, visited Japan in February 1949; his aim was to stop the inflation. The "Dodge Line" he prescribed called for reducing subsidies, discontinuing the RFB bonds, and developing a government surplus. Inflation subsided as a result and production began to revive.

With the intent of encouraging economic development, the government restructured its Ministry of Commerce and Industry in May 1949, forming a new Ministry of International Trade and Industry (MITI). MITI hoped to shape and direct Japanese production by administrative regulations. It has had an impact on steel, oil, and trade. However, its influence has not been complete, and it has not always been beneficial. MITI's administrative regulations were not supposed to be binding but businesses generally felt compelled to go along "voluntarily," or face possible "bureaucratic harassment" later. Administrative guidelines could also be used as a barrier to deregulation.

Many production facilities had been reduced to ashes during the war. So new plants had to be constructed and the latest technology was imported. The new factories with low labor costs had a competitive edge over American plants; they were able to cut costs and increase productivity. Investment expanded and economic reconstruction accelerated. However, the quality of Japanese products in those years was often inferior. People used to say that "After the war, only women and nylon stockings were stronger." But changes were in the offing.

Economic Development Takes Off After 1950

Transportation was difficult in those early years after the war. Many Japanese workers commuted long distances to their jobs by bicycle. Then in 1947, a company with only twelve employees devised a bicycle with a small motor, the Honda Kabu. This little motorcycle met a crying need. Thanks to the initiative and energy of the company's management, it expanded production in response to consumer demand. It made not only motorcycles but also began producing automobiles. Its efforts paid off. It went on in time to become the present Honda Group, with thousands of employees, exporting so many cars to America and Europe as to cause international friction. The oil shock of 1973, when OPEC blocked the export of Middle East petroleum, was actually a windfall for the small economical Honda with its high gas mileage. In 1980, the Japanese surpassed the Americans in car production for the first time. Soon Japanese car manufacturers were asked to restrict exports themselves. Later they developed close working relations with U.S. automobile manufacturers and began producing cars in the States.

Steel

MITI sought to balance production, to avoid both surpluses and shortages. When in 1950 Kawasaki Steel's president, Yataro Nishiyama, announced plans for building a plant with two new blast furnaces, he encountered strong objections from MITI, the Bank of Japan, and the big-three steel makers. They feared an oversupply of steel and criticized his proposal as wasteful, unnecessary, and a duplication of investment. They pointed out that 19 of the then existing 37 blast furnaces were idle for lack of orders.[1] But Nishiyama was not discouraged; a third of the existing furnaces, he said, were over 30 years old; his modern blast furnaces would cut the cost of steel substantially. He went ahead. In February 1953, MITI finally approved the first phase of Kawasaki's project and the company was able to borrow from the Japan Development Bank and the Bank of Japan. In time Kawasaki became one of the big six, diversifying in 1991 into chemicals, and acquiring in June 1994 a Du Pont Chemical England plant making plastic compounds for use in auto parts. While government agencies like MITI look at what *is*, businessmen who risk their own funds do their best to anticipate what *will be*, what consumers will want in the future. In this case, Nishiyama was right; if he had acceded to MITI's administrative guidelines in 1951, his company's development and expansion would have been checked before it began.

Opinion concerning MITI was thus divided. Government control versus free competition was the issue. During the 1965 recession, MITI sought to curtail steel production; six firms agreed to go along with the plan. However, Sumitomo Metals, with 4.5 percent share of the country's steel production, clashed with MITI; it considered it unfair to restrict its output, an unnecessary intervention with private enterprise. The company's president, Hosai Hyuga, had guts. He was a leading businessman of Osaka, a city whose people were known for their free and independent spirits. He refused to accede to MITI's administrative guidelines requiring a cut in production. The conflict between him and MITI made headlines. At first, Hyuga had the backing of other steel producers, but soon he was standing alone against MITI. Moreover, MITI warned Hyuga that Sumitomo would not be allowed to import more materials than those needed for its quota of the reduced production. Hyuga had to compromise and Sumitomo reduced its production of steel. Three years later in 1959 he appointed an ex-MITI bureaucrat to its Board of Directors "voluntarily."[2]

The case of Yawata Steel was very different. Originally established as a government enterprise in 1899, it was privatized only after the war. But it retained close links with the government. In October 1969, with MITI approval, it merged with Fuji Steel to form the world's largest steel producer, New Japan Steel Corp. New Japan Steel became in effect a MITI-protected "cartel," virtually an "executive organization" of MITI's Basic Industries Bureau.[3] MITI and New Japan Steel together strove to stabilize steel markets and maintain steel prices, to hold them up by preventing what they considered "excessive" competition that might bring prices down.

While this was going on, small producers with open-hearth furnaces were gradually replacing them with electric or revolving furnaces. Twenty-three new electric furnaces were constructed between 1973 and 1978. By 1975–1977, Japan was becoming one of the world's big three in steel production; its 1976 exports were the highest in its history. Yet, New Japan Steel's market share was dropping—from 35.7 percent at the time of the merger in 1970 to 26.86 per cent in 1986.[4]

Although Japan's steel exports fell and her balance of trade went down in December 1978, as a result of the oil crisis, MITI persisted in trying to reduce steel production. It designated the open-hearth furnace industry a "depressed industry" and demanded that some production facilities be shut down. Blast-furnace steel makers, protected by MITI and depending on "cost-plus pricing," along with small- and medium-sized steel makers, joined the "recession cartel." However, privately operated Tokyo Steel refused to go along. It struggled bravely against MITI and the cartel. Tokyo Steel's chairman and president, for years strong advocates of free and open competition, remarked: "Regulations imposed by a comprehensive network of administrative guidelines now pervade the steel industry, seriously hindering proper competition. . . . We can survive ourselves without relying on MITI's guidance."[5]

By competing with the large blast-furnace steel producers, Tokyo Steel has become the leading steel producer using electric furnaces. It is very efficiently operated. Its head office occupies only 1,600 square meters of floor space; its Administration Division's 21 employees administer sales of 200 billion yen; its Marketing Division employs only 29 persons; each staff member has his own personal network-linked computer, reducing paperwork and the time spent on meetings. Contrast Tokyo Steel's efficiency with that of MITI-supported New Japan Steel with 1,700 employees in its headquarters and, according to its consolidated income statement of March 31, 1994, a deficit of 54 billion yen.[6]

Petroleum

The Petroleum Industry Law of 1962, originally enacted to strengthen MITI and counteract the future liberalization of imports, provided that (1) MITI publish a petroleum supply plan as a guideline for producers, (2) oil producers conform to MITI's production plan, (3) producers modify their production plan if MITI's and the producers' figures did not agree, (4) MITI approve new facilities, and (5) MITI set prices. Refiners resented the regulation of their facilities and, in anticipation of its enactment, expanded operations. MITI had not expected such an expansion and asked refiners to restrict their production themselves; the Petroleum Association was made to coordinate its members' production.

In October 1970, OPEC began to raise the prices of crude oil but MITI did not permit a markup in kerosene prices. To compensate producers for losses MITI, by administrative guidelines, allowed increases in other prices. A virtual "black cartel" emerged as a result of MITI and oil-industry cooperation in controlling the production and prices of oil and kerosene.

On October 6, 1973, the first OPEC-induced oil crisis occurred. Since Japanese industries depended heavily on Middle-East oil, all prices of petrochemicals went up 334 percent and housewives rushed to buy anything and everything, even toilet paper and detergents. MITI's response was to regulate the distribution and consumption of petroleum. The prices of petrochemical goods were frozen. Producers who could not shift their higher costs to customers inevitably suffered losses. However, the efforts of private businesses to cut costs and to innovate led to lower oil consumption and improved productivity.

In 1986, Taiji Sato, president of Lions Petroleum, tried to import oil which he expected to sell in Japan below MITI's rigged price. The importation of oil was not then prohibited. But when MITI learned that Lions' oil tanker was approaching Japan, it had the tanker blocked, prevented Lions' bank from lending the money needed to finance the shipment, and persuaded the Japanese government to pressure foreign governments to cancel Lions' contracts for purchases of oil.[7] Although the company is no longer in existence, Sato's efforts have not been in vain. As a result of internal and external pressures, MITI's powers are being curbed. This past summer the question of liberalizing petroleum imports was finally presented to the Subcommittee on Fundamental Problems of Petroleum Policy of the Petroleum Deliberation Council. Also, MITI now intends to abolish, by the end of 1995, the law regulating the importation of certain petroleum products. And the regulations on the opening of filling stations will be gradually repealed.

Privatization and the Market Economy (1980–1985)

The early 1980s was the era of Prime Minister Thatcher and President Reagan. Japanese Prime Minister Nakasone dreamed of privatization and in 1981 he began to carry out his dream. Japan Telegraph and Telephone Public Corporation was privatized as the Nippon Telegraph and Telephone Corporation (NTT) in 1985. The Japan Monopoly Corporation was privatized in 1985 as the Japan Tobacco Industry Corporation (JT). And in 1987, the Nippon National Railways (JR) was divided into six passenger companies and one freight company, solving in the process its 37.5 trillion yen accumulated debt problem. These privatizations were not only great achievements for Nakasone and his Cabinet but for the companies too; their respective financial situations improved.

A fairly recent contender on the Japanese Market is Nintendo which came into prominence during this period. The company began as a small firm making traditional flower cards, then other playing cards, and still later plastic playing cards with Disney characters on them. Then in 1983, Nintendo created game computers for children that took the world by storm. Children all over the world became Nintendo fanatics. In 1993, Nintendo, with 890 employees, earned 163.7 billion yen. Compare that with Toyota which, that same year, 1993, with 72,000 employees, earned 280 billion yen, its greatest operating profits ever. However, nothing ever stands still on the market. To maintain his position on the market, every entrepreneur must re-earn the support of his customers everyday. Nintendo's position is now being seriously challenged by Sega Enterprises, makers of new electronic games.

It is not possible within this space to trace the ups and downs of the Japanese yen to the U.S. dollar and the effects of these fluctuations on Japan's exports and imports. At times the Bank of Japan pursued an easy money policy, weakening the yen; at other times it raised interest rates, strengthening the yen. These changes alternately encouraged or discouraged international trade in the short term. Throughout these fluctuations, however, the Japanese saved and invested in stocks, bonds, and real estate, even foreign real estate. It was their energy, hard work, and ingenuity that was to be responsible for Japan's long-term economic development.

MITI's Powers Reduced

As we have seen, MITI's attempts to direct Japan's production have not always been successful. When it tried to maintain steel prices for the benefit of its cartel members by restricting steel output, some of the more energetic steel producers resisted. When it tried to cope with oil shortages by controlling prices and distribution rather than encouraging imports, consumers of petroleum products objected. After 45 years of trying to foster economic development in Japan and coordinate supply and demand, MITI's powers are now being curbed.

On February 8, 1994, the Hosokawa Cabinet announced a policy of deregulation. The proposed program should wipe out many of the more than 12,000 regulations issued by MITI and the Ministries of Transportation, Agriculture, Forestry and Fishery, Finance, and Health and Welfare. The plan appears excellent on paper and if implemented would increase productivity and reduce price differentials between Japan and the United States. The question remains, however, whether this large-scale deregulation can be carried out without being sabotaged by bureaucrats who want to retain power.

Nobuyoshi Namiki, formerly chief of MITI's Industrial Structure Section, reveals the truth about the Petroleum Industry Law:

> The world attributed the cause of the high-speed growth of Japan after 1985 to Japanese industrial policy. But this is far from the truth. It is true that Japan enjoyed high-speed growth, but that was caused by the efforts of diligent and honest Japanese workers and by the tenacity of executives filled with never-quenching aspiration, working under "excessive" competition.[8]

The February 26, 1994, issue of *The Economist* reports on recent research concerning MITI. Professors Richard Beason (University of Alberta) and David Weinstein (Harvard) note four tools of industrial policy which had been offered to 13 sectors of the Japanese economy between 1955 and 1990—cheap loans, net transfers, trade protection, and tax relief. Beason and Weinstein asked "whether the most-helped sectors grew fastest?" and found that "support was given on the whole to slow-growth industries. . . . That the economy succeeded for decades is plain enough," they said. "But, on this evidence, industrial policy may well have hindered rather than advanced the cause."[9]

Beason and Weinstein confirm Nobuyoshi Namiki's position. MITI is not so mighty as once it was; its power has been considerably reduced. In the world of kaleidoscopic, wide-ranging international trade that has developed, MITI can do little more than offer subsidies to dying industries

Real Causes of Japanese Economic Development

The true explanation of Japan's successful post-war economic development rests, not on MITI's "industrial policy," but on good old-fashioned virtues—saving, hard work, reduced government spending, and innovative entrepreneurship—combined with ingenious marketing techniques and relatively free world trade.

1. Saving. The Japanese have a tradition of saving and as they struggled to pull themselves up from "Ground Zero" after World War II, most Japanese managed to consume a little less each year than they produced. On the basis of 1971–1991 figures, the average gross saving rate in Japan was twice that in the United States; the saving rate per household in Japan was 2.7 times that in the States.[10] As production depends on capital savings and investment, this gave a substantial boost to Japan's economy.

2. Diligence. Japanese workers in general are hard-working, even to the point of being workaholics. This also contributed to the rapid growth of the Japanese economy. In 1992, workers averaged 1,972 hours per year; since then their hours have been gradually reduced and in 1996, they are expected to work less than 1,800 hours. Public offices, banks, and post offices now have a full five-day work week. Also there are fewer strikes in Japan and Japanese workers lose fewer days from strikes than in the United States.[11]

3. Government spending for defense. According to the *National Defense White Paper*, the average ratio of defense expenditures in Japan to GNP for the period 1981–1991 was 0.98 percent, while in the United States, Britain, and West Germany the ratios to GDP were 6.2 percent, 4.8 percent, and 3.0 percent respectively. Thus, taxes in Japan were lower and more funds were available for investment than in other advanced countries.

4. Independence and Entrepreneurship. Osaka is a city known for the entrepreneurial spirit of its inhabitants. Osaka was the home of at least two firms that resisted MITI—Kawasaki Steel and Sumitomo Metals. Yujiro Iwai, an Osakaite and former president of Iwai and Co., reflected that "the fundamental philosophy of the citizens in Osaka concerning the economy seems to be free and independent—they try hard not to depend on others, not even on the government." Iwai finds this spirit expressed in a *haiku* by Raizan Konishi (1654–1716)—"*Obugyo no na sae shirazu toshi kurenu*" ("The year has come to an end, Without even knowing the name, of the magistrate.")

The world of Osakaites, as described by Iwai, is the very "opposite of that portrayed in George Orwell's *1984*, where the face and voice of the leader penetrated the lives of the people from morning till night through means of mass communication . . . . Is it possible to realize a free world where we can live without even knowing the name of the magistrate? Osakaites believe it is."[12]

5. Innovative management and marketing. Japanese exports in prewar days were regarded as "cheap, but of poor quality." W. E. Deming, a U.S. professor, played a major role in improving the quality of Japanese goods. A prize established in his honor is awarded to individuals and companies making important contributions to quality control. Today, thanks no doubt to lessons learned from Professor Deming and from taking consumer wishes to heart, Japanese appliances and automobiles are rated among the best in the world.

In Japan, consumer sovereignty is recognized in the field of marketing. To sell their products and services and earn profits, producers realize they must satisfy their customers. The success of Japanese exporters has depended largely on their efforts to learn the languages, customs, tastes, and demands of potential purchasers in other countries. Matsushita, a manufacturer of appliances, now sends some of its employees to Frankfurt (Germany) as resident engineers in charge of product development. Their families accompany them. The company believes that their engineers must experience European daily life to develop new washing machines which will satisfy European buyers.[13]

American producers who want to sell in Japan would do well to try a similar approach; they would then realize that the narrow width of the staircase in a typical Japanese home makes it difficult or impossible to carry any appliance wider than 25 inches—washing machine or refrigerator, for instance— up the 30–3/4 inches wide steps to the second floor without scratching the walls. Only recently have U.S. automobile manufactures begun producing for export to Japan low-priced cars comparable in quality to those the Japanese make for export. Also it was not until this past summer (1994) that Ford changed the steering wheels on their cars to accommodate the Japanese who drive on the left side of the road. If American goods were suitably modified to satisfy Japanese consumers, U.S. sales to Japan would surely increase.

6. Free Trade. Japan's rapid development was made possible by relatively free trade throughout the world. When I was a boy, world trade was not free; there were conflicts between the "have" and "have-not" nations. With poor natural resources, I feared that Japan, without free world trade to permit Japanese firms to import raw materials, process them, and export their products, could never expect to develop economically. I was greatly encouraged when I learned from Mises' *Human Action*, that economic development depends, not on rich natural resources, but on capital accumulation per capita and free trade.

Japanese Tradition

On the campus of the Tanaka Junior High School, Kashiwa City in Chiba Prefecture, there stands a statue of the respected Japanese philosopher Kinjiro Ninomiya (1787–1856). He is reading a book while carrying a bundle of firewood on his back.[14] Ninomiya's desire to learn was so intense that he used to read while he walked to work. His message of diligence and saving for the future and for doing good voluntarily was firmly imprinted on all Japanese students from his time until the end of the war. Japanese who are now over sixty years of age continue to admonish their sons and daughters in the words of Ninomiya: "Save, waste not; otherwise heaven will punish you." Thus by encouraging generations of Japanese to save, Ninomiya played an important part in Japan's post-World War II economic development. By doing so, he made it possible for the Japanese people to realize their "impossible dream." □

1. November 3, 1951, *Asahi Shinbun*.
2. For details see Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy 1925–1975*, Charles E. Tuttle Co., 1986, pp. 269–271.
3. The close Yawata-government ties were reflected by New Japan Steel's president, Yoshihiro Inayama, when he bragged, "Steel is the state."
4. Hajime Tainaka, *Shin Nittetsu niokeru Shippai no Kenkyu* (A Case Study of the Failure of New Japan Steel), Eru Publishing, 1987, pp. 65–66.
5. Tainaka, *ibid.*, p. 62.
6. *The Diamond Weekly*, June 4, 1994, pp. 40–42.
7. See, Toshio Murata, "The Lion that Roared," *Reason*, May 1986, p. 43.
8. Nobuyoshi Namiki, *Tsusansho no Shuen: Shakai Kozo no Henkaku wa Kano ka* (The End of MITI: Is Renovation of Social Structure Possible?), Diamond-Sha, 1989, p. 61.
9. Quoted in the *Economist* February 26, 1994, from "Growth, Economies of Scale, and Targeting in Japan (1955–90)," *Harvard Institute of Economic Research, Discussion Paper 1644*.
10. International Comparison of saving ratio (1971–1991)

	Gross Saving Rate	Household Saving Rate
Japan	33.3%	18%
U.S.A.	15.2	6.6
U.K.	17.7	6.8
West Germany	23.2	12.3
France	21.9	13.0

Source: Averaged from the data of Bank of Japan "International Comparison of Saving Rates."

Gross saving rate = gross savings (savings + depletion of fixed capital) / GNP; Household saving rate = household savings / household disposable income.

11. According to ILO *Labor Statistics Year Book 1991*, the number of strikers and the lost labor days in Japan and in America in 1985 and 1989, were as follows:

	Number of Strikers		Lost Labor Days	
	1985	1989	1985	1989
Japan	123,400	85,800	264,100	219,100
U.S.A.	323,900	452,100	7,079,100	16,530,000

12. Yujiro Iwai, *Osaka Shonin no Tetsugaku* (A Philosophy of Osaka Merchant), Tokyo Nunoi Shuppan, 1981, pp. 76–77.
13. The *Nikkei Shinbun*, March 30, 1994.
14. Surprisingly Ninomiya's statue is made of cement, not of its original bronze which was melted down for bullets during World War II. Unfortunately many new schools do not have statues of Ninomiya, and he and his message are gradually being forgotten.

THE FREEMAN
IDEAS ON LIBERTY

Science—Coming Out of the Closet

by Eric W. Hagen and James J. Worman

Throughout history people have been deluged with warnings that the earth is approaching its final days, and unless some drastic, immediate action is undertaken, it is the end for the human race. In recent years, events such as the twentieth anniversary of the first Earth Day and the United Nations-sponsored "Earth Summit" have popularized the notion that an ecological crisis is imminent. Throughout the last two decades, many so-called experts have posited alarmist theories on overpopulation, global warming/cooling, natural resource depletion, and cancer-causing chemicals. Although such claims are nothing new, the public is frightened into thinking that their government must take draconian measures to "save the planet." In many instances, the public has been manipulated by a news media that is too quick to accept such doomsday prophecies and pass them on to a largely scientifically illiterate audience.

Environmentalism obviously has enormous popular appeal. Nowadays, more people recycle than vote. Businesses frequently promote their products as "environmentally friendly." The U.S. environmental lobby has become the largest political lobby in the country. Total annual budgets for these organizations are estimated to exceed a quarter of a billion dollars, and demands by such groups for government action have led to the Environmental Protection Agency imposing almost $1.5 trillion in compliance costs on the U.S. economy.[1] And these actions have not always led to beneficial results. The government has wasted billions of taxpayers' dollars to save what amounts to one person in one million over a lifetime. Examples of bureaucratic bungling, in which good intentions only lead to disastrous results, are everywhere apparent. This squandering of funds has bankrupted the nation, and taxpayers are beginning to question whether or not they can afford the luxury of these scientific gambles.

In recent years, several scientists have come forth disputing the theories of apocalypse promoters Paul Ehrlich, Barry Commoner, Jeremy Rifkin, and others, attempting to add some common sense and rationality to the confusion and hype that too often surrounds environmental issues. Those who confront the alarmists always run the risk of being demonized by environmental activists and lobbyists, but they also realize the danger of being silent on issues that are crucial to the quality of life, the efficacy of government, and the integrity of science. Oddly enough, the technical information to challenge alarmist thinking has been provided in the peer-reviewed scientific literature for years. This information has not reached the public though because many scientists have been more concerned with their work in the laboratory and less concerned with challenging public misinformation.

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A Backlash

The tide is turning, perhaps. The October 11, 1993, issue of *Newsweek* reported that a "backlash against environmentalism is in full swing."[2] What began as a few scientists boldly questioning why certain policies should be implemented has evolved into a full-fledged backlash against environmental extremism. This has manifested itself in large grassroots movements, best-selling books, numerous newspaper editorials, and popular radio talk shows. Those who challenge the "popular vision"[3] of environmental doom and gloom have been labeled as "eco-revisionists," "anti-environmentalists," and other names that suggest their being at odds with promoting a cleaner, safer, and sustainable environment. Of course, no one with a sound mind is against clean air and water, and it goes without saying that most people want to be safe from carcinogens and hazardous chemicals.

Skeptics of the "eco-crisis" are portrayed as a serious threat when an environmental journalist, such as Sharon Begley of *Newsweek,* reports, "If the critics are right, the globe has little to worry about. But if they win the debate and are wrong, it will be too late for repairs."[4] Such a statement is common among alarmists. Supposedly, dire consequences only result from inaction. No mention is ever made about the sacrificing of individual liberties and property rights, nor of national sovereignty to international treaties, and, lest we forget, the billions of tax dollars and costs on the economy, particularly to small-businessmen and entrepreneurs, that result from overreaching and unnecessary policies and regulations.

It is therefore crucial that before undertaking massive government ventures to deal with environmental concerns that people become fully informed and renew their sense of healthy, rational skepticism. This attitude must include a relentless search for the truth and a knowledge of what has occurred in the past. In order to do this, one must know what constitutes good science and what lessons history has revealed.

Philosopher of science Karl Popper once asserted that for any meaningful scientific statement or theory in the physical sciences to be credible, it must be *falsifiable*. In other words, it must be specific enough to be proven wrong. It need not be false—it can certainly be true—but such a hypothesis requires that it be testable. If the technical means are not available for testing, it must still be able to be tested in principle. With this in mind, it would seem odd that so many of the pseudoscientific claims (ESP, astrology, UFOs, etc.) which can never be proved wrong have so much influence on the public.[5]

Predictions that humans will soon destroy the earth stand only the test of time. Thus, skeptics are put in the difficult position of defending their ground. Since it is logically impossible to prove a negative (such as UFOs do not exist), one cannot prove that the earth will not end tomorrow. While the onus of proof should be on the one who asserts the positive, this is rarely the case. The results of past eschatological predictions can be revealed. Even so, as far off as many of these projections have been, it seems to make little difference. Original statements are revised to explain why things turned out differently, another dismal forecast is made, and the credibility of those making the initial claims remains astonishingly intact.

For example, entomologist Paul Ehrlich, in his 1968 manifesto, *The Population Bomb,* predicted that in the 1970s overpopulation would lead to global catastrophes of mass starvation, natural resource depletion, plus food and water rationing. The oceans would be as dead as Lake Erie by 1979. Flush toilets would be banned by 1974. Water pollution would be so bad by the mid-1970s that cases of hepatitis and dysentery would increase by 500 percent. Urban dwellers would have to wear gas masks by 1980 because of poor air quality.

A quarter century after *The Population Bomb,* every prediction made by Ehrlich has proven untrue. The world population growth rate has been declining since the 1960s. Human lifespans continue to lengthen. Most commodities are cheaper than ever before. The oceans, as well as Lake Erie, are alive and well, and food supplies grow ever more abundant. Unfortunately, so does Ehrlich's rhetoric, which in 1990 was repackaged in a new book entitled *The Population Explosion*.

Paul Valéry once wrote: "The main trouble with the world today is that the future is not what it used to be." Perhaps Paul Ehrlich is thinking the same thing.

It is a tragedy for the reputation of science when scientific credentials are abused in such a manner. Good scientists do not claim to know anything with absolute certainty. Therefore, one must be wary upon hearing a so-called expert assert that there is no longer any question or debate over a phenomenon that has received only recent attention. All scientific *truth* is provisional. A particular theory may be well supported or perhaps certainly true, but it is still subject to falsification. Of course, presenting all material as provisional is usually avoided; if one is constantly inserting disclaimers, a clumsy presentation results. However, this provisional circumstance certainly does not mean that all different scientific viewpoints are equally valid. According to Dartmouth College Astronomy Professor James Thorstensen, there is "good science, bad science, and crackpot science":

> Crackpot science is generally not even internally consistent, and generally makes no useful predictions at all; it is the result of a surprisingly common mental state in which extreme eccentricity shades into a deluded belief in one's own extraordinary genius. Bad science is more respectable, and may even be correct, but it is marred by such things as weak lines of evidence and ill-directed, woolly-minded theorizing. Good science is marked by good evidence, a good understanding of what has come before, technical competence, clear thinking, clean interpretation, and often by the unification of a variety of seemingly separate phenomena.[6]

In order to determine good science, people would do well to ask the following questions:

- Is it "good evidence" when computer models, used to measure climate fluctuations rely on assumptions and simplifications that do not adequately account for the influence of clouds and oceans? These can be tremendously misleading since they are based on data from weather stations that are located near growing cities.[7]
- Is it "a good understanding of what has come before" when a demographer proclaims that civilization will come to a halt due to scarcity of a certain resource? Yet history shows us that resource shortages have existed as long as civilization, and never has a nation fallen due to the depletion of a resource.[8]
- Is it "technical competence" when a pediatrician is considered an authority on nuclear power, a butterfly specialist is an expert on population growth, and an actress gives congressional testimony on an allegedly carcinogenic growth hormone?
- Is it "clear thinking" when a leading proponent of the theory that CFCs are depleting the ozone says, "[W]e have to offer up scary scenarios, make simplified, dramatic statements, and make little mention of any doubts we may have. Each of us has to decide what the right balance is between being effective and being honest?"[9]
- Is it "clean interpretation" when a global warming advocate argues in a congressional hearing that a warming trend of a half a degree Centigrade over the course of the past century was caused by human-induced carbon emissions, and his evidence shows that the most significant climate change took place before most industrial greenhouse gases entered the atmosphere, not to mention before the big boom of the automobile industry?[10]

Indeed, there is a lot of unsound science being promoted by false prophets. Jonathan Schell, author of *Our Fragile Earth,* once stated: "[T]he reputation of scientific prediction needs to be enhanced. But that can happen, paradoxically, only if scientists disavow the certainty and precision that they normally insist on. Above all, we need to learn to act decisively to forestall predicted perils, even while knowing that they may never materialize. We must take action, in a manner of speaking, to preserve our ignorance. There are perils that we can be certain of avoiding only at the cost of never knowing with certainty that they were real."[11]

Science by Press Release

Perhaps most disturbing is a trend that became popular during the 1980s known as "science by press release." The situation had gotten so bad that in 1992 the National Academy of Sciences issued a report demanding that scientists refrain from "questionable research practices," such as presenting conjectures as fact, and releasing results of studies to the popular press before such research has been peer-reviewed and judged valid.[12]

This assault on common sense, on rationality, and on the integrity of science could not occur without some ulterior motive. Obviously, it has a great deal to do with political ideology. It is very common for the apocalypse boosters to be very hostile towards capitalism while openly embracing socialism. They feel that the threat of an impending ecological crisis is so great that lifestyles must be radically altered with governments seizing control of private property and natural resources, individual liberties and freedoms being sacrificed, and reducing standards of living. For a movement that thrives off the motto "small is beautiful," it seems to require a large regulatory apparatus.

Here is another area where people have failed to learn from history. Socialism has proven disastrous for the environments of Eastern Europe and the Soviet Union. People should realize by now that natural resources do not fare better in government hands than they do under private control. Furthermore, in the absence of a free press and democratic government, facts about pollution are hidden from the public, and without property rights, government-owned enterprises can contaminate the environment while paying no attention to citizen outrage. Political and economic freedom, not heavy-handed government control, remains the best way to ensure a clean environment, but many have failed to make this connection. Some are still willing to take the risks of experimenting with centrally planned, command-from-the-top economics while completely ignoring the devastating consequences of such actions. Pre-eminent capitalist Malcolm Forbes once observed, "Edison invented the light bulb on, roughly, his *ten-thousandth* attempt. If we had depended on central planners to direct his experiments, we would all be sitting around in the dark today."[13] It is not enough to point out the follies of the professional doomsayers; an alternative strategy must be articulated. This includes not only a sound understanding of science, but of economics and politics as well. Only when more members of the scientific community come out of the closet to challenge public misinformation will more people come to realize what is at stake in this debate. □

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1. Ben Bolch and Harold Lyons, *Apocalypse Not: Science, Economics, and Environmentalism* (Washington, D.C.: Cato Institute, 1993), p. vii.
2. Sharon Begley, "Is the Ozone Hole in Our Heads?" *Newsweek*, October 11, 1993, p. 71.
3. Patrick Michaels, *Sound and Fury: The Science and Politics of Global Warming* (Washington, D.C.: Cato Institute, 1992).
4. Begley.
5. A 1990 Gallup poll revealed that 52 percent of Americans believed in astrology, 46 percent in ESP, 59 percent in clairvoyance, 67 percent in personal experience with psychic phenomena, and 42 percent in communication with the dead.
6. James Thorstensen, Astronomy 2: "Stars and Their Life Histories," Dartmouth College, Fall 1993, p. 25 of lecture notes.
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THE FREEMAN
IDEAS ON LIBERTY

A Crisis in the Making: Europe's Welfare Burden

by Nicholas Elliott

Europe's welfare states face a profound crisis because aging populations mean growing numbers of benefit recipients and dwindling numbers of taxpayers to fund the entitlements.

Prolonged recession has highlighted these dangers as high unemployment has meant higher welfare payouts and reduced tax revenues. As a result, wide budget deficits have developed in most countries of Europe, and there has been a sharp build-up of debt.[1]

This has awakened the governments of some European nations to the fact that maintaining "cradle-to-grave" welfare states is impossible in the long term, and reforms are already being undertaken to limit eligibility to benefits. As privatization was partly a response to the inefficiency of industry in the 1970s, so welfare reform is being forced by inexorable demographic strains. In years ahead, economic growth rates in the countries of Europe are likely to depend heavily upon their differing welfare burdens.

Comprehensive welfare states have become standard across Western Europe since 1945, providing—variously—unemployment benefits, sick pay, disability benefits, maternity benefits, child care, health care, and pensions. In the early stages it appeared affordable to extend these benefits, paid for by young taxpaying populations.

However, there was always a fine line. Sweden illustrates the economic consequences of unrestrained welfarism. From 1960 to 1990, as an extensive welfare state was erected, government spending grew from 31 percent of Gross National Product to 60 percent. But the increase in taxes required to pay for this blunted incentives disastrously. For instance, because of higher taxes, real after-tax wages for Swedish industrial workers fell 0.6 percent from 1980 to 1987 despite a 72 percent increase in gross wages.[2]

As a result, Sweden has tumbled from being the third wealthiest in 1970 to 12th place among rich countries, reflecting an average growth of only 1.1 percent in the past 20 years. The government of Carl Bildt was elected in 1991 with a program of welfare reform to restore the economy.

Pensions and Aging

The largest spending increases in welfare states have been on pensions, and without reform the future costs are potentially explosive. Only about a quarter of the increase in pension spending among Organization for Economic Co-Operation and Development (OECD) countries between 1960 and 1984 was due to aging populations; the rest resulted from widened entitlements and larger

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benefits.[3] Because such a major aging is now underway, this largess will have to be reversed.

Greater longevity means that by the middle of the next century there will be 190 million over-65s in the OECD, up from 61 million in 1960. The disparity this will cause between earners and pensioners is highlighted by the age-dependency ratio, which shows the number of over-65s in proportion to 15–64 year-olds. This is set to rise from 19 percent in 1990 to 28 percent by 2020 and 37 percent by 2040.[4]

To give some individual examples, the over-60s made up 11.75 percent of the British population in 1961, but that's expected to rise to 22.44 percent by 2011 and 26 percent in 2026. At the same time, the proportion of 15–64 year-olds—roughly speaking those of working age—is forecast to drop from 65.3 percent in 1990 to 62.3 percent by 2026.[5] Similarly, in Germany the proportion of 15–64 year-olds is forecast to fall from 69 percent of the population in 1990 to 67 percent in 2011 and to 64.5 percent in 2023, while the portion of over-65s is projected to increase from 14.94 percent in 1990 to 20 percent in 2011 and 23 percent in 2023.[6]

The fiscal stress of this aging will be exacerbated by some pension schemes reaching maturity—paying out the maximum benefits—around the time that the number of pensioners peaks. When pension funds are first established there are many contributors and few claimants, but as time goes on there are fewer payers and more recipients. For example, Britain's State Earnings Related Pension Scheme (SERPS) will mature in 2020.

Many government schemes are unfunded; they are simple transfers from the young to the old. Whereas funded schemes can be managed with a view to future liabilities, unfunded schemes are laid bare to the ravages of demographic swings.

Also, older people make greater demands on health care, which adds to government spending where the system is publicly operated. For example, the over-75s cost Britain's National Health Service nine times as much each year as 16–64 year-olds.[7]

The Necessity of Reform

There is a crisis in the making across Europe, to which most governments are now alert. The extent of their reforms now—consisting principally of reducing government entitlements and encouraging private provision—will be a key determinant of economic growth in years to come.

Several countries have raised the age at which government pensions are paid. The British government recently announced that the pensionable age for women, currently 60 years, will be raised to 65, equal to that of men. The Italian government plans to raise the pensionable age from 60 years to 65. Bildt's government in Sweden intends to raise it from the current 60 years to 61. In France the government plans to lengthen the period over which contributions must be made to qualify for a full pension. Outside Europe, Japan's pension age for women will be raised in the year 2000 from the present 60 years to 65, equal to that of men. The U.S. government took a similar step in 1983, scheduling a gradual increase in the pension age, from 65 to 67 years, beginning in the year 2003.

Another move has been to encourage opting-out of government pensions into private plans. The British government did this with SERPS in 1988, prompting 4.5 million to exit the government scheme. This shrinkage in membership of the government scheme should greatly curb any increased costs to the taxpayer arising from its maturing.

The most significant reform is to update pensions with prices rather than incomes, as earnings typically outpace prices over time. The U.K. did this in 1980, and France did so in 1984. A British government actuarial report estimates that tax rates would have to be eight percentage points higher by 2030 if pensions had continued to be linked to earnings rather than prices.[8]

Differences in welfare burdens and in the rigor of reforms among the countries of Europe are already being reflected in their respective economies. Despite the demographic trends described above, Britain is in a relatively good position; her reforms will contain future costs. Also because much of the aging of her population has already occurred, the size of the emergent mismatch won't be as great as in other countries. The age dependency ratio is set to rise by 31 percent in Britain by 2040, as compared with 66 percent in the United States and 73 percent in Germany.[9]

By contrast, Germany's welfare costs are potentially explosive, with the admittance of new claimants from the former East Germany, placing further strains on a system that was already bloated.

German government pensions are linked to earnings and the retirement age—58 years—is relatively low. Proposals to reform a sprawling system of welfare benefits are already meeting with vociferous protest: 100,000 building workers recently converged on Bonn to object to plans to curb payments for being left idle by bad weather. The government may raise the pensionable age, but at the same time it is planning to extend government nursing care.

Welfare costs are recouped in Germany through taxes on employers and employee earnings, not through general taxation as in Britain. As a result of higher welfare spending, these costs are expected to reach 40.2 percent of wages next year, up from 26.5 percent in 1970.[10] With such a burden it's not surprising that 36 percent of western German industries are planning to relocate investment abroad in the next three years.[11]

In the short term a welfare state may be an affordable luxury for a wealthy and prospering country, but in some European countries wealth and growth have been dissipated by the taxation needed to pay for it. Maintaining a welfare state is not simply a question of producing the wealth and then redistributing it, because the process of redistribution itself hinders wealth creation. The extent to which this point is understood will determine whether or not Europe remains a rich continent. It's an open question whether welfare reform will be far-reaching enough to restore economic incentives. Otherwise some European countries risk becoming economic backwaters. □

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THE FREEMAN
IDEAS ON LIBERTY

Are Women Exploited By the Free Market?

by John Chodes

The recently enacted Federal Civil Rights Bill once again tossed out one of the political hot potatoes of the 1990s: the issue of "equal pay for equal work." Many of the Congressmen who voted for this legislation believe that America's free market economy has always exploited women. They say that the only way for women to earn the same amount as men for the same or similar job is to enforce more far-reaching regulations to equalize wages.

A careful study of American economic history shows that such measures are not warranted. Beginning with the early 1800s, when wages and working conditions were completely uncontrolled, the free market was the one force that liberated women, via economic independence and merit wage parity.

Women, the First Wage Earners

For the first fifty years of the American Industrial Revolution (1800-1850), women were the major factor in the workplace. Mostly, men worked the land. Women were not as productive in agriculture, where physical strength was a prime necessity. Women flocked to the mills where they participated in a radical process: weekly pay based on an hourly scale. This was unheard-of in farming. Women in industry could earn twice as much as they could in agricultural work.[1]

In a periodic survey taken in the major mill town of Lancaster, Massachusetts, in 1818, 88 percent of the factory operatives were women. In 1825, it was 83 percent. In 1833, 85 percent. Studies for other locations present a similar picture.[2]

Today there is a popular misconception that women's vocational opportunities in that era were far more restricted than men's. One standard source says that in the 1830s only seven occupations were open to women: teaching, needlecraft, keeping boarders, work in cotton mills, typesetting, bookbinding, and domestic service.[3] Yet the U.S. Census showed that in reality there were over 100 industrial classifications employing women, virtually all those that were available to men.[4]

Women Advance in Free Markets

In the second half of the nineteenth century there was a rapid transformation of the industrial workplace. The overall percentage of women in industry markedly declined. This did not signify discrimination but rather major social changes that propelled women into the highest paying posi-

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tions and into the new fields of employment that were being created.

Immigration was the main social change. Male workers (Irish, French Canadians, Armenians, Portuguese, Poles) took the place of the early cotton mill girls. By 1900 only 8 percent of the population of Lowell, Massachusetts (one of the great mill towns) was native American.[5] These men worked in most of the lower skilled, lower paying jobs in the cotton mills. Of the male and female operatives in Massachusetts, 95 percent were foreign or of foreign parentage.[6]

In the cotton industry between 1850 and 1905 the percentage of women had dropped from 64 percent to 47 percent.[7] Yet women still dominated the two most lucrative textile jobs: weavers and frame spinners. Even in 1905 there were far more women than men employed in these high-paying categories.[8]

Labor legislation was another major factor in reducing women's numbers in the workplace. Labor laws condemned tenement work, resulting in a decrease of women in the clothing trades, from 40.1 percent in 1888 to 25.3 percent in 1900. This denied women with small children the opportunity to earn money without neglecting family responsibilities.[9]

Labor laws also restricted women's ability to work at night, reducing their presence in higher paying, late-shift factory employment.

The spread of unionization further curtailed women's options. Many union shops excluded them because they were less likely to be lifelong dues-paying members. Women moved in and out of the labor market in response to fluctuating personal needs.

Yet the decline of women in industrial employment also reflected widening opportunities outside the factories. After 1850 the number of women teachers, in Massachusetts for example, was twice that of men. The Civil War drew huge numbers of women into nursing, clerical work, and higher education. Then came the lure of the West, where greater possibilities and a shortage of skilled help drove their wages up.

By 1900 women were in 195 of the 303 employment classifications enumerated by the Census, including such male strongholds as carpenters, blacksmiths, quarrymen, plasterers, well-borers, and coal, gold, and silver miners.[10]

The Free Market Liberated Women

Nineteenth-century lawmakers complained that "women are made immoral by the factory system." This disguised the real issue: Industrialization revolutionized women's place in society by making them financially independent.

Back then immorality was defined differently from the way it is today. Children were considered "immoral" if they were "no longer contented with 'plain food' but must have 'dainties'."[11] One clergyman "deplored the tendency of girls to buy pretty clothes 'ready-made' from shops instead of making them themselves, as this practice unfitted them to become 'the mothers of children'."[12] Another example: "the pocket-book makers have high wages and are not compelled to keep hours. Hence they are often very dissipated'."[13] Or in the manufacture of bobbin lace, "[l]arge numbers of children and young people are employed. . . . They are almost wholly uneducated, and receive virtually no moral training. They also love fine clothes. These factors combine to lower their moral standards to such an extent that prostitituion is almost universal among them."[14]

The fear of "immorality" (or more accurately of women's self-determination), not the fear of exploitive wages, was the impulse behind regulation of the workplace from the beginning. Peter Gaskell, a nineteenth-century writer who denounced the free market economy, admitted that industrial wages "would enable them [the workers] to live comfortably, nay in comparative luxury." Yet he condemned the factories because children "were forced to spend their most impressionable years amid surroundings of the utmost immorality and degradation."[15]

The anxiety produced by the powerful implication of women as emancipated wage-earners was clearly expressed by Karl

Marx's partner, Friedrich Engels. In the 1830s he said: "The fact that a married woman is working . . . [leads] to a reversal of the normal division of labor within the family. The wife is the breadwinner while the husband stays at home [when unemployed] to look after the children and do the cleaning and cooking . . . . It deprives the husband of his manhood and the wife of all womanly qualities." Sound familiar?[16]

Britain's Lord Ashley provided another example. In a speech to the House of Commons in 1844, he told the story of an unemployed father who rebuked his working daughters for frequenting a pub. They "turned on him, saying that they no longer recognized his authority: 'Damn you, we have you to keep!' They said they were entitled to spend at least a part of their earnings as they pleased."[17]

Women factory operatives in the early industrial period were ambitious and venturesome. Most had come with a specific objective in mind. Mill work was a radical concept then. They came into this new world with a confidence that they could make it on their own.

An 1840 study of 6,320 women in the mills of Lowell, Massachusetts, showed that 87 percent were from outside the state. This was no small matter at a time when travel was extremely difficult.[18]

The women's goals were both financial and educational. "The earnings of daughters have been scrupulously hoarded to enable them to pay off mortgages on the paternal farm,"[19] noted one industrialist. Lucy Larcom, a poet and writer for the "Lowell Offering," a magazine for and by women industrial operatives, noted that "for 20 years or more, Lowell might have been looked upon as a rather select school for young people. The girls there were just such girls as are knocking at the doors of the young women's colleges today. They came to work with their hands but that could not hinder the workings of their minds also. Some were able to attend such schools as the Bradford Academy half the year by working in the mills the other half."[20]

These ambitious young women did not stay long in the mills. They worked for a year or two, then went back home or to school to take up work as teachers, missionaries, and other occupations.

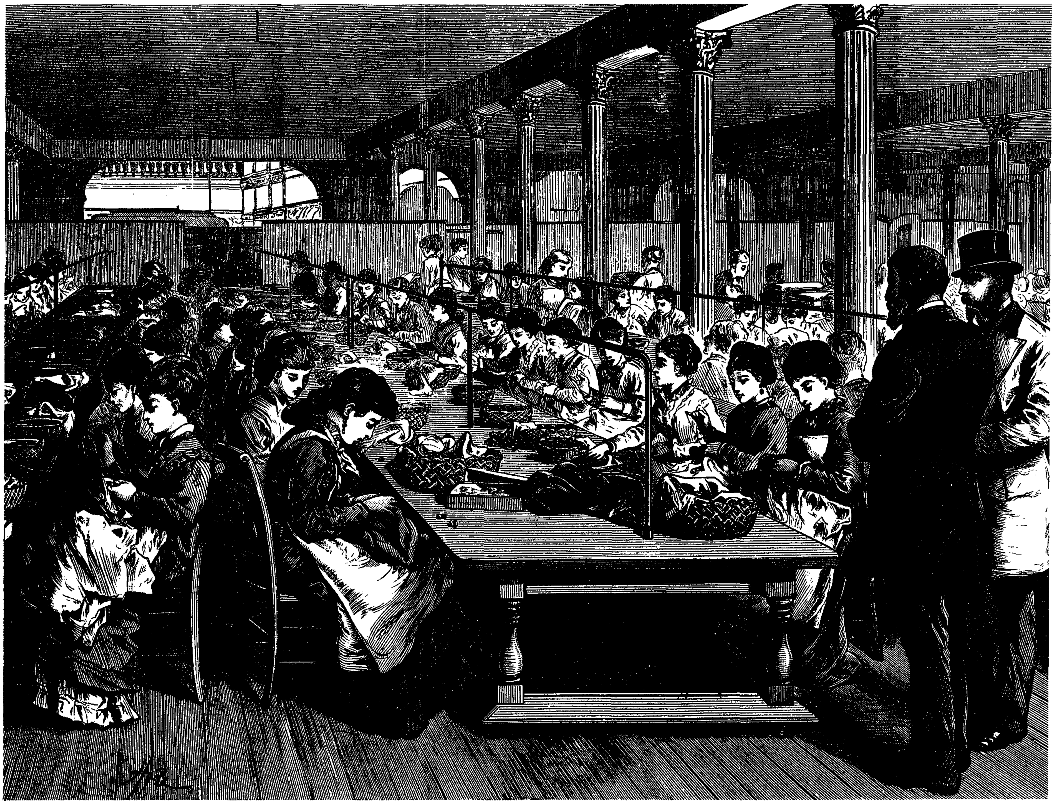
Lucy Larcom (1824–1893)

Women's Wages Rivaled Men's

The classic Congressional study known as the Aldrich Report clearly demonstrates that the free market did not discriminate against women in terms of wage parity.

This voluminous 1893 survey documented both sexes' earnings in the same departments, doing the same jobs, in the same business at the same time. The years covered are 1851 to 1891. Salaries between the sexes fluctuated widely, based on factors not explicit in the numbers, such as experience and productivity, which are not related to gender.

The statistics are organized in a uniform pattern. All the employees in a given department are divided into an ascending scale by wage level. For instance, in July 1890



Sewing room at A. T. Stewart's department store, New York, 1875.

there were seven press feeders in "Establishment #6" (not named) in New York City. This company was part of the "Books and Newspaper" industry. One woman there made 41.5 cents per day. One man made 66.5 cents a day. Five women earned 83 cents per day.[21] (Don't be misled by a century of inflation. These were relatively high wages. A good four-room apartment in New York rented for $4 a month, well within the means of the top five women.)

The study as a whole confirms that the distribution of wages was not discriminatory. In any given job, men were just as likely as women to be the lowest or highest wage earners. There is no pattern of "bunching up" of women at the low end, with only an exceptional woman at the top. Skill and ability, not gender, were evidently the only considerations for wage levels.

The following examples are typical:

Woolen goods, Connecticut, Establishment #86. "Weavers." Men and women worked together for 33 years.

- One or more women were the highest wage earners for 11 of these years. But more significantly, as this department grew in size, women's leadership in earnings increased dramatically.

Thus:

- Between 1858 and 1875 this department averaged 31 people. One or more women were the highest wage earners twice.
- Between 1876 and 1891 the weaving department expanded to an average of 111 employees. In this period one or more women were the highest wage earners nine times.[22]

Books and Newspapers, New York, Establishment #5. "Press Room Hands."

The following two positions we tend to associate with men today. This was not so in the 1800s. In the first case there was co-employment (men and women together) for 34 years (1857-1891).

• One or more women were the highest wage earners in two of these years and the second highest for another six.[23]

Books and Newspapers, New York, Establishment #6. "Press Feeders."

Co-employment for 22 years, between 1867 and 1891.

• One or more women were the highest wage earners in 19 of these years.[24]

Woolen goods, Rhode Island, Establishment #88. "Handers-In."

From 1881 to 1891 women and men worked together. Both sexes earned exactly the same amount throughout this period.[25]

Woolen goods, Massachusetts, Establishment #87. "Card Tenders."

Co-employment for 30 of the years, 1859-1891.

• One or more women were the highest wage earners in 15 of these years.[26]

Cotton goods, Massachusetts, Establishment #40.

The textile industry was the largest employer of women in the nineteenth century. In this company women worked with men in several categories:

"Back-Hands." Co-employment for 31 years. One or more women were the highest wage earners in 24 of these years.

"Cloth-Room Hands." Co-employment for 39 years. One or more women were the highest wage earners for 19 years.

"Harness Hands." Co-employment for 29 years. One or more women were the highest wage earners for 24 years.

"Spinners." Co-employment for 15 years. One or more women were the highest wage earners for seven years.

"Spoolers." Co-employment for 22 years. One or more women were the highest wage earners in 11 of those years.[27]

Relative teachers' salaries, Massachusetts, 1840-1891.

In Barnsdale County: For 15 years women's salaries were higher than men's, and they earned more in 12 of the 15 years, 1876-1891.

• In Franklin County: For 25 years women's salaries were higher than men's and from 1868 to 1891 they earned more in 20 of the 23 years.[28]

Misleading Statistics About Women

Where do we get our ideas that women were exploited by the free market? Often from biased research. Even at the height of the golden era of our relatively unregulated economy, statistics were geared toward proving wage discrimination to justify state intervention.

For instance, then as now, many jobs with the same title which both men and women performed, were not comparable. Nineteenth-century opponents of the free market often compared home employment with factory wages to "prove" that women made less for the same work. Home pay was generally based on a piece-work scale and almost always was lower than factory pay, regardless of who did it. In the 1800s, home workers often had titles similar to those of on-site employees on company payroll records. This gave the impression that women's wages were half those of men doing the same job.[29]

Another example is the shoe-and-boot industry which fully automated 75 years after textiles. During this period much of the shoe assembly process was done at home. An "Upper Cutter" or an "Upper Stitcher" or "Binder" or "Trimmer" described functions that could be fulfilled at either a factory or home workplace. Until full automation, shoe-and-boot industry wages were substantially lower than for cotton mill employees. "Reformers" often used shoe-and-boot wage scales and projected them as indicative of women's wages overall. This made them appear far less than they actually were.[30]

Politicians frequently use Census data to justify their legislation. The 1870 Census is a classic example. This was an era when American industry was expanding enormously, as was the drive to control it. It was during the post-Civil War Reconstruction period, with its infamous carpetbaggers and national corruption. Census data followed

Shop girls in New York. This illustration was part of an 1880 **Harper's** *feature on "Working Women in New York."*

these dishonest trends. General Walker, the military head of the supposed civil Census, confessed that the data was also inaccurate as it related to women and work. Was it error or policy?

"It is well known that as far as the employment of women and children is concerned, the occupational tables are less complete than the manufacturing tables . . . . It is taken for granted that every man has an occupation and rarely have assistant marshals failed to ask and obtain the occupation of men and boys old enough to work with effect. It is precisely the other way with women and young children. The assumption is, as the fact generally is, they are not engaged in remunerative employments. [This contradicts data from previous Census findings] . . . it follows from the plain principle of human nature, that assistant marshalls will not infrequently forget or neglect to ask the question."[31]

Conclusion

American women have been a major factor in the rise of American industry. Their presence in the workplace revolutionized our society and made it freer. Women were not exploited by the free market. Contemporary equal pay for equal work legislation is based on historically misleading information, and for that reason it cannot lead to greater economic emancipation for women. It is dangerous to lovers of freedom and will lead to federal control over all aspects of private employment: hiring and firing, raises and promotions. All the functions of management will be transferred to government. The only equality this will produce is the equal entrapment of men and women. □

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THE FREEMAN
IDEAS ON LIBERTY

Singing the Ticket Scalping Blues

by David N. Laband

New York Attorney General G. Oliver Koppell filed suit recently against two New Jersey ticket brokers for allegedly scalping tickets to a Barbra Streisand concert. In New York, it is illegal to resell tickets for more than 110 percent of their face value. As reported in my hometown newspaper, Mr. Koppell said the brokers "charged $325 each for two tickets worth $125 apiece." Last year country and western superstar Garth Brooks urged a legislative committee in Tennessee to make ticket scalping illegal in that state. Currently, ticket scalping is illegal in 12 states.

Clearly, Mr. Koppell's statement is incorrect: It would be impossible to sell tickets *worth* $125 each for a price of $325 each. Language aside, the anti-scalping stance adopted by Messrs. Koppell and Brooks and a significant number of state legislatures reveals a stunning ignorance of the fundamental role that prices play with respect to allocating scarce commodities.

People Who "Need" Tickets

The selling price of any commodity automatically divides the potential consuming public into two groups: individuals who value the item highly enough to be willing to pay the price required to obtain it and those who do not value the item highly enough to be willing to pay the acquisition price. In economic jargon, prices are *allocatively efficient*. Assuming no government intervention, goods and services—including concert tickets—are automatically allocated via prices to those individuals who value them the most highly, because they are willing to pay the most to obtain them.

The heart-rending response from supporters of anti-scalping legislation is that allocation by price is not "fair," since poor people cannot afford to pay high prices for commodities even though they might value them highly. This argument is demonstrably wrong. The mere fact that a resale market emerges for tickets to concerts, athletic events, and the like indicates that the face value (or retail price) of the tickets is *below* the market-clearing price.

Whenever a concert, for example, is a "sellout" before exhausting the number of demanders of tickets, it should be clear that there is a shortage of tickets at the retail price. This *must* mean that certain individuals who place a greater value on the show than the money price of the tickets will not get to see the performance. Individuals who are willing to pay a higher price for the tickets and who want to ensure that they will in fact receive tickets must be willing to pay a higher price, typically in the form of time spent waiting in line. Since poor people have a low opportunity cost of time, they are more likely to be the ones who receive

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tickets because the total (time + money) cost of the tickets is lower to them than to rich people.

Consider the allocative effect on poor people of prohibiting resale of concert tickets. Smith can earn $5 per hour; if he works 40 hours per week, 50 weeks per year, his annual income is $10,000. Jones can earn $50 per hour; under the same assumptions about work effort, her annual income is $100,000. Garth Brooks comes to town in concert. Tickets are priced at $25 each. Smith values the opportunity to attend the concert at $80; Jones values that opportunity at $480. Both individuals forecast that the concert will be a sellout and that in order to actually obtain tickets, an individual will have to spend the equivalent of ten hours waiting in line.

Even though the value that Jones attaches to attending the concert is six times greater than the value Smith places on the concert, she does not bump into Smith in the ticket line. She is not there. Under the circumstances outlined, Smith will find it worthwhile to wait in line for tickets while Jones will not. Smith values attending the concert ($80) at more than the real price he must pay for the ticket (ten hours in line times $5 per hour, plus the $25 nominal ticket price equals $75). By contrast, the real cost to Jones (ten hours in line times $50 per hour, plus the $25 ticket price equals $525) exceeds the value she places on attending the concert.

If resale of tickets is illegal Smith attends Garth Brooks' concert, even though he attaches a total value to it that is less than Jones' total valuation ($80 < $480) and even though the net-of-cost value to him is lower than it is to her ($5 < $45). If resale is legal, however, both parties will be happier.

Jones is willing to pay far more than $25 for a ticket, provided she does not have to wait in line. She is potentially willing to pay up to $480 for a ticket. Smith, whose procurement cost of a ticket is $75, would part with it for any price greater than $80, because the value of the money received would then exceed the value he attaches to attending the concert. Indeed, he would part with the ticket for less than $80, because the time he would have spent attending the concert is valuable too. If Smith, scalawag scalper that he is, offers to sell the ticket to Jones for $225, she is ecstatic. The net-of-cost value to Jones of attending the concert has, through Smith's offer, been altered from a negative $45 to a *positive* $255. When she agrees to the exchange, Jones is ecstatic also. He has earned four times as much per hour as he does in his ordinary employment. In so doing, he has provided a valuable service to Jones.

The argument generalizes to concerts and other events that do not sell out. Certain seats are valued more highly than others. Whenever individuals are prohibited from buying tickets in a resale market (i.e., from scalpers), some individuals who value those good seats more than the current ticketholders simply do not attend.

The number of items sold through resale in America each year utterly swamps the number of items sold new. Land, houses, airplanes, clothing, artwork, stamps, guns, and a myriad of other items change ownership each year. To apply consistently the principle of "no scalping," we should make it illegal for individuals to sell any of these other commodities at prices greater than what they paid originally. This would be simply absurd. Such a restriction would eliminate any incentive for individuals to shift their supply of commodities intertemporally. Owners would have no reason to conserve goods and resources today to ensure future availability.

Although it may *look* as though scalpers buy tickets at low prices and immediately turn around and sell them at much higher prices, the perception is misleading. What is really being sold in the resale market is time. If Garth Brooks would truly like to maximize the value that people receive from attending his concerts, he should be testifying *against* proposed anti-scalping bills. And, unless I'm much mistaken, state legislators and attorneys general have more pressing issues to address than the mucking up of resale markets that increase society's well-being. □

THE FREEMAN
IDEAS ON LIBERTY

Transitting Away from The Free Market

by Robert A. Condry

In November 1990 Congress passed the Treasury, Postal Service and General Government Appropriations Act of 1991, one aspect of which allowed federal agencies to participate in local efforts to promote mass transit. Translation: Federal agencies could provide financial incentives for their employees to ride the local trains and buses. So what? Well, it's just another example of a government spending splurge in search of an issue.

In a recent report the General Accounting Office (GAO) estimated that in 1993 the federal government would spend between $8 million and $10 million on transit benefits. Now, it's true that none of this money was actually appropriated for that purpose, which might irritate some taxpayers the more, but was to be taken from existing funds. There are those who will say that this is a net benefit for the taxpayer because that much money is not being spent regulating or otherwise interrupting the lives of the innocent. This is true to a point, but the taxed should not rest easy just yet.

What the law authorized the feds to do was use the same funds—available to businesses as tax deductions but to the government as equal subsidies—to help subsidize their employees riding the mass transit lines. Beginning in July 1991 the tax-free benefit was $21 per month, but on January 1, 1993, the figure was raised to $60 per month. The GAO surveyed certain federal agencies in the 25 largest metropolitan areas (those with the worst traffic and air pollution) to see what effect the ability to make use of these subsidies had on federal employee participation in mass transit.

Surprisingly, some agencies did not participate, citing a lack of funds. (Surprising because it is usually the federal habit to force all of its minions to get with the program of the month. Maybe they didn't understand the law.) Others participated to varying degrees—some offering the $60-per month bribe while others stuck with the $21 figure. But, notwithstanding government size and propensity for keeping records, GAO was a tad put out that none of the agencies had any serious numbers to prove exactly what their level of participation was or what effect the subsidies had. Those that did participate took the funds to pay the benefits from the operating funds voted them by the Congress.

The usual reasons for pushing mass transit, preferably using the pocketbook of the taxpayer, are trotted out: It will reduce congestion and air pollution, and save energy. No one thinks to ask whether mass transit subsidies are the only, or even the best, way to do any of these things. It also never occurs to anyone to ask whether, if

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the subsidies have not had the desired effect on the private marketplace (and the GAO offers statistics which suggest that they have not), they ought to be extended to the federal civil service. Never mind the (hardly raised anymore) question of whether or not the people of Utah ought to have to subsidize the cleansing of New York City.

The fact is that the GAO has no idea whether the subsidies are having any effect or not. In a previous report last summer on the subject of automotive emissions, the GAO allowed as how there is no way to tell if the various programs in place to reduce emissions are making a dent in the problem. The results of surveys are too local, the conditions too variable, and the response to the programs too varied. Ditto with mass transit subsidies, though the GAO fails to recommend that the subsidies not be implemented until the facts are known. The agency will go so far as to say that the impact of the employer-based initiatives will not be known until such measures are "measured in conjunction with other measures." (Translation: We won't know whether government coercion works until all of the various methods have been tried.)

Confusion Reigns

But it may be that the answers are not available because they are not knowable. It may be that the GAO is simply saddled with a recalcitrant subject here: The results obtained from polls which measured the pulse of the affected federal workers found that confusion reigns. Those who do not use public transportation claim that it is too far from their home or that it would take too much time. But the surveys also show that ridership would increase if the subsidy were made available. It just goes to show you how much effect the unearned dollar can have.

The GAO claims that the subsidies and other TCMs (Transportation Control Measures—great government term) exist to "level the playing field" for public transportation. For evidence of this the GAO points to those in the survey who claim that they no longer ride in van or car pools since the subsidies became available. People who formerly relied on private mass transit have gone over to the government. Hmmmm: Paying people to leave the private transportation market, which puts the government (and its command of the taxpayer's pocketbook) in competition with private enterprise, is leveling the playing fields. Interesting concept.

It makes sense, and the surveys seem to bear out, that the poorer members of the work force would tend to value the subsidy more. Ridership falls off as income increases, with $25,000 annually the apparent cut off. But this raises a point that the GAO was careful to skip around in its report: Those Americans who can (and it is largely a financial decision) prefer to drive their own cars, everything else being equal. Notice also that mass transit cannot compete for the attention of the commuting public (where there is a choice) without the assistance of the public purse (taxpayer subsidies) to "level the playing field."

There are also those for whom the mass transit systems simply don't work. The polls stated that a huge percentage of federal users of mass transit said that it was very close to their workplace. This would stand to reason since government offices tend to be located in city centers—particularly in Washington, D.C.—the areas mass transit was designed to serve in the first place. But for the commuter going to a workplace in the private sector, the use of mass transit will become increasingly difficult as companies locate away from the troubled cities. It is frequently impossible, and this is true in the Washington area, to get to one suburb from the other on the trains without going to the city first.

But 60 percent of all federal workers surveyed said that they would not ride the mass transit even if the subsidy were offered them. Here is the best evidence there is, after the fact that the playing field has to be leveled by the government on behalf of mass transit, that most Americans prefer the independence of their automobiles. More: Total transit miles have increased while the mass transit ridership fell from 3 percent to

2 percent of the population, according to the Department of Transportation. We are not seeing a groundswell of support for mass transit, even with people being paid to ride it. The Department of Transportation does predict that highway traffic will increase by 65 percent in the next 20 years (more cause for alarm), but it is unclear where they got this number, or what it should mean. The population is not growing very fast any more, and it is aging, suggesting that the number of highway miles might level off or decrease, and that fewer of the miles being traveled will be commuter-type miles that would lend themselves to mass transit. But more importantly, the GAO and DOT seem to be suggesting that the cure for this woe is to step up the subsidy program in hopes of keeping some of those swarms off the road. Are we to conclude that even though the program is having no measurable impact now, it will have when there are more people available to ignore it?

But never mind: The subsidies are in effect anyway, and the GAO estimates that they will cost the aforementioned $8 million to $10 million in 1993 for the federal government's employees alone. It also estimates that it might cost as much as $720 million to subsidize all those in the federal government who might ride the trains. Someone should ask whether fighting the pollution and congestion are worth that kind of spending, particularly when we are being told on all sides that we are in the midst of a financial crisis. And, once more, with feeling: Why spend it if it is not clear that it has any impact?

The facts are: we cannot deduce a linear progression of city-centered, commuter traffic growth over the next 20 years; the government is not necessarily the best organ for determining how best to cope with the problem that we have; the various TCMs in place now are not working and are unlikely to have a larger effect on a population 20 years from now; and the government will find cooperation on the part of commuters easier to come by when it stops trying to coerce them all out of their cars and begins to make it easier and less expensive for them to drive. □

THE FREEMAN
IDEAS ON LIBERTY

What Is a Capitalist?

by Roger M. Clites

Not many years ago rabble-rousers were able to ruin the career of almost anyone by labeling him a "communist." Now there are those who attempt to slander a person similarly by calling him a "capitalist." When we look at all the mischief done by self-proclaimed communists we can see that that term may have deserved to be considered derogatory, although we must admit it was often misapplied. When people use the term "capitalist" in a derogatory manner, however, we question whether they know what a capitalist really is.

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The first tangible act of a capitalist must be self-denial. In order to accumulate capital to save and invest, which is how one becomes a capitalist, one must first refrain from consuming a part of what one has produced and risk losing through his investment what he could have enjoyed at the time. Would those who label others "capitalist" defend their supposed ridicule by decrying the act of self-denial?

Another act of a capitalist is to provide capital goods, tools, and machines, for others to use in their work, so that those others may be more productive. Capitalists are sometimes accused of exploitation when they hire others to use their capital goods. But how are those others exploited if they prefer the employment offered them by the capitalist to any other alternative available? The capitalist did not force them to accept the employment he offered; they accepted it voluntarily in preference to anything they could develop on their own and in preference to anything else available. This is in direct contrast to what the communist or socialist does. In a controlled economy, where the factors of production, including labor, are allocated and forcefully directed by planners, exploitation really takes place.

A capitalist is one whose savings and investments make it possible for others to live above absolute poverty. Without capital with which to work, we would still be living in caves—if we were living at all—and wearing loincloths. Throughout much of history, poverty has been the condition of most of mankind, except for a few rulers who were the real exploiters of their fellow men. Even today poverty is the general condition of a large portion of the world's population. Only in those parts of the world where relative freedom made possible the accumulation of capital have the masses of people attained higher levels of material well-being. Only when and where people were allowed to keep the fruits of their labor to save and invest capital could economic progress take place.

Without the accumulation and application of capital to agriculture the enormous productivity of farmers in the United States could not have been attained. Without the accumulation and application of capital to increase productivity, child labor would still be as widespread in the United States as it is in India where child labor laws have failed to abolish it. Without capital today's women would not have been liberated from the household drudgery which enslaved women of past generations. Modern grocery stores and cookstoves have eliminated the need for spending a whole day at least once a week doing the family baking. Automatic washers and dryers have done away with backbreaking work of drawing water, scrubbing, boiling, and wringing out the family laundry. Wash-and-wear fabrics have substantially reduced the time and toil spent on ironing, first with flat irons that had to be heated again and again on a hot stove, and more recently with electric irons which reduced the toil substantially but fell far short of eliminating it.

We flip a switch instead of chopping wood to heat our homes. Even the equipment used to cut logs today represents a substantial improvement over earlier days. Arduous labor of many kinds has been done away with by the introduction of capital equipment, the use of computers, and the activities of capitalists. A list of the contributions of capitalists would be almost endless.

Sometimes the capitalist is painted as dooming workers to "dehumanizing" toil, monotonous, repetitive work. On the contrary, productivity is so much greater, even in routine work, that workers have far more leisure time to engage in pursuits other than grubbing for a living. Far from dehumanizing mankind, capitalism has enhanced the quality of life.

No matter how you consider the capitalist, he is not the evil person he is portrayed by many to be. Those who presume to malign him by labeling him a capitalist, which he is, should consider what that label really means. A capitalist begins by denying himself consumption he could have enjoyed, undertakes risk, transforms his savings into tools and machines that help to increase production, and so becomes a benefactor of man. □

THE FREEMAN
IDEAS ON LIBERTY

FDA and the Market In Natural Medicine

by Stephanie Hiller

How much government intervention is appropriate in a free market has been the subject of lively debate for many years. This debate is characterized by the inconsistent demands people make on the State. In 1934, Walter Lippmann commented:

> The pure doctrine of non-intervention in production in trade has never, in fact, been practiced anywhere. One could argue plausibly that most men have shown in their behavior that they wished to impose free capitalism on others and to escape it themselves. Employers have believed in it for their employees, and have appealed to it against factory laws and unionism. But they have not hesitated to call upon the State for protection against foreign competitors.
>
> —*The Method of Freedom*

One way people have asked the State to intervene on their behalf is by seeking protection from the sale of dangerous foods and drugs. In 1931, after more than 100 people died from a poisonous solvent used to make the wonder drug sulfanilamide, the Food and Drug Administration came into existence, one of many new arms sprung forth on the body of expanding government. In 1938, despite intense lobbying against it by the pharmaceutical and food-processing industries, the FDA was fully empowered to protect the public against impure and unsafe foods, drugs, and cosmetics by the Food, Drug and Cosmetic Act. Since then, generations of America's children have been taught that consumer confidence in the purity of what it imbibes rests on the strong shoulders of its benevolent guardian, the FDA.

Sixty years later, new legislation was passed to clarify what health claims may be made on the labels of packaged foods. The FDA's proposed regulations for the labeling of health supplements created a tremendous stir. The new regulations threatened to choke the trade in herbs and vitamins. Intense protest by consumers as well as producers revealed that public perception of the FDA had changed. No longer some benevolent jolly green giant, the FDA appeared as the enemy of the public will. And while people protested, powerful interests in the more established medical world gave their unseen support.

Clearly the name of the game has changed. The establishment of government as the largest player in every market (and in every aspect of our society) has alienated the populace and fostered a public cynicism that threatens to undermine the very foundations of our society.

Hence the current move by the FDA is but one aspect of a deeply entrenched pattern in

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our society, and in that context, it raises old and troubling questions about the future of freedom in our nation.

Herbs and Vitamins Enter the Mainstream

Natural, or alternative, medicine has become a $14 billion a year business. Of this substantial sum, over $1 billion comes from the sale of herbs and vitamin supplements produced by American manufacturers, most of them small entrepreneurs who distribute their products through some 5,730 independent natural food stores and 1,598 chains. No longer a small group of off-beat counterculturalists and eccentric health faddists, patrons of such outlets include growing numbers of mainstream Americans who, daunted by the rising costs of conventional treatments, or troubled by their inefficacy in relieving chronic diseases, are seeking other ways to protect or restore their health.

Despite repeated attempts by the FDA to control this growing industry, the sale of herbs and vitamin supplements has remained largely unregulated. Classified as "foods" by the Proxmire Amendment of 1976, supplements could be sold over the counter provided their ingredients were listed on the label and no health claims were made. But when companies like Kellogg's began to claim that high-fiber cereals could prevent colon cancer, some form of regulation appeared to be necessary to allow valid health claims to be stated on the label. Hence the Nutritional Labeling Education Act (NLEA) was passed.

The FDA, the regulatory agency assigned to enforce the law, took this opportunity to clamp down emphatically on the widespread use of supplements and herbs. In its 500 pages of amendments to the legislation, the FDA placed severe limitations on the information that could be printed on their labels, arguing that their efficacy had not been sufficiently attested. But it went even further. The FDA asserted that vitamins in larger dosages than those found in ordinary foods, as well as all herbs not used for seasoning, could be reclassified as drugs. At the same time, it threw out the familiar RDA (recommended daily allowance), replacing it with a lower standard, the new RDI (recommended daily intake). In other words, a product containing more Vitamin C than the juice of one orange (some 75 milligrams) could now be classed as a drug, *available by prescription only.*

Reclassifying supplements as drugs would have a staggering effect on their availability. It costs over $200 million to get a drug approved by the FDA, a complicated process which can take up to ten years. Because herbs have been used traditionally for thousands of years, they cannot be copyrighted, hence profits from their sale would never be sufficient to cover the cost of approval. Drug regulations are so tough that most supplements are likely to disappear from the shelves, and thousands of small companies will be out of business.

Many people rely on the wide variety of substances hitherto available—ranging from the ordinary to the exotic, from garlic extract and rosemary oil to the Chinese astralagus and enzyme Co-Q10. People depend on the ancient gingko leaf to stave off senility; they use echinacea to recover from colds, and Vitamin E to reduce the risk of heart disease. The list is long. Exploring the new realm of herbs and supplements has enabled many patients to cope with chronic diseases like arthritis and lupus, which have not been treatable by more conventional means. Contact and the experience of taking responsibility for one's own health have become part of healing for many people who in the past had passively accepted whatever the doctor ordered. The consumer of natural medicines is typically educated and well-informed; reading the many informative new books about healing, consulting the various types of natural practitioners (chiropractors, naturopaths, herbalists, acupuncturists, and so on), and talking with friends and with salespeople at the health food stores has enabled her (or him) to discover treatments with a wide range of benefits and specific application to the individual's needs.

Hence the proposed regulations generated a flurry of letters exceeding those written in protest of the Vietnam War. Final approval of the FDA recommendations was accordingly delayed another year, until December 1993, in the hope perhaps that the furor would die down. It hasn't. Two new bills that would nullify the new regs were presented to the Congress and thousands more letters have been received. More than 200 representatives and 60 senators have indicated support for these bills. The Senate bill passed through committee this past summer. As of this writing, unless an industry plea for an extended moratorium is granted, implementation of the revised rules will begin.

In accord with its generic role of guardian of the public safety, the FDA has taken great pains to portray itself in the media as the benign protector of a public besieged with "pills and potions" touted as "cure-alls" by "quacks and charlatans." It claims to be merely doing its job, and on the surface, its presentation is convincing to the uninformed. The ancient art of herbalism, and the relatively new use of megavitamin treatments, have become commercialized. Glossy brochures tout their marvelous properties. Certainly inflated claims have been put forth in some advertisements and brochures, particularly in appealing to our senior citizens, encouraging patients to believe they could do without their prescribed medications, with unfortunate consequences. A few schlock companies sell substandard products at inflated prices, with no impartial evaluation or control. Even then, should it be the task of government, through whatever agency however protective and benign, to make the public's health decisions for them?

In any case, the FDA is hardly benign. It has been known to invade doctor's offices in full battle regalia, knocking down the door even when the office was open for business, pulling out phones and removing files at gunpoint. That is what happened two years ago to Jonathon Wright, a Seattle M.D. who used vitamin shots to treat allergies in his patients. In 1990, armed federal agents raided the home and business of Ken Scott, owner of Highland Laboratories in Mount Angel, Oregon, because Scott had distributed reprints of magazine articles informing his customers of the value of newly discovered health aids like enzyme Q-10. Over a dozen stores in the Midwest were raided not long ago for displaying boxes of teas which mentioned "vitality" or a body part ("ColonCleanse") on the label.

"The Arbiter of Truth"

One could imagine a protective agency guarding the public health by monitoring the quality of foods and medicines. But today's Food and Drug Administration is not it. Contrary to the tenor of the Food, Drug and Cosmetic Act which charged it with "protecting the health of the nation against impure and unsafe food, drugs and cosmetics," the FDA has become a crude agency of enforcement, with little or no respect for the intelligence of the citizenry. Said FDA Commissioner David Kessler: "The American public does not have the knowledge to make wise health care decisions . . . FDA is the arbiter of truth." (quoted in *Stop the FDA*, eds. John Margenthaler and Steven Fowkes, p. 83)

This "arbiter of truth" has spread misleading information about the dangers of natural medicines. The truth is, herbs and vitamins are virtually harmless. Herbal formulas have been used worldwide for thousands of years. No one has died from an overdose of Vitamin C or checked into a rehabilitation center for abuse of B-6 or A. The Poison Control Center reports no deaths from any of these substances. On the other hand, many approved pharmaceuticals have been the cause of death (by overdose), insanity (Halcion), or serious addiction (Vicodin is the latest example.)

The fact is, the FDA knows little about the appropriate use of herbs and supplements, and reacts more or less hysterically in the rare instances where they fail. When two people died after using the Native American plant chaparral, the FDA took it off the shelves. "Twenty-five hundred people had used it that year." said herbalist Rosemary Gladstar in a talk at Copperfield's book-store. "If they used the same standards for aspirin, or just about any other pharmaceutical, there would be nothing left on the shelves!" The very idea of plant medicine seems to summon up dark images of witchcraft or charlatanism, or both, in the minds of the FDA agents. In truth, natural medicine is not a cult. "It's a different paradigm," said Roy Upton, head of the Natural Health Care Alliance, in a phone conversation in 1992.

If the FDA's intention was simply to monitor the quality and use of natural health aids, it could surely do so without making them unavailable. The Herb Research Foundation suggested the creation of a quality control board much like the one that exists for cosmetics; the FDA turned it down. Manufacturers have asked for a new category for herbs and supplements such as exists in European countries, where camomile and gingko are sold in pharmacy shelves as "phytomedicines" (plant medicines). That was rejected too.

The proposed regulation of natural treatments therefore raises serious questions about the role of the FDA in monitoring the medicine market. Does the FDA work for us, or is it working to protect powerful pharmaceutical corporations from undesired competition? Have regulations become so cumbersome that they actually interfere with the responsible development of effective treatments? What about our right to choose appropriate medical treatments according to the dictates of conscience and pocketbook? Is the public so foolish that government must make these choices for them? Then who will protect the people from the protectors?

Herbal teas, pills and elixirs, and many of the top quality vitamins sold in health food stores are produced by independent entrepreneurs. They are examples of the very type of independent enterprise which historically has been the lifeblood of the American economy. Traditional Medicinals, makers of herbal teas, was started on the West Coast by three young people who packaged their formulas in brown paper bags and distributed them to stores in a pick-up truck; it is now a multi-million dollar business. Another reliable herb company, Herb-Pharm, was begun by a man growing herbs in his own garden. The people who started these and other companies were motivated by belief in their products, as well as by the profits which provide for their livelihood.

The regulations proposed by FDA will effectively put many of these companies out of business. The stringent qualifications for drug approval, the cost of testing, and the long period of time involved will be deadly to enterprises which have no other product lines to sustain them. The only companies that will be able to handle the new regulations will be the big pharmaceutical giants who are securely entrenched in the medicine market.

The regulations will also likely favor the medical establishment itself, because some herbs and high-dosage supplements will be available only by prescription, hence requiring a visit to the doctor before purchase. Doctors have not been educated in the use of herbs, they do not tend to believe in their efficacy, and they often discourage reliance on supplements. Whether their attitudes are medically more correct will not be argued here. The point is, the current movement towards self-care will be abrogated in favor of the old model of doctor dependency.

Since supplements and herbs may carry no health claims, manufacturers advertise their proper use in the pages of health magazines and mail order catalogues. Like advertisements everywhere, these can be more alluring than informative. Well-informed clerks in stores try to guide customers to the products that will best suit their needs. But by and large, people who buy herbs and vitamins have come to their own conclusions from reading books and magazine articles about their conditions and seeing natural health practitioners who are licensed to perform chiropractic, acupuncture, and other treatments.

The FDA amendments to NLEA specifically state that informational materials about the uses of vitamins and herbs will become illegal. Books about the uses of natural treatments will not be sold in the stores which distribute supplements because these materials constitute claims!

The natural health movement represents an effort by educated people to take charge of their own health. They have become tired of visiting their doctors to get prescriptions for expensive drugs that do not cure their illnesses. Most viruses, for example, do not respond to antibiotics, but some doctors continue to prescribe them. Some patients have discovered that they can beat back colds and flu with echinacea, the purple coneflower that grows abundantly in the United States, or with ginseng and other herbs that stimulate and balance the immune system to do the job it is meant to do. Some have even claimed to benefit from natural herbs and vitamins in the treatment of cancer and AIDS.

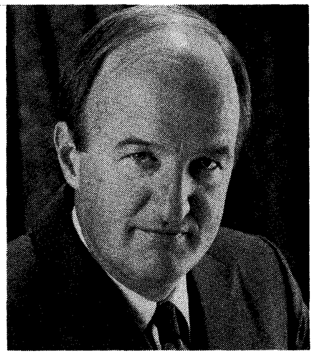
It feels good to take care of oneself. Patrons of natural food stores derive satisfaction from exploring their own treatment modalities. Some work, some do not seem to work as well, but independent people value the freedom to make their own choices and learn their own lessons. Why, then, should government intervene?

An article in the June 18, 1992, *New England Journal of Medicine* quotes current FDA Commissioner David Kessler: "If members of our society were empowered to make their own decisions about the entire range of products for which the FDA has responsibility . . . then the whole rationale for the agency would cease to exist." Kessler's remark is clear confirmation that belief in the worth of the individual in our society has been displaced or superseded by belief in the greater worth of the Agency! This is indeed a sorry state of affairs. Agencies are, after all, but formal arrangements of individuals who have less at stake in the choice of medicines than the individual whose life is on the line—and far less accountability.

Although Lippmann was not opposed to government intervention himself, he cautioned that "the domain of authority should be as limited as possible." It may be fitting to end with Lippmann's concluding remarks:

> . . . liberty is one of the conditions of human progress. Without it the dead hand of the past is forever upon the future, and our present ignorance is the enemy of our increasing enlightenment. No one in his senses supposes that the whole of human activity can be free. But it is the prejudice if you like, the proven faith I believe, of free men that *the domain of authority should be as limited as possible*. And so, even when free men enlarge authority, as in the western world they must, they do it in the knowledge that it is expedient and not glorious, that it is necessary but dangerous, that it is useful but costly. However much they may alter their methods, adapting them to new circumstances, *it will continue to be their base conviction that the state is the servant and not the master of people*. (Emphasis mine)

The FDA's threatened coercive manipulation of the market in natural medicine is, I think, symptomatic of a disastrous trend in American government to do for the people what people prefer to do for themselves. In so doing, it threatens to become the master of a weakened and dependent population no longer capable of directing its own fate and eventually subject to the rule of tyranny. Surely that is not what America wants. □



The Free Market Works Fine, Except . . .

"In health care today, fundamental principles of the marketplace do not apply. Prices are not determined by supply and demand. . ."
—"America's Economic Outlaw: The U.S. Health Care System,"
The New York Times
October 26, 1993

I don't know why I keep picking on *The New York Times* for my column. Maybe it's because it reflects the conventional wisdom of today's policy-makers, which is wrong more often than not about the basic principles of economics.

Late last year, as health care became a national issue, *The Times* ran a cover story contending that America's health care system "operates with almost total disregard for basic economic principles" and therefore deserves special treatment by government. "Prices are not determined by supply and demand or by competition among producers. Comparison shopping is impossible. Greater productivity does not lower costs."

But are medical services really that different from soap, cars, or baseball tickets?

Let's go back to Economics 101 to analyze the health care debate. We shall see that, contrary to *The Times*'s statement, supply and demand are working all too well in the health care industry. On the next page is a graph of supply and demand for product x.

This simple graph teaches us three grand principles which, if followed, will easily explain (and resolve) the health care crisis.

Market Principle #1: Supply and Demand

First is the principle of supply and demand. When supply is free to adjust for changes in demand, prices move quickly toward equilibrium without creating shortages or surpluses. As demand increases, prices rise; as supply increases, prices decline.

Why is the cost of health care rising so rapidly? Two reasons: first, increasing demand from Medicare and Medicaid, which today accounts for 65 percent of all medical expenses; second, restrictions by the American Medical Association on the number of students admitted to medical school and limitations on what services nurses and paramedics are permitted to perform.

Market Principle #2: Non-Discrimination

Second is the principle of non-discrimination. Note in the graph that everyone tends to pay the same price for product x. No matter what your income, religious be-

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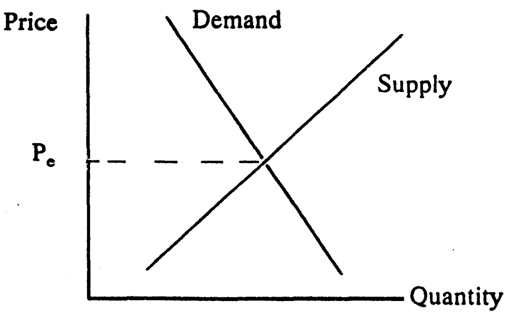

liefs, or color of skin, you pay the same price as everyone else. Republicans and Democrats pay the same amount, P_e, for the same product. So do rich and poor, Christians and atheists, secretaries and engineers. In the free market, as customers compare prices and producers compete, price discrimination is minimized and products are universally available.

Maintaining the principle of non-discrimination in the marketplace is essential. If prices were based on income, there would be little incentive to work harder and earn more income, or for businesses to compete and shoppers to compare prices.

However, this principle is being eroded. Private insurance premiums are still the same for each participant, but an increasing share of medical costs is being borne by taxpayers based on income level. The Medicare tax is now an unlimited tax on income (2.9 percent). The Clinton health plan would make matters worse by making monthly medical insurance premiums a percentage of income, not a fixed amount.

Market Principle #3: Accountability

Third is the principle of accountability. The graph above suggests that you, the customer, pay a specified price, P_e, for each product you buy, or for each unit of service you use. In other words, there is a direct link between beneficiaries and payers. Those who benefit from a service should pay for it. That's a cardinal principle of sound economics. If you buy one loaf of bread, you pay $1. If you buy two loaves, you pay $2.

When people don't pay for the services or products they are using, there is a tendency to overuse the benefits and less incentive to keep costs down. The connection is obvious: If you use a doctor's services, you should pay for them. If you use more, you pay more. And if you use less, you shouldn't have to pay the same amount as someone who uses more.

The principle of accountability is also disintegrating. The link between payers and beneficiaries is breaking down. In more and more cases, Medicare users are not paying the bill, taxpayers are.

Another major source of trouble is the pervasive use of employer-paid medical insurance to pay for even routine doctor visits. When employees know that someone else—the insurance company—is going to foot the bill, there is less incentive to shop around and to limit the number of visits to the doctor or the hospital's emergency room. Fortunately, the insurance companies do attempt to maintain some form of cost control on hospitals and doctor services, but the current system is less than optimal.

Who's to Blame?

The author of the *Times*'s article blames the market for America's health care problems, but the real cause is the government's failure to let the market operate fully. Even employer-paid medical insurance is, in a way, a government creation. High corporate taxes encourage businesses to offer a wide variety of fringe benefits, which are tax-deductible to corporations and tax-free income to employees.

Contrast the health care industry with the dental industry. The dental market does not suffer from the problems facing the medical industry (spiraling costs, bureaucracy, long waits at medical facilities) largely because (1) most dental services are paid for directly by the patient, and (2) the number of dental students is not restricted. These two factors, patient accountability and expanding supply, have worked to keep the price of dental care down. Despite *The Times*'s dire pronouncement, market principles do work.

How to Resolve the Health Care Problem

What should be done to improve the situation? Imitating national health programs in Canada and Europe won't do because they violate market principles. (If you want to know the weaknesses in each country's health care system, analyze each according to the three market principles.) Analyzed according to these three market principles, Clinton's health care plan won't work either. The cost of medical services would vary according to income, beneficiaries wouldn't pay directly for medical services, and a new federal agency would impose cost controls on drugs and other medically related services. The result would be shortages, bureaucracy, higher costs, reduced services, and less research and development.

The solution to the so-called health care crisis is to get government out of the picture. Private insurance would be able to solve the problem on its own through flexible deductibles and co-payment arrangements. This would encourage competition and comparison shopping to control costs, stimulate further medical advances, and encourage preventive care and exercise. The United States would then be re-assured of her position as the nation with the world's best health care system. □

BOOKS

The Ghost of the Little House: A Life of Rose Wilder Lane

by William Holtz

University of Missouri Press, 1993 • 425 pages • $29.95

Reviewed by Bettina Bien Greaves

Rose Wilder Lane was born on December 5, 1886. She was a fascinating person. For most of her life she eked out a precarious livelihood as a free-lance author, journalist, ghostwriter, and novelist. Yet her impact has been much greater than that of run-of-the-mill free-lance authors, journalists, ghost-writers, and novelists. She became an important figure in the libertarian movement.

Rose was vivacious, lively, energetic, adventurous, a fascinating conversationalist, and a brilliant storyteller. A determined individualist, she was a rebel all her life.

Rose was extremely bright and taught herself to read, she says, at three years of age. She rebelled against poverty and the hardships of her childhood. She also rebelled against uninspiring teachers and her formal schooling ended at an early age. She left home at sixteen and was soon supporting herself on $2.50 per week as a telegrapher. She made her way to California where she worked in real estate and journalism and married briefly.

After World War I, she went to Europe for the Red Cross and to the Middle East for the Near East Relief. She found poverty everywhere; Armenia was the worst. Repulsed by the suffering and destitution in war-torn Europe, Rose was attracted by Communism. But in time she rebelled against that too and became what she called a rebel in the tradition of the American Revolution, an advocate of individual freedom. She described her philosophical transformation in a piece in the *Saturday Evening Post* which later gained wide circulation as a booklet, *Give Me Liberty*.

Rose's mother was Laura Ingalls Wilder, author of the beloved series of Little House books for children. It now appears that Rose had much more to do with the success of those books than has previously been acknowledged. Rose had long encouraged her mother to write, and Laura had had quite a few articles published in local Missouri newspapers and farm journals. Then she began writing down her childhood reminiscences. Laura sent Rose her handwritten manuscript and asked Rose to help. As a skilled ghostwriter, Rose took the story in hand, added descriptive material and conversation, fleshed out incidents described, enhanced the narrative, and gave the tale a suitable beginning and end. After Rose had "run her mother's manuscript through her typewriter" in this way, the first of her mother's Little House books, *The Little House in the Big Woods*, was accepted in 1932 for publication by Harper's and named a Junior Literary Guild Selection.

Laura Ingalls Wilder continued her reminiscences. In time there were eight books in the Little House series.* Laura sometimes resented her daughter's help, but she realized Rose was making her manuscripts publishable. All of the Little House books have become bestsellers and they are still kept in print by their publisher.

It took Rose about a year to "run through her typewriter" each of the books that followed the first one. As Rose worked on her mother's manuscripts, she introduced more and more of her developing philosophy of individual freedom. The extent of Rose's involvement became apparent only after Laura donated "her handwritten, fair-copy manuscripts" of several of the books to libraries (the Detroit Public Library named in her honor and the Pomona, California, Public Library) and scholars began to compare Laura's versions with the published books.

Rose's opposition to government intervention strengthened as the years rolled by. She became a strenuous opponent of Franklin Roosevelt's New Deal. Before

**The First Four Years* was published in 1971, after Rose's death, without benefit of her editing.

Pearl Harbor she opposed our entry into the war. During the war, she refused to apply for a ration card, relying on honey for sweetening and canning her own garden fruits and vegetables. She even refused to accept a Social Security number. When a radio commentator asked his listeners for their views on Social Security, she scribbled on a postcard: "If [American] school teachers say to German [Nazi] children, 'We believe in Social Security,' the children will ask, 'Then why did you fight Germany?' All these 'Social Security' laws are German, instituted by Bismarck and expanded by Hitler. Americans believe in freedom, in not being taxed for their own good and bossed by bureaucrats." The local postmaster, reading the message, considered it subversive and notified the FBI which sent a state trooper to investigate. Rose's response was a newspaper article: "What Is This—the Gestapo?"

Rose presented her fully developed freedom philosophy in a book, *The Discovery of Freedom*, published during the war in 1943. It has just recently been republished with a new preface by FEE's President, Hans F. Sennholz. Partly because of this book, John Chamberlain credits her, along with Isabel Paterson, author of *The God of the Machine*, and Ayn Rand as having "rekindle[d] a faith in an older American philosophy." This book also inspired Henry Grady Weaver's *Mainspring of Human Progress*, which is a FEE bestseller.

The freedom message Rose presented through her books has even reached people who don't read. Her novel, *Let the Hurricane Roar*, later republished as *Young Pioneers*, which dealt as the Little House books did with life on the frontier, was dramatized for radio and broadcast with Helen Hayes as the star. The Little House books ran for several years as a television series, starring Michael Landon.

Rose was not only a rebel but a crusader. As she journeyed from Communism to freedom, she used every opportunity to convince others of her particular brand of individualism. She was a prolific correspondent. Two books of her letters have been published: one of those to DuPont's Jasper Crane, *The Lady and the Tycoon*, and the other, just published, edited by William Holtz, author of this biography, of Rose's correspondence with Dorothy Thompson, the prominent newspaper columnist. Economists V. Orval Watts, Jean-Pierre Hamilius of Luxembourg, Robert LeFevre, and Hans F. Sennholz all came under her spell. She also gave LeFevre's Freedom School both spiritual and financial support.

In the course of her life, Rose "adopted" several young men who became protégés. One of these, Roger MacBride, became her attorney, heir, and most loyal promoter. Elected to the Vermont State Legislature, MacBride proposed and argued for legislation to reduce the size of the state government by disengaging the state from a host of enterprises. In 1972, as a presidential elector, MacBride surprised the nation by casting his vote, not for the Republican slate as expected, but for the Libertarian presidential and vice-presidential candidates, John Hospers and Toni Nathan. And in 1976, MacBride himself ran for U.S. president as the Libertarian Party's candidate.

Rose Wilder Lane lived a full and colorful life. She thrived on intellectual challenges. She suffered heartbreak and hardships. She traveled widely. In 1965, under the sponsorship of the Defense Department, she was sent as a correspondent for *Woman's Day* to Vietnam. In 1968, she was planning still another trip—to places in Europe she hadn't seen before. On October 29, she baked several loaves of bread in her Danbury, Connecticut, home and went upstairs to bed. As Holtz wrote, "Sometime during the dark hours just before dawn, her heart stopped." Her pilgrimage was over.

William Holtz, Professor of English at the University of Missouri-Columbia, has done a prodigious amount of research, digging through voluminous files, documents, notes, and letters, to produce a sympathetic, delightful biography of a fascinating, dynamic, and complex individual. □

Mrs. Greaves, this month's guest editor, is resident scholar at The Foundation for Economic Education.

The God of the Machine

by Isabel Paterson
Introduction by Stephen Cox

Transaction Publishers, Rutgers—the State University, New Brunswick, NJ 08903, 1993 • 308+ lvii pages • $21.95 paperback

Reviewed by John Attarian

First published in 1943, when voices raised in defense of freedom were few, *The God of the Machine,* "a study of the flow of energy and the nature of government as mechanism," is both an ambitious and original interpretation of history and a brilliant defense of individual liberty.

For Paterson, "Energy is the medium of life." It cannot be created, but it can be converted into useful forms, by the creative, acting individual. "In the social organization, man is the dynamo, in his productive capacity. . . . He has a faculty for which no equivalent is found in the processes of inanimate nature. He is self-starting, and *he can inhibit himself*" (her italics). Man is "self-starting and self-acting." Paterson's conception resembles the "acting person" at the core of Pope John Paul's endorsement of the free economy.

With individuals as dynamos, economic life is an energy flow; Paterson uses an electrical circuit as a metaphor for the circular flow of production and exchange. For energy to flow, certain institutions are appropriate. "Personal liberty is the precondition of the release of energy. Private property is the inductor which initiates the flow." Paterson contrasts the "Society of Contract" with the "Society of Status." Grounded in awareness of the individual's God-given, inalienable right to life, the former society leaves people free to act, bargain freely, and produce, hence is a prerequisite for prosperity. In the latter, people have no rights, and exist on sufferance, making the Society of Status at odds with reality. "The vital functions of a living creature do not wait on permission; and unless a person is already able to act of his own motion, he cannot obey a command." Hence the Society of Status is "geared to a lower potential of energy than the Society of Contract," resulting in lower economic performance.

Some government is necessary. "Initiative is life itself. Complete inhibition is death. Yet a living creature incapable of inhibiting itself would speedily destroy itself." Limited government, enforcing rights, protecting producers from predators so energy may circulate, acts as the inhibitor—analogous to brakes and governors, which "are set to operate only if the motor and transmission goes wrong. . . .these are not *preventive* controls, but corrective; they are not primary but secondary," e.g., contract laws. Excessive government drains too much energy from the circuit, so not enough gets through to resume the flow, resulting in economic decline; it may even short-circuit the economy altogether.

Three great ideas brought humanity to the Society of Contract: science, law, and Christianity's stress on the individual. They came together in our Constitution, which Paterson interprets brilliantly as a great energy-liberator, albeit flawed by the compromise allowing slavery. But the 14th-18th Amendments disastrously concentrated power in the national government.

Paterson explains money and credit with enviable clarity, and brilliantly explodes the fiat money fallacy. "If it is said that anything will do for money, as long as people accept it, let it be asked, why will not people accept 'anything?' Offer the man who says 'anything will do for money,' a handful of pebbles in payment of a debt." As for inflating bad debt away: "If twenty million bushels of wheat were contracted for, and only ten million bushels existed, there really would not be enough wheat to fulfill the contract; but in that case, nobody would argue that there must be something wrong with wheat as a commodity; much less that the situation could be remedied by calling half a bushel of wheat a bushel. . . . But that is what is done with money in a crisis."

Indeed, one of Paterson's many strengths is her demolition of so much collectivist nonsense: "the greatest good for the greatest number,'' majority rule, ''production for use and not for profit'' (''as if there could be any profit if the product were not used''), public ownership, ''all property is theft'' (''Theft presupposes rightful ownership. An object must be property *before* [her italics] it can be stolen.''), and so on.

Her chapter ''The Humanitarian With the Guillotine'' tackles one of the worst fallacies: coercive compassion. While suffering is part of existence, successful life is the norm. ''Therefore it cannot be supposed that the producer exists only for the sake of the nonproducer, the well for the sake of the ill, the competent for the sake of the incompetent; nor any person merely for the sake of another.'' Paterson upholds voluntary charity by religions, which ''have always recognized the conditions of the natural order,'' and calls for meeting the moral obligation of charity ''out of the producer's surplus. That is, they make it *secondary to production,''* (her italics) since nothing can be given unless produced. And, recognizing the rights of producers, they obtain money by asking, not commanding.

Humanitarians, however, wish to *command* producers, so as to take credit for production. Moreover:

> If the primary objective of the philanthropist, his justification for living, is to help others, his ultimate good *requires that others shall be in want* [her italics]. His happiness is the obverse of their misery. . . . The humanitarian wishes to be a prime mover in the lives of others. He cannot admit either the divine or the natural order, by which men have the power to help themselves. The humanitarian puts himself in the place of God.

This courageous chapter alone is worth the price of the book. It should be read by everyone, especially welfare statists.

Paterson's electrical metaphors are brilliant, but exasperating in their inadequate articulation. The latter flows from the book's major flaw: deficient organization, a forgivable failing in a pioneering work but well-nigh crippling. Since her metaphors are novel and demanding, she should have opened by presenting and explaining her frame of reference, instead of scattering it throughout the text. As it is, the reader must divine her framework in dribs and drabs by piecemeal epiphanies.

Nonetheless, *The God of the Machine* is magnificent. It deserves and richly repays the careful reading it requires. □

John Attarian is a free-lance writer in Ann Arbor, Michigan, with a Ph.D. in economics.

Russian Currency and Finance: A Currency Board Approach to Reform

by Steve H. Hanke, Lars Jonung, and Kurt Schuler

Routledge, 1993 • 238 pages • $49.95 cloth (also available from Laissez Faire Books at $21.95)

Reviewed by William H. Peterson

Once upon a time—in 1959—I propounded, in both *Challenge* and *National Review*, Peterson's Law on inflation, as follows:

History shows that money will multiply in volume and divide in value over the long run. Or expressed differently, the purchasing power of currency will vary inversely with the magnitude of the public debt.

In the intervening 35 years, depending on the country, inflation has forged ahead relentlessly, sometimes quickly, sometimes slowly but always ahead—a 5,000-year-old story of multiplication of monetary volume and division in currency value. So currencies rot and governments rat on their citizens. That was my message.

Today virtually all currencies are unhealthy, but the sickest by far is the Russian ruble. Notwithstanding considerable financial help from Western governments and the International Monetary Fund, Russia suffers rapid inflation—some 15 percent a month since 1991 and recently 20 percent a month. Further acceleration is expected as the Yeltsin government, pressured by its statist parliament, increases lines of credit to its failing state industries.

The authors (Messrs. Hanke and Schuler are with the Johns Hopkins University, Mr. Jonung with the Stockholm School of Economics) worry. At some point, Russian industries will have to fire workers and consumers will have to pay higher real prices for formerly subsidized goods. Political upheaval is in prospect. Write the authors: "It is unclear whether the Russian public will blame the parliament, the executive branch or both for extreme inflation, but whatever the case, the result will be a new configuration of political forces." Question: Is a new Stalin waiting in the wings?

Much depends on Russia's coping realistically with inflation. Inflation is a structural as well as a quantitative problem—too much money chasing too few goods. A price, after all, is but a ratio of money to a particular good. Slow down or stop monetary growth, and you tend to at least slow down or stop the rate of price rise for a broad spectrum of goods.

The question for Russia is: How? Here's where structure comes in. The authors, addressing the Russian authorities, advance a two-pronged program. First, realize that sustainable economic growth underwrites political stability and that such growth is only possible with predictable money, a sound currency that at least reasonably maintains its value from one period to another. Such a ruble would halt Russia's "rush into goods" and "dollarization" of its economy. It would command both domestic and international respect. It would permit saving, investment, foreign trade, and economic growth to go forward.

Then second, with all deliberate speed, convert the Central Bank of Russia into a currency board such as prevails in Hong Kong. A currency board differs from a central bank in key ways. It supplies notes and coins only, while the central bank also supplies bank deposits, especially on behalf of the government. A currency board fixes an exchange rate with a reserve currency such as the U.S. dollar, while a central bank has a pegged or floating exchange rate. A currency board has foreign reserves of 100 percent and full convertibility, while the central bank has variable foreign reserves and limited convertibility.

The point of these and other differences spelled out in the book is that a currency board cannot create inflation while the central bank, usually a creature of a government, often cannot fight off political pressure for inflation. Short-run interests conquer long-run interests, as a painful rule.

And that's probably when the history of currency boards—and dozens are listed in Appendix C in this important volume—shows them to be most helpful but of usually limited duration. The Philippines, for example, had three episodes with currency boards. Besides Hong Kong today, currency board countries include Bermuda, Gibraltar, and Lithuania, though Argentina and Estonia have currency board features. All these countries have relatively low inflation and good growth.

So Hanke, Jonung, and Schuler are unquestionably right and deserve credit. Russian salvation likely lies in sound money and a currency board. The problem is: Do the Russian authorities, for all their large gold deposits, have the vision and courage to adopt them? Peterson's Law, foreboding though it may be, seems to prevail in the end. □

Dr. Peterson, an adjunct scholar with the Heritage Foundation, is completing a book on politics that broadens his original law; it's called Peterson's Law: Why Things Go Wrong.

Angry Classrooms, Vacant Minds

by Martin Morse Wooster

San Francisco: Pacific Research Institute for Public Policy, 1994 • 187 pages • $19.95

Reviewed by John Hood

The education reform debate in the United States has gotten stale. Schools need money, say the teachers' unions and the denizens of the education establishment. Schools need flexibility, say trendy reformers. Schools need parental choice, say many conservative and libertarian activists. There appears to be little understanding on the part of one faction as to what is motivating the others. Arguments often seem *pro forma,* with no attempt at a true exchange of views and information.

To combat the school-reform blahs, I would like to prescribe Martin Morse Wooster's *Angry Classrooms, Vacant Minds,* published by the Pacific Research Institute. Wooster's book carries the subtitle *What's Happened to Our High Schools?,* but in reality his analysis extends down to the primary grades, and deals with issues of concern to parents, educators, policymakers, activists, and other interested citizens. Wooster, a former editor at *Harper's, The Wilson Quarterly,* and *Reason* who writes regularly on education issues for *The Washington Times,* brings a wealth of experience in journalism and public policy research to the subject of education reform.

One reason why we constantly spin our wheels in reform debates is a lack of attention to history—not the academic subject but the actual record of educational change and controversy in America during the past 150 years. Many of the issues we face today, ranging from national curriculum standards and testing to public aid for private schools, have their antecedents in American history. Perhaps the most welcome parts of Wooster's book attempt to fill in these historical gaps. "Political correctness," for example, is only a new word—it's not a new concept. Assaults on the traditional course of study, motivated by ideology and social sensitivity, date back to the nineteenth century. Progressive education is one movement with a long history—Wooster reports that it was "the dominant educational philosophy in high schools" by the 1930s. "All across America," he explains, "reformers told school boards that 'the total life activity' of the child mattered more than what was taught, and that grading was purely mechanistic and did not reflect what the student really learned."

A key concern of many reformers across the political spectrum today is inculcating values in the educational process. They argue that schools must not only impart information but also build character. But we've tried to accomplish this goal before. The Character Education Institute was created in 1911, and later changed its name to the National Institution for Moral Education. This organization advocated school programs to instill values in schoolchildren, and during the 1920s, public school systems across the country introduced character education plans of various sorts. But studies of these early programs concluded that "the character education movement was at best ineffective and occasionally caused students to become more immoral by cheating on good conduct records."

If the goal is for schools to teach lessons about values, Wooster argues, then they should not get involved in designing an elaborate "moral code" to impart to their students. The school's key responsibility is simply to "make their schools decent and humane places where students can be effective and productive." Another solution, he adds, is to include classic works of literature in the curriculum, from which students can learn moral lessons: "Certainly more students have been improved by great literature than by catch phrases."

The most contentious issue Wooster addresses is school choice. Again, he provides the historical background of the idea—remarking that "the voucher is one of the few innovations in education whose founding can be definitely traced" (to Milton Friedman's original proposal in 1955). Surveying the range of policies encompassed by the term choice, Wooster observes that many experiments conducted so far have had limited scope and mixed results. Whether it is charter schools in California, public school choice in Minnesota and Massachusetts, or vouchers in Wisconsin, the clear predictions of both advocates and opponents have clashed with actual results. Students in these programs transfer from one school to another for varying reasons, some bearing little relationship to academic quality. Public school choice, particularly, is a reform that offers only modest potential because of the limited number of choices available. "Public school choice may be helpful in changing the schools," he writes, "but it cannot be a success in a homogeneous, monolithic school system."

Advocates of private education and radical changes in the way public funds are dispersed will find Wooster's conclusion striking: "School choice will not convince parents that education is worthwhile, tell students to do their homework, teach right and wrong, dissolve all red tape, or even ensure that students are as educated as their parents or grandparents. The available evidence suggests that the benefits school choice will provide American schools are more gradual and less dramatic than either friends or foes of the reform contend will take place."

Wooster's analysis of the problems facing American education today, especially when placed in the context of 150 years of "school reform," is both provocative and intriguing. I, for one, would have liked to see some analysis of the *political* dilemma facing school reformers today—particularly the challenge of overcoming the institutional advantages of government monopolists —but perhaps that subject merits its own book. In any event, a reader looking for answers to seemingly intractable problems would do well to begin by reading Wooster's history of school reform. Understanding the past is a precondition for glimpsing the future. □

John Hood is vice president of the John Locke Foundation, a state policy think tank in Raleigh, N.C.

Code Blue: Healthcare in Crisis

by Edward R. Annis, M.D.

Regnery Gateway, 1993 • 278 pages • $21.95

Reviewed by Frank J. Primich, M.D.

Code Blue takes its name from the most common term used by hospital public address systems to signify cardiac arrest. The announcement sends an assortment of specially trained personnel scurrying to the designated site. Modern techniques and technology, when given the timely opportunity, have been highly successful in restoring life.

While *Code Blue* is non-fiction, it certainly can be described as a "whodunit." In fact, the title and cover would be suitable for a Robin Cook medical horror mystery. The protagonist in Dr. Annis's book is the private practice of medicine, which has been declared dead by some of its adversaries. Resuscitation requires an understanding of what has gone wrong, and what can be done about it.

In every field, there is an internal rating system. Ed Annis is the acknowledged superstar of those of us who have pleaded the cause of fee-for-service medical practice and maintenance of the traditional doctor-patient relationship.

The past fifty years have brought miraculous health care advances in life-expectancy and the quality of life. This is often obscured by focusing on misapplied statistics such as infant mortality rates, which reflect harmful lifestyles and socio-economic factors which are beyond the control of the medical community.

The same time span has seen a steady encroachment into the process from a variety of third parties, particularly government. The concept of socialized medicine, discredited elsewhere in the world, has been introduced, through gradualism, to the point where we are now, in effect, semi-socialized. The current proposals for national health care threaten to push us beyond the point of no return.

Code Blue presents a compelling analysis of the chameleon-like nature of the socialistic forces. Each time they are rebuffed, we see the same individuals coming back with the same agenda, wrapped in the banner of their "new" politically correct organization.

Annis ably explains the difference between insurance, which is normally designed to protect against unexpected misfortune, and prepaid health care that prevails today. He shows how the added costs associated with third party intervention, while huge in and of themselves, are effectively doubled by the added costs of doing business on the part of the providers of service. The inequity of current standards of malpractice and product liability is exposed for the costs engendered, but more critically for the progress forsaken.

The flaws in the British and Canadian systems are reviewed, and a chapter is devoted to the half-truths of liberal press and media. The largely unjustified doctor-bashing is also addressed. The highlighted cases of fraud and abuse have predictably arisen from the impersonal paper-based nature of third party payment, which offers irresistible opportunities to the unethical.

My favorite portions are the examples of the way things were in the "good old days." Most doctors, under age fifty, have little comprehension of what has been lost.

To anyone unfamiliar with the famous Annis-Kennedy "debate," in May 1962, the intrigue involved and the parallels to the contemporary political maneuvering should be interesting. Under the auspices of the National Council of Senior Citizens, orchestrated by the AFL-CIO, Madison Square Garden was filled with 18,000 elderly supporters of the King-Anderson (Medicare) bill. President John F. Kennedy was scheduled as the principal speaker. His speech was to be carried live and free by all three TV networks.

The AMA asked for equal time, but was refused. They were able to buy time on one network for the following evening. They arranged to rent the Garden immediately following the spectacular presentation, with balloons, banners, and assorted debris still strewn among the now entirely empty seats. Against that background, Ed Annis stood alone and made his impassioned plea. It was estimated that 30,000,000 people, at or near a record for that era, witnessed the speech. The response was phenomenal. The AMA and legislators were deluged with supportive calls and letters. King-Anderson failed to pass! To find out what happened next, you'll have to read the book.

After Dr. Annis has detailed what has gone wrong, he concludes with a chapter that offers the only true logical solution: a return to the free market. Dr. Annis recommends the plans of the National Center for Policy Analysis and the Heritage Foundation. Both plans put the patient back in the driver's seat, demand equity in income tax treatment, and promote Health Savings and Health IRA accounts. The author leans toward the NCPA plan because of its "comprehensive simplicity and logical consistency."

I recall, less than five years ago, sitting at a table in Dallas with Dr. Annis, and Drs. Francis Davis, Frank Rogers, and Jane Orient, while John C. Goodman sought our support for his fledgling NCPA. The prestige that this conservative/libertarian think tank has acquired in such a short time should offer hope to those who worry about the seemingly overwhelming forces arrayed against us.

It may be wishful thinking, but I sincerely believe that if Ed Annis attained access to the talk-show circuit, there is no telling what might happen. He has already proven once that the sincerely spoken word can sway the masses. Given the opportunity, he might once again be our savior. □

Dr. Primich is a private practitioner of obstetrics and gynecology in West New York, New Jersey.

Man and Nature

The Foundation for Economic Education, Irvington-on-Hudson, New York • 1993 • 221 pages • $14.95 paperback

Reviewed by Raymond J. Keating

Environmentalists would have us believe that free individuals interacting in the marketplace destroy the environment. In fact, such radicals view man as intrinsically hostile to the environment. Unfortunately, much of the public, most of the media, and a majority of elected officials in the United States, seem to have accepted this myth as truth.

Man and Nature provides a valuable antidote to this perverse view of man and his environment. FEE has assembled some of the best essays published in *The Freeman* over the years that addressed environmental issues. And as many of us have come to expect from this monthly journal, these essays present well-reasoned and persuasive arguments from a free-market perspective.

The issue of property rights lies at the very core of most environmental debates. Michael W. Fanning's outstanding essay "Attack in the Adirondacks" documents the destruction of property rights—and a way of life—by New York state government in the Adirondacks. Similarly, Paul D. Kamenar provides a case study of the federal government's flagrant enforcement of the Clean Water Act against an individual in Morrisville, Pennsylvania.

In addition to drawing attention to the dangerous whittling away of individuals' property rights, *Man and Nature* offers numerous examples of how the enforcement of private property rights and reliance on the marketplace can solve current environmental problems. For example, Elizabeth Larson's essay, "Elephants and Ivory," illustrates a means of saving Africa's elephants from extinction. When the Zimbabwe government "transferred the responsibility for elephants from government and wildlife agencies to the farmers and herdsmen on whose land the elephants live, the elephant population in Zimbabwe grew by 5 percent a year, according to Zimbabwe's Department of Wildlife." The critical point is that "[f]armers and herdsmen in Zimbabwe own the elephants roaming their lands." Now, a big-game hunter buys a permit from a nearby village in order to shoot an elephant. Larson notes: "The hunters—by giving the rural Zimbabweans a reason to consider the elephants creatures of value instead of dangerous pests—play a vital role in Zimbabwe's elephant management program."

After reading this book, one gains an appreciation for how the breakdown of English common law regarding property rights—especially during the Progressive Era—translated into environmental woes. Thomas J. DiLorenzo, in his entry "Why Socialism Causes Pollution," tells the reader of two fundamental lessons derived from environmental degradation: "First, it is not free enterprise per se that causes environmental harm; if so, the socialist world would be environmentally pristine." He continues: "The heart of the problem lies with the failure of our legal institutions, not the free enterprise system. . . .The English common law tradition of the protection of private property rights—including the right to be free from pollution —was slowly overturned. In other words, many environmental problems are not caused by 'market failure' but by government's failure to enforce property rights. . . .Potential polluters must know in advance that they will be held responsible for their actions."

DiLorenzo's second lesson, and a fundamental point emphasized throughout this book, "is that the plundering of the environment in the socialist world is a grand example of the tragedy of the commons." That is, where there is no owner, there exists the inclination to abuse or deplete.

Among the many other notable essays are George Reisman's and Robert James Bidinotto's entries. They provide in-depth criticisms of the philosophies that undergird the environmental movement.

In fact, *Man and Nature* tears down the foundations upon which the environmental movement rests. Myths surrounding socialism, overpopulation, animal rights, waste disposal, and much more are obliterated. The notion that government action is the only answer to environmental problems is not only refuted, but supplanted with proof that government action has generated many of these problems. *Man and Nature* illustrates that even in the case of the environment, a free market—with secure property rights—works best for everyone. □

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

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
OCTOBER
1994
VOL. 44
NO. 10

540 **Ending Welfare as They Knew It** *by Gerald Wisz*
A private group run by committed volunteers made real changes in a dependency-causing welfare program.

543 **Grassroots Mentors** *by Robert L. Woodson*
Personally-involved volunteers are helping neighborhood youngsters make wiser choices.

545 **What Makes Entrepreneurs Tick?** *by Gary S. Williams*
Profiles of entrepreneurs in southeastern Ohio show that perseverance is the key.

550 **Beyond the Invisible Hand** *by Haven Bradford Gow*
The Golden Rule is a necessary foundation for modern business.

551 **Ideas and Consequences: "The Immigration Problem"** *by Lawrence W. Reed*

553 **School Choice for Inner-City Kids** *by Timothy P. Ehrgott*
Private philanthropy gives inner-city parents educational choice without burdening taxpayers.

555 **Foreign Aid the Voluntary Way** *by Menlo F. Smith*
An American volunteer group gives a hand up to entrepreneurs in developing countries.

557 **Good Intentions Under the Microscope** *by Thomas A. Hyatt*
Congress's attempt to improve clinical laboratories has lowered quality while adding to costs.

559 **A Firm Hand Up for Street Addicts** *by Phil Boerner*
In Denver, a private voluntary group helps those who are ready to help themselves.

561 **Sour Days at the Lemonade Stand** *by Ted Levinson*
Government regulation threatens to squeeze even the simplest businesses.

563 **The Befriending Volunteer: Octavia Hill** *by Peter Clayton*
The nineteenth-century English reformer who championed personal, voluntary methods of social improvement.

565 **Some Philanthropists Turn Their Backs on Voluntarism** *by Kimberly O. Dennis*
The grant-giving foundations have all too often acted to strengthen government programs at the expense of voluntary groups.

567 **Zsa Zsa and the Litigation Explosion** *by Ralph R. Reiland*
Growing legal restrictions on behavior are stifling creativity.

569 **Time to Smarten Up Rather than Dumb Down** *by Philip Perlmutter*
The quest to improve standards through measures of achievement is being compromised by bending the rules for favored groups.

571 **Uncle Sam's High-Priced "Volunteers"** *by Jill K. Cunningham*
The government buys the illusion of a youth volunteer program—while undermining the ethic of voluntarism.

573 **Correction, Please! I'm All for Free Trade, But . . .** *by Mark Skousen*

576 **Book Reviews**
John Chamberlain reviews *Free Markets, Free Men* by George C. Roche III; *The Virtue of Liberty* by Tibor R. Machan, reviewed by J. E. Chesher; *The Downing Street Years* by Margaret Thatcher and *The View From No. 11: Memoirs of a Tory Radical* by Nigel Lawson, reviewed by Raymond J. Keating; *Facing Up: How to Rescue the Economy from Crushing Debt and Restore the American Dream*, by Peter G. Peterson, reviewed by John Attarian; *American Democracy: Aspects of Practical Liberalism* by Gottfried Dietze, reviewed by William H. Peterson.

THE FREEMAN
IDEAS ON LIBERTY

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PERSPECTIVE

Better Than Snake Oil

This issue of *The Freeman* emphasizes voluntarism and voluntary solutions to public problems, a topic of great interest to friends of limited government.

When people have a problem to solve, they tend to reach for anything. When we're ill, for example, there's no limit to the remedies some of us are willing to try. Even drinking snake oil can seem better than giving up and doing nothing. Many government programs are adopted on this same basis. Their promoters know that they have failed in the past, but they support them saying, "we've got to try something."

The logic may be weak, but the sentiment behind it has a powerful appeal. The human race is a problem-solving species. If there are public problems to be addressed, people are likely to want to tackle them. If government is the only problem-solving system they see, then they will go on using it, decade after failed decade. The conservatives and libertarians who advise them not to will get no credit for saying "I told you so." They will go on being ignored.

The natural, obvious problem-solving system for those who object to the coercion of the state is voluntarism. Voluntary groups can do—and are doing!—almost everything government is trying to do, and they can do it more sensitively and more efficiently. Friends of liberty needn't be marginalized as ineffective naysayers. Holding high the banner of voluntarism, they can be the real problem-solvers.

It behooves us to learn about the voluntary sector, to understand its prospects, and to take our places as donors and participants in voluntary projects in our local communities.

—JAMES L. PAYNE

Guest editor for this issue, James L. Payne, is director of Lytton Research and Analysis in Sandpoint, Idaho. He is the author of Costly Returns: The Burdens of the U.S. Tax System, *and is writing a book on voluntarism.*

Voluntarism's Personal Touch: A Letter from Octavia Hill

Voluntarism is more than a principle. It also incorporates a style of leadership, a way of approaching people and their problems. If you are not going to use force to get people to reform, it tends to follow that you will have to approach them in a friendly manner in order to persuade them. Voluntarism is therefore a sociable, sensitive method of reform: the exact opposite of the impersonal, bureaucratic methods of government.

One who emphasized this personal approach was Octavia Hill, the nineteenth-century English reformer. As Peter Clayton describes in this issue's article about her, she was instrumental in founding a number of voluntary enterprises in the social welfare field. In the 1860s she began a program of low-cost housing and social uplift based on personal contact between tenants and the manager. As a housing manager herself, she played the role of befriender, always looking for ways to guide tenants to happier lives. She brought them flowers, arranged outings, set up drama groups, and established a savings program for them.

Her method of "friendly visiting" was copied in housing projects in other countries, including the United States. The following excerpt from an 1880 letter to a fellow-worker in Philadelphia is an eloquent statement of the importance of personal involvement in programs of social uplift. The document was unearthed in the Temple University Library by researcher Tina Hummel.

Tell your fellow-workers from me, will you? how much interested I am to hear of what they have done and are doing. I am satisfied that visiting, such as I gather you have established, which brings those of different classes into real, friendly relations, must in time help to raise those who are fallen low in any sense of the word; from wealth, little can be hoped; from intercourse, everything. That is to say, everything we have to give seems to communicate itself to those we love and know; if we are true we make them truthful, if faithful, full of faith; if earnest and energetic, earnest and energetic; while they give to us whatever they excel in: patience, energy, hope, industry.

It is only a gradual process, but it is a sure one. Human intercourse in God's own mercy, seems appointed to be the influence strongest of all for moulding character. What we strongly desire to see those we work among become; what we ourselves struggle to be, that or something nearer to it, in time, they will be; and as poverty, drunkenness, dirt, and many other outward evils spring from character, so we can only really teach them by moulding character; first our own, and then insensibly and gradually those of our friends, poor or rich, and submitting in turn to learn from them in all in which they are greater or better than we.

Thus and thus only can we help one another, and your systems and our systems are valuable just in so far as they bring loving and helpful people among those who suffer or sin, and enable the different powers developed in different classes of people to tell on one another. From the beginning of the world it has been so, and we shall find no other way to save and to help. What we are in our homes, our shops, our markets, our school, our whole lives, that we shall be among our poor.

You who seem to have succeeded in developing regular visiting to a great extent, may be happy in remembering that it means the human intercourse, help, and friendliness which will lighten, cheer and purify many a home. I am sure you will scorn all systems if ever they become mere routine, and will feel that each visitor is bound to throw into the regular work the utmost amount of fire and heart, that your wisdom must be penetrated with tenderness, and your mercy far seeing in its wisdom.

THE FREEMAN
IDEAS ON LIBERTY

Ending Welfare as They Knew It

by Gerald Wisz

Broadway Presbyterian Church, located in uptown New York City near Columbia University, has always had a place in its heart for the poor people in its community. That's why the church started a soup kitchen in 1980. The indigent, many of whom were drug-addicted and incapable of holding down a job, would come to the church to eat.

As time passed, other organizations—including student groups at Columbia and nearby Union Theological Seminary—also volunteered at the soup kitchen. Before long up to 250 people were eating lunch in the church's basement every day. It had become a sprawling volunteer enterprise. But even its most ardent supporters began to realize something was missing.

Chris Fay, a sexton at the church, and Bill Stewart, one of its members, were among the people at Broadway who felt frustrated with the soup kitchen concept. As the program ballooned, they noticed how the people who frequented the church's facility came only to continue in their self-destructive habits. Lunchers made no visible attempt of using the meals to sustain them until they could afford to feed themselves. For them the soup kitchen had become yet another entitlement; if anything it helped subsidize their dependency.

Aiming for Self-Reliance

In 1990, Stewart came across "The Miserly Welfare State," an article by Marvin Olasky in *Policy Review*. Olasky showed how the problem with the welfare state is not that it spends too much on the homeless, but that ultimately it does not—and cannot—spend enough. Minimal stipends and perfunctory bureaucratic counseling are about all the welfare state can provide a growing dependent population. These, Olasky wrote, are poor replacements for personal acts of charity that encourage self-reliance. Charity, as earlier philanthropic organizations understood but contemporary ones have largely forgotten, emphasizes practical measures that help people help themselves.

Impressed with the article, Stewart made copies to circulate among the church's board of elders. "The article put into words what many of us were feeling for a long time but couldn't quite articulate or conceive of doing ourselves," said Stewart, who is partner of a shipping-insurance business in midtown. "The responsibility model, instead of the welfare model, is where we knew we had to migrate."

Migrating wasn't easy. The church was divided over the issue, and compromises

Mr. Wisz is a financial journalist in New York. He also works as a volunteer with the National Reform Association assisting church groups in setting up job readiness programs for the homeless.

Members of the Street Smart team at Broadway Presbyterian Church.

were made, but in the end most agreed a different approach was needed. The soup kitchen was kept, but with the understanding that it would serve as a gateway to a responsibility-based program for those wanting to change.

Opposition came early from the Presbyterian denomination of which Broadway was a part. The regional and national officers of the Presbyterian Church (U.S.A.) have drifted into a preoccupation with political correctness. Part of Broadway's new plan was Street Smart, a program wherein men visiting the church for food agree to sweep the sidewalks along storefronts on upper Broadway for a minimum wage. If they show up for work on time, stay off substances, and cooperate with the program director, they get raises in 25-cent increments. There's also an opportunity for promotion to supervisor. Visiting presbyters from the denomination condemned the program as "racist" since participants are black.

Summoned before the presbytery, program organizer Chris Fay didn't even have to defend himself. John Sligh, one of the Street Smart sweepers, stood before the assembled clergy and elders—many of whom were also black—and told them how the program had taught him the importance of self-sufficiency, which gave him back his self-respect. "He told them we, through the program, probably saved his life," Fay reported. "They didn't have a lot to say after that." Today the New York metropolitan presbytery is among Street Smart's largest financial supporters. In operation for two-and-a-half years, Broadway's program has received only a few thousand dollars of public funds for an art therapy project. The rest is financed by private giving from within and outside the church.

Rewarding Responsibility

The soup kitchen changed. Now fewer people are fed each day, and the church actively encourages visitors to volunteer in preparing, serving, and cleaning up after meals. If they do so, they get food to take home. If their help continues with some consistency, they get a stipend. Like Street Smart, the kitchen volunteer program also provides avenues for raises and advancement.

There is a Bible study—distinct from Broadway Community, Inc., the nonprofit umbrella organization that runs the program—where participants receive spiritual nurture. The Bible study, like other aspects of Broadway's outreach, is purely voluntary. If there are serious problems like severe drug addiction, however, participants are referred to a city agency.

Broadway has worked with 15 people this year, and of these Moira Ojeda, the program director, said she thinks "seven are going to make it." Two already have jobs outside the church program. Last year, one received his commercial driver's license and is now driving a truck full time.

Participants in the program draw up a "covenant" with Ojeda. They list goals, what they plan to do to accomplish them, and report to Ojeda periodically to review their progress. The covenants are signed, and are expected to be kept. "Once progress is made in achieving a goal, and reported to me and the group at large, we move on to the next one, which is built on the previous one," Ojeda said. What state welfare office, even with all the "two-years-and-out" talk, does this?

Teaching responsibility step-by-step has worked. The numbers are small, but the change in lives seems permanent. But Bill Stewart is not too concerned about the numbers right now.

"While we're sure we won't succeed with everyone, we're sure we'll succeed with many," he said of the two-and-half year-old program. "We're not trying to solve society's problems, but we're trying to develop a model that succeeds with people willing to make a change in their lives—to lift themselves out of alcohol, drugs, degradation, and despair and come back into a community of family, friends, and the working world. If we can point to this and say that it works, we'll spread it as wide and as far as we can." □

The Meaning of Life

IDEAS ON LIBERTY

Without a basis for love, respect, and friendship, the needy person is soon regarded as a puppet or a millstone around one's neck. Unless it is voluntary, even a mother's love in caring for an invalid child cannot exist. Aged persons and others who have come to depend for their survival upon the state's power of confiscation become merely numbers in the confused statistics of political bureaus. Statistics and bureaus have the capacity for neither love nor charity.

—LEONARD E. READ, "Victims of Social Leveling," 1953

THE FREEMAN
IDEAS ON LIBERTY

Grassroots Mentors

by Robert L. Woodson

Albert Einstein once gave us this simple maxim: "A problem can never be solved by thinking on the same level that produced it." The crisis that now exists throughout the nation—most acutely in inner-city districts and other low-income areas—demands a new level of thought, beyond the policy talk that has, in part, created the problem.

We are facing no less than the demise of the civil society of our nation. From a staggering rise in violent crime to a steadily rising rate of teen pregnancies and rampant drug abuse, we are witnessing the effects of the erosion of our country's sustaining moral foundation. News stories inform us that these trends toward civil disintegration exist within all economic strata. However, they have taken the greatest toll in our poorest communities, which lack the buffers of economic security and other elements of stability that exist in middle- and upper-income areas.

Government's "response" in low-income areas has been to create a gargantuan bureaucracy of programs and agencies whose goal is to treat the effects of poverty rather than to boost the poor to self-sufficiency. Yet, if we have learned anything from a thirty-year, three-trillion dollar experiment in such damage control, it is that no combination of programs and policies has the power to eradicate these problems. Policy analysts on all sides are aware of this. As a friend of mine once remarked, "There are two types of people: Those who think the programs aren't working and want to reform or terminate them, and those who think the programs aren't working and want to expand them."

The motivation of those who wish to expand government efforts is not difficult to discern, given that various programs make up what is now a multi-billion-dollar poverty industry which absorbs a full seventy percent of all funds designated to help the poor. Yet those who would terminate a system that has been unproductive or counterproductive must also rethink their options. To say that we should cease our conventional response to poverty should not mean that we should do nothing at all.

Changing Personal Values

We must face the fact that the greatest problems that besiege our nation are, at their root, the result of behavioral choices made by individuals. In the words of a former Washington, D.C., health commissioner: "Thirty thousand blacks and Hispanics die needlessly every year because of the chances they take and the choices they make." The fact that so many young people make these tragic choices is evidence of the absence of a clear set of principles and morals that should guide their decisions. Rebuilding a foundation of values is the key to reversing the trend toward social disintegration.

The capacity to restore constructive values does exist. In the same neighborhoods

Mr. Woodson is president of the National Center for Neighborhood Enterprise, a voluntary organization that promotes inner-city self-help projects.

that are most afflicted, there are individuals who, in spite of facing the same odds, have led their lives in accordance with a clear set of values and principles. Throughout the nation, hundreds of such mentors have proven the power of positive example. Their daily lives are a witness to such values as honesty, respect for life, personal responsibility, and sacrifice. In a public-housing development, for example, one resident has forgone meals to purchase thrift-store toys to equip the safe-house she has created for children of her community. On streets ridden with gang warfare, a man walks day after day, seeking youths who will respond to his call for an end to violence. These neighborhood leaders have raised up young protégés who, in turn, perpetuate a personal outreach to others in the community.

Social workers and therapists employ strategies such as environmental modification or chemical treatment to change the behavior of their clients, yet the results are nearly always temporary. Recent reports have revealed that the recidivism rate for detainees at boot camps (which many pols have celebrated as an "answer" to youth crime) is as high as 60 percent. After treatment at a high-cost therapy center in a New York resort town, one youth who had previously killed a cab driver simply "walked," returned to Washington, and committed a second murder just blocks away from his first.

Grassroots leaders are committed for the long run and are not concerned with "perishable" solutions. Their goal is nothing short of conversion. Through continual effort and consistent example they have reached the hearts of those they serve, changing the way they view their lives and the world. One case in point is a drug-abuse program coordinated in San Antonio, Texas, by a former drug addict, Freddie Garcia, which has redirected the lives of more than 13,000 substance abusers—most of them hard-core addicts with addictions that had lasted for as long as twenty years. For these individuals and their families, it was clear that Freddie, not Freud, held the answer.

No Time to Turn Away

As inspiring as such grassroots champions may be, their accomplishments have not come easily. The traditional neighborhood-based institutions of support have not been held in a pristine state throughout three decades of government experimentation. The functions of stabilizing community entities have been undermined by policies that have, in effect, rewarded social deviance, creating, through their regulations, an environment that has actually been hostile to such practices as saving, work, and family formation.

Those who advocate the termination of government programs for low-income people say cavalierly that they should rely on the agents of support that have traditionally served the poor—families, churches, and neighborhood associations. Having spoken, they often simply wash their hands of the situation and turn away. The knowledge that grassroots activists can succeed where government programs have failed comes with a corresponding responsibility to support the neighborhood leaders who can effectively address their communities' problems. This is not a time for benevolent non-intervention.

If we can catalyze a reversal of the social disintegration in our most afflicted neighborhoods, our nation as a whole will have hope of renewal. For the strategies and principles practiced by activists in inner-city neighborhoods can be adapted to communities of all income levels. Recently, for example, a wealthy colleague confided that when his own son became addicted to drugs, although teams of therapists and professionals could do nothing to help him, a simple grassroots leader was able to reach him and help him to turn his life around.

Reclaiming our culture is a spirit-based science, and its laboratories are the community-based initiatives that are, even now, bringing health where there was once only distress. We simply cannot afford to sit passively, ignoring our responsibility to those who are at the vanguard of revitalization. □

THE FREEMAN
IDEAS ON LIBERTY

What Makes Entrepreneurs Tick?

by Gary S. Williams

It seems it has always been hard times in southeastern Ohio. When the glacier stopped just short of the region several million years ago, it defined the economic future. It left the region with beautiful hills, but there was a flip-side to this blessing. The hills broke up the landscape so that only small-scale development was possible. Consequently the region has lagged behind economically, even though it was the first part of the state to be settled.

Hardship to one, however, may represent opportunity to another. It is true that unemployment rates have been high in the region, particularly now that many of the natural resource-based industries are in decline. But some enterprising individuals have seen this as a place of unfettered possibilities where a lack of restriction and a welcoming of any enterprise makes it a place where dreams can come true.

The entrepreneurs profiled here have succeeded through the strength of their own merit and initiative without outside help. In fact, they have overcome bureaucratic obstacles in the pursuit of their vision. And while their stories are regional in character, the principles involved are universal.

Zoned Out of Cleveland

For sportswear manufacturer Alan Marcosson, southeastern Ohio offered an unhindered opportunity to pursue his dream. Marcosson, 43, is the owner of Good Stuff sportswear. He moved to Woodsfield (Monroe County) in 1985, after his home-based mail-order business was turned in for a zoning violation in suburban Cleveland.

Alan got into sportswear because of a lifelong talent and passion for bicycle racing. The Amateur Bicycle League of America named him Best-All-Around Rider in 1971, and he just missed making the Olympic cycling team in 1972. Many serious bicycling enthusiasts wind up in bicycle-related jobs, but Alan jokes that, "I decided I was going to try and be normal." After graduating from Michigan State with a degree in engineering, he took a job in electrical engineering. "It was fascinating for about ten minutes," he says of the job, "after that the biggest problem was staying awake." He quit after three months.

He next found employment at a ski shop, where he taught cross-country skiing and sold equipment. He was not overly fond of this job either but it gave him time to race and he concedes that he "learned about retailing and the business picture" from this experience.

Alan began making his own cycling clothes for races and found he had a knack

Mr. Williams operates a bookmobile service in southeastern Ohio.

for it. In 1976, he started making clothes for others as a hobby, liked the feeling, and soon expanded his efforts. In 1980, he was able to quit the ski shop, although he still had to go back seasonally for a few years. He might have gone on this way indefinitely except that an overzealous neighbor noticed the UPS van making frequent fabric deliveries to Alan's apartment and turned him in for violating the zoning law.

City officials told Alan he had four weeks to get out or quit his business. He rented a storefront in Cleveland, but paying two expensive rents for his home and business was a losing proposition. Alan saw himself faced with a choice of "downtown or way out in the country."

In 1985, Alan relocated to southeastern Ohio. While visiting relatives in the region, he had been impressed by the hills that offered a vigorous challenge to bicycle training. He also found that the economic climate was receptive to his entrepreneurship. He was able to purchase a house with a five-year mortgage just two blocks from the county courthouse, with no restrictions on working out of the home. A recently closed shirt factory had left a large pool of skilled laborers.

Since the move, his business has grown steadily to the point where Good Stuff sportswear now employs 13 full-time workers and expects to gross a half-million dollars in sales this year. The community has welcomed Alan and he returns the favor by sponsoring races and tours that bring people to the area.

Of his livelihood Alan says, "There's nothing else I'd rather do. I've never handled authority figures very well, but with customers, you're on an equal footing. And selling something that you did gives more satisfaction than a paycheck. A lot of the time I forget the purpose is to make money—the doing it is the most important thing. Free trade is at least more immediate and tangible and certainly more gratifying than anything I've done. I'm not sure whether fact follows philosophy or vice versa, but I'm doing what I do because I could figure out no other way to do it."

Bringing a Farm Back to Life

What Launny Kramer wants to do is make his 170-acre farm in Washington County "virtually self-sufficient." Kramer, 40, grew up on a farm in eastern Ohio. He believes his rural upbringing was "the driving force" that brought him back to the land, but his plans took a circuitous route.

After high school, Launny enlisted in the Navy, where he spent several years, including a tour of duty in Vietnam. A specialist in helicopter electrical repair, he found work in Philadelphia after leaving the service. There he and his wife, Lucy, started a family that eventually grew to nine children: eight sons and a daughter.

But city life didn't suit the Kramers and they found it difficult to find anyone who would rent to such a large family. In 1988, they purchased a rundown farmhouse near Lower Salem on land that hadn't been farmed in thirty years. Launny had left a lucrative field to move to a region of high unemployment, a risk since regular income would be needed to get a farm operable. But with Lucy's encouragement, he made the leap.

Launny found work as an independent coal truck driver, but a series of over-weight citations and major repair problems made this a losing proposition as the truck was often off the road. He was between jobs when Lucy, pregnant with their ninth child, developed complications that required medical attention. Health clinic officials assumed the Kramers were on welfare and were surprised when Launny said he would pay the bills himself. Their reaction was to accuse the Kramers of child endangerment and to threaten to take custody of the children unless the family went on public assistance.

The incident left Launny with a bitter aftertaste. "We brought these children into the world and we were going to take care of them," he says. "The threat of being forced to accept welfare was a scary proposition—government intervention at its very worst. They want to get people dependent on them and take away their means of making it on their own. They just justify their existence by making regulations. You know, sooner or later, a parasite will kill its host."

What saved Launny from public assistance was finding a job as a replacement worker at Ravenswood Aluminum. The West Virginia plant was embroiled in a bitter strike and was hiring to replace striking workers. Launny took this dangerous assignment and when the strike was settled after 20 months, he was one of the replacement workers who was kept on. Returning strikers have been hostile to Launny—his tires were slashed a few months ago —but he shrugs it off. "I wouldn't be any better off if they liked me," he says, "and I want to work there until the farm is paid off."

When the discussion returns to his farm, Launny becomes animated as he describes his plans. The jobs he hopes to create are for his children. "I want to diversify for however many of my sons want to join in." Currently he has beef cattle, corn, and fruit trees, and has plans to get into aquaculture and dairy farming. He would like to have a partner who will put up venture capital in return for a slow but steady rate of return. As he says, "With a partner, it would go faster if I didn't have to be the artist and the backer at the same time."

Launny thinks of farming as a creative undertaking. "It's like poetry," he says, "taking a place that's almost dead and bringing it back to life. I came here with a certain amount of faith that I could do it, although there were periods of doubt." He likens his experience to that of novelist Tom Clancy, who has said that the only reason he was successful in his writing career was that he didn't know it couldn't be done. "You have to make your opportunities and be willing to pioneer a path," Launny concludes. "I came here with the intention of farming full-time, but I knew it would take a long time. But I'll be virtually self-sufficient in time and I know I can do it."

A Birdbath for Indoor Plumbing

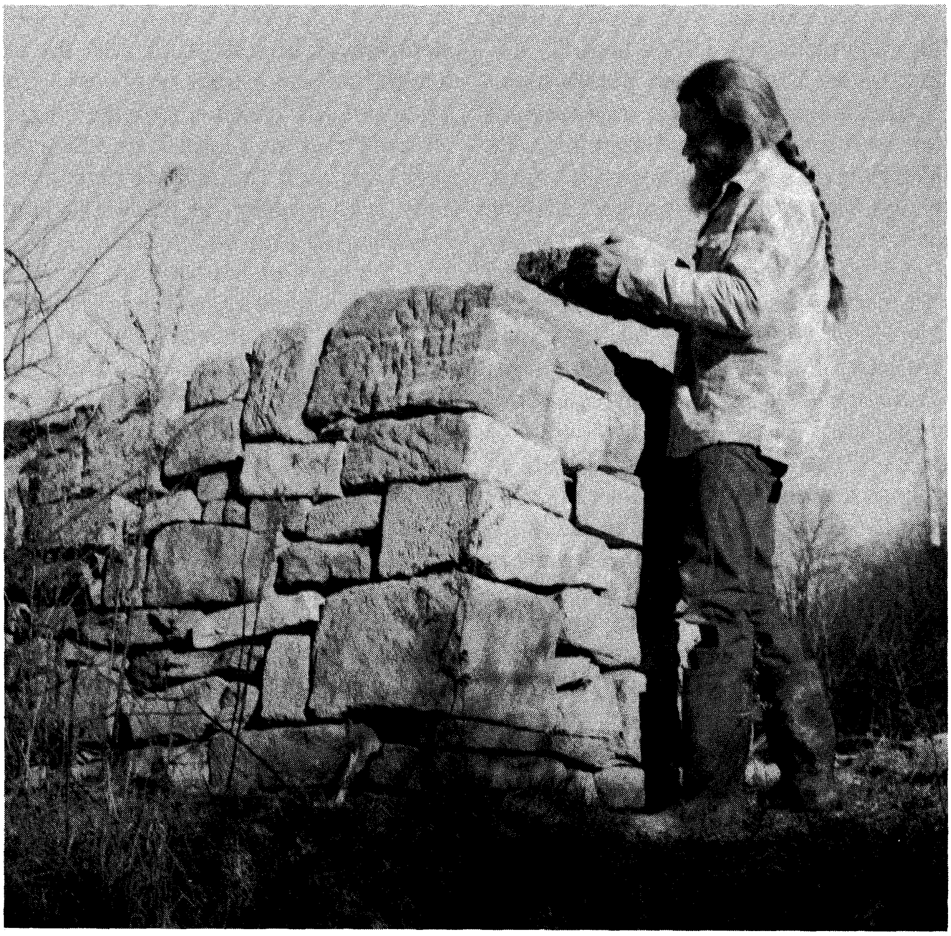
Ron and Debbie Pruitt relocated to southeastern Ohio in 1980 to pursue a self-sufficient lifestyle. Ron quit his job as a steelworker in Cleveland and the couple bought a 53-acre tract in Monroe County. They got the basement of their log cabin covered over on Thanksgiving Day the first year, and with the help of neighbors they soon became adept at gardening, canning, hunting, and firewood cutting.

In the spirit of Thoreau, the Pruitts made themselves wealthy by keeping their wants few. But they needed cash for such expenses as their twice-yearly shopping trip for bulk groceries. Ron found employment in a government-sponsored job training program but found the experience distasteful. He left the program vowing, "If I couldn't do better than that on my own, then I'd starve."

Ron and Debbie then became chimney sweeps, which gave them a seasonal income. But it was while building his own chimney that Ron discovered his true calling. He became fascinated with stone work, and with the aid of an antique stone mallet purchased at a flea market, he began sculpting. His first effort was a sandstone birdbath that took nearly 200 hours to complete. It won a prize at a local craft show and sold almost immediately.

Since then, Ron, age 39, has gone on to different kinds of stone and varied subject material. The self-taught artist has come to specialize in mythic figures and has recently completed a mermaid and a dragon. Ron's larger works sell for several thousand dollars and he is busy enough that the couple's chimney sweeping days are over. Their finances are still precarious and subject, of course, to the vagaries of the art marketplace. But in the past few years the Pruitts have been able to purchase a Harley-Davidson motorcycle for Debbie (to match Ron's), and they have installed indoor plumbing in their home.

The Pruitts have made some sales to public agencies but generally disdain grant money and most government projects. Ron maintains that bureaucrats will "buy modern art with government money but they wouldn't put it in their back yard." Debbie puts it more succinctly: "People know what's good and they buy quality."



Sculptor Ron Pruitt selects a stone from his stockpile.

Just Do or Die

The spirit of entrepreneurship is not limited to people moving into the region, as Dean Carpenter of Washington County illustrates. He is the owner of Carpenter's Woods, a wooden toy-making business he started after he lost his job as a coal miner.

When Carpenter, 38, was hired in the mines in 1975, he was told his job would last until retirement, but he observes that "from the way they operated, I knew it couldn't last." When he was laid off 12 years later, the operation he worked for had shrunk from 1,600 employees to fewer than 200.

While he was employed in the region's largest industry, Dean had indulged his hobby of woodworking by purchasing a table saw, band saw, and other equipment. He had made wooden toys and even sold a few to Hallmark. When he lost his job and inquired about unemployment benefits, he found out he was already considered a business and could not receive unemployment unless he sold his wood-working equipment.

Looking back on this, Dean observes, "I wasn't ready to be laid off—no one is—it's just do or die. But if they'd have given me unemployment, I might have gotten fat and lazy, so I never signed up for anything. It kinda made me mad then but now I wouldn't go back to the mines if they called me."

So Dean chose to support his wife and four children with his own business. He soon discovered that "there's a big step between crafting and manufacturing—between tinkering and making a living. I just had to learn things that nobody could tell me."

Dean set up shop in a former one-room

schoolhouse on his property and at one point was making 140 different kinds of wooden toys. To market his products, he rented storefront space in the nearby river town of Marietta. Business was precarious, for the most part, but during Marietta's big Sternwheel Festival, over 8,300 people passed through his store and he sold out of wooden boat toys. This led to his decision to specialize in boats and to sell directly to gift shops. His biggest customer now is the Delta Queen boat line.

Today, Carpenter's Woods no longer has a storefront, still has difficulty getting financing, and is down to three full-time employees from a high of five. But as he finishes an order of 140 boats that are to be shipped to New Orleans the next day, Dean Carpenter announces, "I'm gonna stick with it."

What makes an entrepreneur? As these profiles show, part of it is having a dream, and another part is fighting city hall. But perhaps the most important—and business schools haven't found a way to measure it—is willpower, sticking with the dream against the odds. □

THE FREEMAN
IDEAS ON LIBERTY

Beyond the Invisible Hand

by Haven Bradford Gow

Ken Chang, manager of the 7-Eleven store in Mt. Prospect, Illinois, recently made a courageous decision that is costing him money. Because he has moral objections to gambling, he has removed his store's lottery machine and no longer is selling lottery tickets. A few years back, Mr. Chang also courageously removed from his store all pornographic publications, even though his move costs him an estimated $10,000 per year in income.

According to Robert Stuart, chairman emeritus of the National Can Corporation and past president of the Chicago Crime Commission, companies and corporations exist not simply to make profits; the owners, managers, and employees of a business also must contribute to the betterment of society. Employers and employees must exercise moral and social responsibility and practice such values as courtesy, kindness, honesty, decency, moral courage, justice, fair play, and the Golden Rule of treating others the way we would like to be treated.

Dennis McCann, professor of religious studies at DePaul University in Chicago, echoes Stuart's observation. "Religion definitely has a role in business," he states. "In fact, it is essential. There is no set of economic organizations that are not ultimately dependent on religious values."

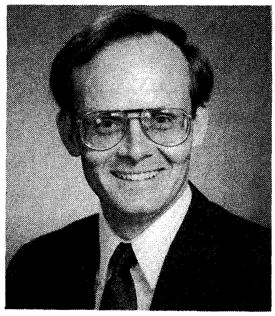
Father Oliver Williams, co-director of Notre Dame's Center for Ethics & Religious Values in Business, also insists that a business can be morally and socially responsible and, at the same time, make a profit. He declares: "Companies are still in the position to think of religion and ethics as well as keeping employees paid. It's still possible."

In December 1993, Joe Tonos Jewelers in Greenville, Mississippi, placed an advertisement in the *Delta Democrat Times* which set forth its business and ethical principles. The advertisement affirmed:

> We further pledge to you in the years to come the following: To do our share in promoting all activities that are for the good of this community; to conduct ourselves in a professional manner and perform competently at all times; to deserve the patronage of this community by rendering service based upon the highest standards of truth and honor; to earn, establish and maintain a reputation for giving maximum values at a fair price; to render prompt and efficient service to our customers; to adjust promptly any cause of dissatisfaction and endeavor to make every purchaser a satisfied customer; to advise every customer in regard to each purchase as we would wish to be advised were we the customer; to make every transaction a stone in the foundation of confidence, without which no business can be permanently successful.

The cause of business ethics is under a lot of pressure these days. Government regulators assume that businessmen are narrowly selfish, and this assumption, in turn, tends to encourage self-serving behavior, a philosophy of "if the government doesn't catch me, anything goes." It is time we realized that laws cannot force ethical behavior; high standards come from an inner commitment to honesty and fair dealing. □

Mr. Gow is a free-lance writer and English teacher who lives in Arlington Heights, Illinois.



"The Immigration Problem"

A rising tide of anti-immigrant feeling is washing over America, leaving in its wake a misinformed public and the potential for harmful new laws. Many Americans seem to be thinking, "I'm glad my grandparents made it over from the old country, but now that we're here, let's shut the door to any more of those foreigners."

People opting to come to our shores is a generally positive development; in fact, it's what made it possible to carve this great country from a wilderness in the first place. The lessons of free immigration may be drowned out by a host of current concerns, but they are as real and vital as ever.

In a widely acclaimed 1989 book entitled *The Economic Consequences of Immigration*, University of Maryland Professor Julian Simon demolished virtually every fallacy of the seal-the-borders mentality. He proved that immigrants do not subtract from the total number of available jobs, are net contributors to the public treasury, do not commit more crimes than natives, and generally work harder, save more, and are more likely to create businesses than native Americans. All things considered, newcomers add wealth, culture, and human capital to the economy.

Simon has demonstrated that immigrants are really not the huddled masses, helpless and dependent, that many people think. Instead, they are usually young and vigorous adults with excellent earnings potential. His detailed studies show that on balance, even accounting for all public welfare and other government "social service" costs imposed by our homegrown nanny state, each immigrant still contributes far more than he "takes" by being here.

In a 1990 *Wall Street Journal* article, Simon made another point worth repeating. The foreign-born population in the United States today is only about 6 percent—less than the proportion in such countries as Britain, France, and West Germany, and "vastly lower" than in Australia and Canada. We are not a nation of immigrants. We are a nation of the *descendants* of immigrants.

People are only economic problems in systems which deny them the ability to be enterprising, to use their talents and ambitions to produce more wealth than they consume. Systems that encourage sloth and idleness with generous public welfare transform people—natives as well as immigrants—into dependents who subtract more than they add to the economy and society. What often is perceived as a crisis of immigration is really a crisis of our own politicized and half-socialized economy, which attracts some foreigners because of the subsidies it grants rather than with the opportunities for self-reliance it offers.

Sometimes, American *foreign* policy has generated the very waves of immigration that so many in our government lament. In

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Dr. Reed, economist and author, is President of The Mackinac Center for Public Policy, a free market research and educational organization headquartered in Midland, Michigan.

recent months, far more Haitians fled their country for our shores because of an American trade embargo against Haiti than fled because the military dictatorship targeted them for persecution. (After all, Haiti has almost *always* had a military dictatorship but when its people starve because of embargoes, they have to go *somewhere*.)

In any event, it seems self-evident to me that of the many pressing problems facing America these days, none are caused by immigration or immigrants. Foreigners didn't impose on us an expensive state education monopoly that doesn't educate; red-blooded Americans did. A Congress that can't balance its own budget at the same time it attempts to micromanage every aspect of other people's businesses is not made up of Haitian boat people. It wasn't Korean-born shopkeepers who set fire to downtown Los Angeles in 1992.

The case for free immigration today is strongest when it is coupled with the general argument for a free society, private property, and individual rights. I can think of no better way to illustrate this than by a personal example.

A Model Citizen

While visiting the Soviet Union in 1985, I met and befriended a young man named Constantin. In subsequent correspondence and during later visits I made to his country, he expressed to me an intense desire to make America his home. A naturally enterprising, optimistic, and self-reliant individual, he chafed at the endless inhibitions of the socialist system. Wanting to help him, I assisted in his eventual journey to America in 1991. He arrived on my doorstep with his wife and five-year-old son and within weeks requested permanent asylum.

Constantin's values precluded the acceptance of any government benefits. He even enrolled his son in a private, Christian school. A local church helped him get off to a good start with donations of clothing and food. As his sponsor, I did all I could to help as well. Though it wasn't easy for him—he bounced from one low-paying job to the next—he never let a productive opportunity pass without seizing it. While we waited to hear if his request to stay would be granted, he managed to earn enough to buy a house and became a highly regarded model citizen.

Only a few months ago, the bureaucrats in Washington notified him that yes, he could stay in America and eventually even become a citizen of this country. He was grateful, but I was angry. The same government that gave us the permission we all hoped for, I thought, could just as easily have denied it. Frankly, I didn't think it should have been any of the government's business.

Keep in mind that Constantin was not a burden on anyone. He never put in a claim for something at someone else's expense. He acquired nothing except by his own efforts or by voluntary charity. He or I or the church or others interested in his welfare made sure he had what he needed. He trespassed on no one's property, posed no threat or danger to anyone, even paid taxes to support a school system he didn't patronize. He was an obvious net contributor to our community and no one who knew him thought he should be held hostage to the whims of some bureaucrat or to any legislated immigration quota.

What rightful claim over the disposition of his life could the U.S. government possibly have? That *anyone* could force him to vacate the country and get away with it was, to me, an unthinkable invasion of *his* individual rights and of *my* freedom of association. Fortunately, that didn't happen, but it *could* have, and it *does* happen to others all the time.

Most Americans think that freedom means the government gets to tell us who can come here and live with us. Even many Americans who believe strongly in free trade in *goods* can't quite bring themselves to embrace free movement of *people*.

De-socialize society and the immigration "problem" resolves itself into a great blessing for us all. Foreigners will come—the best and hardiest of them—because of the abundance of opportunity a free society represents. □

THE FREEMAN
IDEAS ON LIBERTY

School Choice for Inner-City Kids

by Timothy P. Ehrgott

There is a report that the U.S. postmaster general responded to a call for privatizing the postal service by mailing a stern rebuttal to the offending group's headquarters, a block away in Washington, D.C. The letter arrived eleven days later. We face a similar irony in education. "A Nation at Risk," a much-cited 1983 report, called for major reform in the way our country educates its children. Eleven *years* later, the public education establishment has yet to deliver.

In August 1991, a private group in Indianapolis, Indiana, decided to address the education problem by focusing on low-income students trapped in the government-run, inner-city schools. This effort, now emulated in ten other American communities, offers a challenge to those who have put their faith in routine reform efforts around the country.

The Indianapolis program is a voucher system free of government interference, devoid of bureaucracy, and virtually bereft of rules. It's the Educational CHOICE Charitable Trust of the Golden Rule Insurance Company. It pays one-half a student's tuition, up to $800, to any legally operating school of the family's choice in Marion County. The program is open to any student who qualifies for the federal reduced-price lunch program and who resides within the Indianapolis Public Schools district. CHOICE makes no judgments on curriculum or academics. If a child is good enough for the school and the school for the family, CHOICE cuts a check to the school each month on behalf of the student. End of our involvement.

No Tinkering at the Edges

As a business, Golden Rule has a natural interest in improving the quality of education in its community. The company had received several suggestions for action in the education field, including an offer to endow a chair at the alma mater of its chairman, J. Patrick Rooney. And there were plenty of other reform options open to companies: adopt-a-school, legislative reform, donations of computers, teacher awards. However, none of these routes addresses the systemic problems at the core of our education dilemma. Spending resources on tinkering at the edges did not appeal to Pat Rooney and Golden Rule.

Instead, the company looked for a way to confront the system by using something every business faces every day: competition. The educational system would not dramatically alter its operations if Golden Rule had "adopted" a school. But it might if confronted with a loss of its clients!

Mr. Ehrgott is Executive Director of the Educational CHOICE Charitable Trust, located at 7440 Woodland Drive, Indianapolis, Indiana 46278.

Privately-funded tuition grant programs in the United States

Cities with programs now underway:	Cities with programs set to begin 1994–95:
Albany, New York	Dallas, Texas
Atlanta, Georgia	Houston, Texas
Austin, Texas	Los Angeles, California
Denver, Colorado	Midland, Texas
Detroit/Grand Rapids, Michigan	Oakland, California
Indianapolis, Indiana	
Little Rock, Arkansas	
Milwaukee, Wisconsin	
Phoenix, Arizona	
San Antonio, Texas	Source: The National Scholarship Center
Washington, D.C.	Washington, D.C.

Many parents in the Indianapolis area already enjoyed school choice. The growth of the surrounding suburban school systems meant that those with the financial means could select one school over another—by moving into its area. Those without the ability to move were left behind in the central city with its declining test scores and rising violence.

That struck Golden Rule as inherently unfair, with young people's futures being decided by accident of birth. The way to rectify the situation was to give the left-behind families the means to exercise options beyond their reach. Once they could walk away from their schools, then perhaps the system would listen to them.

There is evidence that CHOICE is having an effect. Two months after it started, the city school district announced its intention to develop a limited choice plan of its own, called Select Schools. It was adopted in the fall of 1993, to mixed reviews, but it means parents do enjoy a bit more freedom in deciding their children's futures.

Competition works, and it leads to good things. It works so well that ten days after CHOICE announced the availability of 500 grants, 750 students were signed up. In spring of 1994, the third year of operation, 1,100 children were enrolled, and more than 800 students were on the waiting list. In addition to the students in Indianapolis, CHOICE-style programs have sprung up in other communities across the country, including a $2.4 million program beginning next fall in Los Angeles.

Trusting Parents

Opponents of school choice have questioned parents' commitment, whether they are "qualified" (i.e., smart enough) to make choices, and if they even care. What we have found through CHOICE is that poor families want the same things for their children as other parents: a good education and a promising future.

The families have been telling us at CHOICE how important it is to have two factors present in a school. Values are the first point. The families want to know that what they are teaching the children at home is being reinforced by the school. And, sadly, safety is the second factor. Many of the CHOICE parents did not feel their children were safe in their previous schools. Now they believe they are.

Perhaps the parents understand education better than most of the experts. Without values and without a safe environment, good education cannot occur. □

THE FREEMAN
IDEAS ON LIBERTY

Foreign Aid the Voluntary Way

by Menlo F. Smith

Over the past forty years, billions of tax dollars have been funneled into foreign aid programs. Such efforts have usually been more counterproductive than useful, a result that led one of the deans of Third World development to observe: "There are two things wrong with foreign aid; one, it's foreign and two, it's aid."

Sizable portions of these funds have been siphoned off by those in positions of power, adding to their already prolific personal plunder. Little if any has found its way into the hands of those at the grassroots—the informal economy where the majority of those in developing countries struggle to eke out a livelihood. Such funds as have reached this level have more often produced dependence than self-reliance. It should come as no surprise that bureaucratic efforts to "help the poor" have met with so little success. The poor are usually that way because they are poor in spirit. The state deals in power and control, not freedom and inspiration, two absolute requisites for human progress.

People generally will put forth physical or mental effort only when there is reasonable hope that their condition will be improved as a result. The impoverished of the Third World have little reason for such hope. They are usually confronted with a number of dispiriting and discouraging barriers, including large-scale graft and corruption, lack of entrepreneurial know-how, absence of credit, mistaken traditions which squelch individual initiative, and a pervasive notion that success in life is determined by luck and connections rather than by personal effort. All serve to deprive them of the freedom of thought and action so essential to their progress.

It was against this background that a small group of American businessmen with experience in developing countries joined together in January of 1990 to establish The International Enterprise Development Foundation, a 501(c)(3) non-profit organization more widely known as Enterprise Mentors.

The Foundation is guided by the philosophy that "a hand up, not a hand out" is the only way to benefit those who lack adequate sustenance. Nothing is given away. Some price, however modest, is always charged for materials or services, to help establish value for services rendered. More important, this preserves the self-respect of those served, a critical requirement if self-reliance is to be achieved.

The program focuses upon encouraging sound business practices by training and mentoring the owners of small-scale enterprises. Emphasis is placed upon the principles of free enterprise, including building of individual responsibility, initiative, and leadership. Also stressed are adherence to moral principles and obedience of the law.

Enterprise Mentors strives to make the program indigenous through the establish-

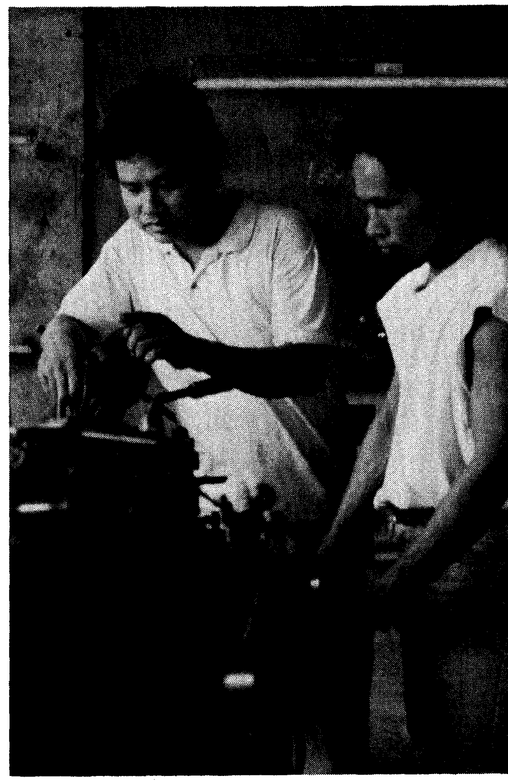
Mr. Smith is chairman of the Sunmark Capital Corporation in St. Louis, and one of the founders of Enterprise Mentors, located at 510 Maryville College Drive, Suite 210, St. Louis, MO 63141.

ment of local operating foundations in the host countries. The first such foundation, Philippine Enterprise Development Foundation (PEDF), is headquartered in Manila and has its own staff and Board of Directors composed of many respected Filipino business and community leaders. PEDF works with a wide variety of businesses. Most have fewer than ten employees and many have only one or two. A second foundation has been established in Cebu City in the central Philippines, and a third in Davao City in the southern area.

Success Stories

When Reggie DeAro became involved with PEDF to develop a machine shop in December of 1990, he brought with him determination and training as a machinist. Through PEDF Reggie and his wife, Linda, received training and consulting assistance to help them devise a system for developing sales prospects and to establish accounting procedures, marketing, production, and management plans. The DeAros have now acquired land, built a sizable shop, and employ nine other people. In only three years sales have increased more than sevenfold. As a result, ten families are now more self-sufficient, and the DeAros have gained the skills and self-confidence to enable them to serve as community leaders and role models.

Another PEDF client, Vilma de los Santos, a mother of four, was struggling to augment her family's meager income by knitting blouses, baby dresses, and other garments on a small knitting machine, receiving about eight pesos (24 cents) per garment as a subcontractor. With help from PEDF she was able to obtain a small working-capital loan, and become formally registered as a business. PEDF then helped her develop contacts with major retailers, to whom she now sells directly. Vilma now has five employees in her business who earn fifty pesos ($1.50) per garment. Six families are now better able to meet their financial needs because of her entrepreneurial initiative.



Enterprise Mentors client Reggie DeAro (left) in his machine shop.

The DeAros and Vilma de los Santos are only two beneficiaries of Enterprise Mentors Philippine operations, which have so far helped to create nearly 1,200 new jobs in this poverty-plagued country. Because each employed person supports an average of four additional people, the lives of nearly 6,000 individuals have been assisted in achieving greater financial security. This number will continue to grow. Plans are underway to expand Enterprise Mentors into a number of other areas including Brazil, Central America, Mexico, and Africa.

Guided by the scriptural admonition to "do unto the least of these," to feed the hungry, clothe the naked, and help the impoverished of developing countries to help themselves, the people of Enterprise Mentors and their private voluntary financial supporters (no government funding is accepted) are making a real and lasting difference in the spiritual and material lives of those whom they serve. □

THE FREEMAN
IDEAS ON LIBERTY

Good Intentions Under the Microscope

by Thomas A. Hyatt, D.O.

In 1988 Congress passed a law called The Clinical Laboratory Improvement Act (CLIA), an attempt to improve the quality of laboratory testing done by doctors and hospitals. Although there is always room for improvement, I'm not aware that there was a major problem in this area. Most labs were already doing their own quality controls and internal checks.

It has taken six years for the federal Health Care Finance Administration to implement new regulations, with false starts, trial balloons, and very poor communication to the individuals and laboratories affected. But they are now here, and quickly making their presence felt. Here is one example of how the new regulations have affected private-practice doctors.

CLIA divides all laboratory tests into three categories: low complexity, moderate complexity, and complex. Most doctors will do only low or moderate complexity tests in their offices, while complex tests are usually done in hospitals and reference labs. Now with CLIA, one must pay for permission to do any lab testing. This permission is in the form of a certificate, paid for every two years, and includes a "request" from the lab for an inspection of its facilities and procedures. One must now pay for permission to do what was being done before CLIA, and then pay for an inspector to come and make sure that it is being done according to government standards.

There is a major price break between low and moderate certificates: it costs $100 for permission to do low complexity tests in a lab, whereas it costs $800 for permission to do moderate complexity tests. This price break has become a major point of contention for many private doctors for one reason: strep screens. Strep screens are one of the most common tests done in a doctor's office, but have been classified under CLIA as "moderately complex." The test is now so simple that almost anyone with average manual dexterity and common sense can learn in five minutes how to do it. In fact, the procedure is identical to many of the "low complexity" tests, with one major difference, something called "the extraction phase." This is CLIA's term for the process of swabbing a patient's throat with a Q-tip, to obtain a small sample of mucous. It is felt that this step makes the strep test "moderately complex." The decision to thusly categorize strep tests has come under severe criticism, but so far bureaucrats of the Health Care Finance Administration refuse to budge.

A colleague of mine has become upset with this whole situation, and has vowed to stop doing strep tests in his office, rather than pay the additional $700 for permission to do so. So now, if a patient of his needs a strep test, the specimen is sent to the hos-

Dr. Hyatt is a family physician in Payson, Utah.

pital lab across the street, where it is tested in the "complex" certificated lab there. The interesting point is that now when my colleague needs a strep screen done, he *continues* to have his nurse do "the extraction phase" (i.e., swab the patient's throat with a Q-tip), then the swab is transported to the hospital. The patient is sent home and told to await a phone report on the results. What is done in the hospital is the extremely simple part of the test, but the hospital charges more than if it had been done in a low complexity lab, and rightly so, since they have to pay more for the permission to do such "moderately complex" procedures.

So, what has been the net effect of CLIA regulations on strep screens in my colleague's office? They now cost twice as much, take ten to twenty times longer to complete, and create a delay and inconvenience for the patient and doctor. Hence, they *decrease* quality of care overall, while increasing costs. Do they accomplish their ostensible purpose of improving quality of the lab tests? Not at all! If anything, the delay, and transportation of the specimen, probably decrease the accuracy of the test.

Perhaps eventually, administrators will catch up with this problem, and devise new regulations to try to prevent it. Probably they will require that my colleague's nurse be classified as a hospital employee, and require her to go through an expensive training and certification process, along with mandatory increases in paperwork, documentation, wages, and benefits. A private physician such as my colleague would then logically take steps to try to limit his losses, as much as he legally can, and the whole bureaucrat-entrepreneur dance/struggle would begin anew, in an ever-tightening downward spiral towards greater government control and poorer, costlier health care. □

THE FREEMAN
IDEAS ON LIBERTY

A Firm Hand Up for Street Addicts

by Phil Boerner

Of the chronically homeless in America, about half are single men with addictions to drugs and/or alcohol. Most agree that these homeless addicts ought to be helped; the question is how. The prevalent solution is governmental: the federal government's entitlement programs and local government shelters. An examination of the philosophy behind these programs reveals the flaw in government's method.

The federal government classifies alcoholics and drug users as disabled by their substance abuse, and thus unable to work. This definition labels the homeless addicts as victims of an illness. As a result, more than 250,000 addicts collect disability payments—$1.4 billion last year—through the Social Security Administration. Addicts are presumed to buy shelter and food and seek treatment with the money, which averages $434 a month (plus additional state benefits).

In effect, however, the entitlement is a reward for being addicted, and it therefore encourages continued addiction. This well-intentioned entitlement program allows addicts to buy drugs and alcohol with taxpayer dollars. Sometimes checks are sent directly to bars that allow addicts to run up a tab. That the government subsidizes addiction is bad enough. What's worse, this drug program also kills! When disability checks come on the first day of every month, addicts binge on drugs or alcohol—sometimes with fatal results.

On the local level, states like Colorado require that anyone publicly inebriated be provided the opportunity for shelter, counseling, and medical evaluation. In Denver there are shelters like Denver CARES, which receives $1.7 million from the state to pick up and detoxify street addicts. Each addict is given food, drink, and bed for the night, and offered long-term treatment in a rehabilitation program. Again, addiction is being reinforced. Nearly half of these addicts reject treatment and are released and picked up again another night. Many of those that do pursue treatment are set up for dependency on government agencies in place of dependency on drugs or alcohol.

Requiring Personal Change

There is a better way, an approach aimed at developing personal responsibility. In Denver, this model is being implemented by a privately funded shelter called Step 13. Founder and director of the program, Bob Coté, holds that homelessness and addiction are the result of choices made by individuals, and they should be held accountable. If addicts refuse to make an effort to reform, he feels, help is no help. But if they want to get their lives together, Step 13 is ready to extend a hand.

Mr. Boerner is a graduate student in English at California State University in Sacramento.

The Step 13 philosophy is to expect something of the clients, in contrast to the government-funded approach. Residents at Step 13 have to give up drinking, submit to regular urine tests, work or go to school full-time, and pay rent of $125/month. They buy their own food, cook, and clean up for themselves. Step 13's goal is to allow addicts to take control of their lives, which begins with breaking their dependencies.

The shelter, founded in 1983, houses 100 men a night, who stay as long as they need to—a year or more—if they follow the rules. Step 13 provides addicts with shelter, counseling, and drug- and alcohol-abuse treatment. It is staffed by former addicts, like Coté himself, who understand the pitfalls of street life and recognize the need for firm direction.

Step 13 makes a point of accepting no government funding. The shelter generates over half of its own income through the rent it collects from clients and from a community recycling program it operates (which also provides some of the jobs for clients). For the rest, Step 13 relies on voluntarism and philanthropy. Nearly 100 volunteers assist operations. One local cancer surgeon has for six years been the program doctor, giving every client a free physical. "That's how we survive," says Coté. "By the kindness of others." Coté is proud to operate with a budget of around $300,000. He estimates that if he tried to set up the same program with government help, it would cost over $2 million because he would be required to meet government mandates for academically trained personnel.

A 1990 study found that 35 percent of Step 13's clients succeeded in getting their lives straightened out. Coté is not claiming to solve all the country's homeless problems. Defenders of the prevailing programs will say that addicts will die on the streets without the government programs. Yet addicts are dying now, as Coté points out, with government help! "Show me a government handout, and I'll show you something that encourages irresponsibility," he says. No drug rehabilitation program for the homeless can work that does not require personal change. Without individual responsibility, human dignity and well-being cannot be restored. □

Peter Boettke and Steven Horwitz Honored by Mont Pelerin Society

Dr. Peter J. Boettke, a *Freeman* Contributing Editor and the Guest Editor of our May 1994 issue, was awarded first prize in the Mont Pelerin Society's F.A. Hayek Fellowship Essay Contest for his essay, "Hayek's *Serfdom* Revisited: Government Failure in the Argument Against Socialism." Dr. Boettke teaches at New York University.

Dr. Steven Horwitz, who teaches at St. Lawrence University, Canton, New York, wrote the second-prize essay, "From the Sensory Order to the Liberal Order: Mind, Economy, and State in the Thought of F.A. Hayek." Dr. Horwitz made his *Freeman* debut earlier this year, with a book review in our May issue and an article on commercial banking in July.

Both Boettke and Horwitz presented their papers at the Mont Pelerin Society's General Meeting in Cannes, France, last month.

THE FREEMAN
IDEAS ON LIBERTY

Sour Days at the Lemonade Stand

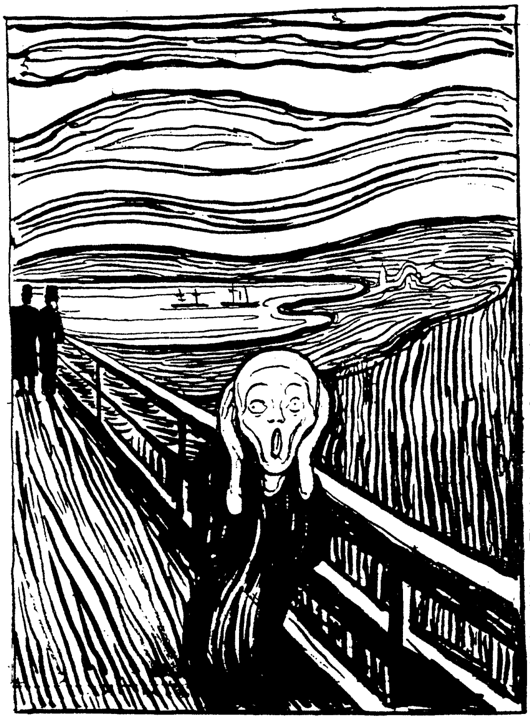
by Ted Levinson

Norman Rockwell couldn't have dreamed of a more wholesome and traditional scene than a youngster's sidewalk lemonade stand. This American rite of passage embodies hard work, dedication, and reward. Here is the training ground for fledgling capitalists to learn about profits, risk, supply, demand, and competition. Since lemonade stands are such a cherished memory of childhood, it is fitting to consider how they may have to change under the impact of government regulation. Would Rockwell still be the artist of choice to render the local stand on canvas? Might Edvard Munch, who painted "The Scream," be a more appropriate selection?

Once upon a time, regulation at the lemonade stand meant you had to be inside for supper by six. Intervention was when the neighborhood bully helped himself to a free serving, and health codes were limited to keeping bugs out of the pitcher.

Today, the government has encroached on every facet of our economic activities. No longer can a transaction occur between two willing parties. Every pecuniary action involves three agents: the buyer, the seller, and the ubiquitous State. Not even the lemonade hawker is free from big government's stifling control.

Lemonade, if you do it by the book, is a serious business in Boston. Opening a stand requires permission from five different government entities. Licenses and permits for a lemonade stand cost $335. Fifty-five dollars covers the cost of a city Hawkers' and Peddlers' license from the Division of Standards. A mobile food permit from the Health Division runs $100, while registering a business with the City Clerk costs $30. For $15 a square foot the Department of Public



"The Scream" by Edvard Munch

Mr. Levinson graduated from Tufts University in 1993 where he was the recipient of the Paul Montle Prize for Entrepreneurship.

Works will issue a permit to sell on public sidewalks. Furthermore, Boston requires lemonade stand operators to carry $500,000 liability insurance policies. What half-million dollar damage a lemonade stand can inflict, I cannot fathom. With the fees come the redundant forms and long lines which characterize government.

Letters Three Inches High

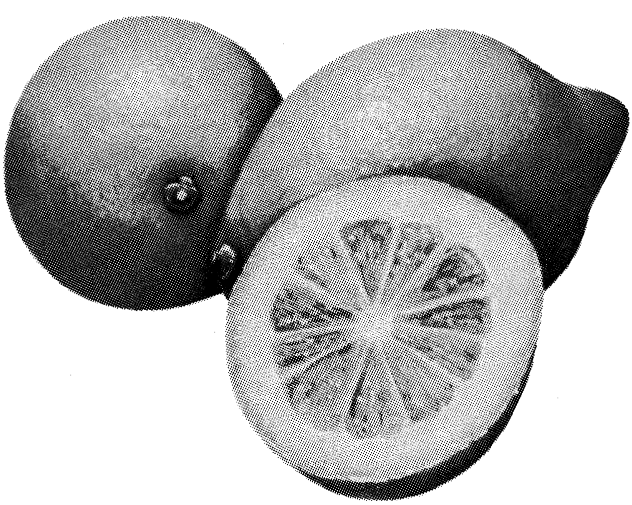
Cash alone does not appease the sundry departments and divisions that regulate the lemonade industry. Along with the fees are countless rules which aim to protect the public's welfare. However, in practice, most of them are burdensome, arbitrary, and detrimental to the common good.

The old-fashioned lemonade stand must comply with dozens of ordinances. For example, 105 CMR 590-004(A)5 requires sugar to be in its original package or a container identifying it by common name and 590.009 grants the Board of Health jurisdiction over the length of employees' fingernails. If the lemonade is made in a residential kitchen, only immediate family members residing in the household may prepare it for retail sale (590.028F), and washing machines and dryers located in the kitchen may not be in operation while the lemons are squeezed (590.028G(15)). At least once a day, food pushcarts must report to a fixed food establishment (such as a restaurant) for supplies, cleaning, and servicing (590.029(1)).

The Commonwealth of Massachusetts frowns upon the ramshackle wooden stands set upon the lawn that Rockwell would paint. 590.029J(q)a requires serving area surfaces to be of a "smooth, nonabsorbent material such as concrete or machine-laid asphalt. . . ." All mobile food units must also display the owner's name in letters not smaller than three inches on the left and right sides.

It isn't only the young who are overwhelmed by the prospect of a business partnership with the State. Plenty of enterprising individuals are too daunted by the paperwork and confiscatory nature of government to open the adult version of a lemonade stand. Government policies thwart businesses even before they start. The most persistent who do open shop are faced with government's taxing demands on their time and wallet.

We all suffer from the State's undue interest in even our most innocuous and pedestrian entrepreneurial ventures. It is the lemonade stand owner and his kind, the productive individuals of society, who bankroll the bureaucracy. In a painful irony, the productive segment of society pays for a legion of government employees who dedicate their lives to impeding the work of lemonade salesmen everywhere. No one benefits from notarized signatures and forms in triplicate and junior assistants to the *pro tem* co-director of Public Works licensing. In sum, the State doesn't make lemonade. □



THE FREEMAN
IDEAS ON LIBERTY

The Befriending Volunteer: Octavia Hill

by Peter Clayton

In South Street Philadelphia, a small nondescript building bears a proud title: The Octavia Hill Association. Few today recall the English woman who inspired this and many similar organizations. Octavia Hill was the Florence Nightingale of Victorian housing. Emphasizing personal involvement and small-scale operations, she demonstrated that it was possible to rent houses to the disadvantaged poor, uplift them, and still make a profit for the owner. Though she aspired only to "free a few poor people from the tyranny and influence of a low class of landlords," by the end of her life in 1912 she had developed a volunteer-based initiative that had worldwide influence. Her methods were copied in Holland, Denmark, Germany, Russia, and America.

Behind the simple day-to-day humanity of her work lay an ethical strategy. Octavia Hill was influenced by John Ruskin, the English art critic and philosopher. Ruskin held that a root cause of society's malaise was the absence of routine personal contact between classes. The poor lived their lives in obscure, impenetrable corners of cities. Those who dictated policy and formed opinions knew nothing of them save what they read or assumed to be true. Many city missions were patronizing, or conditioned their aid on conversion or adherence to a particular religion.

Octavia Hill worked with her tenants not for them. The poor, she said, should be regarded "primarily as husbands, wives, sons and daughters, members of households, as we are ourselves, instead of as a separate class." All individuals were worth an effort. "Before our influence can be human, natural, and helpful, before our elaborate network of organization can be anything but harmful, these widespread masses which form the poor of our towns must be to us again separate human beings, with individual histories, characters, hopes, longings, temptations. It has been ordained that each of us has a distinctive face and form known to those who love us, and which enwraps a soul as distinct."

Central to her work was the recruitment, training, and efficient utilization of handpicked volunteers to manage housing for owners. She said, "We have to be the poor man's friend if we are to be his benefactor." For Octavia Hill and John Ruskin, the only way that such friendship could be achieved was by personal contact over a long period. The method chosen to build this relationship was the routine contact between landlord's agent and tenant. The Tenth Annual report of the Octavia Hill Association of Philadelphia in 1906 identified the three inseparable factors of housing management, "the house, the friendly rent collector or agent, and the

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Mr. Clayton is volunteer chairman of the Octavia Hill Society and of The Octavia Hill Birthplace Museum Trust in Wisbech, England. American membership secretary of the Society is Tina Hummel, 4730 Bradley Blvd., #A10, Chevy Chase, MD 20815.

Octavia Hill was a prolific writer of both letters and essays.

tenant." "The house," it continued, "was never to be considered apart from the tenant and the kind offices of the agent; in fact, the three were to form practically a unit—the house existing to be rented by the agent to, and for the use of, the tenant, never for rent-value alone. The agent was to be the guardian, as it were, of the well-being of tenant, house, and landlord, between whose trebly distinct yet united interests there could, in a most important sense, be no division."

The "fellow workers" in the field were but one type of volunteer utilized by the Octavia Hill method. The others included property owners who volunteered to forfeit the full rental value of their property. Octavia Hill needed enlightened landlords who were prepared to accept a limited but assured rental return on their property. Once when she was talking to a group of peers in England, Octavia Hill was reproached by a Duke who said, "Miss Hill, you wish to tax our property." She replied, "No, your Grace, I wish you to tax yourselves."

Skeptical of State Action

Octavia Hill had little faith in state action. She had considerable respect for politics at a local, grassroots level, but her view was that the duty of national politicians was just to create and sustain conditions for individuals to prosper. She pointed out that she had known two prime ministers (Lord Salisbury, who was a personal friend, and Gladstone), and neither of them had any experience with poorer people. Such ignorance, she insisted, could not produce sound policy.

As large-scale social policies were implemented with vigor in the early years of this century, Octavia became a lone voice of dissent, pointing out with prophetic vision the inherent pitfalls. She wrote, "It is, of course, true that there are certain great human needs that may be met en bloc and from a distance, but it is curious how few they are, how badly they are met unless it be by those with much individual sympathy, and how curiously little joy or gratitude they bring, and how little self-reliance. It is the gift to the man himself, from a man, which reaches him. Lowell is for ever right—'the gift without the giver is bare.'"

"It is not by widespreading changes, it is not by more legal enactments but face to face and heart to heart that pauperism must be dealt with," she wrote. "It is the friendly help that takes the degradation out of it." She urged that volunteers "not attempt too much, but take some one little bit of work, and doing it simply, thoroughly, and lovingly, wait patiently for the gradual spread of good."

For Octavians, there were no easy policy prescriptions for the problems of society. Redemption could come only from concerted and sustained action by individuals. The value of their work was eloquently pleaded by historian Fullerton Waldo in his 1917 account of the Philadelphia Octavia Hill Association. "It is an investment in human lives, and it underwrites the welfare of the city, the country, the world in the age to come by assuring the health and happiness of the unborn." □

THE FREEMAN
IDEAS ON LIBERTY

Some Philanthropists Turn Their Backs on Voluntarism

by Kimberly O. Dennis

In the course of less than a century, government has essentially replaced voluntary institutions as the court of first resort for people seeking help.

If you were a poor, single, twenty-year-old pregnant woman in New York at the turn of the century, you would have had many places to turn for help, voluntary organizations whose goal was to help you to thrive independently. To obtain medical care, for example, you could have taken advantage of any number of free clinics, such as the Bloomingdale Clinic for the Free Treatment of the Poor. For food, clothing, and fuel you could have sought the assistance of the Ladies' Fuel and Aid Society. For training and employment you might have gone to the Charity Organization Society, or to one of the free schools or libraries sponsored by charitable institutions. Typically, these organizations would have asked you for something in return for their help. Their intention, after all, was to provide a hand up, not a hand out, and as voluntary organizations they had no choice but to be economical with their resources.

Now imagine yourself a poor, single, twenty-year-old pregnant woman in New York today. Where would you go for assistance? Chances are you would head to the nearest government office to apply for AFDC, Medicaid, and food stamps.

What is behind this shift from voluntary helping institutions to government welfare? The development seems especially ironic in a city like New York where grantmaking foundations, which were virtually nonexistent 100 years ago, now number around 3,700. One would think the proliferation of foundations would have brought with it the growth and reinforcement of private non-profit organizations devoted to the public welfare.

Sadly, the reverse has happened. Philanthropists have been one of the main promoters of the government welfare system. Their foundations, most of which were made possible by entrepreneurs who accumulated fortunes without the help of—or even in spite of—government, have been more interested in expanding government's responsibilities than in strengthening private institutions to address social concerns.

When private foundations have the ability to develop innovative solutions on their own, why do so many look to government—a slow, bureaucratic machine—to accomplish their objectives? Perhaps the main reason is that foundation officials have been attracted by the seemingly vast resources of government. There is a strong tendency for foundations to try to "leverage" their dollars to influence how government allocates its funds. Many foundations fund pilot demon-

Ms. Dennis is executive director of The Philanthropy Roundtable, a national association of grantmakers based in Indianapolis.

stration projects with the idea that the successful ones will be picked up by government and replicated on a much larger scale. This is how the Head Start program began.

Making Big Brother Bigger

Such use of foundation dollars to influence and expand the scope of government is apparent on many policy issues. The Robert Wood Johnson Foundation, for example, made itself a major player in the national debate over health care reform by sponsoring a series of public hearings in which Hillary Clinton discussed health care issues. And in December 1993, Walter Annenberg announced an unprecedented $500 million grant to support school reform, stipulating that the funds would be used "to show the public what needs to be done" to improve public education. The grant was announced by President Clinton at a highly publicized White House ceremony. There was no mention of supporting the many private schools that are succeeding where public ones are failing.

A perusal of the grants list in any issue of *The Chronicle of Philanthropy* reveals numerous examples of efforts by foundations to shape and enlarge government's responsibilities: $300,000 to endow a professorship to help advance equality for women in civil and economic rights; $25,000 to help neighborhood groups advocate equitable uses of New York City tax dollars; $125,000 to develop and disseminate national guidelines for sex education of children and adolescents.

Some foundations have taken their efforts to influence government policy a step further by making grants to governments themselves! *The Chronicle of Philanthropy* reports, for example, on a $30,000 grant to a city in Ohio to train and educate its workers, and a $450,000 contribution to a city in Minnesota to expand housing opportunities and increase tourism revenue through the development of an 18-hole golf course.

By fostering greater government involvement in providing for the common good, the philanthropic sector in this country has unwittingly undermined private voluntary institutions. Where government's growth hasn't usurped voluntary institutions, it has rendered them dependent. According to one estimate, non-profits now derive some 60 percent of their revenue from government subsidies, grants, and contracts. Libraries that were once supported by private donations are now government-funded; hospital services once made possible through charity are now paid for by government; schools that used to be run by religious institutions are now sustained through government grants and scholarships; and arts institutions built on private patronage now depend on government assistance.

While foundations may think they accomplish more by making use of government monies, in fact they only compromise the long-term vitality of the voluntary sector. What begins as leverage ends up as bondage. The control shows up in onerous reporting requirements for non-profit institutions, in organizations that tailor their missions to accommodate government funding priorities, and in growing congressional demands for greater regulation of non-profits.

Now—perhaps the ultimate irony—governments are launching efforts to revive voluntary initiative. Having smothered it, they are trying to bring it back to life. In school districts around the country, students are being required to perform community service as a condition of graduation. At the federal level, President Clinton has launched a national service program that makes financial and educational assistance available to those who "volunteer" at certain non-profits. But voluntarism can't be bribed or enforced; the whole idea is self-contradictory. Government can't resurrect what, by its very nature, it undermines. Foundations could make a difference, if only they'd stop funding the government's expropriation of the voluntary sector's responsibilities. □

THE FREEMAN
IDEAS ON LIBERTY

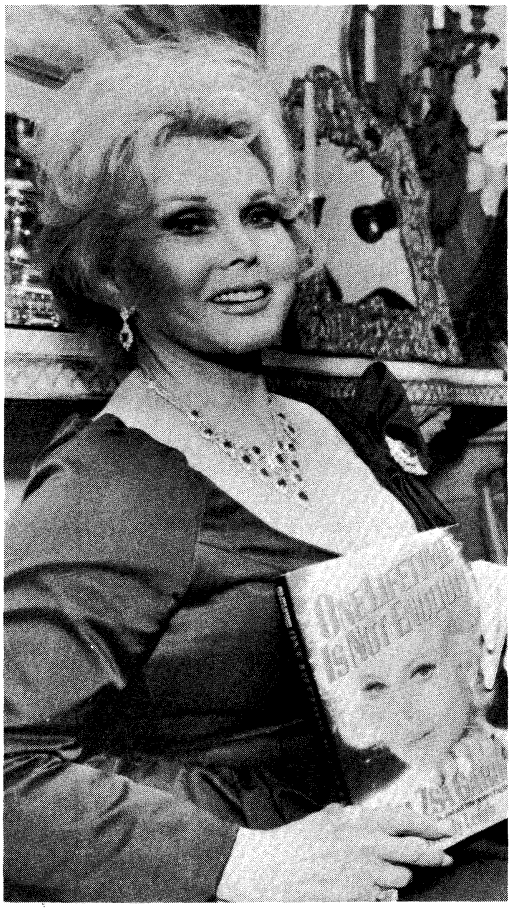
Zsa Zsa and the Litigation Explosion

by Ralph R. Reiland

This time it's big trouble for Zsa Zsa Gabor, worse than when she slapped the Hollywood cop and was sentenced to work at the women's shelter. Now, for a verbal faux pas, a California jury says she must fork over a big slice of what she's earned since World War I in all those movies and marriages. For telling a German magazine that fellow actress Elke Sommer is a Hollywood has-been who loafs in sleazy bars and makes hand-knit sweaters to support herself, Ms. Gabor owes $3.3 million.

In less litigious times, before the tort explosion, we could have expected a volley back from Ms. Elke about ancient Hungarian windbags, and that would've been it. No government involvement, no trial, no houses confiscated, and no gravy train for the lawyers. Not a cent was transferred from W. C. Fields when he called Charlie Chaplin a "--- of a ----- ballet dancer."

The problem with Zsa Zsa is that she totally ignored new political correctness, and now she has to pay. She had no idea that the First Amendment's "no law . . . abridging the freedom of speech, or of the press" had been increasingly loaded down with exemptions, and that zealous politicians and bureaucrats had enacted jackpot penalties to muzzle the outrageous and eradicate faux pas. Stars of the silver screen are now supposed to talk like law clerks.


AP/WIDE WORLD

Zsa Zsa Gabor

At the *L.A. Times*, there's a new 19-page list of words that are officially off-limits to

Mr. Reiland teaches economics at Robert Morris College in Pittsburgh, and is the owner of Amel's Restaurant in the same city.

reporters, lest they might hurt somebody's feelings. Banned are Dutch treat, gypped, welshing (all stereotypes of Euros), plus Chinese fire drill, ghetto, inner city, pow-wow, illegal alien, admitted homosexual, queer, hillbilly, white trash, hick, lame, deaf, handicapped, babe, co-ed, divorcee, bra-burner, and gal. Also unprintable is the Kaffir Lily (a botanical slur against South Africans) and Canucks (except on the sports page). Words not fully censored, but warned against, at the *L.A. Times* are stepmother, WASP, mailman, male nurse, and man-made. Reporters at the *Washington Post* are warned about using oriental, woman lawyer, and Red China.

The Iowa City Community School District has a no-no list for Halloween costumes. The district's Equity Affirmative Action Advisory Committee suggests that kids not dress as hobos, old men, old women, witches, devils, Indians, slaves, Africans, gypsies, or Nazis. Instead, Marian Coleman, Equity Director for the district, recommends the tykes go door-to-door as Abe Lincoln and Robin Hood (showing her lack of sensitivity to folks who can't handle one more politician or egalitarian with his hand out). Ms. Coleman explains that the school makes costume suggestions because the district doesn't want to get sued for providing a "hostile environment" for children.

At Harvard Law School, Professor Alan Dershowitz laments, "These days I will not teach the subject of rape without having a recording. One woman actually tried to bring sexual harassment charges against me for the way in which I teach rape. . . . People are really losing a lot, in terms of their education, when teachers are frightened away from teaching controversial subjects."

Fear of litigation has made it increasingly difficult to find volunteers to work with children. With nobody immune from accusation, "Every year it's like looking for a needle in a haystack to find enough coaches," says Richard Walker, national spokesman for the Boy Scouts of America. "What you are seeing is sexual abuse hysteria," states Dr. Richard Gardner, Professor of Child Psychology at Columbia University. "People are running scared. You can't touch kids anymore."

"The idea that our individual lives and the nation's life can and should be risk-free has grown to be an obsession, driven far and deep into American attitudes," cautioned Henry Fairlie in *The New Republic* several years ago. "Indeed, the desire for a risk-free society is one of the most debilitating influences in America today, progressively enfeebling the economy with a mass of safety regulations and a widespread fear of liability rulings, and threatening to create an unbuoyant and uninventive society."

In *Democracy in America*, Alexis de Tocqueville predicted a "new kind of servitude" where a "supreme power covers the surface of society with a network of small complicated rules, minute and uniform, through which the most original minds and the most energetic characters cannot penetrate, to rise above the crowd. The will of man is not shattered, but softened, bent, and guided; men are seldom forced by it to act, but they are constantly restrained from acting. Such a power does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to be nothing better than a flock of timid and industrious animals, of which government is the shepherd." □

THE FREEMAN
IDEAS ON LIBERTY

Time to Smarten Up Rather Than Dumb Down

by Philip Perlmutter

"Dumbing down" seems to be gripping many schools and workplaces, driven by the belief that democracy will be enhanced, education for minorities improved, and bigotry diminished. A variety of techniques have been devised, such as inflating school grades, passing all students, using different performance measurements for different groups, recruiting people because of their group affiliation rather than individual ability, eliminating competency tests, ending separate classes or tracks for talented students, and generally discarding any evaluation that results in disparate group findings—whether by race, ethnic group, sex, age, or physical ability.

For example, New York City's Sanitation Department developed an employment test in which 23,078 out of the 24,000 people passed—thereby allowing the department to say the minorities it hired were top scorers. Also, in a desire to increase the number of minorities, the U.S. State Department's diplomatic service stopped considering knowledge of foreign languages in hiring, and created a "near pass" test category, from which only minority applicants, who had scored lower than whites, were hired.

At many educational institutions, course work has been eased, graduation requirements reduced, and classroom performance distinctions eliminated. At Harvard, the grade "C" has all but disappeared and "A" made more common, going from 22 percent of all grades in 1966–67 to 43 percent in 1992. At Stanford, the proportion of "C's" declined from 16 percent in 1968–69 to 6 percent in 1986–87, while in the same period "A's" went from 29 percent to 35 percent. Grade inflation has adversely affected many students who at first work hard for good grades and honors degrees, and then, according to Stanford professor William Cole, "throw up their hands upon seeing their peers do equally well despite putting in far less effort." A 1992 federal study found that 25 percent of four-year college graduates had not studied history, 30 percent had not studied math, almost 40 percent had not studied literature, and more than 50 percent had not studied a foreign language.

At the same time, a culture of peer group pressure not to achieve has developed among some minority students, particularly blacks, wherein studying, speaking standard English, being on time, using the library, and getting "A's" is acting "white" and therefore to be avoided.

"Dumbing down" has also become a way of solving the financial problems of a growing number of junior and four-year colleges, some of which "have been accepting every warm body that applies," according to David Bartley, president of a Massachusetts

Mr. Perlmutter is author of Divided We Fall: A History of Ethnic, Religious and Racial Prejudice in America, *published by Iowa State University Press.*

two-year college. To maintain their budgets and staffs, some college departments and professors have resorted to "competitive standard-cutting" in order to attract and maintain student enrollment.

As a result of such developments, the proverbial "best and brightest" are no longer sought, nurtured, or produced. The average verbal S.A.T. score is today much lower than it was in the 1960s. A federal study of talented schoolchildren (which included the poor and minorities), found many were bored in classrooms, did poorly on international assessments of achievement, underperformed on domestic tests, and were offered less difficult courses, books, and homework assignments than their counterparts in other countries.

Historical Irony

"Dumbing down" is not limited to today's minorities, nor did it originate with them. Until recent years nonwhites had to make greater efforts to gain acceptance in education, business, and sports. Throughout much of American history those of the "right" religion, ethnicity, socio-economic class, family, political connections, or athletic prowess—chiefly white, Anglo-Saxon Protestants—took pride in mediocre standards and performances—as epitomized by the almost proverbial satisfaction in earning a "Gentleman's C" grade.

At many turn-of-the-century Ivy League colleges, anti-Catholicism, anti-Semitism, racism, social snobbery, and anti-intellectualism were extensive. "Scholarship has apparently declined throughout the country; certainly at Yale," lamented a 1903 Yale faculty committee report. "In fact, in late years the scholar has become almost taboo." Only lower-class students from the public schools and those of Eastern European and Asian origins were expected to study hard. Gentlemen preferred extracurricular sports.

The historical irony is that for decades, reformers sought to end invidious group-based discrimination, political patronage, and familial nepotism by encouraging excellence and instituting objective standards, procedures, and tests that were equally open to all applicants. Now, smartening up is being replaced by dumbing down, for both minorities and majorities. □

THE FREEMAN
IDEAS ON LIBERTY

Uncle Sam's High-Priced "Volunteers"

by Jill K. Cunningham

In government "volunteering" programs, it's easy to be misled by first impressions. Consider the Georgia Peach Corps, a youth program that operates in two rural counties in eastern Georgia, funded with a $2.8 million grant from the federal government's Corporation for National and Community Service. At first glance, the visitor to the work center in Thomson, Georgia, is impressed. The youngsters seem to be working hard, getting along with each other despite diverse backgrounds. However, a closer look raises serious questions.

To begin with, the workers are not volunteers who have been attracted to the program by idealism. They are employees, paid a wage of $4.25 an hour and earning a $5,000 tuition grant for a nine-month involvement with the program. In addition to these benefits, the program has massive overhead costs for supervisory personnel, travel, training, and general red tape. These burdens, combined with a high dropout rate in the program—it began with 140 students and graduated only 80—have driven the real cost per graduate to over $35,000 per year. For this expense the country benefited from youngsters who worked six hours a day, four days a week, for nine months. (The rest of the time was spent in transit or "training.")

Miss Cunningham is editor of Philanthropy, Culture, and Society, *a publication of the Capital Research Center in Washington, D. C.*

While the projects these workers complete are well-built, there's a catch. By law, they cannot compete with private industry for contracts, and cannot displace any government workers through their efforts. This virtually insures that the projects they are assigned will be of marginal value to the community.

A case in point was the roof the Peach Corps put on the job training facility in Thomson. The roof was well done, easily passing for the work of professional roofers. But the federally-funded facility is used very little—much to the frustration of instructors. While I was there only one student—flanked by two instructors—worked on one of the four brand-new computers. (He was playing "Wheel of Fortune.") The facility can handle up to 12 students at a time but never does. Twelve new dictionaries sit in the corner, their spines unbroken.

The effort to assemble a corps that, in Clinton's words, "looks like America" has also been a struggle. According to program director Ken Cook, young white men were not keen about the idea of working for government. "White males are generally able to go on to college, or they saw this as a federal giveaway program and not cool." The Peach Corps made a concerted effort to divert potential recruits from the college track to fulfill their affirmative action goals.

For all the talk of civic awareness, it's hard to argue that the Peach Corps is an integrated part of the community. Only $5,000 of its hefty budget came from the Thomson area. And it's hard to believe that beyond the few public works projects scattered throughout the county, the Peach Corps will leave much of a legacy. Funding will not be assumed by local entities when the federal money runs out.

Whose Work Ethic?

Were there positive, measurable results for the youngsters themselves? Project director Ken Cook reports that "out of the 80 kids, we probably have 20 percent going on to do something that more than likely they wouldn't have normally. One kid is going to an apprenticeship program, several are going to vo-tech school, some are going into nursing." Taxpayers might well wonder whether getting 16 youngsters to do something that "more than likely they wouldn't have normally" is a fair return on $2.8 million of their money.

Did the program develop the work ethic and a commitment to volunteering? The unglamorous truth is that this community was already strong without the Peach Corps. Thomson played host to this national experiment because the community is a model one—a "five-star community" according to a state panel—offering citizens good schools, low taxes, low crime rates, and a high standard of living. The work was of high quality because the youngsters already have skills and a good work ethic. In Thomson, many families are still intact and the influence of the church lingers. They haven't waited for the government to teach them to volunteer: 50 percent of the citizens already do so in some fashion. In fact, many of the Peach Corps youngsters voiced surprise and disappointment that in addition to their paid work, genuine unpaid service wasn't expected of them.

In this government "volunteering" program, the high cost may be more than just the $35,000 per graduate. It may be the erosion of community spirit begun by teaching young people to expect payment for good deeds. □

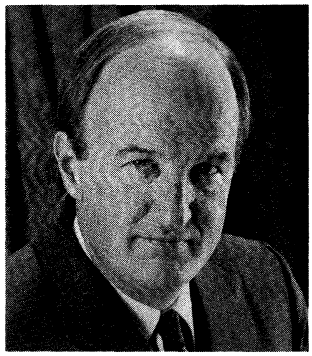
Helping One's Neighbor

IDEAS ON LIBERTY

It has been my observation and experience everywhere I have lived that almost everyone is willing to help his neighbor who is truly in need—if the receiver respects the giver's right to do it voluntarily and in his own way. So far as I can now recall, no person has ever refused any sincere and logical request of mine for help, whether my need was medical, legal, spiritual, financial, educational, or whatever. In fact, so many hundreds of persons have given me assistance at various times and in various ways that I cannot now possibly recall all their names!

There are many sincere and charitable persons who truly want to help their less fortunate fellow men; but they want to perform their charitable acts on a large scale with other people's money, instead of on the basis of their own individual capabilities and with their own money! Their sincere but misguided idea of helping people is to pass a law to force everyone to contribute to government which, in turn, will distribute the money "to those who need it most." This concept is sometimes called the "service state" or "welfare government." The people who hold this concept are especially dangerous because their intentions are so good. The purity of their motives tends to obscure the ultimate evilness of their acts.

—DEAN RUSSELL, "Equality and Security" (1952)



I'm All for Free Trade, But . . .

"The dogma [of free trade] does not stand up. . . . Import relief in the 1980s saved America's industrial base—and countless jobs—at tiny cost."

—Pat Buchanan, "How the Rust Belt was Revived," *Washington Times*, July 20, 1994

Conservative columnist and political commentator Pat Buchanan needs to take a refresher course in Econ 101. He cites a study by economist Alan Tonelson in *Foreign Affairs* magazine (July/August 1994) supporting his "America First" doctrine of economic protectionism. "The United States ought not to surrender any weapon in its arsenal of defense for vital U.S. economic interests," says Buchanan.

Tonelson concurs: "Five major American industries—automotive, steel, machine tool, semiconductor, and textile—received significant relief from imports through intelligently structured trade laws. Those industries have confounded the predictions of laissez-faire economic ideologies by gaining market share at home and in some cases abroad, contributing to job creation and reinvigorating American competitiveness."

Thus, after Tokyo agreed to voluntary import limits in 1981, American auto makers achieved an astonishing comeback. The Big Three came out with new products such as the minivan and compact utility vehicles. Investment in new plant and equipment resulted in a substantial increase in productivity and quality of U.S. cars.

After Reagan negotiated bilateral agreements limiting imports of finished steel in 1984, investment and worker productivity in the U.S. steel industry soared, making the U.S. one of the lowest-cost producers in the world. Import curbs on machine tools, semiconductors, and textiles saw similar results—increased research and development, investment, cost-cutting, job creation, and retooling. The U.S. improved its competitiveness in all these markets.

Buchanan concludes: "The conventional wisdom was wrong."

Is This the Whole Story?

Before we reject two centuries of sound economic wisdom, let us consider all the relevant factors. Messrs. Buchanan and Tonelson conveniently forget to mention the environment in which these five industries performed so well. The reality is that virtually all industrial groups expanded sharply during the "Seven Fat Years" of the Reagan era, as Robert Bartley calls it. The free-trade critics have committed the classic *post hoc, ergo propter hoc* argument. Just because an event (import restrictions) occurs simultaneously to another event (economic recovery) does not mean that one is the primary cause of the other. There may be other, more powerful forces at work. Indeed, in the midst of a sharp recession (1981), Congress cut tax rates substantially for individuals, corporations, and investors, thus stimulating a "supply-side" revolution. Furthermore, in the summer of 1982, the Federal Reserve reversed its tight money, high-interest-rate policy in favor of easy money and lower interest rates. The low-interest rate, tax-cutting era continued almost throughout the 1980s, factors which most likely dwarfed the impact of import restrictions.

One should also not ignore the impact of a falling dollar since 1985 on the improvement in U.S. exports and foreign competition.

In short, the Rust Belt was revived primarily because of the "supply-side" revolution of tax cuts, deregulation, and an accommodating monetary policy—not protectionism. At least Messrs. Buchanan and Tonelson provide little evidence that the protected industries outperformed all other industries.

Global Trade Is Inevitable

This is not to say that U.S. producers didn't benefit from import relief. Undoubtedly, they did benefit. After all, tariffs and quotas aren't the measles. Yet the benefits may not have been all that great. The auto, steel, and textile industries would probably have done almost as well without the import restrictions.

Even before the import quotas were imposed in the 1980s, most of the leaders in these industries had recognized that the world was rapidly moving toward global free trade. Ford, for example, had already decided to take the Japanese and the Germans head on in building high-tech automobiles. Gradually more and more of the components of "American" products are made in foreign countries. Despite all kinds of restrictions and regulations in the textile and apparel industries, more and more shoes and clothing are being made in Asia and Latin America—by American-based companies. Global free trade is a simple fact of life and any manufacturer in the United States who doesn't recognize its inevitability is headed straight for bankruptcy court.

Cost-Benefit Analysis

In his great book *Economics in One Lesson*, Henry Hazlitt says that a good economist looks at how a policy affects all groups, not just one group. His story of the broken window is a classic.

We need to apply his "one lesson" to the free-trade debate. Yes, import relief helps the 21 highly protected sectors of the U.S. economy. It maintains thousands of American jobs in these industries. It keeps prices and wages higher than what they would be.

But what about the other groups in the economy—are they helped or hurt by import restrictions? According to the latest study by the Institute for International Economics, American consumers paid $70 billion more for goods and services as a direct result of import protection in 1990. Now, in a $6 trillion dollar economy, that may not seem like much. And, in fact, it demonstrates the high degree of free trade which already exists in the U.S.

Nevertheless, the consumer cost per job saved averages about $170,000. Economists Hufbauer and Elliott conclude: "This is far higher than the average annual wage in the protected industries and far more than any current or proposed labor adjustment program would cost."[1]

Tariffs and quotas affect the U.S. economy in many obscure, subtle ways. For example, the voluntary import quotas on Japan resulted in a substantial increase in the importing of higher-priced, larger Japanese cars. Import limits on finished steel forced U.S. automobile companies to pay higher prices on their inputs.

Clearly, most producers benefit from tariffs and quotas, while consumers are hurt. Why don't consumers complain more loudly? Probably because of the nature of the political system. As public-choice economists demonstrate, industry and labor are much better lobbyists than consumers. Moreover, consumers are also producers and may work in protected industries as well. The protectionist story is the same everywhere, in the U.S., Japan, or Germany. Everyone favors promoting exports, but not imports.

A Better Idea

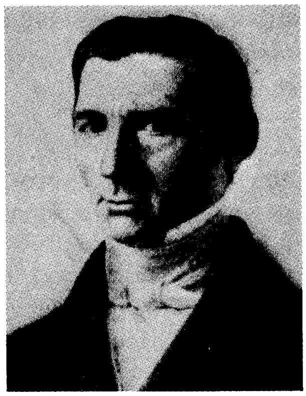
While the debate over protectionism rages on, economists and journalists should consider a far better alternative to import relief—tax and regulatory relief for domestic business. One of the primary reasons the auto, steel, and textile industries have had difficulty competing in the world economy is because they lack the capital investment to adopt the latest technology and rebuild their markets. Imagine the impact on American industry if the corporate income tax and the capital gains tax were eliminated? If red tape and regulations were streamlined? Economic growth would be so rapid that we wouldn't even think twice about the need for "import relief" and "fair trade." □

1. Gary Clyde Hufbauer and Kimberly Ann Elliott, *Measuring the Costs of Protection in the United States* (Washington, D.C.: Institute for International Economics, 1994), back cover.

A REVIEWER'S NOTEBOOK

Free Markets, Free Men

by John Chamberlain



Frederic Bastiat

George Roche, the head of Hillsdale College, was an early protégé of Leonard Read, the creator of The Foundation for Economic Education. Where did Read pick up this theories? They came from what Roche calls the "historical ash-heap" of Frederic Bastiat, who lived in the French countryside and in Paris in the first half of the nineteenth century.

Doing a book for Read's Architects of Freedom series in 1973, Roche chose to call it *Frederic Bastiat: A Man Alone*. The actual fact, however, was that Bastiat had many similarly minded friends. They happened, for the most part, to be free traders in England, such as Cobden and Bright, who brought the free trade idea to France.

The original title was rejected for a new edition with the title, *Free Markets, Free Men* (Hillsdale College Press and The Foundation for Economic Education, 1993, $14.95 paperback), and a good thing, too. That says it all.

In his introduction, Roche justifies the book's purposes as a reprint: the need to reinform today's public of one of "the most intrepid explorers" of free market philosophy. Bastiat was trying to tell people that they couldn't get something for nothing. That, obviously, has to be said again and again. ☐

The Virtue of Liberty

by Tibor R. Machan

The Foundation for Economic Education • 1994 • 176 pages • $19.95 cloth; $14.95 paperback

Reviewed by J. E. Chesher

Since the summer of 1990, Tibor Machan, Professor of Philosophy at Auburn University, has been lecturing throughout Europe as a Fellow for the Institute of Humane Studies. These lectures included audiences in Sweden, Poland, Czechoslovakia, Estonia, France, and his native land, Hungary. In his own words, "the main objective in these lectures has always been to explain in plain terms . . . the ideas underlying classical liberalism." This, in a nutshell, describes Machan's latest book, *The Virtue of Liberty,* which grew out of those lectures.

Machan has long recognized that, while a good many intellectuals champion liberty as a political value, they do not always do so for the same reasons, or with the same understanding of the source, scope, and limits of liberty. Thus, several versions of what is often called "classical liberalism" have developed. Machan critically explores these various political viewpoints.

The book opens with a survey of major liberal/libertarian ideas found in Western thought, beginning with Xenophon from ancient Greece, moving through the Christian and Medieval era and into the modern period, with liberal ideas from Hobbes, Spinoza, Locke, Smith, Mill, and Spencer. From this century, Machan cites, among others, Mises, Hayek, the turncoat Nozick, Friedman, and, of course, Rand. Machan gives a thumbnail sketch and critique of each thinker's philosophy of liberty.

Machan then explores the question "Why do we have rights?" Here he evaluates arguments from a number of thinkers, with special attention to the views of Thomas Hobbes and John Locke. Though both champion natural rights, and both justify government as answering to certain needs of individuals not realizable in the state of nature, for Hobbes there can be no uniquely "human" rights: any living thing has a "right" to whatever it thinks conducive to survival. It follows that Hobbesian rights lack a moral dimension, and hence lack moral force. In contrast, says Machan, Locke sees human beings as beginning from a position of equality, on the basis of which our rights are derived: we ought to be treated in certain ways because of our human nature; thus, we have natural rights. Now, these rights, Machan says of Locke, are moral rights to which we are entitled, violation of which justifies our retaliating against the transgressors. Though Machan favors Locke's natural rights theory because it recognizes the moral dimension and also because, more explicitly than does Hobbes, Locke holds that the purpose of the state is to protect those rights, Machan argues that Locke's view is problematic. For one thing, Locke assumes, without proof, that human beings are by nature moral and political equals. And, given Locke's empiricist epistemology, a proof is not likely, since empiricism is skeptical about the possibility of ever knowing external reality, much less discovering the nature of things, including human nature. The subsequent dominance of empiricism in intellectual life, Machan observes, eroded support for natural rights and led to a general neglect of political philosophy, from which we continue to suffer.

Machan goes on to discuss the resurgence of interest in political philosophy beginning with John Rawls and Robert Nozick. With Rawls, however, Machan does not find a "robust doctrine of rights" and Rawls can offer no more solid ground for political philosophy than intuition. And, though Nozick was, until his defection, a champion of individual rights, Nozick also fails to offer a proof of individual rights, resting, as does Rawls, on intuition. This chapter closes with the observation that the "concept of rights has by now lost its function as a clear guide to political justice in a free society. In the late twentieth century what are called human rights are not linked to an individualist idea of human nature . . . but to human beings conceived of as members of groups. So we have women's rights, rights of African-Americans, students, gays, workers, artists, and so forth."

Next, Machan discusses the concept of liberty, both from a metaphysical (free will) and political perspective. Here he distinguishes moral values from values in general, discusses the challenge of determinism, and shows how determinists, who deny free will, may (and often do) nonetheless support political freedom. A particularly fruitful discussion concerns the "liberty-morality" connection, where Machan discusses the possibility of defending political liberty on moral rather than on instrumental grounds.

In a separate chapter, arguments for and against private property are examined, with succinct and insightful observations about the views of Marx, Locke, Keynes, Mill, and others. Then, after clarifying the concepts of liberty and rights, and providing a framework and foundation for broader concerns, Machan discusses the relationship between morality, liberty, and the market economy. Here he observes that various moral theories are friendly to classical liberalism and free markets, but for different reasons. Since a wide disparity of viewpoints tends toward skepticism, Machan offers, as a solution, a defense of the natural rights approach for morally grounding a market economy. He argues that socialism, fascism, Communism, and other systems have been rightly faulted for being economically inefficient, but their most grievous fault is in promoting moral degradation, primarily by undermining freedom of choice. He describes the general features of moral theories, arguing that the natural rights perspective is not only the most theoretically persuasive, but that it is uniquely consistent with a market economy. In other words, a market economy is morally grounded.

From here, Machan extends his scope globally, to discuss the environmental implications of the political perspective he has been championing. He argues for a form of environmental anthropocentrism as a consistent application of classical liberalism. This discussion involves an explication and defense of the view that human beings, as individuals of a certain specifiable kind, "are of the highest value in the known universe." While other known beings have varying kinds and degrees of value, only with human beings do moral values come into existence. The implications of this for environmentalism are significant, including a justification for anthropocentrism, as well as protection of the environment.

Returning to more strictly political matters, Machan discusses the use of force by the state, distinguishing between force and coercion. He observes that governments are coercive in making people give up liberty for goals that they have neither chosen nor have a say in, or by making people work for projects that they oppose, or fight in wars that they do not support. Now, some have argued for the necessity of at least some state coercion in order for society to realize certain morally acceptable goals. Machan argues that this is a serious misconception in that morality is, at heart, a matter of volition and choice. "The basic moral support for the coercive state then is the failure to remember that morality is a system of principles serving a basic human purpose, namely, to enable human individuals to be good as human individuals. To even approach being a successful moral theory, this feature must be included within a moral system."

Machan closes with a response to the common complaint that individualism and liberalism lead to crass hedonism, moral subjectivism, or some other morally unacceptable view. He observes how, no sooner does one form of collectivism fail than another rises from its ashes, as has the new movement of Communitarianism which preaches the dangers of individualism and its failure to promote the common good. Machan argues that there are two distinct versions of individualism, the most influential in Western liberal political thought going back to Thomas Hobbes. This version, Machan argues, is open to the charge that individualism lacks a moral base, and the shortcomings of this view tend to weaken liberalism by exposing it to precisely the objections that are in such wide currency. In contrast, Machan promotes what he calls "Classical Individualism," which provides an objective moral basis for individualism and has solid roots in the philosophy of Aristotle. Classical Individualism withstands the criticisms leveled against the radical individualism of Hobbes, and provides the necessary moral foundation for political liberty and free markets.

The Virtue of Liberty is bold of purpose and is as rich in content as it is brief in length. Few books say as much with twice the words, and fewer still deal with as important a theme. The vision and the principles championed in this work stand in vivid contrast to the prevailing climate of thought in nearly all of our social and political institutions. The irony is that those very institutions, indeed, democracy itself, which sprang from the idea that liberty makes for human excellence, has so lost course that freedom now has little purchase in the marketplace of ideas. This book is for the politician who may wonder whether there can be nobility in his work; for the economist who seeks a deeper understanding of human behavior than is given in non-normative models; for the student who hopes to find a ground on which to build a view of human life; for the average citizen who senses that something has been lost in our pursuit of happiness. It is something of a "handbook" for those who seek to understand the relationship between liberty, morality, and social life. That a defense of liberty is necessary at all shows us the present danger of our condition. This little book is a welcome addition to the literature of freedom, and yet another reminder that the price of liberty is vigilance. □

Mr. Chesher is Professor of Philosophy at Santa Barbara City College.

The Downing Street Years

by Margaret Thatcher

Harper Collins Publishers • 1993 • 914 pages • $30.00

The View From No. 11: Memoirs of a Tory Radical

by Nigel Lawson

Bantam Press, London • 1993 • 1,119 pages • $40.00

Reviewed by Raymond J. Keating

A quite startling revolution occurred in Great Britain during the years 1979 to 1990. Under the guidance of Prime Minister Margaret Thatcher, with Nigel Lawson as her Chancellor of the Exchequer from 1983 to 1989, Britain steered a course away from democratic socialism toward democratic capitalism. Or, as Lawson observed, a shift to "Thatcherism" defined as "a mixture of free markets, financial discipline, firm control over public expenditure, tax cuts, nationalism, 'Victorian values' (of the Samuel Smiles self-help variety), privatization and a dash of populism."

Though more hard-nosed, free-market critics might assert that Thatcherism did not go far enough, or went astray from its fundamental principles at times—and it was most assuredly guilty on both counts—movement away from such a firmly ensconced government "dependency culture" toward an "enterprise culture" should not be underrated. This political and economic journey has been captured by its two principal and supremely self-confident navigators.

Nigel Lawson's *The View From No. 11* is a workmanlike, interesting mix of recent economic and political history, an exploration of various economic theories, and analyses of fiscal and monetary issues. In *The Downing Street Years*, Margaret Thatcher offers a sweeping account of economic and political developments from the local level in Great Britain to the international venue. By the very natures of their positions in government, one would expect greater emphasis by Lawson on economic and fiscal issues, and a more comprehensive tome—covering not only economic and budget issues, but foreign affairs, terrorism, social and cultural policies, defense issues, etc.—by Thatcher. While this is the case, fortunately for the reader Lawson does not shy away from venturing beyond the Treasury's purview, while Lady Thatcher focuses a major portion of her tome on economics.

Both Thatcher and Lawson possess relatively good instincts on economic principles and policies—especially when compared to most of their twentieth-century predecessors in Great Britain. Both, however, falter occasionally as will be the habit of politicians.

Thatcher summarizes her government's general approach on the economy: "Firm control of the money supply was necessary to bring down inflation. Cuts in public expenditure and borrowing were needed to lift the burden on the wealth-creating private sector. Lower income tax, combined with a shift from taxation on earning to taxation on spending, would increase incentives."

On the matter of industrial policy—which has had a long and dismal run in the British Isles—Thatcher simply concludes that "the fact is that in a market economy government does not—and cannot—know where jobs will come from: if it did know, all those interventionist policies for 'picking winners' and 'backing success' would not have picked losers and compounded failure."

Thatcher sums up her economic policies as follows: "All these areas—trade union power, training, housing and business regulation—were ones in which in varying degrees we made progress in strengthening the 'supply side' of the economy. But the most important and far-reaching changes were in tax reform and privatization. Tax cuts increased incentives for the shop floor as well as the board room. Privatization shifted the balance away from the less efficient state to more efficient private business. They were the pillars on which the rest of our economic policy rested." Indeed, the most spectacular gains of Thatcherism were in these two areas.

Lawson offers detailed accounts of various British privatization efforts. He notes: "By the 1992 general election, about two thirds of the formerly State-owned industries in the UK had been transferred to the private sector. Some forty-six major businesses, employing some 900,000 people, had been privatized." As Lady Thatcher confirms, "Britain under my premiership was the first country to reverse the onward march of socialism. By the time I left office, the state-owned sector of industry had been reduced by some 60 percent."

Today, it remains easy for armchair economists to declare that more should have been done by Thatcher in the privatization area. However, they fail to appreciate the political difficulties involved. Lawson states: "In advance of every significant privatization, public opinion was invariably hostile to the idea, and there was no way it could be won round except by the Government going ahead and doing it." As any great leader does, Thatcher moved ahead on privatization based on her principles and was proven correct. This type of action remains scarce among poll-reading politicians.

On the matter of taxes, the Thatcher-Lawson record, though not unblemished, must be commended for its fundamental achievements. Capital gains taxes were indexed for inflation. And as Lawson notes: "Between 1979 and 1989 [Exchequer predecessor] Geoffrey Howe and I between us reduced the top rate of tax on earned income from 83 to 40 percent, and the top rate on savings income from an even more ludicrous figure of 98 percent to 40 percent."

Areas where these two politicians' otherwise sound economic views faltered—such as succumbing to the "overheating" myth of economic growth and inflation, often irrelevant concerns regarding trade deficits, and convoluted excuses to raise some taxes—tend to stand out against the backdrop of generally positive achievements. Also, a fundamental disagreement between Lawson and Thatcher over international monetary theory damaged the Thatcher government, the British economy, and led to Lawson's resignation. Both books fully explore this rift, as one might expect, from their own passionate perspectives. In many ways, this disagreement is a microcosm of some fundamental monetary differences among market-oriented economists—fixed versus floating exchange rates. Lady Thatcher made the case for free-floating exchange rates, while Lawson pushed for maintaining targeted exchange rates. Unfortunately, neither Thatcher nor Lawson considered gold as a viable monetary standard. Lawson's fixed exchange rates particularly suffered from the absence of an anchor such as gold.

As for the economic future of Great Britain, Lawson correctly calls for more Thatcherism: "More privatization, more tax reform, and a firm grip on public spending." As for whether or not Thatcher's successor, John Major, believes the same is, to say the least, an open question.

Both *The Downing Street Years* and *The View From No. 11* provide valuable insights into British economics and politics of the past 15 years. Thatcher's book is more readable, though Lawson's adds detail to many economic issues. At a combined total count of over 2,000 pages, reading both books is a hefty undertaking. Obviously, each readily stands on its own. But for those wishing to gain a better understanding of the Thatcher revolution, the benefits of reading both even outweigh the size of these tomes. □

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Facing Up: How to Rescue the Economy from Crushing Debt and Restore the American Dream

by Peter G. Peterson

Simon & Schuster • 1993 • 411 pages • $22.00

Reviewed by John Attarian

Though our national debt keeps soaring, efforts to face it honestly are rare. Peter Peterson's *Facing Up* is one of the few. Founder of the deficit-fighting Concord Coalition, Peterson confronts the problem and offers a plan for budget balance by the year 2000.

Spurning glib "explanations" of our deficit problem—the defense buildup; poverty programs; failure to cut taxes further—Peterson shows that the real culprit is out-of-control "entitlement" programs providing generous Social Security, Medicare, and other benefits to almost everyone. Entitlements accounted for about $800 billion in fiscal 1993, or 53.5 percent of the budget. Moreover, the bulk of projected future spending is for entitlements. "The budget arithmetic is inescapable: We just can't get the spending cuts we need from anywhere but entitlements."

To support this argument, Peterson gives a splendidly thorough account of the entitlement state's metastasis and our transformation from a responsible, thrifty society to a "choiceless society" fecklessly evading hard tradeoffs. He coolly explodes such pernicious myths as: Most entitlement spending is for the poor (in fact, most benefits the middle class); Social Security and Medicare only give beneficiaries their contributions back (most receive far more than they paid); and Social Security's huge surplus will pay the benefits promised to Baby Boomers (the "surplus" consists of government debt for which future taxpayers will be liable).

Facing Up is a wide-ranging and badly needed education in economic and budgetary realities. The "Visual Guide" of charts depicting our stagnating living standards, deficient investment, plunge into debt, and entitlement explosion more vividly illuminates our predicament. Financing our huge entitlement-driven deficits is absorbing more and more of our savings, draining the pool of money available for investment to raise output and productivity and maintain living standards. Thus, while entitlement commitments soar—total unfunded benefit liabilities as of 1991 were $14.4 trillion—our ability to pay them is falling. Ultimately, our evasion of reality threatens our way of life.

As our denial is bipartisan, so is Peterson's wrath. He trounces Ronald Reagan for "the pseudosacrificial chopping away at the means-tested and investment corners of the federal budget; the silent approval of the vast increase in 'middle-class' entitlements; and, above all, the unwillingness to take the ominous deficit issue directly to the public." Bill Clinton, too, "squander[ed] a great opportunity" with inadequate deficit reduction proposals; after alarmist rhetoric "all he was able to give us to cure our economy's ills were a few teaspoons of syrupy medicine."

Demanding that we face up, Peterson courageously drives home the unlovely truth that "we are *all* on welfare of one kind or another . . . *all of us* have decided that we are *entitled* to much more than our society can afford to pay for." *"Most Americans—emphatically including the middle class—will have to give something up, at least temporarily, to get back our American Dream."* (his italics)

Hence he rightly rejects budgetary book-cooking and is dubious about a balanced-budget amendment. He prescribes increased high-income, liquor, cigarette, and gasoline taxes, plus a five-percent consumption tax, in return for further defense cuts, more public-sector investment, and a ten-percent real cut in domestic discretionary spending. Peterson would also increase the taxability of most entitlements, trim others, and most important, apply a highly progressive means test to cut entitlements for above-median-income beneficiaries. These proposals have the merit of honestly administering necessary, unpleasant medicine, but unfortunately have many problems.

Taxes have already been raised repeatedly, to little avail—because spending cuts promised in return never came. With such a fiscally perfidious Congress, this is not a safe bargain to strike.

The means test does what must be done: perform the lion's share of the entitlement carvery on the middle class. But given his own account of the problem, it's not enough. We should eliminate entitlements to all above the poverty line except federal retirees and veterans with service-related injuries, and gradually replace them with private alternatives below it. This would produce bigger surpluses faster.

Peterson's proposals to raise the Social Security retirement age and benefit taxability are sensible, but inadequate. Even if per capita benefits are trimmed, the retiring Baby Boomer generation would still swamp Social Security by sheer numbers. Given our aging population, Social Security is doomed.

Similarly, Peterson's proposal to cut farm supports is a step in the right direction, but we'd do better to abolish them.

Unfortunately, Peterson advocates expanding the entitlement state with universal basic health care coverage. In a glaring contradiction, he deplores the entitlement mentality, yet concurs with Henry Aaron's assertion that universal access to health care is "a standard perquisite of citizenship in modern developed nations." Since when?

The affluence test, higher taxes, and expanded low-income benefits risk creating perverse incentives for middle-class people to hide their wealth to protect their entitlements. This is not farfetched; grown middle-class children are already reallocating their parents' wealth to artificially impoverish them so they can qualify for Medicaid.

But most important, while a balanced budget or small surplus by 2000 is a laudable goal, it is not enough. Even if we reach it, we would *still* have a national debt exceeding $5 trillion, and its interest cost would be staggering. Rather, we must slash the debt by running surpluses the size of our recent deficits.

That, however, would entail facing up to things which not even the sturdy Peterson admits: that entitlements are not merely out of hand but inherently untenable; that national bankruptcy is inevitable when the government is charged with protecting us from life; and that for sound finance to be restored, the entitlement state must be not reformed but demolished.

But though there is much to dissent from, Peterson has served America nobly. Educating the country is crucial to solving the problem, and *Facing Up* is a huge stride to the budgetary blackboard. □

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American Democracy: Aspects of Practical Liberalism

by Gottfried Dietze

Johns Hopkins University Press • 303 pages • $39.95

Reviewed by William H. Peterson

"The Anglo-American relies upon personal interest to accomplish his ends, and gives free scope to the unguided exertions and common sense of the citizens; the Russian centers all the authority of society in a single arm: the principal instrument of the former is freedom; of the latter servitude. Their starting point is different, and their courses are not the same; yet each of them seems to be marked out by the will of Heaven to sway the destinies of half the globe."

So wrote Alexis de Tocqueville in 1835 in *Democracy in America* and German-born political scientist Gottfried Dietze of Johns Hopkins University hails the prescience of the young French visitor here who spotted two "unnoticed" powers and two ways of governance long before the rise and fall of the Soviet Union and the passage of such broad interventions in America as the New Freedom, New Deal, New Frontier, and now President Clinton's "New Generation." Yes, Eurocommunism and the Soviet Union are gone, but a kind of Russification of Japan and the West seems to push on. The issue is still Tocqueville's freedom vs. servitude.

Dr. Dietze also hails The Foundation for Economic Education for defending freedom and free enterprise, and notes that Ronald Reagan has read *The Freeman*, and quotes approvingly from President Reagan's first inaugural address the lines: "You and I, as individuals, can, by borrowing, live beyond our means, but for only a limited period of time. Why, then, should we think that collectively, as a nation, we're not bound by the same limitation?"

Dietze builds his latest work around the momentous Tocqueville work to see how democratic institutions have fared in the century and a half since its publication. He is not especially hopeful but concedes America's future is too murky to be sure. (A note to the American reader: Professor Dietze uses the word "liberalism" here in its European, nineteenth-century sense as a variant on liberty.)

He holds that constitutional limitations on government are being dissipated—through, among other things, U.S. Supreme Court decisions. This dissipation may be at the heart of America's troubles today, and can be inferred from Professor Dietze's book of more than twenty years ago, *America's Political Dilemma: From Limited to Unlimited Democracy.*

As he notes, "Rights through Riots" seems to have been replaced by "Riots through Rights." Professor Dietze writes: "It often appeared to me that people were on the way from free government to government-free, to the freedom from any kind of rule, to anarchy."

How remarkable—the incongruity of anarchy and interventionism, when government taxes and intrusions into peaceful private activity have rarely been greater, when the U.S. government may be ready to yet assume one-seventh of the Gross Domestic Product (GDP) in the name of universal health care.

So questions arise from a reading of the provocative Dietze work: Is spreading government or the Russification of society the answer to America's ills—to the rise of violent crime in America, for example? Is it seen in the rage for "victimology," in the idea that "I'm a victim, you're a victim," in a corresponding flight from self-responsibility, from personal morality, in a new order that has become increasingly disorder? What's going on? Dietze quotes Yeats:

> *Things fall apart; the center cannot hold;*
> *Mere anarchy is loosed upon the world.*

Freedom is insufficient, says the author, citing the works of Thomas Hobbes, John Locke, Jean Jacques Rousseau, and Edmund Burke. He condemns what he calls "pure liberalism, or the unrestricted quest for ever more freedom," on the part of individual citizens and elected officials. He wonders if the course of American democracy does not contain the seeds of its own decline.

Gottfried Dietze has a point: Tocqueville's liberty and equality are not enough. A return to moral and ethical imperatives is also in order, says this contemporary thinker in this thoughtful work. □

Dr. Peterson, a contributing editor of The Freeman, *is an adjunct scholar at the Heritage Foundation. He is completing a book on political economy.*

Politics, Financial Markets, & Popular Culture . . . .

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For example, while forecasting a great bull market for the 1980s in their 1978 classic, ***Elliott Wave Principle: Key to Market Profits***, Robert Prechter and A. J. Frost anticipated what would follow that bull market, with this explanation:

> *As this century progresses, it becomes clearer that in order to satisfy the demands of some individuals and groups for the output of others, man, through the agency of the State, has begun to leech off that which he has created. He has not only mortgaged his present output, but he has mortgaged the output of future generations by consuming the capital that took generations to accumulate. Minimum wages that deny employment to the unskilled, socialization of schools which smothers diversity and discourages innovation, rent control that consumes housing, extortion through transfer payments and stifling regulation of markets are all man's political attempts to repeal the natural laws of economics and sociology, and thus of nature. The familiar results are crumbling buildings and rotting railroads, bored and uneducated students, reduced capital investment, reduced production, inflation, stagnation, unemployment and ultimately widespread resentment and unrest. Institutionalized policies such as these create increasing instability and have the power to turn a nation of conscientious producers into a private sector of impatient gamblers and a public sector of unprincipled plunderers. When the fifth wave of the fifth wave tops out, we need not ask why it has done so. Reality, again, will be forced upon us. When the producers who are leeched upon disappear or are consumed, the leeches who remain will have lost their life support system, and the laws of nature will have to be patiently re-learned.*

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THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
NOVEMBER
1994
VOL. 44
NO.11

588 **Health Care and the Chronically Ill** *by Hope Hodson*
Proposed federal health care reforms threaten the chronically ill.

590 **Socialized Health-Care Nightmare** *by Yuri Maltsev and Louise Omdahl*
A firsthand account of the horrors of Russian health care.

594 **The Immorality of Government-Mandated Health Care** *by Paul A. Cleveland*
Government-mandated health care will have a devastating effect on the quality of medical care.

598 **What NBC Didn't Tell You About Health-Care Reform** *by Jane M. Orient*
NBC's disingenuous promotion of the Clinton Health Plan is unmasked.

600 **Ideas and Consequences—Of Meat and Myth** *by Lawrence W. Reed*
The truth about Upton Sinclair's attack on America's meat-packing industry.

603 **Four Myths About America's Great Depression** *by Ronald H. Nash*
Liberals continue to distort the truth about America's Great Depression.

611 **Interest Rates and the Business Cycle** *by Glen Tenney*
Changes in a nation's money supply have a strongly negative effect on economic activity.

615 **The Discouraged Employer** *by Murray Weidenbaum*
Governmental regulation costs jobs—lots of them!

620 **Data Manipulation as Crisis** *by Robert W. Pulsinelli*
Information about how demagogues manipulate data to further their statist objectives.

623 **The Piper Will Be Paid** *by Charles D. Van Eaton*
Even in economics, we reap what we sow.

627 **What Is a Dollar?** *by Edwin Vieira, Jr.*
Does the U.S. Government have any idea what a "dollar" is?

631 **A Profit Without Honor** *by R. C. Sproul, Jr.*
"Profit" is not a four-letter word.

635 **Hoarders, Speculators, and Other Scapegoats** *by Roger Clites*
Hoarders, speculators, and savers perform a useful service for society.

637 **Correction, Please!—The Perversity of Wall Street** *by Mark Skousen*
Why is it that good news on Main Street is bad news on Wall Street? And vice versa?

639 **Book Reviews**
David M. Brown reviews *Are There Too Many Lawyers? And Other Vexatious Questions*, by Joseph S. Fulda; *The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy* by Hans-Hermann Hoppe, reviewed by N. Stephan Kinsella; *The Dream and the Nightmare: The Sixties Legacy to the Underclass* by Myron Magnet, reviewed by Lawrence Person; *Telecompetition: The Free Market Road to the Information Highway* by Lawrence Gasman, reviewed by Raymond J. Keating.

THE FREEMAN
IDEAS ON LIBERTY

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PERSPECTIVE

Our Continuing Duty

Editor's note: November 28, 1994, marks the 100th anniversary of the birth of Henry Hazlitt, renowned author of Economics in One Lesson *and Founding Trustee of FEE.*

In responding to the tributes of friends who had gathered for his 70th birthday celebration, Mr. Hazlitt issued a stirring challenge to defenders of freedom. Thirty years later, his words are even more appropriate:

I suppose most of you in this room have read that powerful book, George Orwell's *1984*. On the surface it is a profoundly depressing novel, but I was surprised to find myself strangely encouraged by it. I finally decided that this encouragement arose from one of the final scenes in it. The hero, Winston Smith, is presented as a rather ordinary man, an intelligent but not a brilliant man, and certainly not a courageous one. Winston Smith has been keeping a secret diary, in which he wrote: "Freedom is the freedom to say that two and two makes four." Now this diary has been discovered by the Party. O'Brien, his inquisitor, is asking him questions. Winston Smith is strapped to a board or a wheel, in such a way that O'Brien, by merely moving a lever, can inflict any amount of excruciating pain upon him (and explains to him just how much pain he can inflict upon him and just how easy it would be to break Smith's backbone). O'Brien first inflicts a certain amount of not quite intolerable pain on Winston Smith. Then he holds up the four fingers of his left hand, and says, "How many fingers am I holding up?" Winston knows that the required answer is five. That's the Party answer. But Winston can't say anything else but four. So O'Brien moves the lever again, and inflicts still more agonizing pain upon him, and says, "Think again. How many fingers am I holding up?" Winston Smith says, "Four. Four. Four fingers." Well, he finally capitulates, as you know, but not until he has put up a magnificent battle.

None of us is yet on the torture rack; we are not yet in jail; we're getting various harassments and annoyances, but what we mainly risk is merely our popularity, the danger that we will be called nasty names. So, before we are in the position of Winston Smith, we can surely have enough courage to keep saying that two plus two equals four.

This is the duty that is laid upon us. We have a duty to speak even more clearly and courageously, to work harder, and to keep fighting this battle while the strength is still in us. But I can't do better than to read the words of the great economist, the great thinker, the great writer, who honors me more than I can say by his presence here tonight, Ludwig von Mises. This is what he wrote in the final paragraph of his great book on socialism 40 years ago:

"Everyone carries a part of society on his shoulders; no one is relieved of his share of responsibility by others. And no one can find a safe way out for himself if society is sweeping towards destruction. Therefore, everyone, in his own interests, must thrust himself vigorously into the intellectual battle. None can stand aside with unconcern; the interests of everyone hang on the result. Whether he chooses or not, every man is drawn into the great historical struggle, the decisive battle into which our epoch has plunged us."

Those words—uncannily prophetic words—were written in the early 1920s. Well, I haven't any new message, any better message than that.

Even those of us who have reached and passed our 70th birthdays cannot afford to rest on our oars and spend the rest of our lives dozing in the Florida sun. The times call for courage. The times call for hard work. But if the demands are high, it is because the stakes are even higher. They are nothing less than the future of human liberty, which means the future of civilization.

—HENRY HAZLITT (1894–1993)

To commemorate Mr. Hazlitt's life and work, FEE has brought out new editions of several of his books. For further information, see this month's *Notes from FEE.*

A Beacon

For what I suppose are millions of readers, Henry Hazlitt's *Economics in One Lesson* continues to shine like a beacon in the dark night of liberal and statist nonsense. If the bureaucrats and politicians in Washington would just once ask Hazlitt's basic question, "What will be the long-range consequences of this action?", we might once again begin to have some hope for our nation's future. Alas, we continue to learn that economic wisdom is the last thing—or one of the last things—we can expect from those who worship at the shrine of big government and bad economics. Whenever we chance upon a graduate of America's schools who can read, we ought to consider placing in that youngster's hands a copy of Hazlitt's book. At least, this will give that student a fighting chance when he goes to do battle with the statists who reign supreme in what we still choose to call our colleges and universities.

—RONALD H. NASH

THE FREEMAN
IDEAS ON LIBERTY

Health Care and the Chronically Ill

by Hope Hodson

The health plans currently floating through Congress, which would financially coerce our poorest and sickest chronically ill into HMOs, will prove an unmitigated disaster. I have been a lupus patient for 27 years; for six years I served as a certified Lupusline counselor at the Hospital for Special Surgery in New York City. My own personal experience, as well as that of my many clients, has convinced me that HMO medical care causes unnecessary suffering and physical harm to the incurably ill.

Lupus is characterized by a totally unpredictable course which will vary greatly from one individual to another. Therefore, each patient's treatment must be individualized to their specific needs and symptoms. Our physicians are constantly on alert and respond whether it is 2:00 in the morning or during a Sunday football game. We develop close, long-term doctor/patient relationships, with an arsenal of specialists woven into a tight-knit care group. This care team must be specially trained in their specific disease area and be aware of all the numerous medications their patient is receiving. It takes years of trial and error to bring this team together.

With each illness progression, our doctors face the fact that their previous treatment is no longer working. They then truly practice the art of medicine—searching for the combination of medications which will save their patient's life. After the crisis passes, they must then find a way to help us adapt, not only to the damage done during the latest episode, but also to the side-effects of the drugs we now need. Our physicians are at the forefront of medical research, with each treatment a double-edged sword, requiring them to constantly balance its risk/benefit ratio.

So, what is my experience at HMOs and why am I so terrified that my fellow lupus patients and others with chronic ailments will be forced into them?

First, I have repeatedly found that HMO physicians and allied health providers lack a basic knowledge of lupus and other complex disorders. They often fail to diagnose these diseases, and when they do make the diagnosis, they fail to institute appropriate treatment. They routinely refuse to give referrals to specialists, because in their ignorance they deem it unnecessary. In addition, they misprescribe drugs, seemingly unaware of the vast array of dangerous medications their patients use.

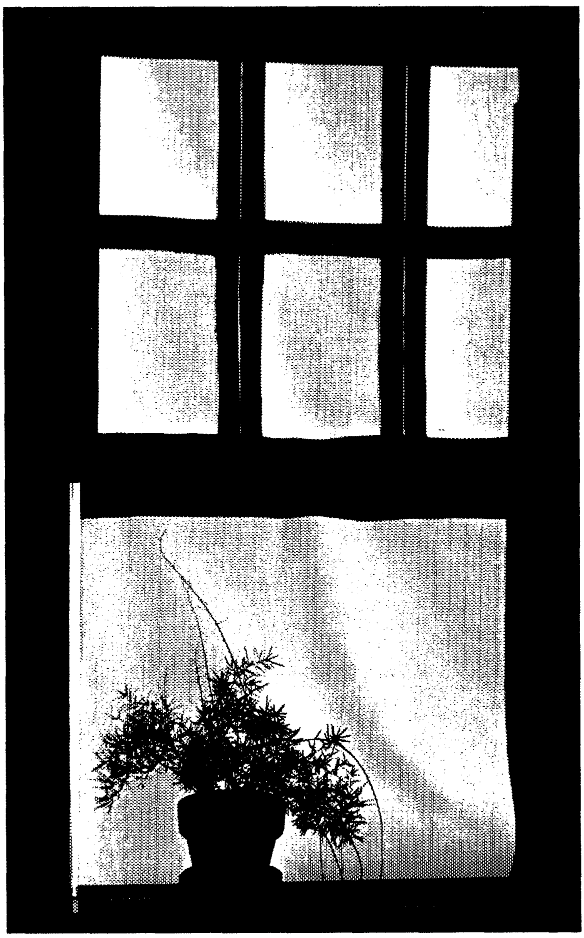
Secondly, the ten minutes HMOs allow for appointments is insufficient for almost anyone, but especially the seriously ill. In this hasty encounter, the doctor must do his review of patient history, ask any questions, conduct his examination, make his decision for appropriate treatment, and explain it all to the patient. With an incurable illness, this

Ms. Hodson resides in New York City.

cannot be done. Yet I have been told by HMO doctors that ten minutes is all the time they are allowed—regardless of medical need.

Lastly, there is uniformly a lack of continuity and consistency in care. I enlisted in an HMO eight years ago. During this period, I have never seen the same physician twice. In dermatology alone, I've had eight different doctors. I gave up any hope of ever receiving competent medical attention at this HMO last July. I called saying I had a rash on my face and was developing a bald spot on my head—symptoms indicating lupus activity and the need to see a dermatologist. With full knowledge that I have lupus, but lacking the ability to care for a lupus patient, I was given the first available appointment, three months in the future. I called my private-practice dermatologist who has cared for me for 23 years. He saw me that day, gave me a steroid shot and free samples of the prescriptions I needed.

Since my diagnosis, my team of private-practice physicians have responded daily to my many medical needs. Never have I had to wait for an appointment. Never have they failed to institute appropriate treatment. It is only because of this kind of dedicated care by my team of independent physicians that I am alive today. Had I been restricted to HMO care, I would not have survived. If medical care for the low and moderate income chronically ill is restricted to HMOs, I fear for my life and for the lives of those I counsel and care for. □



THE FREEMAN
IDEAS ON LIBERTY

Socialized Health-Care Nightmare

by Yuri Maltsev and Louise Omdahl

In 1918, the Soviet Union's universal "cradle-to-grave" health-care coverage, to be accomplished through the complete socialization of medicine, was introduced by the Communist government of Vladimir Lenin. "Right to health" was introduced as one of the "constitutional rights" of Soviet citizens. Other socioeconomic "rights" on the "mass-enticing" socialist menu included the right to vacation, free dental care, housing, and a clean and safe environment. As in other fields, the provision of health care was planned and delivered through a special ministry. The Ministry of Health, through its regional Directorates of Health, would pool and distribute centrally provided resources for delivery of medical and sanitary services to the entire population.

The "official" vision of socialists was clean, clear, and simple: all needed care would be provided on an equal basis to the entire population by the state-owned and state-managed health industry. The entire cost of medical services was socialized through the central budget. The advantages of this system were proclaimed to be that a fully socialized health-care system eliminates "waste" that stems to "unnecessary duplication and parallelism" (i.e., competition) while providing full coverage of all health-care problems from birth until death.

But as we have learned from our own separate experiences, the Russian health care system is neither modern nor efficient.

In contrast to the impression created by the liberal American media, health-care institutions in Russia were at least fifty years behind the average U.S. level. Moreover, the filth, odors, cats roaming the halls, and absence of soap and cleaning supplies added to an overall impression of hopelessness and frustration which paralyzed the system. The part of Russia's GNP destined for medical needs is negligible[1] and, according to our estimates, is less than 2.5 percent (compared to 14 percent in the United States, 11 percent in Canada, 8 percent in the U.K., etc.).

Polyclinics and hospitals in big cities have extremely large numbers of beds allotted for patients reflecting typical megalomania of bureaucratic planning. The number of beds in big cities would usually range from 800 to 5,000 beds. Despite the difference in average length of stay, less than one-half were utilized. In the United States hospital stays for surgery are three to seven days; in Russia stays average three weeks. American mothers typically leave the hospital a day or two after giving birth. New mothers in Russia

Dr. Maltsev gained his insight as an adviser to the last Soviet government on issues of social policy, including health care, and as a patient in the system. He teaches at Carthage College in Kenosha, Wisconsin. Louise Omdahl, a nursing educator and manager, is actively involved in humanitarian assistance through nursing contacts in Russia and has visited numerous Russian health-care facilities.

remain for at least a week. It was explained that the length of stay was necessary due to unavailability of follow-up care after hospitalization. A physician was reluctant to discharge a patient before the majority of healing had occurred. In addition, there was no financial incentive for early discharge, as reimbursement was directly related to *number* of "patient-days," not the *necessity* for those days.

Scarce Supplies, Inadequate Personnel

Supplies are painstakingly scarce—surgeries at a major trauma-emergency center in Moscow that we observed had no oxygen supply for an entire floor of operating rooms. Monitoring equipment consisted of a manual blood pressure cuff, no airway, and no central monitoring of the heart rate. Intravenous tubing was in such poor condition that it had clearly been reused many times. The surgeon's gloves were also reused and were so stretched that they slid partially off during the surgery. Needles for suturing were so dull that it was difficult to penetrate the skin. All of this took place in 95 degree F temperature with unscreened windows open; though the hospital was built less than twenty years ago, there was no air conditioning.

Utilization of medical/nursing personnel was very different from our model. The ratio of nurses to patients in the ordinary hospitals was 1 to 30, compared to 1 to 5 in the United States. Duties of the nurse ranged from housekeeping to following medical orders. When asked for her "best nurse," a head nurse in Moscow helped a young woman up from scrubbing the floor. Five minutes later she was practicing intravenous insertions with equipment donated by us. Both of these functions were in her "job description," however unofficial that may be. Nurses are unlicensed and are not considered an independent profession in Russia. As a result, all their duties are delegated, with assessment and most documentation completed by physicians. The education of nurses occurs at an age comparable to the last two to three years of American high school.[2] Nurses are educated by physicians, not other nurses. A separate body of scientific knowledge in nursing does not exist.

The role of a patient advocate, heavily assumed by nurses in the United States was distinctly lacking in Russia. Nurses were subjugated to medical bureaucracy. Patients' rights and patients' privacy were all but ignored. There is no legal mechanism to protect patients from malpractice. To our amazement we were asked to photograph freely in patient-care settings without seeking patient consent. Patient education and informed consent were dismissed by the socialized system as an unnecessary increase in time and the cost of care. If the society does not respect individual rights in general, it would not do it in hospitals. The Russian medical oath protects the "good of the people," not necessarily the "good of the person."[3]

Apathy and Irresponsibility

Widespread apathy and low quality of work paralyzed the health-care system in the same way as all other sectors of Russian economy. Irresponsibility, expressed by a popular Russian saying ("They pretend they are paying us and we pretend we are working.") resulted in the appalling quality of the "free" services, widespread corruption, and loss of life. According to official Russian estimates, 78 percent of all AIDS victims in Russia contracted the virus through dirty needles or HIV-tainted blood in the state-run hospitals. To receive minimal attention by doctors and nursing personnel the patient was supposed to pay bribes. Dr. Maltsev witnessed a case when a "non-paying" patient died trying to reach a lavatory at the end of the long corridor after brain surgery. Anesthesia usually would "not be available" for abortions or minor ear, nose, throat, and skin surgeries, and was used as a means of extortion by unscrupulous medical bureaucrats. Being a People's Deputy in the Moscow region in 1987–89, Dr. Maltsev received many complaints about criminal negligence, bribes taken by medical apparatchiks, drunken ambulance crews, and food poisoning in hospitals and child-care facilities.

Not surprisingly, government bureaucrats and Communist party officials as early as 1921 (two years after Lenin's socialization of medicine) realized that the egalitarian system of health care is good only for their personal interest as providers, managers, and rationers, but not as private users of the system. So, in all countries with socialized medicine we observe a two-tier system—one for the "gray masses," and the other, with a completely different level of service for the bureaucrats and their intellectual servants. In the USSR it was often the case that while workers and peasants would be dying in the state hospitals, the medicines and equipment which could save their lives were sitting unused in the nomenklatura system.[4]

A "Privileged Class"?

Western admirers of socialism would praise Russia for its concern with the planned "scientific" approach to childbearing and care of children. "There is only one privileged class in Russia—children," proclaimed Clementine Churchill on her visit to a showcase Stalinist kindergarten in Moscow in 1947. The real "privileged class"—Stalin's nomenklatura—were so pleased with the wife of the "chief imperialist" Winston Churchill that they awarded her with an "Order of the Red Banner." Facts, however, testify to the opposite of Mrs. Churchill's opinion. The official infant mortality rate in Russia is more than 2.5 times as large as in the United States and more than five times that of Japan. The rate of 24.5 deaths per 1,000 live births was questioned recently by several deputies to the Russian Parliament who claim that it is seven times higher than in the United States. This would make the Russian death rate 55 compared to the U.S. rate of 8.1 percent per 1,000 live births. In the rural regions of Sakha, Kalmykia, and Ingushetia, the infant mortality rate is close to 100 per 1,000 births, putting these regions in the same category as Angola, Chad, and Bangladesh. Tens of thousands of infants fall victim to influenza every year, and the proportion of children dying from pneumonia is on the increase. Rickets, caused by a lack of vitamin D and unknown in the rest of the modern world, is killing many young people.[5] Uterine damage is widespread, thanks to the 7.3 abortions the average Russian woman undergoes during childbearing years.

After seventy years of socialist economizing, 57 percent of all Russian hospitals do not have running hot water, while 36 percent of hospitals located in rural areas of Russia do not have water or sewage. Isn't it amazing that socialist governments, while developing sophisticated systems of weapons and space exploration would completely ignore basic human needs of their citizens? "It was no secret that on many occasions in the past 70 years, workers' health had been sacrificed to the needs of the economy—although the cost of treating the resulting diseases had eventually outweighed the supposed gains,"[6] stated Russian State Public Health Inspector E. Belyaev.

Man-made ecological disasters like catastrophes at nuclear power stations near Chelyabinsk and then Chernobyl, the literal liquidation of the Aral Sea, serious contamination of the Volga River, Azov Sea and great Siberian rivers, have made unbearable the quality of life both in the major cities and the countryside. According to Alexei Yablokov, the Minister for Health and Environment of the Russian Federation, 20 percent of the people live in "ecological disaster zones," and an additional 35–40 percent in "ecologically unfavorable conditions."[7] As a sad legacy of the socialist experiment, we observe a marked decline in the population of Russia and experts predict a continuation of this trend through the end of the century. From Russian State Statistical Office data, it appears that in 1993 there were 1.4 million births and 2.2 million deaths. Because of inward migration of Russians from the "near abroad"—former "republics" of the Soviet empire, the net fall in population was limited to 500,000. The dramatic rise in mortality and significant decline in fertility is attributed primarily to the appalling quality of health services, and the deteriorating environment. The head of the Department of Human Resources reckons that the fertility index will remain at around 1.5 until the end of the century, whereas an index of 2.11 would be necessary to maintain the present population.[8] But, "the only lesson of history is that it does not teach us anything" says a popular Russian aphorism. Despite the obvious collapse of socialist medicine in Russia, and its bankruptcy everywhere else, it is still alive and growing in the United States. It possesses a mortal danger to freedom, health, and the quality of life for us and generations to come.

Incentives Matter

The chief reason for the dire state of the Russian health-care system is the incentive structure based on the absence of property rights. The current lack of goods and education within health care has caused Russians to look to the United States for assistance and guidance. In 1991 Yeltsin signed into law a Proposal for Insurance Medicine.[9] The intent is to privatize the health-care system in the long run and decentralize medical control. "The private ownership of hospitals and other units is seen as a critical determining factor of the new system of 'insurance' medicine."[10] It is moving to the direction the United States is leaving—less government control over health care. While national licensing and accreditation within health-care professions and institutions are still lacking in Russia, they are needed for self-governance as opposed to central government control.

Decay and the appalling quality of services is characteristic of not only "barbarous" Russia and other Eastern European nations, it is a direct result of the government monopoly on health care. In "civilized" England, for example, the waiting list for surgery is nearly 800,000 out of a population of 55 million. State of the art equipment is non-existent in most British hospitals. In England only 10 percent of the health-care spending is derived from private sources. Britain pioneered in developing kidney dialysis technology, and yet the country has one of the lowest dialysis rates in the world. The Brookings Institution (hardly a supporter of free markets) found 7,000 Britons in need of hip replacement, between 4,000 and 20,000 in need of coronary bypass surgery, and some 10,000 to 15,000 in need of cancer chemotherapy are denied medical attention in Britain each year.[11] Age discrimination is particularly apparent in all government-run or heavily regulated systems of health care. In Russia patients over 60 years are considered worthless parasites and those over 70 years are often denied even elementary forms of the health care. In the U.K., in the treatment of chronic kidney failure, those who were 55 years old were refused treatment at 35 percent of dialysis centers. At age 65, 45 percent at the centers were denied treatment, while patients 75 or older rarely received any medical attention at these centers. In Canada, the population is divided into three age groups—below 45; 45–65; and over 65, in terms of their access to health care. Needless to say, the first group, who could be called the "active taxpayers," enjoy priority treatment.

Socialized medicine creates massive government bureaucracies, imposes costly job-destroying mandates on employers to provide the coverage, imposes price-controls which will inevitably lead to shortages and poor quality of service. It could lead to non-price rationing (i.e., based on political considerations, corruption, and nepotism) of health care by government bureaucrats. Socialized medical systems have not served to raise general health or living standards anywhere. There is no analytical reason or empirical evidence that would lead us to expect it to do so. And in fact both analytical reasoning and empirical evidence point to the opposite conclusion. But the failure of socialized medicine to raise health and longevity has not affected its appeal for politicians, administrators, and intellectuals, that is, for actual or potential seekers of power. □

1. Pavel D. Tichtchenko and Boris G. Yudin, "Toward a Bioethics in Post-Communist Russia," *Cambridge Quarterly of Healthcare Ethics*, No. 4, 1992, p. 296.
2. C. Fleischman and V. Lubamudrov, "Heart to Heart: Teaching Pediatric Cardiology and Cardiac Surgery to Nurses in St. Petersburg, Russia," *Journal of Pediatric Nursing*, Vol. 8, No. 2, April, 1993, p. 135.
3. Pavel D. Tichtchenko and Boris G. Yudin, "Toward a Bioethics in Post-Communist Russia," *Cambridge Quarterly of Healthcare Ethics*, No. 4, 1992, p. 298.
4. Here in the United States the system of fully socialized medicine is not yet complete, but we already observe the "parallel" system of health care for bureaucrats who enjoy coverage practically unseen in the private sector. Referring to this system, Dr. Stuart Butler of the Heritage Foundation remarked: "Why reinvent the wheel? If a working health-care system already exists, that's good enough for official Washington, why not to use it as our model, improve upon it and let the rest of America enjoy the same kind of program as members of Congress and Clinton's White House staff." *Heritage Today*, Winter 1994, p. 4.
5. N. Eberstadt, *The Poverty of Communism* (New Brunswick: Transaction Books, 1990), p. 14–15.
6. *The Lancet*, Vol. 337, June 15, 1991, p. 1469.
7. *The Economist*, November 4, 1989, p. 24.
8. *Radio Free Europe-Radio Liberty Daily Report*, February 16, 1994.
9. George Schieber, "Health Care Financing Reform in Russia and Ukraine," *Health Affairs*, Supplement 1993, p. 294.
10. Michael Ryan, "Health Care in Moscow, *British Medical Journal*, Vol. 307, September 1993," p. 782.
11. Joseph L. Bast, Richard C. Rue, and Stuart A. Wesbury, Jr., *Why We Spend Too Much on Health Care and What We Can Do About It* (Chicago: The Heartland Institute, 1993), p. 101.

THE FREEMAN
IDEAS ON LIBERTY

The Immorality of Government-Mandated Health Care

by Paul A. Cleveland

As America's politicians debate the issue of health-care reform, one element seems strangely missing from their deliberations: the question of the morality of government-mandated health insurance. Is it moral for government to institute such insurance or to force employers to provide it? The current debate assumes that it is. Discussion has centered primarily on how far coverage can be extended, with no effort to defend the *morality* of mandated coverage.

To examine the morality of the proposed health reform we must ask the following questions: What is the role of government and what are its moral bounds? Also, how do these bounds apply to the current health-care reform debate? If, in this examination, it is discovered that government has no proper authority to insure the availability of goods and services generally, then all health-care reform proposals seeking to establish the provision of health insurance should be rejected.

The uncritical acceptance of the proposition that a major purpose of government is to insure the provision of some goods or services is related to another popularly held proposition. That notion, either conscious or unconscious, is that government can miraculously generate resources to provide for people's needs. But, how is that possi-

Dr. Cleveland is Professor of Economics and Finance at Birmingham-Southern College in Alabama.

ble? Can government actually create material prosperity where none existed beforehand? Can it cause by fiat an increase in the number and kinds of products produced without harm? It should be self-evident that the answer to these questions is no. Government cannot create by mandate. It relies on its power of taxation and coercion to provide material benefits to selected citizens. In order for it to provide some benefit for an individual it must impose a cost of equal or greater value either on that individual or on someone else. Nevertheless, the mythical concept that government can provide cost-free benefits continues largely on the basis of wishful thinking and covetousness.

No Consumption Without Production

In reality there is no effortless production of anything. We can only consume that which is produced by the sweat of someone's brow. Furthermore, our government was not primarily instituted for the purpose of production. Its primary role with respect to the economy is to punish people who use force and deceit for their own gain. History is testimony to the extent to which some individuals will inflict pain and hardship on others in order to obtain what they desire. Thus government's primary role as an institution is to thwart this behavior by punishing the perpetrators of injustice. To that end, government uses force. Citizens are required to pay taxes to support the police function of government since society benefits from the ensuing order and peace which allow for civil relations among people.

Regrettably, this same force can be put to illegitimate ends. This occurs when the government begins to play favorites among the citizens by extending benefits to some while confiscating property or curbing the rights of others. The most obvious contemporary cases revolve around the many welfare programs established by the government. Benefits are extended to some by taxing away income from others. The costs of such benefits always exceed the costs of purchasing the benefits directly because of the bureaucratic overhead needed to administer the programs. Current health-care reform plans follow the same approach. Therefore, the question of the morality of any government provision of health care, or of mandated health insurance, can only be resolved by considering whether or not government redistribution of wealth is justified.

Do the Ends Justify the Means?

It is tempting to say that the ends aimed for are good and argue, therefore, that such government action is good. After all, what decent person would not desire to see some basic provision of food, clothing, or needed medical care provided for all those who could not pay? But to conclude that government intervention is good on this basis is to argue that the ends justify the means. The ends, in and of themselves, are not a sufficient reason for concluding that government provision of goods and services is just.

I recently had a conversation with a fellow professor about the health-care situation. My colleague expressed the common view. She argued that adequate health care is a right, "because we are human." But such a statement begs the question: How does being human, in and of itself, generate any rights? It is clear that being human alone cannot justify any rights for humans. David Hume once noted that "the rules of morality are not the conclusions of our reason." Therefore, if we carry Hume's statement to its logical conclusion, we must conclude that if any human rights exist, they exist only as they have been endowed. Thus rights must be defined apart from ourselves. Ultimately they must be defined by the One who has the power of being in and of Himself, since He alone is in a position to establish such license. We are then dependent upon His proclamation of right and wrong to discern the rights of the individual. Apart from such an endowment, there are no rights! This view was expressed in the Declaration of Independence as well as many other writings and documents of the time.

Rights of Individuals

What are an individual's rights? As expressed in the Declaration, the individual is endowed with the right to life, liberty, and pursuit of happiness. These rights allow each individual to use his talents and his property freely to the ends he personally has in mind so long as he does not violate the rights of others. In this context, people can voluntarily interact and trade with others on mutually agreeable terms to further their own interests.

The Judeo-Christian heritage substantially affirms this understanding of individual rights. The Bible requires its reader to respect the property rights of others. "Thou shall not steal,"[1] and, "Cursed is the man who moves his neighbor's boundary stone,"[2] are its admonishments. In other places the Scriptures encourage hard work and honest dealings with others. Taken as a whole, the Bible prohibits the use of force to obtain what we wish to consume for ourselves. But this is exactly what transpires when government mandates a plan to provide health care services to everyone! As already shown, the government by definition employs force. It is a coercive institution. Thus when government begins the process of providing, or mandating the provision of, goods and services in society, it ceases to perform its primary function of thwarting and punishing wrongdoers and actually begins to participate in the very plunder that it was supposed to stop. By using force to take from one person in order to give to another, it is involved in stealing.

Why has government more and more compromised its position by engaging in legal plunder when it is clear that such action is wrong? There are two reasons.[3] The first is selfishness. People would rather have someone else pay for their consumption than work hard and purchase things for themselves. This is as true for health care as it is for any other consumable. This was demonstrated during the last presidential campaign when a man phoned a radio talk show. Bill Clinton was well ahead of George Bush in the polls and he had promised to bring about government-mandated universal health insurance. To this situation the man proclaimed, "I can't wait 'til Bill Clinton is elected president and gets his health-care reform through Congress. Then I won't have to pray to God that my children don't get sick."

The caller had no intention of revealing his true character that day; but he did. In his proclamation we find a deeper problem. It is not that he lacks health insurance or that he cannot afford medical care. The real problem is that he does not want to pay for it himself. Rather, he wants someone else to pay, not as a matter of mercy shown to him, but as a matter of coercive force. Selfishness which leads to systematic thievery will destroy a nation. A nation can survive and prosper when there are a few thieves, but as more people leave productive endeavors to participate in government largess, production wanes and economic hardships increase. This is the inevitable outcome of all government schemes aimed at providing some benefit for some citizens at the expense of others.

The second is perhaps the most pervasive reason for the government's drift toward promoting welfare programs in general, and for its current consideration of mandating the provision of universal health insurance. Americans have traditionally been compassionate. Generosity for those in need has been a hallmark feature of the American experience. Private charities, churches, nonprofit organizations, and the volunteerism associated with them have been a salient feature of our culture. Stated simply, the American people have a passion for helping out those in need. This spirit is the reason why most of our hospitals developed as nonprofit institutions. Yet it is this very passion which threatens to undermine the fabric of our society when charity is pursued by way of governmental mandate.

It is not hard to see how this situation can arise. At any given point in time, the available resources to meet our ends are always limited. That is, we can always imagine a better circumstance than the one we are presently in. If this is true for individuals, how much more true is it for voluntary groups seeking to do good? It is, therefore, easy to see the temptation facing people who desire to show mercy and compassion toward others: to use voluntary contributions to lobby for government action rather than devoting them directly to the cause in mind. If the efforts are successful, the organization can tap into the much larger pool of resources available in the public treasury to promote their cause. If passion for the cause blurs their vision, then they may well use government force and, as a result, inflict harm upon the neighbors they aim to help. Such is the state of American "do-goodism" in the twentieth century—coercive charity.

This movement has been greatly aided by the religious community. One cannot read the Bible for long without realizing that it calls its followers to show mercy and compassion toward others. As a result, well-meaning people have often pushed for government intervention because they see the public treasury as the only institution which has a pool of funds large enough to meet the need. However, the Bible never suggests that the government is the means through which mercy is to be shown. Actually, the evidence indicates that such action is more than inappropriate. When Satan offered to place Jesus in political control of the kingdoms of the earth, Jesus rejected the offer arguing that it was sin to have other gods above God.[4] Jesus understood that mercy and compassion are voluntary responses motivated by love and that no government is capable of forcing people to love their neighbors. He understood that any such attempts were nothing more than a false image intended to mimic the real thing.

National health-care insurance, or its mandated provision, is unjust. It is nothing more than a forced charity, which is no charity at all. In this vein we might flatter ourselves into believing that we are doing good works, but it simply is not true. True mercy is extended as a matter of voluntary choice. It is not forced. Government mandates which require some to provide for others is false philanthropy. It is fundamentally selfishness unleashed and it will thwart future prosperity. If health insurance is extended the quality of medical care will decline. The end result will be exactly the opposite of what such schemes purport to offer. Instead of provision and prosperity, pain and hardship will follow. □

1. Exodus 20:15.
2. Deuteronomy 27:17.
3. Frederic Bastiat refers to these two reasons for government involvement beyond its real purpose in his book, *The Law* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1950).
4. See Luke 4:1–13.

Legal Plunder

IDEAS ON LIBERTY

How is . . . legal plunder to be identified? Quite simply. See if the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime.

Then abolish this law without delay, for it is not only an evil itself, but also it is a fertile source for further evils because it invites reprisals. If such a law—which may be an isolated case—is not abolished immediately, it will spread, multiply, and develop into a system.

—FREDERIC BASTIAT, *The Law*

THE FREEMAN
IDEAS ON LIBERTY

What NBC Didn't Tell You About Health-Care Reform

by Jane M. Orient

How much education will $2.5 million buy on prime-time network television?

The NBC two-hour special "To Your Health," aired June 21, promised to provide a "vigorous, energetic discussion" that would "speak clearly" about "the most complex issue in our lifetime." The sponsor was the Robert Wood Johnson Foundation (RWJF), the nation's second largest tax-exempt philanthropic organization.

RWJF has played a crucial role enabling the passage of health-care reform legislation in various states. Key members of the President's Task Force on Health Care Reform also were funded by RWJF. (The secret war-room operation of the Task Force is being challenged in federal court as a government violation of the Sunshine laws, in the case of *Association of American Physicians and Surgeons*, et al., *versus Hillary Rodham Clinton*, et al.)

The sponsor's role in the televised "town hall" was simply to provide money for education. NBC was responsible for the content of the program—except for choosing the general subject matter.

RWJF did *not* fund a program on rising illiteracy, declining morals, welfare-state failures, government corruption, or other pressing issues. Just coincidentally, the subject involves a mammoth piece of legislation that the Administration is desperate to pass—urgently, quickly, before potential patients find out what it will do to them. The star of the show was the foremost proponent of that legislation: Hillary Rodham Clinton.

The vigorously stage-managed presentation had some huge blind spots. The most important one was what *health-care* reform would do to the patients who told their sad stories to a national audience.

Naturally, the audience would assume that *health-care* reform is supposed to *help* people who have lost their insurance and come down with cancer.

Not so.

The reformers stated their agenda, but you might not have understood: our current system has a *sickness* orientation. They want to change it to a *health-care* or *wellness* orientation.

What does this mean to a person who cannot benefit from a school-based clinic, a blood-pressure check, or a substance abuse program? What about that uninsured, wheelchair-bound man who was too ill to come into the auditorium?

A spokeswoman for the model Oregon rationing program, a featured panelist, could have told the audience what was in store for that man under *her* program. But she didn't. And people like me, who provided "balance" by sitting in our assigned seats in the audience, were not allowed to ask her.

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On the Oregon Prioritized List of Physical Health Services, "cancer with distant metastases" (the man had lung cancer that had spread to his brain) is number 672 out of about 700.

The man in the wheelchair was bald due to the chemotherapy he had received, albeit with a few weeks' delay. According to the narrator, he had accumulated some $30,000 in medical bills, which probably will never be paid. (That's about one percent of the cost of the television program. But don't bother to apply to the RWJF for a grant. As a matter of policy, they do not help individuals.)

Under the Oregon plan, the man might have been in a coffin, but at least he would still have hair. His wife wouldn't have medical bills to worry about—although she might have less money because of being forced to pay premiums for the "health" plan.

The $30,000 that might have paid for this patient's care would be allocated to things with a higher social priority: for example, sterilization operations (number 88–89); preventive services (141 and 174); abortions (279); and the bureaucratic infrastructure to enforce the priorities.

For its cynical (or unthinking) exploitation of human tragedy, NBC's educational effort merits an "F."

There were also other failings. The spectrum of views was by no means complete.

The featured dissenters were zealous and disruptive advocates of a government takeover of insurance and medicine (the "single-payer" system).

On the other side, small business executives spoke eloquently about the harmful effects of employer mandates. Unfortunately, some viewers might conclude that hardened businessmen were the only obstacle standing between health care and the poor. It is hard to find someone with the insight to say, "I lost my job because the government ruined my employer's business, and now I'm on welfare."

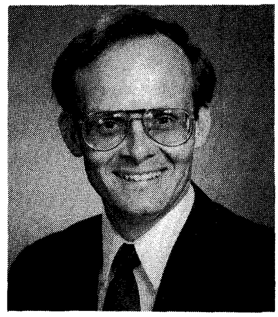
Senators Dole and Mitchell provided an appearance of bipartisan balance by sitting together on the stage and saying very little. Senator Mitchell spoke glowingly of the success of Medicare, despite its monstrous costs and NBC's technically brilliant exhibition of its paperwork forest.

Absent from the discussion (save for the briefest mention of Medical Savings Accounts) was any proposal to replace the current system of prepaid consumption with economically sound insurance. *No one* spoke of the proven benefits of putting decisions—and money—back in the hands of *patients*, wresting it away from the new elite managerial class that has caused much of our current problem.

There is one way to defeat this idea, which can reduce costs while preserving freedom: keep it a secret.

After viewing the NBC program, on location and on television, I would revise my question:

How much propaganda value can $2.5 million in tax-exempt educational funding buy? □



Of Meat and Myth

Advocates of the spontaneous order of freedom and free markets are forever stomping out the fires of fallacious reasoning, anti-capitalist bias, and twisted history. It seems that as soon as we put out one fire, opponents of the market manage to ignite ten others.

We spend as much time explaining the workings of the market as we do debunking myths and clichés about it. Statists and interventionists spout an endless stream of put-downs and one-liners that pass as thorough critiques of the market, each one requiring a time-consuming, painstaking response and appeal to reason. We are constantly rewriting prejudiced accounts of history to match what really happened.

Nearly ninety years ago, muckraking novelist Upton Sinclair wrote a book titled *The Jungle* which wove a tale of greed and abuse that reverberates to this day as a powerful case against laissez faire. Sinclair's focus of scorn was the meatpacking industry. The objective of his effort was government regulation. The culmination of his work was the passage in 1906 of the famed Meat Inspection Act, enshrined in most history books as a sacred cow (excuse the pun) of the interventionist state.

Were Sinclair's allegations of a corrupt industry foisting unhealthy products on an unsuspecting public really true? And if so, should the free market stand forever indicted and convicted as a result? A response from advocates of freedom is long overdue. Here's a healthy start.

The Jungle was, first and foremost, a novel. It was intended to be a polemic—a diatribe, if you will—and not a well-researched and dispassionate documentary. Sinclair relied heavily on both his own imagination and on the hearsay of others. He did not even pretend to have actually witnessed the horrendous conditions he ascribed to Chicago packinghouses, nor to have verified them, nor to have derived them from any official records.

Sinclair hoped the book would ignite a powerful socialist movement on behalf of America's workers. The public's attention was directed instead to his fewer than a dozen pages of supposed descriptions of unsanitary conditions in the meatpacking plants. "I aimed at the public's heart," he later wrote, "and by accident I hit it in the stomach."[1]

Though his novelized and sensational accusations prompted later congressional investigations of the industry, the investigators themselves expressed skepticism of Sinclair's integrity and credibility as a source of information. President Theodore Roosevelt wrote of Sinclair in a letter to William Allen White in July 1906, "I have an utter contempt for him. He is hysterical, unbalanced, and untruthful. Three-fourths of the things he said were absolute false-

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hoods. For some of the remainder there was only a basis of truth."[2]

Sinclair's fellow writer and philosophical intimate, Jack London, wrote this announcement of *The Jungle,* a promo that was approved by Sinclair himself:

> Dear Comrades: . . . The book we have been waiting for these many years! It will open countless ears that have been deaf to Socialism. It will make thousands of converts to our cause. It depicts what our country really is, the home of oppression and injustice, a nightmare of misery, an inferno of suffering, a human hell, a jungle of wild beasts.
>
> And take notice and remember, comrades, this book is straight proletarian. It is written by an intellectual proletarian, for the proletarian. It is to be published by a proletarian publishing house. It is to be read by the proletariat. What *Uncle Tom's Cabin* did for the black slaves *The Jungle* has a large chance to do for the white slaves of today.[3]

The Jungle's fictitious characters tell of men falling into tanks in meatpacking plants and being ground up with animal parts, then made into "Durham's Pure Leaf Lard." Historian Stewart H. Holbrook writes, "The grunts, the groans, the agonized squeals of animals being butchered, the rivers of blood, the steaming masses of intestines, the various stenches . . . were displayed along with the corruption of government inspectors"[4] and, of course, the callous greed of the ruthless packers.

Most Americans would be surprised to know that government meat inspection did not begin in 1906. The inspectors Holbrook refers to as being mentioned in Sinclair's book were among *hundreds* employed by federal, state, and local governments for more than a decade. Indeed, Congressman E. D. Crumpacker of Indiana noted in testimony before the House Agriculture Committee in June 1906 that *not even one* of those officials "ever registered any complaint or [gave] any public information with respect to the manner of the slaughtering or preparation of meat or food products."[5]

To Crumpacker and other contemporary skeptics, "Either the Government officials in Chicago [were] woefully derelict in their duty, or the situation over there [had been] outrageously over-stated to the country."[6] If the packing plants were as bad as alleged in *The Jungle,* surely the government inspectors who never said so must be judged as guilty of neglect as the packers were of abuse.

Some two million visitors came to tour the stockyards and packinghouses of Chicago every year. Thousands of people worked in both. Why is it that it took a novel written by an anti-capitalist ideologue who spent but a few weeks there to unveil the real conditions to the American public?

All of the big Chicago packers combined accounted for less than 50 percent of the meat products produced in the United States; few if any charges were ever made against the sanitary conditions of the packinghouses of other cities. If the Chicago packers were guilty of anything like the terribly unsanitary conditions suggested by Sinclair, wouldn't they be foolishly exposing themselves to devastating losses of market share?

Historians with an ideological axe to grind against the market usually ignore an authoritative 1906 report of the Department of Agriculture's Bureau of Animal Husbandry. Its investigators provided a point-by-point refutation of the worst of Sinclair's allegations, some of which they labeled as "willful and deliberate misrepresentations of fact," "atrocious exaggeration," and "not at all characteristic."[7]

Instead, some of these same historians dwell on the Neill-Reynolds Report of the same year because it at least tentatively supported Sinclair. It turns out that neither Neill nor Reynolds had any experience in the meatpacking business and spent a grand total of two and one-half weeks in the spring of 1906 investigating and preparing what turned out to be a carelessly-written report with preconceived conclusions. Gabriel Kolko, a socialist but nonetheless an historian with a respect for facts, dismisses Sinclair as a propagandist and assails Neill and Reynolds as "two inexperienced Washington bureaucrats who freely admitted they knew nothing"[8] of the meatpacking process. Their own subsequent testimony revealed that they had gone to Chicago with the intention of finding fault with industry practices so as to get a new inspection law passed.[9]

As popular myth would have it, there were no government inspectors before Congress acted in response to *The Jungle* and the greedy meatpackers fought federal inspection all the way. The truth is that not only did government inspection exist, but meatpackers themselves supported it and were in the forefront of the effort to extend it!

When the sensational accusations of *The Jungle* became worldwide news, foreign purchases of American meat were cut in half and the meatpackers looked for new regulations to give their markets a calming sense of security. The only congressional hearings on what ultimately became the Meat Inspection Act of 1906 were held by Congressman James Wadsworth's Agriculture Committee between June 6 and 11. A careful reading of the deliberations of the Wadsworth committee and the subsequent floor debate leads inexorably to one conclusion: Knowing that a new law would allay public fears fanned by *The Jungle,* bring smaller competitors under regulation, and put a newly laundered government stamp of approval on their products, the major meatpackers strongly endorsed the proposed act and only quibbled over who should pay for it.

In the end, Americans got a new federal meat inspection law. The big packers got the taxpayers to pick up the entire $3 million price tag for its implementation as well as new regulations on their smaller competitors, and another myth entered the annals of anti-market dogma.

To his credit, Upton Sinclair actually opposed the law because he saw it for what it really was—a boon for the big meatpackers.[10] Far from a crusading and objective truth-seeker, Sinclair was a fool and a sucker who ended up being used by the very industry he hated.

Myths die hard. What you've just read is not at all "politically correct." But defending the market from historical attack begins with explaining what really happened. Those who persist in the shallow claim that *The Jungle* stands as a compelling indictment of the market should clean up their act because upon inspection, there seems to be an unpleasant odor hovering over it. □

The author wishes to thank Professor Timothy G. Nash of Northwood University in Midland, Michigan, for his research assistance in the preparation of this column.

1. Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916* (Chicago: Quadrangle Books, 1967), p. 103.
2. Roosevelt to William Allen White, July 31, 1906, Elting E. Morison and John M. Blum, editors, *The Letters of Theodore Roosevelt*, 8 vols. (Cambridge: Harvard University Press, 1951–54), vol. 5, p. 340.
3. Mark Sullivan, *Our Times: The United States, 1900-1925*; vol. 2: *America Finding Herself* (New York: Charles Scribner's Sons, 1927), p. 473.
4. Stewart H. Holbrook, *The Age of the Moguls* (Garden City, N.Y.: Doubleday & Company, Inc., 1953), pp. 110–111.
5. U.S. Congress, House, Committee on Agriculture, *Hearings on the So-called "Beveridge Amendment" to the Agriculture Appropriation Bill*, 59th Congress, 1st Session, 1906, p. 194.
6. *Ibid.*
7. *Ibid.*, pp. 346–350.
8. Kolko, p. 105.
9. *Hearings*, p. 102.
10. Upton Sinclair, "The Condemned-Meat Industry: A Reply to Mr. J. Ogden Armour," *Everybody's Magazine*, XIV, 1906, pp. 612–613.

THE FREEMAN
IDEAS ON LIBERTY

Four Myths About America's Great Depression

Ronald H. Nash

America's Great Depression is often cited as the primary example of the failure of free market economics. According to the official liberal interpretation of the Depression, both the economic collapse that began in 1929 and the nation's eventual recovery prove that the American government must never again allow its economy to operate in a free market mode. The common view is that the 1920s in America was a period of unbridled free enterprise. In order to restore stability to the nation's economy and bring the nation out of the depths of the Depression, the government had to step in and do what businessmen could not or would not do to correct the weaknesses of the free market system. The decade of the 1930s proves the importance of governmental control over the economy and justifies continuing interventionist or statist measures.

It would be difficult to imagine an explanation that is more in conflict with the evidence. This essay will examine four myths that ground this mistaken explanation of the Depression. Once the myths are recognized for what they are—an intentional distortion of the truth—one of the major ploys used by academicians and politicians to deceive the American people into supporting bigger government will be exposed.

Myth Number One: The Case of Business Cycles

The first myth can be summarized as follows: *A free market is notoriously unstable and leads inevitably to economic cycles in which periods of prosperity are followed by recessions and depressions. These irregularities in a nation's economy can be either eliminated or made less severe by proper government intervention.*

The recurrence of business cycles is one of the most frequently cited reasons for the need of governmental intervention with the economy. The often unstated and always unproven assumption behind this claim is that business cycles and, more specifically, economic depressions are caused by free market economics. This assumption is clearly false.

Business cycles in general and depressions in particular are caused not by free markets, but by governmental intervention with a nation's economy, specifically with its money supply. As nations expand credit and the money supply, a pattern becomes apparent. First, there is a governmentally induced period of economic expansion as

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easy credit and a larger money supply mislead businessmen into making bad investments. Markets unhampered by governmental intervention keep sending signals to astute investors and entrepreneurs. The rise or decline in prices along with the cost of borrowing money (interest rates) can tell a wise investor whether a particular opportunity is a good risk at that particular time. But governmental intervention in the form of monetary and credit expansion affects the reliability of normal market signals. Interest rates may be artificially (and temporarily) reduced while inflation causes many prices to rise. The rise in prices eventually affects the prices of capital goods required for business expansion. This increase in business costs finally affects the profitability of many businesses, leading them to find ways to cut costs. In the later stages of the boom, interest rates begin to rise, which also increases the cost of doing business and often affects loans incurred when money was much cheaper.

Because governmental intervention with the economy sends the wrong signals to businessmen and investors, their subsequent investment in the wrong things at the wrong time makes a day of reckoning inevitable. While that day can be postponed by even more expansion of credit, it cannot be postponed forever. When the quantity and degree of bad investments in any economy passes a certain point, the economy can no longer absorb them. Ventures must be terminated; businesses must be closed; bills must be left unpaid; workers must be laid off; unemployment will increase; savings will be depleted.

A recession or depression therefore is a necessary step in an economy's return to normal after the misinformation and distortions caused by monetary inflation during the boom have produced a large amount of malinvestment. The recession or depression that follows periods of governmentally induced booms is a necessary time of readjustment. Prices must be readjusted to new consumer preferences. Interest rates must be readjusted to reflect the new demand for savings along with the actual supply of savings. Bad investments must be reduced through such means as greater managerial efficiency or lower labor costs. These lower costs may be reached through greater productivity; often they result from a business employing fewer workers. There must be a general cutting back across the board until businesses can once more be profitable, until investments can earn a proper return, and until the economy once more functions efficiently. What people call a recession or depression, therefore, is actually an adjustment of the economy to the wasteful and mistaken errors made during the boom. The process of adjustment is a return to a more sane set of economic arrangements which means, among other things, that many of the bad investments are liquidated.

There is a common thread that runs through every period of economic decline in American history, namely, governmental manipulation of the money supply. The obvious culprit in these economic downturns was not the free market but the government—indeed, the very government responsible for the downturns in the first place. What then should one think of economists and politicians who appeal to such periods of economic decline as justification for increased amounts of the very types of economic interventionism that produced the depressions?

But what about the Great Depression? As everyone thinks they know, the decade prior to the economic collapse of 1929 was a period of unbridled economic freedom. It was, so the official doctrine goes, the extent of America's experiment with free enterprise in the 1920s that led to the greatest depression in our history. But this belief is also a myth that must now be unmasked.

Myth Number Two: The Unbridled Capitalism of the Twenties

According to the official liberal dogma, the seriousness of the Great Depression was in direct proportion to America's reliance upon a noninterventionist economy during the decade of the twenties. The unparalleled economic freedom of the twenties did more than make the Great Depression inevitable; it also made it the worst depression in the nation's history.

Even a brief survey of the evidence, however, will reveal how mistaken the common wisdom about the twenties is. The decade that preceded the Crash of 1929 was anything but a period of unbridled capitalism. It was actually a time of continued governmental intervention with the money supply. The foundations for the Depression can indeed be found throughout the preceding decade. But the causes of the Depression were a string of governmental actions that resulted in an expansion of credit and the money supply that was similar to the interventionism that led to earlier economic downturns.

A good place to begin one's search for the causes of the Great Depression is the establishment of the Federal Reserve System in 1914. The Federal Reserve was given the power to increase the nation's money supply in response to what it regarded as justifiable circumstances. For most of the sixteen years following the creation of the Fed, the nation's money supply was subjected to an almost steady increase. Between 1914 and 1917, this took the form of massive amounts of credit extended to nations like England and France for their purchase of war materiel. Following America's own entry into World War I, the money supply was expanded even more as a way of paying for our own war effort. When the war was finally over, the now greatly expanded money supply produced the inevitable inflation.

The higher postwar prices led in turn to an increase in cheaper imports. But this hurt American businesses, which led businessmen, farmers, and labor unions to pressure Congress to do something about foreign competition. This pressure led to two unfortunate tariff acts (tariffs are clearly antithetical to capitalism). The Emergency Tariff Act of 1921 increased duties on such commodities as wool, sugar, and wheat. Another tariff act passed in 1922 imposed the highest duties to that time in the history of the nation. It also gave the President the power to change tariffs as he thought necessary. These high tariffs produced a serious instability in agriculture, other export industries, and the rest of the American economy.

All of this intervention with the economy had the effect of reducing foreign trade. Prospective foreign customers could not buy American products until they accumulated credits; but such credits could be accumulated only after they first sold their products to us, something the increased tariffs made much more difficult. In an effort to offset some of this harm, the government adopted cheap money policies. To make it easier for foreign buyers to purchase American goods (while still making it difficult for them to sell their goods in the United States), bankers floated enormous loans and bond issues in this country. Between the end of World War I and 1929, American lenders provided more than $9 billion in foreign loans, done largely to shore up America's sagging export markets which had been hurt as a result of earlier interventionist measures (the tariffs) to reduce imports. While the cheap money policy of the twenties produced temporary increases in exports, it was accompanied by a huge burden of internal and international debt.

The Federal Reserve System continued to follow an easy money policy during the second half of the twenties. Between July 1924 and 1929, the money supply increased more than 20 percent. Farm and urban mortgages increased more than $10 billion between 1921 and 1929. Because much of the new money created by the system was channeled into speculation in real estate and the stock market, rapid price rises occurred in the stock market and in real estate. (Other significant forms of statist intervention with America's economy that helped lay the foundation for the Depression must be discussed elsewhere, due to a lack of space.)

Often overlooked as a major contributing cause of the Depression was what became known as the Smoot-Hawley Tariff Acts. Even though Smoot-Hawley was not passed until June of 1930, it makes sense to view the measure as a significant cause of the Crash. The bill had been widely discussed and debated in Congress throughout much of 1929. By the autumn of 1929, Wall Street had begun to realize that passage of the tariff bill was inevitable. It also realized that President Hoover would not veto the damaging measure. Hence, it seems clear, the damage from Smoot-Hawley was not confined to the period of time following its passage, as bad as that was. It also had a major effect on events prior to its passage, including the October Crash of the Stock Market.

As important as the Stock Market Crash of October 1929 was, it did not mark the beginning of the Depression. The economy actually began to recede during the summer of 1929. Economic troubles had been brewing long before the Crash. What the collapse of the stock market did was make those troubles visible and mark the end of an incredible period of speculation that had to end sometime.

The October Crash is often exaggerated with regard to its supposed effects on the Great Depression. While the Crash was clearly very bad for the many unwise investors and speculators who had been wiped out, America was still far from anything resembling what we now think of as the Great Depression. That was still to come; and like previous depressions, it would result from further governmental mismanagement. The collapse of the stock market provided clear evidence that badly mistaken policies had been followed. The time for necessary readjustments had finally come.

Even with the crash of the stock market, the economy was strong enough so that the nation should have entered a normal period of readjustment.[1] Even during 1930, unemployment averaged less than 8 percent of the work force. Barring mistakes on the part of the government, 1931 should have been the start of a recovery. Obviously it was not, and the reason can be found in the mistaken, often foolish policies of the federal government.

The economic decline that began at the end of 1929 could and should have been of short duration, if only Hoover and the Congress had acted in an economically responsible way. Unfortunately, they did not. Hoover and his administration were in no mood to admit their mistakes. Had they taken their medicine, paid their dues, and suffered through the severe but limited depression that would have followed, the economy soon would have made the proper adjustments. Instead, the Hoover administration piled error on top of error. Its mistakes plus the blunders of Congress plus the economic malfeasance of the Roosevelt Administration turned what would have been an economic downturn like every other one in the previous history of the country into an economic nightmare that lasted eleven years.

Myth Number Three: Hoover's Commitment to Free Market Economics Deepened the Recession

As we have seen, liberals want to lay all of the blame for the Depression at the feet of the free market. With such a convenient scapegoat available, they can then use the Depression to justify statist measures they wish to impose upon the economy in the future. Their rewriting of history requires, however, that they turn Herbert Hoover into a flaming advocate of free market economics whose stubborn refusal to adopt interventionist measures made the Depression worse until Franklin Roosevelt's courageous adoption of wise statist policies finally turned things around. Nothing could be farther from the truth.

In late 1929, the nation's economy was in need of a number of major readjustments. But these necessary readjustments all took the form of *decreasing* or *terminating* various interventionist measures of the twenties that had produced the Depression. What Hoover and his administration did however was reject the adjustments that should have been made and opt instead for a course of *more* governmental control over the economy.

Herbert Hoover was not a champion of a free market economics whose conservative principles helped first to produce the Depression and then caused it to worsen. In truth, Hoover was a proven interventionist whose interventionist policies helped bring about the start of the Depression and whose succeeding interventionist actions helped to make it worse.

Following the 1929 Crash, the Hoover Administration and Congress committed three major blunders that were to deepen and prolong the Depression. Each blunder was a typically *interventionist* measure.

(1) Hoover did everything he could to keep wages and prices high during 1930. For one thing, his administration took action designed to keep the prices of wheat, cotton, and other agricultural products up. The unfortunate result of these farm policies was to encourage larger crops and greater farm surpluses for which no markets could be found. This had the effect of depressing farm prices even more.

Also in 1930, Hoover attempted to persuade business leaders to keep wages and prices high. In place of cutting wages and prices—the normal practice in a time of recession—Hoover urged businessmen to increase their spending on wages and capital outlay in the belief that this would preserve the purchasing power of consumers. The Hoover Administration pursued a policy of deficit spending and public works projects. Local and state governments were asked to borrow money to support their own public works projects.

(2) The Hoover Administration instituted large tariff increases that had a disastrous effect on international exchange. With tariffs already higher than they should have been and a huge burden of international debt hanging over the world's economy, Hoover went along with Congress's passage of a huge tariff increase. Already high tariffs made it almost impossible for foreign goods to reach our markets. Hoover's acceptance of a new round of even higher tariffs was the major blunder that turned the recession of 1930 into the Great Depression. The Smoot-Hawley Tariff Act of June 1930 was the most protectionist law in the history of the nation. America's borders were effectively closed to foreign goods. The government's intentions with regard to the new tariff act no doubt seemed good at the time. It wanted to raise farmers' low incomes that resulted from the low prices they were getting for their products. But in economics, good intentions often produce disastrous results.

Other nations responded to the increase in our tariffs by raising their own. This had the effect of cutting off international markets and narrowing lines of trade. The new protectionist policies created enormous problems for countries that owed money and needed to pay off their debts with goods. Since so much of this mountain of debt was unsound to begin with, creditors could not collect. In the two years that followed passage of Smoot-Hawley, American exports declined by almost two-thirds. The politicians had ignored a fundamental principle of international exchange; exports pay for imports. If people in other nations cannot sell their goods to us, they cannot earn the money they need to buy our products. Closing the door to imports will result eventually in closing the door to exports.

While farm prices dropped precipitously throughout 1930, the sharpest decline followed passage of the Smoot-Hawley Act in June. While American exports had totaled $5.5 billion in 1929, they had by 1932 fallen to just $1.7 billion. All of this led to a collapse of American farming. Hundreds of thousands of American farmers lost their farms. America's recession was being turned into a world depression.

(3) The government proceeded to raise taxes, an incredible move under the circumstances. In fairness to Hoover, it should be noted that much of the blame for the tax increase belonged to the Congress. After the midterm elections of 1930, there was a Democratic majority in the House of Representatives.

The tax increase of 1932 was the largest increase in federal taxes in the history of the nation to that point. The income tax was doubled. Estate taxes were raised, corporation tax rates were increased, exemptions were lowered, and postal rates were raised. There was also a 2 cent tax on checks, a 3 percent automobile tax, a tax on telephones and telegraph messages, and a 1 cent a gallon gasoline tax. Faced by declining revenues, state and local governments followed Washington's lead and imposed new taxes of their own. The total tax burden of the nation almost doubled in the period after 1932. If the politicians had been seeking a way to bring the nation's economy to its knees, they could not have found a better strategy. The huge tax increases guaranteed that the Depression would not end soon. Real Gross National Product fell by 14.8 percent in 1932, the year the tax increase went into effect. An unemployment rate that had averaged 3.2 percent in 1929 and 7.8 percent in 1930 jumped to almost 25 percent in 1932.

By the end of Hoover's term, unemployment had reached 25 percent of the work force or more than twelve million workers. The Depression had spread beyond the borders of the United States and had become a worldwide depression. Nations like Germany and Austria stopped making foreign payments and froze American credits. England ended gold payments in September 1931. Foreign bond values fell drastically, which led to a collapse of the bond market in America. This proved to be an additional blow at American banks, in this case, a blow at their own investments.

The collapse of so many American farmers put their major creditors—the rural banks—in jeopardy. Many of them were forced to close. Between August 1931 and February 1932, approximately 2,000 banks closed, still owing depositors more than $1.5 billion. Banks that did not close were often forced to take extreme measures. New loans were often refused, and old loans were pressured to make payment. This banking panic led to even greater pressures on the market as many banks dumped many of their own stock holdings.

Bank runs and other banking difficulties did not occur to any great degree until the fall of 1930. But once a number of Midwest and Southern banks failed, confidence in banks was undermined and many people rushed to withdraw their funds. In mid-1929, America had almost 25,000 commercial banks. By the time of Roosevelt's inauguration in 1933, this number had fallen to about 18,000. Another 3,000 were eliminated by the end of 1933.

There is no way to exaggerate the tragic desperation of the nation at the end of Hoover's Presidency. But Hoover and his administration refused to admit that the disaster was a result of their interventionist policies; they continued to blame businessmen and speculators. But the truth is that Hoover's economic interventionism had only made things far worse.

Myth Number Four: Roosevelt's Interventionism Ended the Depression

If anyone was an interventionist, Franklin Roosevelt was. The mythical component in our fourth claim concerns the mistaken belief that the ultimate end of the Depression resulted from any of Roosevelt's economic policies. The evidence makes it clear that late into the 1930s, Roosevelt's interventionist measures were only making things worse!

During his first one hundred days in office, Roosevelt and his administration refused to remove the barriers to prosperity raised during the Hoover years. Instead, he erected dozens of new ones. Roosevelt's first significant action with regard to the economy was to undercut the quality of the dollar by seizing people's private gold holdings. In 1933 and early 1934, private holders of gold were forced to turn over their gold to the government at a price well *below* the market price, but equal to the *official* price of gold. By this act of confiscation, the federal government gained legal and physical control of the nation's gold, which it replaced with certificates. The government's action was legalized theft. Later, in 1934, the government raised the *official* price of gold to $35 an ounce, which was above the market price. This devaluation produced a de facto profit for the government of $2.8 billion. A dollar thus became worth whatever the government said it was worth.

Then Roosevelt's advisers proposed the National Industrial Recovery Act (NRA), instituted in 1933 as a way of increasing the purchasing power of American workers. The Act established minimum wages, prices, and rates for specific industries. Its purpose was to raise prices at the same time that it increased purchasing power. The government did this by forcing employers to increase their payrolls by means of shorter work weeks and a minimum wage. It also banned jobs for youth. This government-mandated increase in business costs acted as a further brake on economic recovery. Unemployment increased still more, to almost thirteen million. The minimum wage provisions of the law caused enormous suffering in the South, where approximately a half million blacks were forced out of work. In 1935, the Supreme Court declared that the NRA was unconstitutional. But the policies of the Act had given the economy another severe jolt which had the effect of postponing any recovery.

Roosevelt's results with American agriculture were just as bad. Congress passed the Farm Relief and Inflation Act, also known as the Agricultural Adjustment Act (AAA). It was supposed to increase the income of farmers by reducing the number of acres under cultivation and by destroying crops already in the field. Farmers were paid not to plant. The program spread rapidly from its original coverage of cotton to all basic cereals and meat and then to all cash crops. This expensive program was supposed to be paid for by a so-called "processing tax." The new tax that the AAA placed on the agricultural industry provided money that was used to destroy crops and livestock. Healthy animals were slaughtered, and fields of cotton, wheat, and corn were plowed under. Farmers were paid not to plant crops. Like all interventionist acts, the government thought it was aiding one group of people in the market. But of course this "aid" would have to come at the expense of the many others who were forced to pay for it. Even if the program had helped the farmers—which it did not—it would have done so at enormous cost to the millions who had to pay higher prices or had less to eat.

When the Roosevelt interventionists saw that things were not going as they had planned, they proclaimed that the ensuing disaster was not the result of their efforts. It was a result rather of their measures not going far enough. What the nation needed was more priming of the economy by the federal government. Roosevelt's budget message in January 1934 promised a $7 billion deficit in a total budget of $10 billion. This attempt to prime the economic pump failed to revive the economy. A slight recovery in the first half of 1934 was followed by a decline to an even lower economic level by September of 1934.

Roosevelt's Administration raised taxes in 1933, in 1934, and again in 1935. Federal estate taxes became the highest in the world. By now, it was clear that the increased taxation was aimed not at the production of more revenue but at the redistribution of wealth.

When the Supreme Court judged that both the NRA (in 1935) and the AAA (in 1936) were unconstitutional, two awesome burdens were removed from the American economy. The end of NRA helped to increase productivity and reduce labor costs. The end of AAA lowered taxes on agriculture and ended the destruction of crops and livestock. Unemployment began to come down in the mid-1930s. But the planners in the Roosevelt Administration had not yet learned anything from their past mistakes. Anxious to earn the support of organized labor for Roosevelt's re-election bid in 1936, Roosevelt and the Democratic majority in Congress gave them the Wagner Act of 1936, a price that Big Labor never forgot.

The Wagner Act or the National Labor Relations Act was a response to the Supreme Court's decisions with regard to NRA and AAA. The Act totally revolutionized labor relations in the country. No longer could labor disputes be settled in the courts; they were now under the jurisdiction of the National Labor Relations Board, a new federal agency which served as judge, jury, and prosecutor. Following Roosevelt's re-election in 1936, the big unions began to consolidate the massive new powers granted them under the Wagner Act. Millions of workers were forced to join unions. While wages were forced up, worker productivity declined. Strikes idled many plants. The ensuing jump in labor costs produced another decline in economic activity. Unemployment once again passed the ten million mark. At the end of 1937, the American economy collapsed once more. The Roosevelt Administration had accomplished something never before achieved in history. It actually managed to produce a depression within a depression.

While it is true that Roosevelt inherited an unemployment problem, he certainly did not fix it. Unemployment in 1933 (25 percent) was higher than the year before. During three years of Roosevelt's Presidency, unemployment topped ten million. In only two of the seven years between 1933 and 1939 did unemployment drop below eight million. In 1938, unemployment jumped more than it did during the first year of the Depression, reaching 18.8 percent of the labor force or more than ten million workers. Viewed as an economic experiment to put people back to work, the New Deal was a fraud and a farce. The massive unemployment that still characterized the nation's economy after years of New Deal intervention with the economy was ended only by the nation's need to draft more than ten million men into the military.

The Depression did not result from some defect inherent within capitalism. It did not result from this nation's love affair with unbridled free enterprise during the twenties. The first two myths about the Depression that we examined are clearly untrue. As Lawrence Reed explains, "The genesis of the Great Depression lay in the inflationary monetary policies of government in the 1920s. It was prolonged and exacerbated by a litany of political follies: tariffs, taxes, controls on production and competition, destruction of crops and cattle, and coercive union legislation, to recall just a few. It was not the free market which produced twelve years of agony; rather, it was political bungling on a scale as grand as there ever was."[2]

According to Benjamin Anderson, the nation's failure "to get out of the depression in the years 1933 to 1939 [was] due to the great multiplicity of New Deal 'remedies,' all tending to impair the freedom and efficiency of the markets, to frighten venture capital, and to create frictions and uncertainties, and impediments to individual and corporate initiative."[3] Murray Rothbard ends his long study of the Depression by stating: "The guilt for the Great Depression must, at long last, be lifted from the shoulders of the free market economy, and placed where it properly belongs: at the doors of politicians, bureaucrats, and the mass of 'enlightened' economists."[4]

Our study of economic events during the 1930s has revealed more than the mythical character of Hoover's alleged commitment to free market economics and the supposed success of Roosevelt's interventionism. It has unmasked the extent to which the enormous suffering of the thirties was a consequence of bad economics—to be more specific, interventionist policies that were proposed and enacted with good intentions and horrific results. □

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1. See Benjamin M. Anderson, *Economics and the Public Welfare* (Indianapolis, Ind.: Liberty Press, 1979 [1949]), p. 224.
2. Lawrence W. Reed, *Unraveling the Great Depression* (Caldwell, Idaho: The Center for the Study of Market Alternatives, 1985), p. 13.
3. Anderson, p. 483.
4. Murray N. Rothbard, *America's Great Depression*, 3rd ed. (Kansas City: Sheed and Ward, 1975), p. 295.

THE FREEMAN
IDEAS ON LIBERTY

Interest Rates and the Business Cycle

by Glen Tenney

The cause of the business cycle has long been debated by professional economists. Recurring successions of boom and bust have also mystified the lay person. Many questions persist. Are recessions caused by underconsumption as the Keynesians would have us believe? If so, what causes masses of people to quit spending all at the same time? Or are recessions caused by too little money in the economy, as the monetarists teach? And how do we know how much money is too much or too little? Perhaps more importantly, are periodic recessions an inevitable consequence of a capitalist economy? Must we accept the horrors associated with recessions and depressions as a necessary part of living in a highly industrialized society?

Concerns about aggregate money supply levels and aggregate spending might make for interesting conversation, and a discussion of these matters might even reveal certain threads of truth, but they are inadequate in arriving at the cause of the boom and bust cycle that seems to pervade the economy in modern times. Economists in the Austrian school of thought have provided an explanation that bases economic fluctuations on microeconomic theory that is firmly grounded in principles of human action. These economists have pointed out that macroeconomic fluctuations, or what have come to be known as business cycles, are caused by extraneous manipulations of interest rates in the economy.[1] This manipulation of interest rates might entail conscious actions by governmental authorities or merely the result of governmental actions taken with other goals in mind.

Interest Rates Reflect Time Preferences

The rate of interest in an economy is an important reflection of the time preferences of individuals. People are willing to forgo some amount of current consumption in order to invest in production processes which promise finished goods that are valued higher than the sum of the inputs to the production process. The spread between the amounts paid to the owners of the productive inputs and amounts obtained from the sale of the completed product is interest income to the businessman who advances money incomes to the resource owners in terms of wages and rents. The capitalist/businessman then provides current buying power to workers and owners of other productive inputs in exchange for an amount we call interest. And looking from the opposite perspective, workers and other resource owners are willing to take a discounted amount in payment for their productive inputs in order to have current

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incomes rather than waiting for the completion of the product.

Of course in the market for loans, the interest rate also contains an entrepreneurial component which accounts for certain areas of uncertainty which are always present in borrowing and lending money. An inflation premium is included if the dollars to be repaid on the loan are expected to have less purchasing-power than the dollars that are lent. And a default-risk premium is included based upon the ability and/or willingness of the borrower to repay the loan as agreed. Thus the interest rate that is agreed upon in the loan market includes these entrepreneurial factors in addition to an amount sufficient to induce people to forgo current consumption in favor of consumption in the future.

The interest rate serves a coordinating function in the economy by providing useful information about the availability of credit and the profitability of investments to both lenders and borrowers. If, for example, people's rates of time preference increase, this change is reflected as higher interest rates, which encourages more saving and discourages borrowing at the margin. This means that individuals in general are requiring more of an incentive to forgo current consumption than they did previously. There are two ways in which this coordinating function is hindered by governmental action in the economy.

New Money Gives a False Signal

Money is primarily a medium of exchange in the economy; and as such, its quantity does not have anything to do with the real quantity of employment and output in the economy. Of course, with more money in the economy, the *prices* of goods, services, and wages, will be higher; but the real quantities of the goods and services, and the real value of the wages will not necessarily change with an increase of money in the overall economy. But it is a mistake to think that a sudden increase in the supply of money would have no effect at all on economic activity. As Nobel Laureate Friedrich A. Hayek explained:

> Everything depends on the point where the additional money is injected into circulation (or where the money is withdrawn from circulation), and the effects may be quite opposite according as the additional money comes first into the hands of traders and manufacturers or directly into the hands of salaried people employed by the state.[2]

Because the new money enters the market in a manner which is less than exactly proportional to existing money holdings and consumption/savings ratios, a monetary expansion in the economy does not affect all sectors of the economy at the same time or to the same degree. If the new money enters the market through the banking system or through the credit markets, interest rates will decline below the level that coordinates with the savings of individuals in the economy. Businessmen, who use the interest rate in determining the profitability of various investments, will anxiously take advantage of the lower interest rate by increasing investments in projects that were perceived as unprofitable using higher rates of interest.

The great Austrian economist Ludwig von Mises describes the increase in business activity as follows:

> The lowering of the rate of interest stimulates economic activity. Projects which would not have been thought "profitable" if the rate of interest had not been influenced by the manipulation of the banks, and which, therefore, would not have been undertaken, are nevertheless found "profitable" and can be initiated.[3]

The word "profitable" was undoubtedly put in quotes by Mises because it is a mistake to think that government actions can actually increase overall profitability in the economy in such a manner. The folly of this situation is apparent when we realize that the lower interest rate was not the result of increased savings in the economy. The lower interest rate was a false signal. The consumption/saving ratios of individuals and families in the economy have not necessarily changed, and so the total amount of total savings available for investment purposes has not necessarily increased, although it appears to businessmen that they *have*. Because the lower interest rate is a false indicator of more available capital, investments will be made in projects that are doomed to failure as the new money works its way through the economy.

Eventually, prices in general will rise in response to the new money. Firms that made investments in capital projects by relying on the bad information provided by the artificially low interest rate will find that they cannot complete their projects because of a lack of capital. As Murray Rothbard states:

> The banks' credit expansion had tampered with that indispensable "signal"—the interest rate—that tells businessmen how much savings are available and what length of projects will be profitable. . . . The situation is analogous to that of a contractor misled into believing that he has more building material than he really has and then awakening to find that he has used up all his material on a capacious foundation, with no material left to complete the house. Clearly, bank credit expansion cannot increase capital investment by one iota. Investment can still come only from savings.[4]

Capital-intensive industries are hurt the most under such a scenario, because small changes in interest rates make a big difference in profitability calculations due to the extended time element involved.

It is important to note that it is neither the amount of money in the economy, nor the general price level in the economy, that causes the problem. Professor Richard Ebeling describes the real problem as follows:

> Now in fact, the relevant decisions market participants must make pertain not to changes in the "price level" but, instead, relate to the various relative prices that enter into production and consumption choices. But monetary increases have their peculiar effects precisely because they do not affect all prices simultaneously and proportionally.[5]

The fact that it takes time for the increase in the money supply to affect the various sectors of the economy causes the malinvestments which result in what is known as the business cycle.

Government Externalizes Uncertainty

Professor Roger Garrison has noted another way that government policy causes distortions in the economy by falsifying the interest rate.[6] In a situation where excessive government spending creates budget deficits, uncertainty in the economy is increased due to the fact that it is impossible for market participants to know how the budget shortfall will be financed. The government can either issue more debt, create more money by monetizing the debt, or raise taxes in some manner. Each of these approaches will redistribute wealth in society in different ways, but there is no way to know in advance which of these methods will be chosen.

One would think that this kind of increase in uncertainty in the market would increase the risk premium built into loan rates. But these additional risks, in the form of either price inflation or increased taxation are borne by all members of society rather than by just the holders of government securities. Because both the government's ability to monetize the debt and its ability to tax generate burdens to all market participants in general rather than government bond holders alone, the yields on government securities do not accurately reflect these additional risks. These risks are effectively passed on or externalized to those who are not a part of the borrowing/lending transactions in which the government deals. The FDIC, which guarantees deposit accounts at taxpayer expense, further exacerbates the situation by leading savers to believe their savings are risk-free.

For our purposes here, the key concept to realize is the important function of interest rates in this whole scenario. Interest rates serve as a regulator in the economy in the sense that the height of the rates helps businessmen determine the proper level of investment to undertake. Anything in the economy that tends to lower the interest rate artificially will promote investments in projects that are not really profitable based upon the amount of capital being provided by savers who are the ones that forgo consumption because they deem it in their best interest to do so. This wedge that is driven between the natural rate of interest and the market rate of interest as reflected in loan rates can be the result of increases in the supply of fiat money or increases in uncertainty in the market which is not accurately reflected in loan rates. The manipulation of the interest rate is significant in both cases, and an artificial boom and subsequent bust is inevitably the result.

Conclusion

Changes in the supply of money in the economy do have an effect on real economic activity. This effect works through the medium of interest rates in causing fluctuations in business activity. When fiat money is provided to the market in the form of credit expansion through the banking system, business firms erroneously view this as an increase in the supply of capital. Due to the decreased interest rate in the loan market brought about by the fictitious "increase" in capital, businesses increase their investments in long-range projects that appear profitable. In addition, other factors as well can cause a discrepancy between the natural rate of interest and the rate which is paid in the loan market. Government policies with regard to debt creation, monetization, bank deposit guarantees, and taxation, can effectively externalize the risk associated with running budget deficits, thus artificially lowering loan rates in the market.

Either of these two influences on interest rates, or a combination of the two, can and do influence economic activity by inducing businesses to make investments that would otherwise not be made. Since real savings in the economy, however, do not increase due to these interventionist measures, the production structure is weakened and the business boom must ultimately give way to a bust. □

1. For a detailed discussion of the phenomenon of interest and the corresponding relationship to the business cycle, see Ludwig von Mises, *Human Action*, 3d rev. ed. (Chicago: Contemporary Books, 1966), chapters 19–20; Murray N. Rothbard, *Man, Economy, and State* (Los Angeles: Nash Publishing Corporation, 1970), chapter 6; and Mark Skousen, *The Structure of Production* (New York: New York University Press, 1990), chapter 9.

2. Friedrich A. Hayek, *Prices and Production*, 2d ed. (London: George Routledge, 1931; Repr. New York: Augustus M. Kelley, 1967), p. 11.

3. Ludwig von Mises, *The Austrian Theory of the Trade Cycle* (Auburn, Ala.: The Ludwig von Mises Institute, 1983), pp. 2–3.

4. Rothbard, *Man, Economy, and State*, p. 857.

5. Richard Ebeling, preface to *The Austrian Theory of the Trade Cycle* by Ludwig von Mises, Gottfried Haberler, Murray N. Rothbard, and Friedrich A. Hayek (Auburn, Ala.: The Ludwig von Mises Institute, 1983).

6. Roger W. Garrison, "The Roaring 20s and the Bullish 80s: The Role of Government in Boom and Bust," *Critical Review* 7, no. 2–3 (Spring-Summer 1993), pp. 259–276.

THE FREEMAN
IDEAS ON LIBERTY

The Discouraged Employer

by Murray Weidenbaum

For years, economists have written about discouraged workers who drop out of the work force because they do not believe suitable jobs are available for them. Now government has created a new category—the discouraged employer, discouraged by the host of government impediments to hiring people. Currently, there are more than eight million people out of work in the United States. Yet overtime worked, per employee, is at an all-time peak.

Why are so many employers willing to pay the penalty of time-and-a-half for overtime rather than hire another person? Sadly, the answer is because the government discourages the employment of people by making hiring more difficult and more costly. Put yourself in the shoes of an employer: to increase your work force, you have to go through such complicated processes as those of the Equal Employment Opportunity Commission (EEOC), the affirmative action program, and the Americans With Disabilities Act. But, in contrast, employers do not get sued if they just ask people to work overtime.

Employers are also better off hiring only if they are absolutely certain that the new employee will work out. That is so because if the company makes a mistake and then has to fire someone, it will face wrongful termination suits and if those dismissed are women, minorities, or over 40—EEOC litigation is likely. For most new hires, employers have to obtain unemployment insurance, workers' compensation, coverage under the Employees' Retirement Income Security Act (ERISA), set up federal, state, and local tax withholdings, and provide family leave coverage.

If that is not bad enough, employers have to deal with two new uncertainties. One is the proposed Comprehensive Occupational Safety and Health Administration Reform Act (COSHRA) endorsed by the Clinton administration. The second uncertainty is the threat of an employer mandate under the various health-care reform proposals.

Many of these government requirements—affirmative action, personal leave, and the Clinton health plan—take effect when the company hires its 50th worker. The result is that many small businesses deliberately keep their work forces down to 49 employees or less.

Of course, each government regulation has its own justification. But when all the expenses of compliance are aggregated, the overall economic effect is great. In addition to the direct costs which are estimated to come to hundreds of billions of dollars a year, regulatory activities reduce production, innovation, and competitiveness. For example, much of the government's social legislation has been written in a way that is oblivious to its negative impact on employment. If that undesirable side effect accompanied only one or two of these programs, perhaps it could be soft-pedaled. However, because the harm to employment is so

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pervasive and cumulative, it cannot be ignored.

Civil Rights Act

Of the numerous laws and regulations that discourage or slow down job creation, the most conspicuous example is the Civil Rights Act, including the affirmative action program. This law lengthens the amount of time that many jobs stay vacant. Any employer subject to affirmative action requirements who simply goes out and hires people does so at his or her peril. In order to reduce—but not eliminate—the likelihood of being sued, prospective employers must go through a lengthy and expensive process that includes advertising in specified types of media. The advertised position must stay open long enough to provide those interested with an adequate opportunity to respond.

Precise measures of the total costs imposed by civil rights laws and regulations are illusive. Nevertheless, Peter Brimelow and Leslie Spencer came up with an aggregate estimate of $236 billion a year or approximately 4 percent of the gross domestic product. Because the Brimelow-Spencer estimate is so dramatically large, it is useful to examine its individual elements. For example, the direct compliance expenses of private business necessary to respond to civil rights rules are estimated at a smaller but still substantial amount—$5–8 billion a year. Educational institutions spend $11 billion annually for the purpose. These direct costs are clearly very substantial. However, the truly huge costs imposed by these regulations—the remaining $220 billion plus—are indirect, such as the opportunities forgone because of the diversion of management time, energy, and resources.

Wrongful Termination Liability

If civil rights laws are an extremely conspicuous aspect of government's impact on the employment process, judicial narrowing of employers' right to fire is among the least publicized. Yet the repercussion of the resultant rise in wrongful-termination liability is very substantial. High costs have resulted from the tendency of state courts around the country to change traditional employment law and to take a more permissive attitude toward plaintiffs' actions.

As recently as a decade ago, courts in all but 13 states continued to recognize the long-standing common-law doctrine that allowed private employers to fire "at will" workers not protected by collective bargaining agreements or specific statutes. In recent years, a virtual landslide of cases has brought the law closer to the requirement that an employee can be fired only for cause. Courts have also been allowing plaintiffs to collect punitive damages as well as lost wages when they can prove wrongful conduct on the part of the employer. Rand Corporation researcher James N. Dertouzos sums up his findings: "In a nutshell, the efforts of the state judiciaries to protect workers' job security are altering employers' hiring and firing practices. And one of the results is less hiring."

Dertouzos and his colleague Lynn Karoly note that, due to the substantial costs associated with wrongful termination lawsuits, firms have responded by treating labor as a more expensive input to production. They estimate that, in the adjustment process, aggregate employment drops by 2 percent or more.

Family Leave Act

The Family and Medical Leave Act of 1993 is the most recent example of government-imposed costs on the employment process. It is fascinating to recall the debates on the bill as it wended its way through the Congress. Proponents kept asking, "How could anyone object to this obviously desirable measure which doesn't cost anything?" Just as soon as the bill became law, the public was "reminded" that employers are required to maintain health insurance coverage for employees on leave.

The General Accounting Office estimates this cost alone at $674 million a year. One area of uncertainty is the ability of employers to recover the cost of the premiums they pay to employees who do not return from the leaves of absence mandated by the new law. Nor does this estimate cover the money involved in hiring and training temporary workers, who may be both more expensive and less productive than the employees on leave.

Research supports the thesis that the costs of mandated benefits such as employee leave are ultimately borne by the employees themselves. The result of the government's "generosity": the increased cost of the employee leave mandate was shifted to the women's wages, or to their husbands' if they had insurance. Similar effects have been shown from the passage of the 1978 Federal Pregnancy Discrimination Act, which extended comprehensive maternity coverage to insured women throughout the United States. The enactment of this government "freebie" results in lower employment, lower wages, and higher hours worked.

Mandated Health Care

The largest prospective government mandate on employment is health care. At this point, nobody knows what specific type of health "reform" will be enacted by the Congress, or even if such a bill will become law in the near future. The statisticians debate over how many millions of jobs the proposed Clinton health-care mandate would kill. It is intriguing to consider the notion of government officials blithely proceeding knowing that their proposals will eliminate a million or more private jobs.

Not surprisingly, low-wage industries (such as restaurants) would be hit especially hard by such mandates. The cost of the Administration's proposal—and of most suggested variations—is likely to be the same for a highly paid worker as for an employee with a more modest wage scale.

The short-term effects of imposing a health-care mandate on employers differ from the long-run effects in important respects. In the short run, the great bulk of the costs (80 percent in the basic Clinton plan) is paid by employers, which should reduce their demand for labor. In the longer run, those costs are largely shifted back to workers in the form of lower real wages and reduced nonmedical benefits. As a result, the effect on the supply of labor is likely also to be negative.

Minimum Wage Legislation

Without doubt, of all the governmental regulations affecting employment, the statutory minimum wage has been the focus of the greatest amount of professional attention. With a few, albeit conspicuous, exceptions, the great mass of the research has concluded that increases in the compulsory minimum wage cause a rise in unemployment. The segment of the work force most affected is those at or near the minimum wage. This is a group consisting primarily of teenagers and others with low skills who thereby lose the opportunity to gain their initial work experience.

On the basis of analyzing a great number of studies, the Minimum Wage Study Commission concluded in 1981 that a 10 percent increase in the minimum wage generates a 1–3 percent increase in the unemployment among those holding minimum wage jobs, mainly teenagers. A smaller adverse effect was noted for 20–24 year olds, mostly because a smaller percentage of that age group earns the minimum wage. Confidence in the commission's estimates is enhanced by the fact that a recent study replicated the 1981 findings using panel data from all 50 states over a period of 15 years.

Several economists have demonstrated that the benefits of the minimum wage—to those receiving it—are offset by reductions in other benefits. A study of the 1967 rise in the statutory minimum wage showed that workers gained 32 cents an hour in money income, but lost 41 cents an hour in training benefits, for a net loss of 9 cents an hour in total compensation.

Studies of retail establishments in New York found that many stores responded to increases in the minimum wage by reducing commission payments, eliminating bonuses, and cutting paid vacations and sick leave. One researcher estimated that, for every 1 percent increase in the minimum wage, restaurants reduced shift premiums by 3.6 percent, severance pay by 7 percent, and sick pay by more than 3 percent.

Other Regulation of Employment

In many other ways, government imposes costs on the job creation process.

Disability Insurance. An analysis of Social Security disability insurance beneficiaries showed that they rarely return to work. Once initial eligibility is established, the program resembles an early retirement system. In recent years, fewer than one-half of one percent of the beneficiaries successfully complete a trial work period—and thus stop receiving their monthly Social Security check. It is not surprising that the more generous the benefits, the less willing are the recipients to seek employment.

OSHA. While the disability benefits reduce the supply of labor, the rules and activities of the Occupational Safety and Health Administration (OSHA) operate to reduce the demand for labor. That feat is accomplished by increasing the indirect costs of maintaining a company work force. Virtually every serious study of OSHA concludes that, although the costs are substantial, the benefits, if any, are modest.

At the present time, Congress is considering an ambitious extension of OSHA, the proposed Comprehensive Occupational Safety and Health Reform Act. This bill would amend the existing OSHA statute to require each employer of 11 or more (an estimated 1.6 million firms) to undertake two new initiatives. The first is to create a joint labor-management safety and health committee which is granted broad authority to influence workplace safety and health programs. The second is to establish and implement a detailed written safety and health program.

In addition, OSHA inspectors would no longer have to go to court in order to get the authority to order an immediate shutdown if they considered a business operation unsafe. Each inspector would have discretion to do so. Also, the pending bill would preclude any consideration of economic impact in setting job safety or health standards.

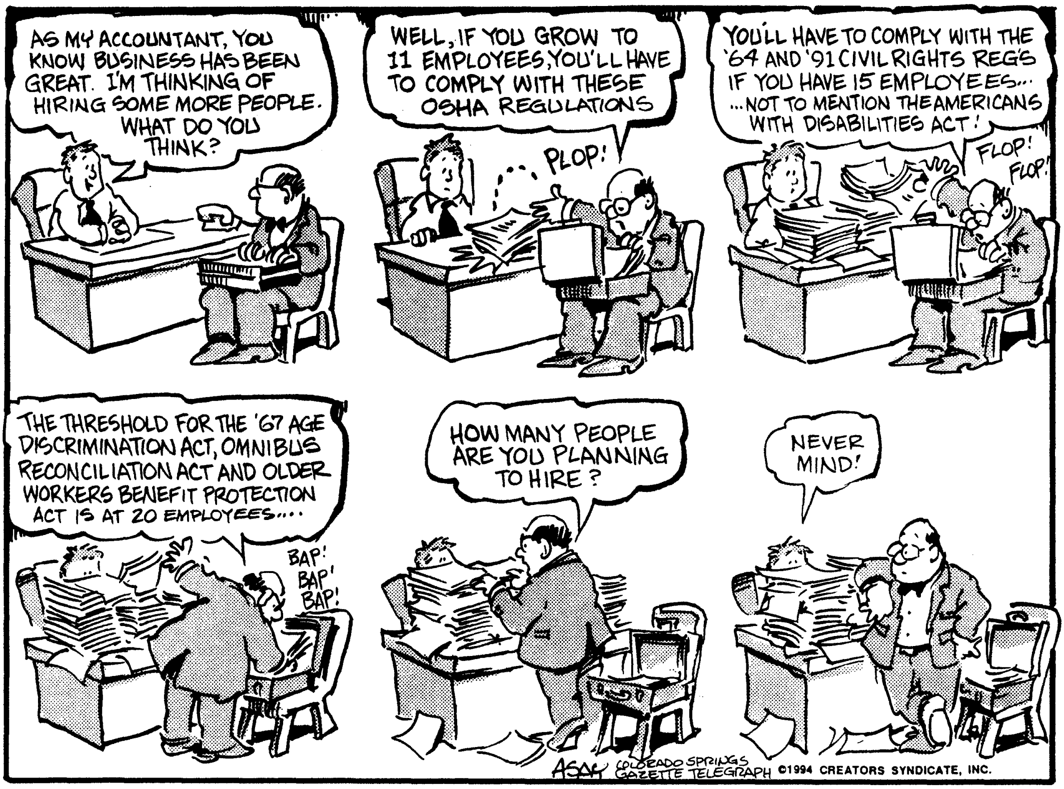
The Employment Policy Foundation has estimated that this package of changes in employment regulation would cost the American economy nearly $62 billion a year, including over $8 billion for litigation.

Workers' Compensation. Another expensive burden on the employment process, and one whose cost is rising very rapidly, is workers' compensation. In real terms, the cost of workers' compensation more than doubled from 1977 to 1991. During the same period, lost work time due to injuries and illnesses rose far more modestly, from about 60 days per 100 workers per year to approximately 70 days per 100 workers. Even taking into account the rise in unit medical costs, the workers' compensation program is an increasingly generous one—and extremely costly to employers.

Some legislation affecting jobs is so recent that it is premature to attempt to estimate the specific impacts on labor costs and on labor supply or demand. An example is the Americans With Disabilities Act (ADA), which took effect on July 26, 1992, in the case of employers with 25 or more workers (and on July 26, 1994, in the case of employers with 15 or more workers). The officials charged with carrying out the statute explain that it will take extended litigation to determine the full scope of the vague and often sweeping provisions of the law, which covers an estimated 43 million Americans. However, early experience indicates that the costs will be substantial. The Equal Employment Opportunity Commission is now receiving about 1,000 ADA claims each month—on top of its already heavy caseload dealing with other discrimination claims.

Conclusion

An important and overlooked factor in the continued high level of unemployment is the



rising load of regulation, mandates, and payroll taxes that government is imposing on business and other employers. The direct cost of meeting employment mandates imposed by the federal government has been rising twice as fast as wages and salaries.

The indirect costs of employment regulations—many of which are both substantial and hidden—all share a common characteristic: they make adding workers to the payroll more expensive. At least initially, they also create a substantial gap between the cost to the employer and the benefit to the employee.

In the words of University of Chicago law professor Richard A. Epstein, "Public discourse proceeds as if employment laws are unrelated to wage levels, job creation, or labor output. . ."

There is specific evidence to support the close—and inverse—relationship between onerous government regulation and the willingness to hire. For example, the Schonstedt Instrument Company of Reston, Virginia, a profitable, high-tech firm, deliberately keeps its work force below 50 employees. It does so in order to avoid having to file Form EEO-1 every year. An excerpt from a letter from the company's president makes the point effectively: ". . . a friend went over 50 employees on a government contract. He gave me his EEO file . . . it weighs more than 8 pounds. . . . I have kept my employment under 50."

With rising regulation, rising employer mandates, and rising payroll taxes, the time has come to reverse that trend and to undo the serious damage that government is inflicting on the job front and on economic activity generally. □

THE FREEMAN
IDEAS ON LIBERTY

Data Manipulation as Crisis

by Robert W. Pulsinelli

By now everyone should know that many politicians and others with a liberal-socialistic bent are fond of discovering crises. A crisis provides an excuse for drastic and immediate action—by the government. Often misinterpretations of economic data (wittingly or not) have been used to transform problems into crises and to expand the role of government.

To understand the "crisis" mentality, consider the following illustration. Suppose you visit your local grocery store and note that there are 300 cans of soup on the shelf. You return one month later and observe that there are still 300 such cans. Can you safely conclude that this store has a "crisis" because it isn't selling any soup? A moment's reflection tells you that such a conclusion would be a *non sequitur because the present cans may not be the same cans that were there last month.* Before drawing any conclusions, you would need more information.

A simple stock-flow model indicates that if the store sells 100 cans of soup every month and replaces those 100 cans monthly, the stock will remain at 300 cans. Clearly, if the inflow of cans exceeds the outflow (sales), then the stock (inventory) rises; if the inflow is less than the outflow, then the stock falls.

While this model is so obvious that it seems trivial, an understanding of this stock-flow model can help put some recently labeled "crises" in perspective, particularly unemployment, health care insurance, and the distribution of income.

Unemployment

Assume that the size of the labor force (the number employed plus the number unemployed) is 100 and assume that every month a survey is taken. The January survey indicates that four people are unemployed; hence, the unemployment rate for January is 4 percent. In February, suppose those four people find jobs, but four *others* become unemployed; the unemployment rate is again 4 percent. Assume further that every month something similar happened: the four who were previously unemployed find jobs but are replaced by four others who have become unemployed. The unemployment rate remains at 4 percent all year long.

If one merely observed the unemployment rate, one might conclude that a crisis existed in the economy because the unemployment rate remained at 4 percent. Indeed, a problem *might* exist if *the same people were unemployed each month,* all year round. It seems to me that before we can talk about an unemployment problem, we need to know the number of heads of households who have been unemployed for longer than one year. Clearly, if the unemployment rate were 6 percent and that number consisted only of heads of households who have been unemployed for three years, a serious problem might well exist. But that is hardly the problem in the United States.

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In recent years, it is not unlikely that in any given month millions of people will become unemployed (as job losers, job leavers, re-entrants, and new entrants into the labor force), and millions will find jobs (or leave the labor force). Or, looked at in another way, of the 7.764 million people who were unemployed in December of 1993, 2.764 million had been unemployed for fewer than 5 weeks and only 925 thousand had been unemployed for 52 weeks or longer. The point is that before one can talk about an unemployment problem (much less a crisis) it is important to know how many *chronically* unemployed there are.

Understanding the simple stock-flow model helps to clear up another issue. Because the stock of unemployed is *positive* at any given moment, most people came to believe that full employment is never attained. Hence, John Maynard Keynes' contention that capitalism is associated with chronic unemployment—with the attendant implication that government must create jobs—seems to be vindicated month after month. The fact is that although it is possible for a surplus of labor (a shortage of jobs) to exist for *some* jobs (because wage rates are set by unions or governments above market-clearing levels), it is extremely unlikely if not impossible, for a *general* shortage of jobs to exist.

Health Insurance Coverage

It is widely reported that 37 million people in the United States do not have health insurance coverage, and this statistic is said to reveal a crisis that justifies the Clinton health care plan (read socialized medicine). Even if we accept that (dubious) figure of 37 million, it is not indicative of a crisis.

Every month, there are inflows into the stock of uninsured (people who have just lost their jobs, who have just graduated from high school or college and are no longer covered by their parents' family plan, and so on), and, there are outflows from that stock (people who accept jobs, who became older and decide that it is now worthwhile to purchase health insurance, who die, and so on).

The crucial information here is the number of people who are *chronically* uninsured and who *want* to purchase insurance but truly cannot afford to do so. If this number were large, it might make sense to look for radical solutions; the number of chronically uninsured Americans is probably between 2 and 3 million.

Perhaps because 37 million people did not indicate a sufficient crisis, President Clinton decided to prolong the flow period and reported that 52 million people were without insurance at one time or another during a one-year period.

Distribution of Income

Income inequality, probably more than any other "problem," has been used to justify government encroachment on private property and liberty. Data indicate (with some variability) that over very long periods in the United States, the lowest 20 percent of the distribution has received 5 percent of total income, and the upper 5 percent has received about 20 percent of total income. Let's skirt the issue as to whether such inequality is "fair" or "unfair" and merely note that such studies usually measure *pre-tax* income. By excluding income-in-kind and government transfers (food stamps, rent subsidies, Medicaid, etc.) they overstate inequality.

What is germane here, however, is the stock-flow model implications. Note that the same families do not continue to occupy the same positions in the income distribution; intergenerational social mobility occurs. Furthermore, such data overstate intra-generational income inequalities as well.

Age/Earnings Profiles. An abundance of evidence indicates that most people reach relatively low incomes in their youth, relatively high incomes in their middle years, and relatively low incomes near and after retirement. Consider now a fictitious economy in which the *only* determinant of income is age; all 17-year-olds earn $5,000 per year, all 25 year-olds earn $12,000 per year, and so on.

Assume that there are people of all different ages in this economy. Data taken at any given time (cross-section data) will indicate a considerable amount of income inequality in this (conjured) economy, whereas zero *lifetime* inequality exists. In short, income distribution studies that don't explicitly adjust for age are biased toward inequality because an age/earnings profile exists for most people, and over a lifetime there will be inflows and outflows through each age (and therefore income) bracket.

Transitory Income Effects. Consider an economy consisting of clones, in which everyone has the same skills and earns the same income. Income differences result only from temporary phenomena (illness, luck, temporary periods of work strike, temporary industry-specific recessions and expansions, and so on). Using Milton Friedman's terminology, everyone has the same permanent income; measured income differences result only from transitory income differences. In any given year, some people will be pushed below their permanent income levels and others will be pushed above theirs; hence, a certain amount of income inequality exists in a given period even if people have identical lifetime incomes. We conclude that unless income distribution studies consider only permanent (or lifetime) income, they will be biased toward measuring inequality; studies analyzing measured income overstate income inequality. Stated in another way, because of the vicissitudes of life, there will be continuous inflows and outflows through each income bracket. But because there will be (a lot of) different people in each bracket, income inequality will be overstated.

Conclusion

Demagogues will always use data for their own purposes. The rest of us need to be aware of how data can be misused and abused. Unfortunately, it is a lot easier (and the rewards are higher) to emote and shout "crisis" or "unfair" than it is to analyze data and put them into perspective for the uninitiated. Perhaps that is one reason the story of the twentieth century is largely about "crises" that induce people to hand power to governments who keep that power long after the alleged crisis has disappeared. □

THE FREEMAN
IDEAS ON LIBERTY

The Piper Will Be Paid

by Charles D. Van Eaton

When God told Adam, "In the sweat of your face you shall eat your bread until you return to the ground, for out of it you were taken; you are dust, and to dust you shall return," He was not congratulating him. Maybe it's because I was a Biblical Studies major during my first tour through college, years before I returned to do it all over again as an Economics major, that I'm often drawn back to the ancient text to find economic lessons. If there ever was an economics lesson in Scripture, this early text (Bible students don't need to be told where it's located) is it. Life, it teaches, is not going to come easy. But that's OK because economists know that one of the good things about the hard life is that it teaches lessons to those who are willing to learn. The first lesson is this: make the right choices and there can be more bread with less sweat; make the wrong choices and there will be less bread but more sweat. Lesson two automatically follows from the first: deny the need to learn the first lesson and, sooner or later there will be no bread for anyone regardless of how much we all have to sweat.

What is this, an essay in economics or theology? Actually it's both because what both have in common is this axiom: "Sow to the flesh and you will reap corruption," but "Sow to the Spirit and you will reap life." In the jargon of economics the same tale is told another way: all choices have costs.

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Consequently both the Biblical and economics lesson come to the same conclusion: some choices cost more than others, so pay attention and don't keep making the same dumb mistakes over and over again.

But what happens when the old lessons are cast aside? Two events some seven years apart tell the story.

Turning Values Upside Down

In the years before the Supreme Court's 1954 landmark Brown versus Board of Education decision outlawing racial segregation in public schools, Washington, D.C., a deep-south city in many respects, maintained two public school systems; one for black children and one for non-blacks. For ambitious young black scholars interested in technical subjects, McKinley Tech was the place to be just as equally-famous Dunbar High was the choice of those interested in the arts and literature. As was true of Dunbar, admission to McKinley was highly competitive. Not everyone could get in, but those who did went on to become physicians, lawyers, nurses, research scientists, dentists, business leaders, and government officials.

Even though both Dunbar and McKinley were open only to black students, both were segregated schools—except the separation factor was not race, it was individual excellence. Distinctions were made on a grand scale and distinctions of this sort favored the few over the many. With the advent of that political vision known as the Great Society, we learned better. Things were changed, and a new process was set in motion which made McKinley what it is today. What is that?

In September 1987, the *Washington Post* assigned Athelia Knight, one of their very bright young black reporters, to spend a year at McKinley to examine the day-to-day life of young people in this once-famous high school. Her four-part series stunned this committed *Post* reader: things had changed since the 1950s.

Knight focused on the efforts of McKinley's Principal, Bettye Toops, to improve standards and attendance. Despite her daily efforts to make McKinley what it used to be, matters were getting worse every day. For example, during an assembly held to honor outstanding students, those who had earned honor-roll status would not come forward when their names were called. They were afraid to be honored for academic accomplishments because their peers did not approve. "What Toops saw that day was a dramatic example of how academic values have been turned upside down. . . . Somehow, an environment had emerged that discouraged excellence and encouraged mediocrity. Complacency had won out over creativity; good students didn't want to be singled out because their peers wouldn't allow it." What was once a place of excellence had, in one generation, become a place of fear and failure.

Muting the Old Signals

Move forward seven years to 1994. On May 26, 1994, *Wall Street Journal* staff reporter Ron Suskind visited Washington D.C.'s all-black Frank W. Ballou Senior High School.* Two young men were featured. One, Cedric Jennings, is the child of a very religious single-parent mother and a father who was serving time for drug dealing; the other, Phillip Atkins, is the son of a hard-working, church-going mother and father who constantly teach him and his six sisters to work hard, study hard, and pray for guidance. While Cedric carries an amazing 4.0 grade point average with solid courses in math, physics, chemistry, and biology—accomplished by hard work in the laboratory before and after school with the full support of his teachers and mother—Phillip barely passes and will probably not graduate despite the fact that his test scores on national examinations are better than Cedric's.

As was true even years earlier at McKinley Tech, failure is pervasive at Ballou Senior High. There is good reason for this. Most of the children in this school come from homes in which welfare is the main source of purchasing power. Their environment has taught them that there really is no such thing as bad choices which must automatically yield bad outcomes, and good choices which carry the promise of good outcomes. Those old signals have been muted because the world they see all around them is one in which choosing not to participate in the day-to-day world of work does not cause one to lose access to food, housing, medical care, and cash income—government takes care of all these things.

Here in the world of Cedric, Phillip, and all their peers, an event occurred which could have been scripted from Ms. Knights's old report from McKinley. When students were called together for an assembly to honor academic achievers, few of the winners showed up. Why? Too risky. "When one hapless teen's name was called, a teacher had to run to the bleachers and order him forward as others jeered him and called him Nerd!" When Cedric's name was called, he was nowhere to be found. "Doing well here means you had better not show your face. I was honored last year and I didn't go; I just couldn't take the abuse." Phillip's name wasn't called. "Being openly smart," he told the *Journal* reporter "will make you a target, which is crazy at a place like Ballou. The best way to avoid trouble is to never get all the answers right on a test."

But neither Cedric or Phillip is the most intellectually gifted young man at Ballou. That honor belongs to Delante Coleman, who is the leader of one of the most dangerous street gangs in the community. As intellectually capable as he is, Delante gave up long ago. Now he likes to "toy with the

*A condensed version of Mr. Suskind's story appeared in the September 1994 *Reader's Digest*, pp. 49–53.

'goodies' who carry books home and walk alone." (Cedric is alone all the time. He has no friends at Ballou.) "Everyone knows they're trying to be white, to get ahead in the white man's world," Delante said. "In a way, that's a little bit of disrespect to the rest of us."

In his classic *Losing Ground: American Social Policy, 1950-1980* (Basic Books, 1984), Charles Murray predicted that something like this was bound to happen. Status and money are the tools society has traditionally used to manage behavior. Indeed, for many people, the dominant motive for working hard is the belief (right or wrong is beside the point here) that money can buy status. But perhaps the most important function of status, Murray argued, was to "reward the virtuous," whatever their level of income might be. Among the poor—which was the dominant group in society for most of our history—status was socially conferred on those who behaved responsibly. It was assumed that all people are always to be held personally responsible for their actions and are to take care of their own families as best they could. Thus a person might work hard and still be poor by the usual income standards, but society conferred status upon that person precisely because he worked and did the best he could. "Poverty," Murray argued, "had nothing to do with dignity." Break the connection between personal effort and status, particularly the connection between academic excellence and status which is so critical for young people, and soon there will be no academic excellence, no personal responsibility, and no dignity. In its place there will only be fear and pervasive failure.

Sociology in One Lesson

There's a lesson in the stories from McKinley and Ballou—a lesson so clear and compelling that one would have to be spiritually blind to miss the point. The lesson is this: the American people, acting through their freely elected political representatives to create social programs aimed at reducing poverty and increasing opportunity for the poorest of our lot, have succeeded in virtually destroying an entire generation of black Americans—even though not one person in a million ever intended for it to work out this way. But it has happened precisely because the philosophy which has informed the modern welfare state from the beginning is one which has always been at odds with reality.

Murray, who was there in the beginning, has noted that those who created the "Great Society" programs of the mid-1960s believed that it was wrong to make distinctions between those poor who do the right thing and therefore deserve to be rewarded, and those who do the wrong things and deserve to be left to suffer the negative consequences of their own behavior. In place of distinctions and status based on personal behavior was the assumption that the "system," rather than the individual, is to blame for poverty. The "old-fashioned" notion that there is a fundamental difference between the so-called "deserving poor," and the "undeserving poor" was cast aside in favor of the view that the poor were to be seen as a homogeneous entity and distinctions based on personal behavior were not to be made.

Enter the Cedrics, Phillips, and Delantes of the inner city. If young people in this setting have been denied the chance to see any reasonable connection between individual effort and life outcomes, they will find it difficult to tolerate any other young person from the same environment who works hard and succeeds in school because this person's success tells the non-achiever that his failure has something to do with his own choices rather than with forces beyond his control. The achiever has to hide. The non-achiever has to be the enemy of the achiever, and the Delantes of the community have to enforce the rules of failure on everyone.

Despite the best efforts of the modern welfare state to tell an entire generation of the poor that government can and will change the old notion about eating bread in the sweat of your face, we have succeeded instead in doing one horrible thing—we have now essentially denied bright and energetic young blacks access to the powerful social status which historically attached to academic excellence and, in so doing, have denied a growing number of the poorest of our brethren any chance of accessing some of the best jobs in the manufacturing crafts and commercial trades—jobs which do not require post-secondary education but which do require solid skills in basic mathematics and reading comprehension. In a word, our social programs have done the opposite of what they were supposed to do: they have closed the door for many who could and would have walked through.

Hidden Costs

Economists who study the impact of regulation on the economy suggest that regulation may increase costs by as much as $300 billion a year. Professor Israel Kirzner of New York University reminds us that $300 billion, at best, only counts what can be counted. What cannot be counted are the enterprises, jobs, and incomes which might have been developed but were not because the heavy hand of government regulation raised start-up costs and increased risk and uncertainty far above what they would have been had pure market forces been left to send the signals needed to know when and where to act and when and where not to act. Because economists cannot count what might have occurred but did not, regulation's costs are far greater than our best numbers can measure.

In the same way, we can count the number of people dependent on government welfare programs today and compare that number with counts from earlier generations to get some idea of how "successful" these programs have been. For example, we can compare the number of persons dependent on food stamps and the dollars spent on food stamps today to the number and dollars the political advocates of this particular welfare program claimed we would be spending when the program began. In 1961 there were 50,000 million food stamp recipients and the program cost $825,000. Congressional supporters claimed that there would never be more than two million Americans receiving food stamps. By 1993 the number of recipients had risen to 27 million, costing $22 billion. Conclusion? Welfare programs have not worked: the dollars prove it.

That's not the whole story. What hard dollar figures cannot count are the number of persons who could, and most likely would, have moved out of poverty if the powerful teaching tools of life had been left free to send the right signals. With these signals working, the Cedrics of the poor neighborhoods would still be making good grades and be honored by their peers. They would be going on to college and contributing to the goods and services which are the measure of our material standard of living. The Phillips would not be afraid to show their intellectual skills. And the Delantes would probably be leading their graduating class instead of a street gang.

As it is, Cedric will make it and Phillip will barely graduate from high school, but will probably stay out of jail if for no other reason than the spiritual power of his parents to keep him alive. But Delante will not likely live to see age 21. The economic data will leave no record of what Phillip and Delante could have contributed to others in directly productive labor. If they could, we would find that the true cost of our modern welfare system is incomprehensibly higher than what our crude numbers now suggest.

If there is any hope for the next generation it must come from a restoration of the old and still completely true ethic which teaches that we reap what we sow. How to begin? There is only one way. The welfare state must be abolished by closing access to it for the next generation. If we believe we cannot suddenly deny it to those already caught up in it because they are there at our own invitation, we can at least deny it to those not already seduced by its monetary charms. We can expel students who jeer excellence and make life fearful for those who want to excel. In a word, we can succeed only if we stop, once and for all, doing what we always knew would necessarily lead to failure. That's life's lesson, and it's as old as life itself. □

THE FREEMAN
IDEAS ON LIBERTY

What Is a Dollar?

by Edwin Vieira, Jr.

The question "What is a 'dollar'?" seems trivial. Very few people, however, can correctly define a "dollar," even though a correct definition is vital to their economic and political well-being.

1. Why is a correct definition of the term "dollar" important?

In America's free-market economy, prices are expressed in units of *money*. Under present law, "United States *money* is expressed in *dollars*. . ."[1] Moreover, all "United States coins and currency (including Federal Reserve Notes. . .) are legal tender for all debts, public charges, taxes and dues."[2] Thus, defining the noun "dollar" is necessary in order to know what is the "money" of the United States and what constitutes "legal tender."

2. Do the present monetary statutes intelligibly define the "dollar"?

The present monetary statutes do not define the "dollar" intelligibly.

a. *Federal Reserve Notes*. Most people mistake the Federal Reserve Note (FRN) "dollar bill" for a "dollar." But no statute defines or ever defined the "one dollar" FRN as *the* "dollar" or even *a* "dollar." Moreover, the *United States Code* provides that FRNs "shall be *redeemed in lawful money* on demand at the Treasury Department of the United States . . . or at any Federal Reserve bank."[3] Thus, if FRNs are not themselves "lawful money," they cannot be "dollars," the units in which all "United States money is expressed."

b. *United States coins*. The situation with coinage is equally confusing. The *United States Code* provides for base-metallic coinage, gold coinage, and silver coinage, all denominated in "dollars." The base-metallic coinage includes "a dollar coin," weighing "8.1 grams," and composed of copper and nickel.[4] The gold coinage includes a "fifty dollar gold coin" that "weighs 33.931 grams, and contains one troy ounce of fine gold."[5] Finally, the silver coinage consists of a coin that is inscribed "One Dollar," weighs "31.103 grams," and contains one ounce of ".999 fine silver."[6] What is the rational relationship between this "dollar" of 31.103 grams of silver, a "fifty-dollar" coin containing 33.931 grams of gold alloy, and a "dollar" containing "8.1 grams" of base metals? Obviously, these are not the amounts of the metals that exchange against each other in the free market—that is, the different weights of different metals do not reflect equivalent purchasing powers. So, on what theory are each of these disparate weights, and purchasing powers, equally "dollars"?

c. *Currency of "equal purchasing power."* The *United States Code* mandates that the latter question should not even be capable of being asked. For the *Code* commands that "the Secretary [of the Treasury] shall redeem gold certificates owned by the Federal reserve banks at times and in amounts the Secretary decides are necessary to maintain the equal purchasing power

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This is a condensed version of the monograph "What Is a Dollar?," distributed by the National Alliance for Constitutional Money.

of each kind of United States currency."[7] Obviously, the Secretary has defaulted on this obligation to keep all forms of "United States currency" at parity with one other—that is, to maintain a "dollar" of constant purchasing-power, whether it be composed of gold, silver, or base metals.

In sum, the monetary statutes do not define the noun "dollar" in a unique way. Instead, completely different things have the same name, things unequal to each other are treated as equivalent, and things that should have the same characteristics (*i.e.*, "equal purchasing power[s]") are quite different.

3. What does American history and the Constitution identify as the "dollar"?

History shows that the *real* "dollar" is a coin containing 371.25 grains (troy) of fine silver.

a. *The "dollar" in the Constitution.* Both Article I, Section 9, Clause 1 of the Constitution and the Seventh Amendment use the noun "dollar." The Constitution does not define the "dollar," though, because in the late 1700s everyone knew that the word meant the *silver Spanish milled dollar*.

b. *Adoption of the "dollar" as the "Money-Unit" prior to ratification of the Constitution.* The Founding Fathers did not need explicitly to adopt the "dollar" as the national unit of money or to define the "dollar" in the Constitution, because the Continental Congress had already done so.

The American Colonies did not originally adopt the dollar from England, but from Spain. Under that country's monetary reforms of 1497, the silver *real* became the Spanish money of account. A new coin consisting of eight *reales* also appeared. Known as *pesos, duros, piezas de a ocho* ("pieces of eight"), or Spanish dollars, the coins achieved predominance in the New World because of Spain's then-important commercial and political position.[8] Indeed, by 1704, the "pieces of eight" had in fact become a unit of account of the Colonies, as Queen Anne's Proclamation of 1704 recognized, when it decreed that all other current foreign silver coins "stand regulated, according to their weight and fineness, according and in proportion to the rate . . . limited and set for the pieces of eight of Sevil, Pillar, and Mexico" (forms of Spanish dollars).[9]

By the American War of Independence, the Spanish dollar had become the major monetary unit of the Colonies. Not surprisingly, the Continental Congress adopted the dollar as the nation's standard of value. On May 22, 1776, a Congressional committee reported on "the value of the several species of gold and silver coins current in these colonies, and the proportions they ought to bear to Spanish milled dollars." And on September 2 of that year, a further committee report undertook to "declar[e] the precise weight and fineness of the . . . Spanish milled dollar . . . now becoming the Money-Unit or common measure of other coins in these states."[10]

Meanwhile, the Continental Congress worked on a new national monetary system. In his letter to Congress of January 15, 1782, Robert Morris, Superintendent of the Office of Finance, recommended that "our money standard ought to be affixed to silver." Although Morris favored creating an entirely new standard coin, he recognized that, of "[t]he various coins which have circulated in America, . . . there is hardly any which can be considered as a general standard, unless it be Spanish dollars".[11]

In a plan published on July 24, 1784, Thomas Jefferson concurred that "[t]he Spanish dollar seems to fulfill all . . . conditions" applicable to "fixing the unit of money." "The unit, or dollar," he wrote, "is a known coin, . . . already adopted from south to north. . . . Our public debt, our requisitions and their apportionments, have given it actual and long possession of the place of unit."[12]

Yet Jefferson recognized the necessity of "say[ing] with precision what a dollar is. This coin as struck at different times, of different weight and fineness, is of different values." So, Jefferson suggested, "we should examine the quantity of pure metal in each [type of dollar], and from them form an average for our unit. This is a work . . . which should be decided on actual and accurate experiments."[13]

On July 6, 1785, Congress unanimously

"Resolved, That the money unit of the United States be one dollar."[14] On April 8, 1786, the Board of Treasury reported to Congress on the establishment of a mint:

> Congress by their Act of the 6th July last resolved, that the Money Unit of the United States should be a Dollar, but did not determine what number of grains of Fine Silver should constitute the Dollar.
>
> We have concluded that Congress by their Act aforesaid, intended the common Dollars that are Current in the United States, and we have made our calculations accordingly.
>
> * * * * *
>
> The Money Unit or Dollar will contain three hundred and seventy five grains and sixty four hundredths of a Grain of fine Silver. A Dollar containing this number of Grains of fine Silver, will be worth as much as the New Spanish Dollars.[15]

On August 8, 1787, Congress adopted this standard as "the money Unit of the United States."[16]

Many of the same people who served in the Continental Congress participated in the Federal Convention that drafted the Constitution. And even those members of the Convention who had not served in the Continental Congress knew what that Congress had done. Therefore, when the Convention used the noun "dollar" in Article I, Section 9, Clause 1 of the Constitution, it was with the tacit understanding of the relevant history. The lesson here is clear: The *constitutional* "dollar" is *a fixed weight of fine silver in the form of a coin.*

c. *Adoption of the "dollar" as the "Money-Unit" immediately after ratification of the Constitution.* Upon ratification of the Constitution, Congress and the Executive began work on a national monetary system.

On 28 January 1791, Secretary of the Treasury Alexander Hamilton presented to Congress his *Report on the Subject of a Mint.* Hamilton posed two questions, "1st. What ought to be . . . of the money unit of the United States?," and "2d. What [should be] the proportion between gold and silver, if coins of both metals are to be established?"[17]

On the first question, Hamilton referred to the resolutions of the Continental Congress and concluded that "usage and practice. . . indicate the dollar" as the money unit. As to "what precise quantity of fine silver" the dollar should contain, he surveyed the various dollar coins in circulation over the years, and recommended that "[t]he actual dollar in common circulation has. . . a much better claim to be regarded as the actual money unit."[18]

Turning to "the proportion which ought to subsist between [gold and silver] in the coins," Hamilton recommended the domestic market-ratio of "about as 1 to 15." "There can hardly be a better rule in any country for the legal than the market proportion," he explained, "if this can be supposed to have been produced by the free and steady course of commercial principles. The presumption in such a case is that each metal finds its true level, according to its intrinsic utility, in the general system of money operation."[19]

Hamilton recommended the minting of two coins: a silver coin of 371–1/4 grains of fine silver (the dollar), and a gold coin of 24–3/4 grains of fine gold. "[N]othing better," he wrote, "can be done . . . than to pursue the track marked out by the resolution [of the Continental Congress] of the 8th of August, 1786."[20]

Congress then enacted the Coinage Act of 1792,[21] embodying the constitutional principles that Hamilton had re-affirmed in his *Report.* First, Congress followed American tradition by continuing the use of silver and gold as money.[22] Second, it reiterated the judgment of the Continental Congress and the Constitution that "the money of account of the United States shall be expressed in dollars or units."[23] and defined the "DOLLARS OR UNITS" as "of the value of a Spanish milled dollar as the same is now current, and to contain three hundred and seventy-one grains and four sixteenth parts of a grain of pure . . . silver."[24] Congress also created a new gold coin, the "EAGLE," "each to be of the value of ten dollars or units"[25] (*i.e.*, the weight of fine gold equivalent in the marketplace to 3,712.50 grains of fine silver). It fixed "the proportional value of gold to silver in all coins which shall by law be current as money within the United States" at "fifteen to one, according to quantity in weight, of pure gold or pure silver."[26] It made "all the gold and silver coins. . . issued from the. . . mint . . . a lawful tender in all payments whatsoever, those of full weight according to the respective values [established in the Act], and those of less than full weight at values proportional to their respective weights."[27] And it provided free coinage "for any person or persons," and affixed the penalty of death for the crime of debasing the coinage.[28]

Thus, Congress did not create a "gold dollar," or establish a "gold standard," as the popular misconception holds. For example, the *Encyclopedia Britannica* erroneously reports that the "dollar . . . was defined in the Coinage Act of 1792 as either 24.75 gr. (troy) of fine gold or 371.25 gr. (troy) of fine silver."[29] The Act did no such thing. It defined the "dollar" as a weight of silver, and "regulate[d] the Value"[30] of gold coins according to this standard unit and the market exchange-ratio between the two metals. Nowhere did the Act refer to a "gold dollar," only to various gold coins of other names that it valued in "dollars."[31]

4. Where are we now?

This history demonstrates that official Washington, D.C., has no conception of what a "dollar" really is. The reason for this self-imposed ignorance is obvious. By reducing the "dollar" to a political abstraction, the government has empowered itself to engage in limitless debasement (depreciation in purchasing power) of our money. A "dollar" that must perforce of the Constitution contain 371.25 grains of fine silver cannot be reduced in value below the market exchange value of silver. A *pseudo*-"dollar" that contains no fixed amount of any particular substance *per* "dollar," on the other hand, can be reduced in value infinitely.

Because debasement of money amounts to a hidden tax, Congress' silent refusal to recognize the constitutional "dollar" amounts to the usurpation of an unlimited power to tax through manipulation of the monetary system. Thus, modern money has become a means for the total confiscation of private property by the government.

One need not be overly pessimistic to predict that misuse by politicians of the fictional, constantly depreciating *pseudo*-"dollar" to expropriate unsuspecting citizens will continue until an economic crisis finally shocks an increasingly impoverished American people out of its slumber, and forces the people to ask the simple question: "What is a 'dollar'?" At that time, the answer will be no different from what it is today, and has been since 1704. □

1. 31 U.S.C. § 5101 (emphasis supplied). *See* Act of 2 April 1792, ch. 16, § 9, 1 Stat. 246, 248.
2. 31 U.S.C. § 5103.
3. 12 U.S.C. § 411 (emphasis supplied).
4. 31 U.S.C. § 5112(a), 5112(b).
5. 31 U.S.C. § 5112(a)(7).
6. 31 U.S.C. § 5112(e).
7. 31 U.S.C. § 5119(a) (emphasis supplied).
8. *See* Sumner, "The Spanish Dollar and the Colonial Shilling," 3 *Amer. Hist. Rev.* 607 (1898).
9. *See* An Act for ascertaining the rates of foreign coins in her Majesty's plantations in America, 1707, 6 Anne, ch. 30. § I.
10. 4 *Journals of the Continental Congress, 1777-1789* (W. Ford, ed., 1905), at 381–82; 5 *id.* at 725.
11. Propositions respecting the Coinage of Gold, Silver, and Copper (printed folio pamphlet presented to the Continental Congress 13 May 1785), at 4, 5.
12. "NOTES on the Establishment of a MONEY MINT, and of a COINAGE for the United States," *The Providence Gazette and Country Journal*, Vol. XXI, No. 1073 (24 July 1784), in Propositions, note 11, at 9, 10.
13. *Id.* at 11.
14. 29 *Journals of the Continental Congress* at 499–500.
15. 30 *Id.* at 162–63. After ratification of the Constitution, Congress made a more accurate determination of the value of the dollar, setting it at 371-1/4 grains of five silver (as described below).
16. 31 *Journals of the Continental Congress* at 503.
17. 2 *The Debates and Proceedings in the Congress of the United States* (J. Gales compil. 1834), Appendix, at 2059, 2060, 2061.
18. *Id.* at 2061–63.
19. *Id.* at 2066, 2068, 2069.
20. *Id.* at 2082.
21. Act of 2 April 1792, ch. 16, 1 Stat. 246.
22. § 9, 1 Stat. at 248.
23. § 20, 1 Stat. at 250.
24. § 9, 1 Stat. at 248.
25. § 9, 1 Stat. at 248.
26. § 11, 1 Stat. at 248–49.
27. § 16, 1 Stat. at 250.
28. § § 14–15, 1 Stat. at 249–50; § 19, 1 Stat. at 250.
29. Vol. 7, "Dollar" (1963 ed.) at 558.
30. *See* U.S. Cost. art. I, § 8, cl. 5.
31. For the correct interpretation of the Act, *See, e.g.*, A. Hepburn, *History of Coinage and Currency in the United States and the Perennial Contest for Sound Money* (1903), at 22.

THE FREEMAN
IDEAS ON LIBERTY

A Profit Without Honor

by R. C. Sproul, Jr.

My memories of my undergraduate days include an especially strange student who loved to wear a T-shirt carrying the slogan: "Human Need. Not Corporate Greed." Like most liberal slogans, this one seems at first blush to be sane and compassionate. Humans, after all, are far more valuable than make-believe legal entities. But as with most liberal ideas, closer scrutiny reveals underlying folly. The assumption behind the T-shirt's slogan is that profit is something that companies steal from consumers. Basic to this thinking is the myth that one man's profit is another man's loss, that free economic trade is a zero-sum game.

Henry Hazlitt, in his *Economics in One Lesson,* demonstrates that most errors in our economic thinking stem from a failure to see the big picture. We support tariffs against Japanese cars because we read about massive layoffs in Detroit. We overlook the massive layoffs that are spread thinly among smaller companies who can no longer export to Japan because of the tariffs. The same applies to profits. We imagine that Wonder Bread carefully calculates the cost of producing a loaf of bread, and then tacks on ten, fifty, or a hundred percent to the sales price. We see that profit as a pound of human flesh taken from the consumer. What we miss is the strength of our desire for that loaf of bread.

How important is a loaf of bread to you? If you really had to, how much would you be willing to pay? $2? $3? Imagine the folks at Wonder Bread wearing T-shirts with the slogan "Corporate Need. Not Human Greed." I pay $1 for a loaf of bread. Am I gouging Wonder? Is my gain Wonder's loss?

Free Exchange

The confusion stems from a failure to understand the nature of free exchange. Barter makes clear the mutual benefit of free trade. Suppose I am a shoemaker. On a given day I can produce ten pairs of shoes. If I'm married to the old woman who lives in a shoe, in a week I can provide shoes for me and my family. After another week I have a surplus of shoes. I notice, however, that while their toes are warm, my large brood is hungry. Meanwhile, my neighbor the butcher has a full stomach and cold toes. I could try to stir-fry some shoe leather. My neighbor could try to wrap some steaks around his feet. The better option is for the two of us to trade. I trade from my surplus of shoes; he trades from his surplus of meat. Clearly everybody profits.

Money muddies the matter. A professor at a seminar asked his audience this: "If it costs a shoemaker $20 to make a pair of shoes, and he sells them for $40, who makes the profit?" The vast majority responded that the shoemaker profited. He did, but so did the consumer. We saw the value of the shoemaker on his shoes. What we missed was the value of the buyer on the shoes. He must have valued the shoes more than $40, else the trade would not have happened.

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Remember that even this exchange is ultimately barter. Where did the $40 come from?

The buyer had to sell something else to get the money, either his labor, or some good. He traded his labor or good for the shoes. Money is only a means for barter. It is the promise of future goods.

So why all the fuss if it is this simple? While we never pay more than we are willing to pay, we always pay more than we want to pay. Of course the same is true of the producer. He never sells for less than he is willing, but always sells for less than he would like.

Both Sides Gain

I recently spent a few days looking for a new car. I was unsuccessful. A dealer friend of mine suggested that I not negotiate for a car. He said that if I found a car I liked, I should just pay the asking price. The dealer, he explained, had to make a profit. I explained that the dealer would like to sell the car for $50,000. I would like to have the car for free. He, however, would be willing to sell the car for, say, $8,000. I would be willing to pay $10,000. Negotiating decides where in that intersection we end up. The closer to $10,000 we get, the more uncomfortable I become with the deal. Likewise the dealer becomes uncomfortable the closer we get to $8,000.

The beauty of free trade is that both sides profit. Suppose we had closed the deal at $9,000. Before the trade he had a car he valued at $8,000. I had $9,000 in cash. Our total value together was $17,000. After the trade I would have a car I valued at $10,000, and he would have $9,000. Our total value would be $19,000. Each of us would have profited $1,000. The deal never happened, however, because my top was $8,000, his bottom $10,000.

The same is true of every free trade. Each time we buy a loaf of bread or a candy bar, each time we sell our labor or a used car, we receive more than we give and both sides profit. Profit then does not stand *against* human need, but actually supports it. There is nothing dark and sinister about the profit motive because in free trade profit can only be reached by causing others to profit.

The same is true in non-monetary exchanges. The profit motive woke me up this morning. Like many others I am engaged in the battle of the bulge. I got up early this morning to jog around my neighborhood. All things being equal, I would have preferred to sleep later. All things, however, are not equal. My waist size is not equal to my pants size. I freely exchanged my time and energy this morning for the benefit of a slimmer body. My jogging was a profitable venture. The only thing I lose is pounds.

Profit Saves the Day

Profit, however, does so much more. I have only begun to chronicle some of its outstanding qualities. Profit also communicates important information. Consider the massive flooding along the Mississippi River in the summer of 1993. Many people who are otherwise comfortable with the idea of profits were put off by what they considered obscene profiteering by some of the entrepreneurs who went into the ice or generator business in the aftermath of the flood. Thousands of families found themselves without electricity as the waters rained destruction down on the river towns. Ice became a hot commodity. News reports inveighed against those cold-hearted folks who charged $5 or $10 dollars for a bag of ice that once sold for $1. Surely this wasn't legitimate profit.

Consider, though, what those profits did. With so many people in need of ice, how long would ice last at $1 a bag? If you were in such a situation how many bags would you buy? It depends upon the cost, doesn't it? At $1 a bag I know that I could use ten bags. Two go in my refrigerator, two more in the freezer, two in my cooler, and four just in case I might need them later. At $10 a bag I discover I can do with two bags. I may even invite my neighbor to store his perishables with mine and split the cost of the bags. Multiply these numbers by the hundreds of families in need of ice and you'll see how vital the high cost of the ice is to insure that there's enough to go around. Those high prices, rather than putting ice out of reach of those poor people, actually insured that more people would be able to get some needed ice. Profit saved the day.

The high cost of the ice, however, did more than keep the demand in check. It also served to increase the supply. Imagine yourself sitting in your easy chair in eastern Illinois watching the news reports on the flooding. In your driveway sits your refrigerated truck. Imagine first that the news reported that the government mandated that all ice be sold at $1 a bag in the troubled regions. What would you do? Nothing. Now suppose that you heard that ice was selling for $10 a bag. Because of the profit motive you would get out of your chair, run down to the local grocery store and buy out all their ice at $1 a bag. After filling your truck with the precious commodity you hit the highways and head west to seek your fortune. By the time you arrive you would probably find that others had had the same brilliant idea, and because the supply was better, ice was now selling at $5 a bag.

The profit motive not only reduced the demand for ice, but the profits earned alerted others of an opportunity, and the supply grew. Rather than taking unfair advantage of the flood victims, profit-makers actually served the victims' needs far better than an artificial price ceiling could have done. Profit brought the ice to those who most needed it. Remember also, that each and every bag of ice purchased—at any price—represented mutual profit for buyer and seller. Buyers paid more than they would have liked, but never more than they were willing.

Obscene Profits

There are obscene profits. When I was mugged several months ago, my assailant made an obscene profit. He traded my health for my money. To do so, however, he had to steal my health. It was not his to trade. In like manner the government makes obscene profits when it trades my freedom for my money via taxation. As with the mugger, I am given a choice: pay up or lock up. My freedom, however, is not the government's to trade. They first had to steal it from me.

The same is true even when the government pays for what is mine. Suppose the government wants to build a highway through my house. Suppose also that they give me the fair market value for my land. This is obscene profit. Obviously I value my land more than the fair market value. If not, I would have sold it. What the government stole from me was the difference between the market price for the land, and the price at which I would be willing to sell it. Even if the government pays me ten times the market value for my land, if I value it at eleven times the market value, the government has earned an obscene profit. (All this, of course, excludes the other illicit profit of the government. They are buying my property with money they first took from me. It is like a mugger forcing me to sell him my watch I value at $50 with the twenty dollars cash he just stole from me.)

Only governments and criminals have the power to engage in coerced exchange. The only difference is that one is legal, the other is not. The only other way for profit to be obscene is if the free trade involves fraud. If a soda company marks a can at 12 ounces and it only contains 11 ounces, they have earned an obscene profit. If I sell a car with an odometer that reads 50,000 miles, and the car has 150,000 miles on it, I have earned an obscene profit. If the government tells me that I can redeem a bond in twenty years for $50, and then inflates the money supply such that twenty years later the bond has only $10 of purchasing power, it has earned an obscene profit.

The difference between an obscene and a legitimate profit has nothing to with the percentage of the profit. If Jackson Pollack invests $10 in paint and canvas, and half an hour of his time to create a masterpiece that I value at $10,000 dollars, that is no obscene profit. The eleven-ounce soda is obscene profit.

Greed and Wealth

What about the wealth that profit can create? Is that not obscene? Is there not something intrinsically obscene about opulence? Perhaps our friend in the T-shirt was not so offended by the idea of profit, but by the radical disparity between the excess of Beverly Hills and the squalor of nearby Watts, between Manhattan and Harlem.

The difference is so stark that it is difficult to explore dispassionately the reason for it. Liberals would have us believe it is this monster, "corporate greed." Greed does explain the wealth of the wealthy. What we miss is the more proximate cause of the wealth. In a free market, wealth can only come from one source: meeting the needs of others. It is, in large part greed which drives the movie moguls. That hunger for wealth, however, is met not by oppressing the people of Watts, but by meeting their desires. The drive for profit in a market system always translates into the drive to meet the wishes of others.

Consider Henry Ford. It would stretch our credulity to suggest that Mr. Ford created his company because of his deep and abiding concern for convenient transportation for the common people. It seems far more likely that Mr. Ford, like most of us, wanted to be rich. The desire of Americans for a convenient means of transportation was but the means to the end of Mr. Ford's personal fortune. He assessed the situation and realized that by mass producing automobiles he could reap huge profits, and enjoy a life of enormous wealth. The result was that millions of people exchanged a certain amount of their wealth, which Mr. Ford valued more than his cars, for Mr. Ford's cars, which the people valued more than their money. Everyone wins.

Mr. Ford's greed did not lead him into tyranny. Rather it forced him to become a suitor. To satisfy his greed he had to satisfy the buying public. To maximize his profit he had to maximize the desirability of his product. To satisfy his corporate greed, he had to meet human need. Where profit rules, democracy rules. Every dollar is a vote by the buying public.

The plight of the urban underclass also has its root in greed. In this instance the poor are in part poor because of obscene profits. The profiteers, however, are not businessmen but bureaucrats. The professional poverty pimps profit by perpetuating the misery of the underclass. Their profits are obscene because they are engaged in fraud. They profit by selling the lie that government can help them out of their poverty by stealing from others. It is not profit that causes their poverty but the plundering of profits by politicians.

Ivan Boesky made headlines when he announced, "Greed is good." Greed, if understood as the desire or willingness to do anything, including lie or steal, to profit, is not good. After all, "What profit is it to a man if he gains the whole world, and loses his soul?" If, however, greed is merely the desire to increase one's wealth through meeting the desires of consumers in a free exchange, greed is not bad. The profit motive drives all that we do, from working long hours at the office, to Mother Teresa's works of compassion. Even she profits, for she values the privilege of serving her God far more than her other options. Even our T-shirted friend, however he may now be endeavoring to meet "human need," does so out of a profit motive. Driven by profit, he seeks to destroy profit. Corporately, all that we do freely, we do for profit.

Profit created our friend's T-shirt; it even drove him to wear the shirt which despised profit. Profit created the college where he studied. I only wish he had profited more from the education available to him. Profit, finally, drove you to invest your time and energy in reading. I hope you found your reading to be profitable. □

THE FREEMAN
IDEAS ON LIBERTY

Hoarders, Speculators, and Other Scapegoats

by Roger Clites

Enemies of society. That is what most people have been conditioned to think about hoarders, speculators, ticket scalpers, and various others whose activities are actually beneficial. Among the others are savers, whom John Maynard Keynes seemed to equate with those who hold money idle.

Even a quick analysis shows that each of these groups is composed of people who provide a useful service to their fellows.

Hoarders

What is a hoarder? During World War II hoarders were painted as people who gained from, or possibly were even responsible for, shortages of such things as coffee and sugar. Someone who had even a small amount of sugar on hand when the announcement was made that sugar was to be rationed was required to declare it so that it could be counted among the rations to which he was "entitled."

Does that make sense? Does his having sugar deny it to other people? No! Much to the contrary, if there is actually a shortage of something the person who already has the product on hand does not have to compete with others to obtain it from a seller. It might be better to turn around the emphasis and say that someone who needs to buy it does not have the hoarder competing with him for it.

The hoarder actually reduces the impact of a shortage by reducing demand during the time of shortage. Foresight caused him to purchase previously, during a time of greater availability. That enables him to avoid standing in line, searching from store to store, or otherwise competing for the scarce item with those who are in immediate need to acquire it.

People who have an urgent need for the product that is in short supply should actually be grateful to the hoarder.

We must not overlook still another point: The person who hoarded or stocked up might have anticipated incorrectly. A surplus could have developed and pushed the future price downward. Then the hoarder would have paid a higher than necessary price for the product plus he would have given up use of his funds during the period of stockpiling. So-called hoarders take on a risk for themselves as well as provide a service for others. Castigating them is irrational.

Speculators

Similarly, speculators are almost universally reviled. Yet, they, too, act in a beneficial way. Contrary to widespread belief, they do not destabilize markets, cause gyrations in prices or profit at the expense of

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others. Simply stated, a speculator tries to buy when prices are relatively low and sell when they are relatively high. Like the hoarder the speculator also takes a risk. He may buy only to discover later that he was wrong. He may be forced by future circumstances to sell at a still lower price, to take a loss.

But, suppose that a speculator does succeed in buying low and selling high. If price is low it is because demand is low relative to supply. The speculator by purchasing at that time adds to demand and keeps price from falling quite so far.

If price is later at a relatively high level it is because supply is short relative to demand. By selling at that time the speculator keeps price from rising quite as far upward.

Thus, the speculator reduces the amplitude of price swings, supporting prices when they are low and holding them down when they begin to climb to higher than usual levels.

Scalpers

Scalpers are a specialized type of speculator. When they perceive that tickets to an event will bring a higher-than-original-price on the free and open market. Scalpers try to buy tickets with the objective of reselling them for a higher price.

A scalper may be wrong in his analysis. He may find himself stuck with tickets that he must resell at a lower price than he paid for them, if he can sell them at all.

Often a scalper cannot just walk up to a box office and buy all of the tickets he wants. They may be rationed at so many per buyer. In that case he may have to pay a premium price himself to obtain them initially. Or he may have to wait in line for them, possibly even have to wait all night in an extreme case.

The person who buys from the scalper is paying for a service. He is obtaining something that he might not have been able to obtain directly for himself. Or he may be avoiding waiting in line for hours, perhaps even overnight, to obtain highly valued tickets. In any event, he willingly pays the scalper's price. He is not forced to buy from the scalper. He prefers the tickets to the money that he pays.

What the scalper has done is bring together the two sides of a market in which the initial price was set too low to bring about market clearing. The price may have been set too low because of misjudgment or it may have been due to social pressure. Whatever the reason, the marketers of the event set the price below the market clearing level and caused an artificial shortage to develop. The speculator guessed that this was the situation and tried to profit by correcting the error.

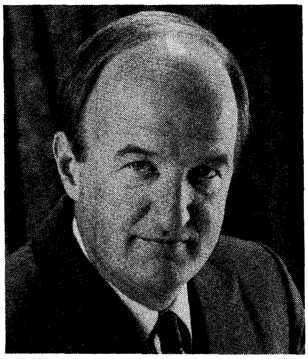
Remember, it is always possible that the scalper may lose. Regardless of the outcome the scalper is not an exploiter. He is a benefactor. Even when he is wrong he helps someone. He helps the seller to sell more tickets than he otherwise would have.

Savers

Even savers are looked on with disfavor. Keynes postulated that savers reduced the flow of spending and that in doing so they reduced the level of economic activity. Savers seldom hold their money idle. They may invest the funds themselves. They may lend them to someone who will invest them in production or they may leave them with a bank or other lending institution which will lend them for productive investment. The saver gives up current consumption to bolster future production.

Even in the rare case in which a saver holds funds idle he does not injure others. He reduces demand. That holds prices to a lower level and benefits consumers.

The terms hoarder, speculator, scalper, saver—and even black marketer are used in an attempt to automatically discredit various people who actually perform useful economic services. When we hear such pejorative labels we must look into the motives of the person who is using them. □



The Perversity of Wall Street

"Strong employment gains tend to be negative for both stocks and bonds."
—Marty Zweig, *The Zweig Forecast*
July 29, 1994

GDP rises 5 percent? The market dives! Unemployment jumps to 7 percent? Hurray, bonds rally!

Why is it that good news on Main Street is bad news on Wall Street? And vice versa? Financial analysts and institutional investors are convinced that strong economic performance is bad for the financial markets. High economic growth or good jobs reports can only mean higher inflation down the road, they assume, which in turn will force the Federal Reserve to tighten money and raise interest rates. Presto, stocks and bonds decline on good economic news.

The real culprits, says *The New York Times* ("Why America Won't Boom," June 12, 1994), are the bondholders of America. "The American economy is governed by the bond market," Louis Uchitelle writes in *The Times,* and "the confederation [of bondholders] has ruled in recent months that the economy should lose strength, not gain it." Another recession may not be good for the country, but it's great for bondholders as interest rates decline and bond prices skyrocket.

Mark Skousen is editor of Forecasts & Strategies, *one of the nation's largest financial newsletters, and an economist at Rollins College, Winter Park, Florida 32789. His book,* Dissent on Keynes, *is available from Laissez Faire Books, (800) 326-0996.*

No wonder Wall Street suffers from a tarnished public relations image.

Surprisingly Good News

Fortunately, there is good news for both Wall Street and Main Street. Believe it or not, the United States can enjoy a booming economy without interest rates rising. In fact, interest rates can decline under the right circumstances, even as the demand of business expansion increases.

Latin America and many other emerging market economies have proven that economic growth and lower interest rates can go hand in hand. In Mexico, Chile, India, and many other rapidly developing nations, interest rates have declined in the face of strong economic expansion and a rising standard of living. How? While pursuing anti-inflation policies, their governments have cut tax rates, privatized government services, reduced tariffs, welcomed foreign capital, and deregulated business. In addition, some countries (such as Mexico and Argentina) have eliminated capital gains taxes altogether, thus encouraging saving and investing.

The Trouble with Easy Money

Unfortunately, the United States and other industrial countries are not following these sound principles of free-market capitalism. Instead, they are relying primarily on "easy money" policies to stimulate economic growth. If a strong economic recovery is spurred by easy-money/low-interest rate policies, the fear of inflation is very real when the economy heats up. Hence, interest rates tend to rise once an inflationary boom gets started.

That is precisely what has happened in the United States during the early 1990s. To get the economy moving again, the Fed pushed short-term rates down to 3 percent, encouraging millions of savers to switch out of bank deposits and CDs and into stocks, bonds, and mutual funds. Obviously, this artificially low interest rate strategy could not last forever. As the Austrian economists point out, an inflationary policy will eventually *raise* interest rates and cut short the recovery. A boom must lead to a bust. In the first half of 1993, interest rates started increasing in the face of rising inflationary expectations.

Prosperity by Other Means

The key is to spur genuine economic growth by means other than easy money and artificially low interest rates. How then? By encouraging higher rates of saving and capital formation. This could be accomplished very easily by reducing or eliminating taxes on businesses, savers, and investors. A sharp reduction in the capital gains tax rate and the corporate income tax rate would do wonders for economic growth without raising interest rates. So would exemptions on interest and dividends, or expanding tax-deferred retirement programs.

As a result, the supply of saving and investment capital would expand, putting downward pressure on interest rates. Again, as the Austrian economists demonstrate, a longer-term time preference, as reflected in higher rates of saving, tends to drive interest rates lower.

Then, we could put an end once and for all to this myth on Wall Street that a booming economy necessitates higher interest rates.

Someday, when the United States gets its act together, we can look forward to this headline: "GDP jumps 10%. Dow skyrockets to 30,000, surpasses Nikkei." □

BOOKS

Are There Too Many Lawyers? And Other Vexatious Questions

by Joseph S. Fulda

Foundation for Economic Education • 1993 • 121 pages • $14.95 paperback

Reviewed by David M. Brown

In the title essay of this new collection, the author considers not merely whether we have "too many" lawyers, but what it is about *law* itself that makes it a different commodity than, say, shoes.

We wouldn't normally worry about whether there were too many shoemakers on the market (so long as an overproduction of shoes isn't being subsidized by the Shoe Ministry). But a proliferation of lawyers may signal a deeper problem: a problem with the legal system itself, with the license for abuse it permits certain participants, like plaintive plantiffs. As Fulda writes, "legal services are fundamentally different from other services, simply because lawyers must use the law—the State—to give plaintiffs the property of defendants. Today's plaintiffs' bar is expert at using the law to attain wealth by what Albert Jay Nock called 'the political means' rather than 'the economic means'—i.e, by the redistribution of existing wealth, rather than the creation of new wealth."

This kind of probing of essentials is, of course, what we expect from *The Freeman*, the journal from which most of these pieces are taken. The essays divide primarily into two sections: a review of the foundations of liberty and the libertarian psychology, and the practical application of individualist principles to current policy questions. A third section considers issues of "narrow ethics."

Libertarian readers will be inclined to nod their heads in agreement for the most part over the basic theory. As usual, it's when theory gets applied that the most evident disagreements between philosophical compatriots emerge.

For example, one can agree with Fulda's view in "Why Are There So Many Social Issues?" that our schools should not be an arena for governmental mediation of conflicting educational values. Certainly all schools should be private, free-market entities, not a vast agglomerated public domain subject to coercively uniform standards. We really wouldn't need to debate prayer in the schools if parents had real liberty to pick and choose among competitive schools with freely developed charters.

But . . . we do have a genuine problem now, which Fulda admits his perspective cannot "reach"; namely, what do we do about such value conflicts *now*, as they have been engendered and perpetuated within the existing public educational system? We can agree that the conflict may be insolvable under present circumstances, while yet noting it still needs to be *dealt* with. Do we tell parents, "Sorry, just keep squabbling until everything is privatized?" The courts have to make *some* kind of ruling when they get these cases, after all. A philosophy of individualism and freedom should be able to help us out here to some extent. Moreover, social issues tend to be a little more fundamental and persistent than I think Fulda allows for; the conflicts are not simply generated from scratch by the government's involvement. They are often what provoked that involvement in the first place.

Probably the most controversial essay in the collection will be "Abortion: Is Pro-Choice a Libertarian Position?" This is an issue that has seen endless wrangling in all ideological camps. Fulda rebukes the "pro-choice" position for ignoring the truth that freedom of action entails responsibility for the consequences of one's acts. And he calls abortion an "act of coercion," a claim that has been less mildly asserted in other quarters. Now, granted, the right of freedom, if it is to remain coherent, must incorporate a ban on initiatory coercion against others. But the question is, *which* others? The strength of Fulda's case against abortion as legally permissible rests, obviously, on the nature and status of the fetus during the various stages of pregnancy. Exploration of that key issue is missing here.

But enough of wrangling! This volume also includes an essay-review of Michael Levin's *Feminism and Freedom*; helpful discussions of "freeloading" (externalities and all that), charity, scandals, and certain issues in higher education; and a brief essay on the hidden danger of getting too uptight about "appearances of impropriety."

These are bite-sized, lucid, often persuasive essays that are informed by a solid understanding of how freedom works and what is its moral justification. We can be grateful to FEE for publishing them under one roof, and to their author for the clarity of his insight. □

Mr. Brown is a free-lance writer.

The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy

by Hans-Hermann Hoppe

Boston/Dordrecht/London: Kluwer Academic Publishers • 1993 • 265 pages • $59.95

Reviewed by N. Stephan Kinsella

In 1989, Professor Hans-Hermann Hoppe published *A Theory of Socialism and Capitalism: Economics, Politics, and Ethics* (Boston/Dordrecht/London: Kluwer Academic Publishers, 1989), arguably the most important book of the decade, if only for the revolutionary "argumentation ethic" defense of individual rights presented in Chapter 7, "The Ethical Justification of Capitalism and Why Socialism is Morally Indefensible." Hoppe continues to produce a significant assortment of articles elaborating on his argumentation ethic and the epistemology that underlies it, as well as on his impressive economic writings.

His new book, *The Economics and Ethics of Private Property*, is a collection of many of these related writings published up until 1992.

Because the chapters in the book were published separately as independent articles, there is some overlap between them, and thus some redundancy. A few times the text of several paragraphs in one article is reproduced verbatim in another article.

In the "Appendix: Four Critical Replies" section, Hoppe's responses to various criticisms, published in *Liberty* and the *Austrian Economics Newsletter,* are reprinted. However, the initial criticisms themselves (by David Osterfeld, Leland Yeager, David Gordon, Tibor Machan, David Conway, Loren Lomasky, *et al.*) to which Hoppe is responding are not published. This is unfortunate, because these criticisms are interesting and enlightening, and also make Hoppe's response to them more comprehensible.

The book is divided into two parts, "Economics" and "Philosophy." Because the second part contains Hoppe's most important ideas—his defense of individual rights—I will discuss his philosophical views first.

Philosophy: Argumentation Ethic

Hoppe's ingenious "argumentation ethic" theory states, briefly, that all truths, including ethics and normative statements, must be able to be arrived at through the process of argumentation. This is undeniable, as one would have to contradict oneself in using argument to deny this. Therefore, whatever facts or norms anyone must presuppose while engaging in argumentation cannot be contradicted by any proposed fact or norms. (pp. 180–181)

Several things are implied in argumentation whose validity cannot be disputed. One is, for example, the universalization principle, as formulated in the Golden Rule of ethics or in the Kantian Categorical Imperative, which states "that only those norms can be justified that can be formulated as general principles which without exception are valid for everyone." (p. 182) Another one of the things presupposed by anyone engaging in argumentation (or, indeed, any discourse at all, even with oneself) is the right of self-ownership of all listeners and even potential listeners: for otherwise the listener would not be able to freely consider and accept or reject the proposed argument, which is undeniably a goal of argumentation. (p. 183)

The concomitant right to homestead private property is also presupposed by anyone engaging in argumentation: since the use of natural resources—i.e., property rights in land, food, water, etc.—is absolutely necessary for any listener to survive and be able to participate in an argument, and since homesteading unowned property is the only objective, conflict-free way to assign property rights, all arguers must also presuppose the validity of the homesteading of unowned property, the Lockean "mixing of labor" with scarce resources, for otherwise argumentation could not occur. (pp. 184–186) And of course the right to self-ownership plus the right to homestead justify the nonaggression principle and are the bases of laissez-faire capitalism.

Professor Hoppe's discovery of such a rock-solid defense of individual rights is a profoundly important achievement. So many of Hoppe's insights deserve further exploration and development, that one welcomes future writing by Hoppe and others building upon his work.

In the September 1988 issue of *Liberty*, Hoppe presented his argumentation ethic in an article entitled "The Ultimate Justification of the Private Property Ethic." A symposium discussing this article appeared in the November 1988 issue of *Liberty*, containing the critical comments of ten libertarian commentators.

Amazingly, almost all of these libertarian commentators were unimpressed by, if not downright hostile to, Hoppe's argument. Only Murray Rothbard gave Hoppe's thesis wholehearted endorsement and recognized its validity and significance. Why Hoppe's ideas, which are such an important advance in political and libertarian thought, have failed to cause more excitement or gain more adherents than they have is baffling. But the best solution to this is the publication of further elaborations and defenses, which is what Hoppe's newest book is.

Economics

Part One, on economics, contains five interesting and insightful chapters. In the first, Hoppe shows that the distinction between "private" and "public" goods is completely illusory, thereby removing any justification for state monopolization of the production of security, long held to be a "public" good.

In Chapter 2, "The Economics and Sociology of Taxation," Hoppe shows that taxation, by decreasing the marginal utility of producing wealth, leads to a shift away from the production of wealth, and towards consumption and leisure. Therefore taxation is a means for the destruction of property and wealth-formation. (pp. 28–29) Additionally, because of time preference—the fact that people prefer present goods over future goods—the decrease in the marginal utility of producing wealth leads to a shortening of the structure of production, and thus fewer valuable future assets are produced. (p. 34)

After showing that taxes reduce the standard of living of consumers, Hoppe discusses the sociological reasons *why* there is taxation, and ever more of it. Basically, there is taxation because a majority of the population either actively or passively support such governmental policies, and they do so because of the lack of (complete, principled) acceptance of a private property ethic, and because of government propaganda and methods such as democracy and welfare that amount to vote-buying.

His discussion of banking and the international economic order is the most provocative chapter in Part One. Here Hoppe explores how and why the state monopolizes money and banking, and shows the danger of the ever-approaching international monetary order. Here he explains why "[t]he monopolization of money and banking is the ultimate pillar on which the modern state rests." (p. 70)

Chapter 4 reinterprets the Marxist theory of history from an Austrian economics perspective. Hoppe points out that Marx's theory of exploitation is flawed because, in maintaining that there is exploitation when a capitalist retains a surplus profit after paying a laborer, it does not take into account nor "understand the phenomenon of time preferences as a universal category of human action." (p. 97) The final chapter contains an illuminating discussion of the Austrian theories of employment, money, and interest, and demolishes Keynes's "new" theory with this intellectual ammunition.

Conclusion

The Economics and Ethics of Private Property contains cutting-edge economic theories and breakthroughs in epistemology and individual rights theories. As Hoppe points out, in the long run, immoral government policies depend upon the tacit support of the majority of the population. The only way to win more recognition and enforcement of our individual rights is to educate our fellow men of the truth and wisdom of freedom. The publication of works like Hoppe's, with an uncompromising, hardcore—and, more importantly, correct—defense of liberty, certainly advances this cause. □

Mr. Kinsella practices computer and software patent law with Schnader, Harrison, Segal & Lewis in Philadelphia. A more in-depth review of this book may be found at 25 St. Mary's Law Journal 1419 *(1994).*

The Dream and the Nightmare: The Sixties Legacy to the Underclass

by Myron Magnet

William Morrow & Co. • 1993 • 256 pages • $20.00

Reviewed by Lawrence Person

In 1984, Charles Murray's *Losing Ground* brought the topic of welfare reform to the forefront of political consciousness. With impeccable research and meticulous logic, Murray marshaled a vast array of statistics to support his assertion that the huge expansion of government welfare programs resulting from the Johnson Administration's "War on Poverty" had actually harmed those it had intended to help. By making welfare more attractive to single mothers than marriage or entry-level jobs, Murray argued, the federal government created "incentives for failure" which lured the poor, and especially poor blacks, off the economic ladder to success and into an intergenerational cycle of dependence and illegitimacy.

Though controversial when first published, large portions of Murray's thesis have come to be accepted among the political establishment, even in such unlikely places as the Clinton White House. Manhattan Institute Fellow and *Fortune* Editorial Board member Myron Magnet agrees with Murray, but only to a point. In *The Dream and the Nightmare*, he argues that Murray's purely economic analysis provides an incomplete picture of the true causes of the underclass, that Murray and other policy analysts have left "a hole in the theory." And in that hole, Magnet argues, you'll find "culture."

He argues that it is culture, or rather its lack, that has mired the underclass in perpetual poverty. Even faced with the perverse incentives to fail that welfare offers, most people would still choose work and marriage out of a sense of self-worth and respect for community standards. The reasons that the underclass has not done so, he argues, is that the counterculture of the 1960s turned traditional values upside down. Though this revolution was one carried out largely by the "Haves" in an effort to "liberate" themselves from what they perceived as the oppressive moral constraints of their parents' generation, Magnet argues that its long-term harm to most of the "Haves" was subtle, while its effects on the "Have-Nots" was devastating.

According to Magnet, it is this "poverty of spirit" which has turned large portions of America's cities into drug-infested, crime-ridden wastelands. Inner-city children grow up in households of single welfare mothers who are incapable of teaching them the cultural values of hard work, thrift, and individual responsibility—the very values needed to climb out of poverty. To support that thesis, he presents an impressive array of statistical and anecdotal evidence to paint a devastatingly bleak picture of underclass life, and that portrait is the strongest portion of the book.

In painting that picture, Magnet describes the pathology of the underclass with an unwavering eye, exploding many myths in the process. Despite liberal protestations to the contrary, the underclass *does* exists, and is disproportionately composed of inner-city blacks. Lack of economic opportunity does not explain the existence of the underclass, since it first appeared during one economic boom and continued to grow during another. Moreover, the harsh conditions of the inner city haven't prevented Asian entrepreneurs from flourishing there. The homeless are not down-on-their-luck working families, they're mentally ill alcoholics and drug addicts—and their numbers are closer to 300,000 than the three million figure homeless "advocate" Mitch Snyder pulled out of the air one day.

But describing the underclass is only part of *The Dream and the Nightmare*, with much of the rest taken up by Magnet's explanation of how the Have-Nots came to live in such a condition of self-perpetuating misery. In this he seems to be shadow-boxing with *Losing Ground*, not because he feels Murray's thesis is fundamentally wrong, but because he's the only worthy opponent on the scene. Indeed, he calls the book "superb" and Murray "the profoundest of all commentators on the underclass." But ultimately Magnet does a less convincing job of presenting his case than Murray did of his. While Magnet's judgment about the lack of values among the underclass is quite convincing, his arguments about how they got that way are far less so. What's more, his prescriptions for restoring those values are either vague, nonexistent, or woefully misguided.

When Magnet speaks of the counterculture, he has in mind not Woodstock or anti-war protesters, but a shift in cultural opinions among certain American elites in the late 1950s and early 1960s. As such, Magnet's view of the counterculture is both highly selective and overbroad. We get no mention of Abbie Hoffman, Jerry Rubin, or Paul Krassner, but plenty of Norman Mailer, Michael Harrington, Paul de Man, William Ryan, and (more improbably) Thomas Szasz. It is these and other elite thinkers, Magnet argues, that gradually shifted the culture of the Haves toward belief in. . .

Well, there's the problem.

While Magnet spends several chapters documenting various social ills (crime, strained race relations, declines in higher education) then linking their origin to various influential books and academic theories, he never adequately articulates just what constitutes the "Sixties Legacy to the Underclass." Instead, he merely catalogs several disparate parts of this supposed legacy that never seem to coalesce.

In fact, the scope of Magnet's theory is eventually his undoing. Of the various harbingers of cultural change he cites, most have little in common save a vaguely leftist slant and (usually) a de-emphasis of personal responsibility. Indeed, the "Cultural Revolution" he speaks of is simultaneously so broad and so selective that just about any theory or cultural ill can be shoehorned underneath its rubric.

Besides being unable to prove its central theory, *The Dream and the Nightmare* also suffers from a number of lesser flaws. After debunking so many myths, Magnet falls prey to one of the most pernicious, that of the 1980s as a "Decade of Greed." Even though he once again lays blame at the feet of his cultural elites rather than the usual scapegoat of Ronald Reagan, by accepting the existence of some overreaching cultural *zeitgeist* characterizing each decade he succumbs to facile overgeneralization at its worst. Though adept at puncturing media myths about the underclass, his casual acceptance of this most overbroad of clichés leaves the impression that he is truly out of touch with the deep currents and eddies of the broader American culture with which he is so vitally concerned.

Part of this seems due to a distinctly "New York Centric" viewpoint. For example, when he states that the Hispanics making up the underclass are "primarily" Puerto Ricans, he displays a rather shallow knowledge of conditions in the other 49 states, especially California. And when Magnet says that "no one seems to have much good to say about the standard-issue eighties and nineties middle class youth," one gets the impression that he doesn't get out of New York much.

Finally, Magnet tends to ignore or downgrade important evidence that supports competing (i.e., economic) theories of underclass formation. Two of the three examples he puts forward as showing the primacy of culture in "The Hole in the Theory" (of Eugene Lang's offer of college scholarships to all students in an inner-city class who graduated from high school and of Kimi Gray's transformation of the Kenilworth public housing project) could easily be argued just as successfully from an "economic primacy" standpoint. Despite an otherwise excellent analysis of homelessness, he ignores William Tucker's landmark studies of the strong link between homelessness and rent control policies—a lapse that is especially puzzling since Tucker's work was partially underwritten by the Manhattan Institute.

As far as offering solutions to the underclass problem, Magnet's general ideas for restoring personal responsibility and individual rights are good, but what few specifics he offers are woefully misguided. His suggestion for creating government-run "group shelters" in the place of current welfare programs ignores the law of unintended consequences and the mischief that government is able to work with just about any social program. Likewise, his argument for "Head Start"-type programs for preschoolers in the same paragraph ignores the mounting evidence that these have little or no long-term effect.

Still, despite all the foregoing, *The Dream and the Nightmare* is a much better book than this list of flaws would lead you to believe. Though Magnet's reach has definitely exceeded his grasp, his book's virtues are great, its sins, more of omission than intent, relatively small. While his diagnoses of the causes and cures of underclass pathology are unconvincing, his description of the disease itself is valuable for its depth and accuracy. Though it doesn't replace *Losing Ground*, it does provide an extra dimension to the welfare debate, and functions as a handy source book for how that debate has developed over the last decade. □

Mr. Person is former editor of Citizens Agenda. *His work has appeared in* National Review, Reason, *and other magazines.*

Telecompetition: The Free Market Road to the Information Highway

by Lawrence Gasman

Cato Institute, Washington, D.C. • 1994 • 177 pages • $12.95 paperback

Reviewed by Raymond J. Keating

Technological change has pushed the telecommunications-information industry into a dramatic and exciting phase of development. Information has always been a most valuable commodity, and now the means of storing, moving, and manipulating it are advancing rapidly while costs plummet.

In turn, such developments are altering the world economy. The globe is shrinking as international competition intensifies. Rather than ensuring the ascendance of large multinational corporations or enhancement of government controls, as many have feared, the revolution in telecommunications and computers has empowered individuals and increased the mobility of capital. Both economic competition and the ability of labor and capital to avoid, for example, severe taxation and regulation are enhanced.

Ironically, however, just as technological developments are strengthening the power and productivity of the individual, the question dominating current public policy debate is the extent of state's role in the telecommunications market. Should we be centrally planning a government-led telecommunications industrial policy, or turning to a competition-based, market-driven telecommunications industry? Persuasively weighing in on the side of deregulation and freer markets is Lawrence Gasman with his book *Telecompetition*.

Gasman makes a compelling case for how the convergence of industries and enhanced competition not only support, but necessitate the deregulation of telecommunications. Of course, deregulation also is called for due to the plodding nature of government, which remains a severe roadblock to expanding the reach of new technologies. In fact, Gasman declares: "The general ignorance of technological developments displayed by those who regulate the telecommunications industry is appalling. It also indicates why one cannot expect too much from the government when it comes to a successful industrial policy for the telecommunications industry." Another reason for low expectations is governmental ignorance of how markets work.

Telecommunications advancements are blurring the lines drawn by regulators who try to neatly separate industries. The author notes the fluid nature of information format and storage: "Once it is digitized, voice, video, text, and data are all much the same. . . . [N]ew forms of multimedia communications are emerging in which text, voice, and image communications are combined in a single interactive, user-friendly format." Gasman continues: "It is this fluidity of information formats that constitutes convergence. Convergence has resulted from both the recognition that all information can be converted into the same binary digital form and the development of microelectronics that makes such a conversion possible while providing the means for conveniently and economically manipulating digital information. Convergence is not only central to the Information Age, it affects every level of information technology—hardware, software, and services."

Gasman masterfully illustrates how convergence seriously undermines the government's rationale for extensive telecommunications regulation. For example, he argues that in light of alternative-access carriers and local wireless communications, it is becoming increasingly difficult to legitimately refer to a "local telephone monopoly." In this era, in fact, the source of any true monopoly power emanates from the government. Gasman observes the detrimental effects of an exclusive government franchise: "The existence of communications monopolies slows the introduction of new and innovative services by the industry. The cable-telco dispute is just one example of how government-created monopolies and misguided antitrust action can delay new services."

The author predicts that absent government interference, for example, "an eclectic industry structure for local video distribution might well grow up, designed to fit the needs of local markets. In some areas, telephone companies would supply both the video programming and the channels through which that programming is carried. In others, cable companies would supply programming through the telephone-company networks. . . . In a few areas we might see cable companies upgrade their own networks with switching gear to enable them to offer the kinds of advanced voice and video services that seem today to be the sole province of telephone companies."

Gasman argues for allowing local telephone companies to enter any local, regional, national, or international business they choose—"inside or outside the telecommunications field." Likewise, "any company financially and technically capable of offering local telephone service should be free to do so."

Gasman also makes a compelling case for a pure property-rights system regarding the broadcast spectrum, rather than the current government allocation and temporary licensing system. In lieu of suffering through government delays and politicization, "if spectrum allocation were left to market forces, the providers of new services would bid directly for the spectrum owned by existing users." Gasman draws a straightforward analogy: "Just as landowners are given title to a particular piece of real estate, spectrum owners would receive a title, allowing them to transmit at certain frequencies with specified powers from given locations. And just as landowners can buy and sell properties, spectrum owners would be allowed to buy and sell their transmission rights. The result would no doubt be speedier deployment of new services responding to consumer rather than government interests." Again, the plodding hand of government must be replaced by the dynamics of the marketplace.

Proponents of a government information infrastructure also are refuted in *Telecompetition*. Instead of taking the telecommunications infrastructure on another trip down the misdirected path of industrial policy, Gasman sagaciously concludes: "Eventually private initiative will undoubtedly produce a network offering all the broadcast services infrastructuralists are so eager to produce with taxpayers' dollars. The difference is that private companies will be certain to produce services businesses and consumers want to buy."

As the author notes, much of telecommunications regulation springs from the economist's use of the perfect competition model. A perfectly competitive market where all companies are price takers and offer homogeneous products is an economic fairy tale. Unfortunately, it also can be turned into economic nightmare when wielded by government officials who seek to regulate when a market fails the perfect competition test. To the contrary, a dynamic, entrepreneurial economy will be flush with temporary monopolies—a result of creation, innovation, and competition. This should nowhere be more evident than in the telecommunications industry. If government establishes and protects property rights, and then largely gets out of the way, as Lawrence Gasman suggests, consumers and the economy will reap great rewards.

Telecompetition is a highly readable primer on the often complex subject of telecommunications public policy. One can only hope that such market-oriented writers as Gasman, along with George Gilder and Peter Huber, prevail in the government-vs.-the-market struggle in telecommunications. □

Mr. Keating is Director of New York Citizens for a Sound Economy.

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
DECEMBER
1994
VOL. 44
NO. 12

652 **Nineteen Neglected Consequences of Income Redistribution** *by Robert Higgs*
The insidious effects of transfer payments.

658 **Closing the Green Gap of Market Liberalism** *by Karl Hess, Jr.*
How greens and market liberals can engage in the common cause of good environment and sustainable liberty.

664 **"Predatory Pricing" Laws: Hazardous to Consumers' Health** *by Donald J. Boudreaux*
Antitrust statutes stifle competition and injure consumers.

668 **Ideas and Consequences: "Environmental Regulations Aren't Cheap"** *by Lawrence W. Reed*
Businesses and local governments struggle with the spiralling costs of compliance.

670 **The Government as Robin Hood** *by E. C. Pasour, Jr.*
Practical and ethical problems of government poverty programs.

673 **Invisible Value** *by Jane S. Shaw*
Markets accomplish what good intentions cannot.

675 **Liberty and Entrepreneurship** *by Brian Lee Crowley*
When they are free to try, entrepreneurs will work their magic of social, cultural, and economic transformation.

679 **Beyond Equality of the Sexes** *by Jennifer Roback*
Making women equal to men in any particular is not equivalent to making women better off.

685 **Libertarianism as Communitarianism** *by Daniel B. Klein*
How libertarianism can help communitarians achieve their goals.

690 **Time to Kill Draft Registration** *by Doug Bandow*
Is peacetime sign-up "essential to our national security"?

696 **A Matter of Principle: The Real Enemy of Liberty** *by Robert James Bidinotto*
The first of Mr. Bidinotto's monthly *Freeman* columns.

698 **Health-Care Reform: Déjà Vu All Over Again** *by Steven Horwitz and Ronald M. Horwitz*
Lessons from the Federal Reserve Act and its aftermath.

701 **Origins of Federal Control Over Education** *by Charlotte Twight*
How government officials actively cultivated key myths to secure passage of two sweeping federal statutes.

705 **Passing Laws: Is Governing That Simple?** *by Eric-Charles Banfield*
Teaching legislators not to legislate.

707 **Correction, Please! Baseball Strikes Out** *by Mark Skousen*

709 **Book Reviews**
George C. Leef reviews *Cauldron* by Larry Bond; *The Right Data* by Edwin S. Rubenstein et al., reviewed by Robert Batemarco; *Money Meltdown: Restoring Order to the Global Currency System* by Judy Shelton, reviewed by Raymond J. Keating; *Lost Rights: The Destruction of American Liberty* by James Bovard, reviewed by William H. Peterson.

714 **Index 1994**

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PERSPECTIVE

The Struggle for Liberty

America is becoming a police state. Each year, more and more actions become either officially forbidden or officially required. The scope for individuals to decide how to live their own lives grows steadily narrower. The list of crimes grows longer and longer, and any deviance may subject the citizen to the wrath of the police, the courts, and the prisons—not to mention the fiery violence of the Federal Bureau of Investigation, the Bureau of Alcohol, Tobacco and Firearms, and the Drug Enforcement Administration.

No one knows when the state will strike, for no one can possibly know whether he is violating the law—there are far more laws, regulations, and ordinances than anyone can possibly comprehend, much less obey. Citizens are now being punished for such "crimes" as filling in mud puddles or cutting down trees on their own land, selling vitamins and herbs, and charging to braid someone's hair without a license. Many are punished for no crime at all, when their property is seized without due process of law in so-called civil forfeitures.

How can Americans stop the expansion of the police state? There is no simple answer, but some prerequisites are clear.

First, people must come to a clearer understanding that using government to impose their personal preferences on everybody leads inexorably toward a society dominated by those in authority. One may disapprove of many things, including the use of dangerous narcotics or "quack" medicines, the reckless disregard of some developers for flora and fauna, the decisions of teenagers to quit school, and the uncivilized opinions expressed by certain entertainers. But one cannot justify using the power of the state to crush those whose actions strike him as merely foolish or unaesthetic.

Second, people must come to a clearer understanding that, in politics, things are seldom what they are represented to be. Government thrives on sham: often it does not do what it claims to do, such as protecting life and property, and often it does what it is pledged not to do, such as singling out certain groups or individuals for selective punishment because of their unpopular attributes or beliefs. Because government and mendacity go hand in hand, it is *always* risky to trust government. To trust it to carry out conscientiously thousands of important activities—far more than anyone can monitor—is utterly foolhardy.

As a practical political strategy, it might be worthwhile to concentrate exclusively on the repeal of existing laws. We are entangled in so many and such unjustified restraints that the most immediate need is to cut through some of these chains. For some people this may seem to be an unappealingly negative program. But nothing is more positive than our liberties. With each chain that we cut, we become a little freer. There is so much that deserves to be demolished. To rest content with our present condition is to accept government officials as our masters, and freeborn men and women can never make that concession.

—ROBERT HIGGS

Economic (Un)Liberty, Kansas Style

Fifteen year-old Monique Landers is a criminal.

Her crime? The young African-American started and ran a successful business washing and braiding hair for profit.

For this criminal behavior, the Kansas state government threatened Monique with a fine or imprisonment in the county jail or both.

But Monique also was recognized for her business acumen by the National Foundation for Teaching Entrepreneurship, headquartered in New York. The Foundation honored Ms. Landers as one of five Outstanding High School Entrepreneurs.

Hair salons and cosmetology schools learned of Monique's achievement and complained. The Kansas Cosmetology Board put its foot down hard on the teenager: shut down your business or you might go to jail. Monique did not have a license to touch anyone's hair for money.

The Cosmetology Board's Executive Director said the youngster could go to a year-long cosmetology school if she wanted to braid hair. The problem: few such schools teach braiding and, to add insult to injury, those that did would not take her until she turned seventeen.

"The Board won't let me earn my own money, and won't let kids like me learn how to take care of ourselves," Monique said.

Monique is keenly aware of the virtues of economic liberty.

"I think owning your own business is a way of being free," she says. "If more kids knew they could grow up to be their own boss they would be more responsible and cause less trouble."

Monique knows about kids causing trouble; her one brother has been in jail and a sister has been expelled from school.

In her own eyes, Monique was a productive citizen; to the Kansas government, she was a criminal.

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Democracy versus Liberty

[W]hen we ask where liberty is, "they" refer us to the ballots in our hands; over the vast machine which keeps us in subjection we have this one right: we, the ten- or twenty- or thirty-millionth of the sovereign, lost in the vast crowd of our fellows, can on occasion take a hand in setting the machine in motion. And that, "they" tell us, *is* our liberty. We lose it whenever an individual will takes sole possession of the machine: that is autocracy. We regain it when the right of giving the machine a periodical mass-impulsion is restored to us: that is democracy.

This is all either misdealing or cheating. Liberty is something quite different. Its essence lies in our will not being subject to other human wills: in our will ruling alone over our actions, only being checked when it injures the basic, indispensable requirements of life in society.

—BERTRAND DE JOUVENEL
On Power

THE FREEMAN
IDEAS ON LIBERTY

Nineteen Neglected Consequences of Income Redistribution

Robert Higgs

Virtually every government action changes the personal distribution of income, but some government programs, which give money, goods, or services to individuals who give nothing in exchange, represent income redistribution in its starkest form.

Until the twentieth century, American governments steered pretty clear of such "transfer payments." The national government gave pensions and land grants to veterans, and local governments provided food and shelter to the destitute. But the transfers to veterans can be viewed as deferred payments for military services, and local relief never amounted to much.

Since the creation of the Social Security system in 1935, especially during the past 30 years, the amount of income overtly transferred by governments has risen dramatically. In 1960 government transfer payments to persons amounted to $29 billion, or 7 percent of personal income. In 1993 the total came to $912 billion, or nearly 17 percent of personal income.[1] In other words, one dollar out of every six received as personal income now takes the form of old-age, survivors, disability, and health insurance benefits ($438 billion), unemployment insurance benefits ($34 billion), veterans' benefits ($20 billion), government employees' retirement benefits ($115 billion), aid to families with dependent children ($24 billion), and miscellaneous other government transfer payments ($280 billion) such as federal subsidies to farmers and state and local public assistance to poor people.

Myth versus Reality

It is tempting to think about government transfers in a simple way: one person, taxpayer T, loses a certain amount of money; another person, recipient R, gains the same amount; and everything else remains the same. When people look at income redistribution in this way, they tend to make a judgment about the desirability of the transfer simply by considering whether T or R is the more deserving. Commonly, especially when the issue is discussed in the news media or by left-liberal politicians, R is portrayed as a representative of the poor and downtrodden and T as a wealthy person or a big corporation. Opponents of the transfers then appear callous and lacking in compassion for the less fortunate.

In fact, the overwhelming portion—more than 85 percent—of all government transfer

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payments is not "means-tested," that is, not reserved for low-income recipients.[2] The biggest share goes to the elderly as pensions and Medicare benefits, and anyone over 65 years old, rich and poor alike, can receive these benefits. Today people over 65 have the highest income per person and the highest wealth per person of any age group in the United States. Federal transfer payments to farmers present an even more extreme case of giving to those who are already relatively well off. In 1989, for example, the federal government paid about $15 billion to farmers in direct crop subsidies, and 67 percent of the money went to the owners of the largest 17 percent of the farms—in many cases payments to farmers are literally welfare for millionaires.[3] It is simply a hoax that, as a rule, government is taking from the rich for the benefit of the poor. Even people who believe in the rectitude of redistribution à la Robin Hood ought to be troubled by the true character of the redistribution being effected by governments in America today.

But apart from the troubling moral questions raised by redistribution, the issue is far more complicated than ordinarily considered. Beyond the naked fact that T pays taxes to the government and the government gives goods, services, or money to R, at least 19 other consequences occur when the government redistributes income.

Neglected Consequences

1. Taxes for the purpose of income redistribution discourage the taxpayers from earning taxable income or raising the value of taxable property through investment. People who stand to lose part of their earnings respond to the altered personal payoff. As a result, they produce fewer goods and services and accumulate less wealth than they otherwise would. Hence the society is poorer, both now and later.

2. Transfer payments discourage the recipients from earning income now and from investing in their potential to earn future income. People respond to a reduced cost of idleness by choosing to be idle more often. When they can get current income without earning it, they exert less effort to earn income. When they expect to get future income without earning it, they invest less in education, training, job experience, personal health, migration, and other forms of human capital that enhance their potential to earn income in the future. Hence the society is even poorer, both now and later, than it would have been merely because taxes discourage current production and investment by the taxpayers who fund the transfers.

3. Recipients of transfers tend to become less self-reliant and more dependent on government payments. When people can get support without exercising their own abilities to discover and respond to opportunities for earning income, those abilities atrophy. People forget—or never learn in the first place—how to help themselves, and eventually some of them simply accept their helplessness. It is no accident that both material privation and lassitude distinguish individuals accustomed to living on payments such as Aid to Families with Dependent Children (AFDC).

4. Recipients of transfers set a bad example for others, including their children, other relatives, and friends, who see that one can receive goods, services, or money from the government without earning them. The onlookers easily adopt an attitude that they, too, are entitled to such transfers. They have fewer examples of hardworking, self-reliant people in their families or neighborhoods. Hence a culture of dependency on government transfers can become pervasive when many people in a neighborhood rely on such transfers for life's essentials or—where the recipients are better off—its comforts.

5. Because some transfers are more generous than others, some classes of recipients come to resent the "injustice" of the distribution of the largess. Hence arise political conflicts. Representatives of discontented groups politicize the determination of the amounts to be transferred and engage in continual jockeying to increase certain kinds of transfers, at the expense of others if necessary. Note, for example, the ceaseless activities of the American Association

of Retired Persons, perhaps the most powerful lobby in Washington, striving to increase old-age pensions and Medicare benefits, or the National Association for the Advancement of Colored People, seeking to increase transfers that benefit blacks in particular. Such political maneuvering creates or exacerbates conflicts among groups defined by their eligibility to receive particular kinds of transfers: old against young, black against white, rural against urban, female against male, Northern against Southern, homeowner against renter, and so forth without visible limit. Society becomes more contentious.

6. Just as recipients engage in internecine warfare, so do taxpayers, who resent disproportionate burdens in funding the transfers. For instance, young people now learn that their Social Security taxes are going straight into the pockets of retired people who as a group are better off. Young taxpayers also learn that they probably will never recoup their own contributions, unlike the present-day elderly, who have realized an extraordinarily high effective rate of return on their contributions. (Currently the average married couple gets back everything ever paid in, with interest, in just over four years.[4]) Black Social Security taxpayers learn that, because of their lower life expectancy, they cannot expect to receive as much retirement income as the average white person can expect. Taxpayers who consider themselves disproportionately burdened grow to resent their exploitation by the tax-and-transfer system. Therefore they give more support to politicians who promise to defend their pocketbooks against legislative marauders, and they strive harder to avoid or evade taxes.

7. As a result of the preceding two consequences, the entire society grows more divided and pugnacious. Less and less does the society constitute a genuine community. Rather, it becomes balkanized into bellicose subgroups regarding one another as oppressors and oppressed. People lose their sense of belonging to a common political community with collective interests and joint responsibilities. Instead, fellow citizens regard each other as either patsies or moochers and feel personal hostility toward those who appear to be net gainers from the system. Some actually come to hate the perceived moochers. Witness the palpable hostility when shoppers paying cash wait in the check-out line at the grocery store while someone uses food stamps to make purchases.

8. Among the recipients of transfers, self-help institutions languish. In olden days the burden of caring for the less fortunate outside the family was borne mainly by friends and neighbors acting jointly through churches, lodges, unions, clubs, and other voluntary associations. When individuals can receive assistance directly from the government, competing private associations tend to wither and eventually die—at least their functions as helping institutions disappear. When they are gone, people who need help have nowhere to turn except to the government, which is unfortunate in many ways, because what the government does is not really the same. Nor is it as effective, especially in the long run, when private associations have much greater success in making sure that people who recover their capacities then resume taking care of themselves.

An observer noted that in the aftermath of the big Los Angeles earthquake, "Thousands of forlorn, atomized individuals did nothing but wait for a centralized savior, the federal government. America has been diminished by a system of compulsory compassion that simply wants true communities out of the way so that altruism can be left to the experts."[5]

9. Just as self-help institutions wither among the needy, so do charitable institutions among those who are better off. When government agencies stand ready to attend to every conceivable problem in society, people whose sensibilities incline them toward helping the less fortunate have less incentive to organize themselves for doing so. It is easy to say, "I pay my taxes, and plenty of them. Let the government take care of the problem." If one contributes charitably, it is as if one were paying twice

to accomplish the same objective. Hence, government transfers crowd out private transfers. Coercion, in the form of the tax system, displaces the voluntary provision of assistance, and private charitable institutions wane.

10. As citizens drop out of their involvement in charitable and helping institutions, letting the government take over, they become less self-directing and more accepting of all kinds of government activity. So when someone proposes that the government undertake a function previously carried out exclusively within the private sphere, people are not shocked; they are not even very suspicious of the government's ability to carry out the task. After all, governments now do all sorts of things, from socializing preschoolers to feeding the poor to insuring the medical expenses of the elderly. So what if the government takes on still another responsibility? What was once a prevailing suspicion of the enlargement of government becomes a resignation to or an acceptance of its continuing expansion into new areas.

In the nineteenth century, opponents of proposed new government programs would commonly protest: "The government has no business doing that." Nowadays we rarely hear anyone oppose a government initiative on these grounds. That there is a private sphere into which government ought never to intrude has become a nearly extinct species of thought as governments have spread their programs and activities, not to mention their regulations of "private" life, into almost every cranny of society.

11. Hence people do not mobilize political opposition so readily when new government programs are proposed. Facing less opposition, those who support the new programs are more likely to triumph politically. New government programs proliferate quicker, restrained somewhat by budgetary limitations but not much by fundamental ideological objections.

According to a recent *Wall Street Journal*/NBC poll, "when Americans were asked whether 'entitlements' should be cut to reduce the deficit, 61% said yes. But when they were asked whether 'programs such as Social Security, Medicare, Medicaid and farm subsidies' should be cut, 66% said no."[6] Evidently most people resent paying for the programs, but they have no objection to the programs themselves.

12. Redistribution involves more than T who pays and R who receives. In between stands B, the bureaucracy that determines eligibility, writes the checks, keeps the records, and often does much more, sometimes intruding into the personal lives of the clients. The mediating bureaucracies consume vast resources of labor and capital, accounting for much of the gross expense of the transfer system. For the government to transfer a dollar to R, it is never sufficient to take just a dollar from T. In addition a hefty "commission" must be paid to support B. From a societal perspective, one must recognize that labor and capital employed by the bureaucracies cannot be used to produce goods and services valued by consumers. Again, society is poorer.

13. Once a bureau is created, its personnel become a tenacious political interest group, well placed to defend its budget and make a case for expanding its activities. After all, who knows more about the urgent necessity of increasing a bureau's budget and staff than those who carry out its activities? The bureaucrats have a close hold on the relevant data and the ostensible expertise with respect to whatever problem they treat. Therefore they have potent advantages in the political process when they seek to augment the resources placed at their command. Agency experts will testify that outsiders "just don't know how serious the problem is."

A bureau often constitutes one side of a political "iron triangle," joined with the organized client groups that form the second side and the congressional committees with legislative jurisdiction or oversight responsibility that form the third side. When the bureau becomes politically embedded in this way, as most do, its impoverishment of society can continue indefinitely without serious political challenge.

14. Taxpayers do not simply cough up money to fund the transfers without resis-

tance. Many of them devote time, effort, and money to minimizing their legal tax liability or evading taxes. They buy books and computer software. They employ financial advisers, lawyers, and accountants. From time to time they organize political movements to campaign for tax relief à la California's Proposition 13. All the labor and capital employed in connection with tax resistance are unavailable to produce goods and services valued by consumers. Society is poorer, and will remain poorer as long as people continue to devote resources to tax resistance. (However, to the extent that tax resistance succeeds in making tax rates lower than they otherwise would have been, it promotes greater wealth creation in the longer run.)

15. In the end many citizens will pay taxes to finance the transfers. Even if no one tries to resist the taxes or alters his behavior in supplying labor and capital, the cost to taxpayers will be more than one dollar for each dollar taken by the government, because it is costly just to comply with the tax laws. Taxpayers must keep records, research the tax rules, fill out forms, and all the rest. These activities require time and effort withdrawn from valuable alternative uses. Many people, even though they intend nothing more than full compliance with the law, hire the expert assistance of accountants and tax preparers—the tax rules are so complicated that mere mortals cannot cope. Use of resources to comply with tax laws makes the society poorer.

According to a study by James L. Payne, just the private compliance expense of taxpayers plus the budgetary and enforcement expense of the IRS add $270,000,000 to the tab for each billion dollars of spending by the federal government.[7]

16. Just as taxpayers do not passively submit to being taxed, recipients and potential recipients of transfers do not just sit quietly waiting for their ship to come in. They also act politically. They form organizations, attend meetings, employ publicists and lobbyists, and campaign for political candidates who support their objectives. All the labor and capital employed in transfer-seeking activities are unavailable to produce goods and services valued by consumers. Society is poorer and will remain poorer as long as people continue to devote resources to seeking transfers.

17. Just as taxpayers must employ resources to comply with the tax laws, so recipients of transfers must employ resources to establish and maintain their eligibility to receive the transfers. For example, recipients of unemployment insurance benefits must visit the department of employment security and wait in long lines to certify that they are indeed unemployed. Sometimes they must go from place to place applying for jobs, which they may have no intention of accepting, in order to demonstrate that they are "seeking employment." Recipients of disability insurance benefits must visit doctors and other health professionals to acquire certification that they are indeed disabled. In each case, more resources are squandered, and society is that much poorer.

18. By adopting programs to redistribute substantial amounts of income, a nation guarantees that its government will become more powerful and invasive in other ways. Because government itself is the most menacing interest group in society, nothing good can come of this development, and much evil may come of it. As James Madison remarked more than two centuries ago, "one legislative interference is but the first link of a long chain of repetitions, every subsequent interference being naturally produced by the effects of the preceding."[8] When the government created Medicare and Medicaid in 1965, for example, it set in motion a train of events that led inexorably to the subsequent "crisis" of escalating health-care costs and thence to the bigger government now being wrought by congressional efforts to deal with this artificial crisis.

19. Creating a more powerful and invasive government means that the liberties of citizens will be diminished. Rights previously enjoyed will be set aside. For a long time American citizens enjoyed extensive rights in the negative sense—rights to be left alone by governments or other people as they

went about their lives. All individuals could enjoy such rights simultaneously. With the growth of the transfer society, American citizens have gravitated away from negative rights and toward positive rights, also known as welfare rights, which are in effect claims on the resources of other people. One person's welfare right entails a corresponding duty of other people to provide the resources necessary to satisfy the claim. As such entitlements have grown, therefore, liberties in the sense of negative rights have necessarily diminished.

Culmination

Ironically, in the full-fledged transfer society, where governments busy themselves redistributing income by means of hundreds of distinct programs, hardly anyone is better off as a result. Those who get something of value from the system frequently give up even more in taxes. Further, because many of the consequences of government income redistribution share the common aspect of impoverishing the society, even those who get a bigger slice than they surrender are cutting into a smaller pie. Only the ruling class—those who constitute the government—can confidently expect to gain, as each new program enlarges the number of official jobs and the bureaucracy's budget.

In the transfer society the general public is not only poorer but less contented, less autonomous, more rancorous, and more politicized. Individuals take part less often in voluntary community activities and more often in belligerent political contests. Genuine communities cannot breathe in the poisonous atmosphere of redistributional politics. Most importantly, the society that allows its government to redistribute income on a wide scale necessarily sacrifices much of its liberty.

Finally, one must recognize that, notwithstanding what some regard as the institutionalization of compassion, the transfer society quashes genuine virtue. Redistribution of income by government coercion is a form of theft. Its supporters attempt to disguise its essential character by claiming that democratic procedures give it legitimacy, but this justification is specious. Theft is theft whether it be carried out by one thief or by 100 million thieves acting in concert. And it is impossible to found a good society on the institutionalization of theft. □

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2. James D. Gwartney and Richard L. Stroup, *Microeconomics: Private and Public Choice*, 6th ed. (Fort Worth: Dryden Press, 1992), pp. 409–410.
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4. Paulette Thomas, "BiPartisan Panel Outlines Evils of Entitlements, But Hint of Benefit Cuts Spurs Stiff Opposition," *Wall Street Journal*, August 8, 1994.
5. Arianna Huffington as quoted by John H. Fund, "A Spiritual Manifesto for a New Political Age," *Wall Street Journal*, July 13, 1994.
6. Thomas, "Bipartisan Panel."
7. James L. Payne, "Inside the Federal Hurting Machine," *The Freeman*, March 1994, p. 127.
8. "The Federalist No. 44," in *The Federalist* (New York: Modern Library, n.d.), p. 291.

THE FREEMAN
IDEAS ON LIBERTY

Closing the Green Gap of Market Liberalism

by Karl Hess, Jr.

When Earth Day, 1970, opened the environmental floodgates, the gap between market liberal thought and the first rumblings of a youthful environmentalism yawned deep and wide. Except for a scattering of lonely voices, the libertarian standard was absent from the field of public debate. Market liberals were out of place and caught off guard. They and their ideas were strangers in a strange and emerging landscape of revulsion against pollution, stridency toward overpopulation, celebration of the pristine, and evocation of a land ethic.

Over the past quarter century, free market environmentalists have made enormous strides in advancing the idea of liberty in the cause of a healthier environment. The literature of market environmentalism is rich and creative, quoted in mainstream periodicals and echoed in policy debates. Yet for all the hoopla over its success, the gap between green sensibilities and free market solutions persists to this day. Try as hard as they might, market liberals have not seized the moral or ecological high ground. And the reason is clear: free market environmentalism has failed to articulate a compelling vision of man and nature in close and lasting harmony.

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Part of the problem is the way in which market liberals think about both the environment and the debate that rages over its well-being. Some see it only in the light of conspiracy. In true cold war fashion, they decry environmentalism and its upswell of issues as the machinations of greenly disguised reds. Others, such as those of a scientific bent, are more subtle. They ply their science in what amounts to reverse alchemy, transmuting environmental issues into non-issues, environmental apocalyptics into environmental hyperbole. And even among the small tribe of market liberals who are declared environmentalists, nature is often nothing more than a sounding board for ideological debate: take away the state and defer to free markets and private property rights, and all is right between man and nature.

Aside from the lesser or greater truths of these positions, the remarkable fact is that nature and the environment are largely incidental to the incantations of free market environmentalists. No wonder, then, that green-baiters, scientific obfuscators, and Panglossian optimists are almost always circling their wagons to fend off environmental assaults. They steep their message in the principles of liberty, yet they fail to articulate it with environmental commitment, compassion, and credibility. They are masterful at proving why good environment depends on liberty, but they are derelict at showing why *liberty relies, in the most basic sense, on good environment.* Instead, they debase their message with *ad hominem* arguments, scientific denials, and utilitarian appeals to the economic efficiency of free markets.

But the fault line of market environmentalism runs deeper and wider than cavalier disregard for the message and messenger of evangelical environmentalism. As if by knee-jerk reaction, market liberals clump the many diverse streams of environmental thought into a stereotypical mold, into everyman's strawman—the new-age theologian, born-again to the unified church of state and nature. Spiritualism is the dead giveaway, proof-positive of the foibles of environmentalism, in much the same way the religious enthusiasm of William Lloyd Garrison and his cohorts was proof-positive of the wackiness of the anti-slavery movement in the pre-Civil War South. Paranoia and misinformation are the self-forged shackles of libertarian environmental thought. They compel men and women of high principles and superior ideas to embark on a lonely journey that forsakes potential allies and forgoes promising diversions from the main path of their intellectual journey.

Prick a Greenie and Find a Libertarian

Market liberals have turned their eyes from and deafened their ears to what should be cause for celebration and hope for the advancement of libertarian ideals. They have stubbornly refused to come to terms with an enticing fact: except for the corporate environmentalists who make their living lobbying and running the federal government, the moral center of the environmental movement belongs to those whose ideals are at minimum quasi-libertarian.

Classic environmental heroes, for example, ally themselves with the principles of decentralism and individual self-governance. Edward Abbey, novelist and movement guru, wrote eloquently of his personal anarchism and pleaded in *Desert Solitaire* for wilderness as a buffer and refuge against "authoritarian government" and "centralized domination." Aldo Leopold, the moral spokesman of the movement, noted that "[o]ne of the curious evidences that conservation programs are losing their grip is that they have seldom resorted to self-government as a cure for land abuse."

The list of living heroes is no less impressive. Murray Bookchin, in *The Ecology of Freedom,* evokes a strident libertarian defense of personal freedom and offers that defense as the best offense for guarding the integrity of nature. Christopher Manes, Earth Firster! and chronicler of *Green Rage,* links the environmental cause to Jeffersonian democracy—"to radical, grassroots democracy, based on the ward level and ever prepared to overturn any accumulation of power by those in leadership roles." And Holmes Rolston, an environmental ethicist in the "Deep Ecology" tradition, in his book *Environmental Ethics,* echoes the sentiments of F. A. Hayek: "There is a kind of order that arises spontaneously and systematically when many self-concerned units jostle and seek their own programs."

And if the words of environmental heroes past and present are not enough, market liberals might consider the plethora of charts and tables that set the so-called "green paradigm" against that of modernity. For example, in Derek Wall's current *Green History,* "the politics of industrialism" are enumerated side by side with "the politics of ecology." Modern values of centralization, hierarchy, dependency, representative democracy, and law and order are countered by green virtues of decentralization, nonhierarchical structure, self-reliance, direct democracy, and—yes!—*libertarianism.*

Environmentalists who strive at the grassroots level and greens who spin the mythologies of "Deep Ecology" are far from consistent in their libertarian acts and words, but the fact remains that their ethics and morality are rooted in libertarian sentiments. If this is the case, why do so many environmentalists eschew their libertarian roots in practice and why, more importantly, do so many market liberals ignore the deep affinity that exists between themselves and the watermelon strawman they have devoted so much time to tearing down? Why do free marketeers read and write so many books on "eco-scams" and "environmental overkills" when they could be laying the groundwork for an environmental alliance that advances the principles of liberty?

The Great Divide

Greens and free marketeers can point to many differences that set them apart, but the greatest divide of all starts and ends with free markets. For reasons that escape most market liberals, rank and file environmentalists have a deep-rooted antipathy to free markets and a free market economy. That alone, it is argued, sets them apart from the libertarian world of non-coercion and voluntary consent and earns them the well-deserved scorn of principled market liberals.

And there is truth to this. Writers in the deep ecological vein of Murray Bookchin—people whose proclaimed affinities are libertarian or anarchist—are strangely at ease when it comes to disparaging the market. In *The Ecology of Freedom,* for example, Bookchin spares no words in his assault on market forces and the free market, arguing that the free marketeer's icon is by nature oppressive and by historical record antagonistic to personal freedom. Moreover, the "green paradigm" has little use for the free market. A free market economy is merely one of several distinguishing features of the anti-ecological "politics of industrialism." In contrast, local production for local need is the key to sustainable living and the vital fulcrum for the "politics of ecology."

Market liberals have good reason to be upset with the market-unfriendly attitudes of greens. First, green bias against markets is simply unwarranted. Markets, when coupled with secure and exchangeable property rights, foster our acting as efficient stewards of nature's amenities. The absence of markets—*not their oppressive presence*—is what most threatens personal freedom and most endangers nature's integrity. Second, the elimination of markets from the menu of environmental solutions would appear to leave nature at the mercy of the state—a clearly unpleasant option for the committed libertarian. Interestingly enough, it is also a distasteful option for most greens and grassroots environmentalists. They are not enamored with state action, they are simply in a quandary. When forced to choose between impersonal market forces and government regulation, they choose the latter in the belief that politics offers more certainty and control than free markets.

This presumption is not entirely outlandish given the narrow spectrum of choices that environmentalists see before them. Like their conservation brethren at the turn of the century, greens are grappling with the issue of sustainability. One hundred years ago, the issue of sustainability focused on the overcutting of public forest and overgrazing of public rangelands—all the result of a policy-generated tragedy of the commons. Rather than opt for markets and private property ownership, policy-makers settled on government regulation and ownership of one-third of the nation's land.

Today, the issue of sustainability—the impetus for modern-day environmentalism—is much different. At stake is more than finding a means to conserve common lands that could just as easily—and *more effectively*—have been divided among private owners and stewarded in concert with market forces. Central to the green paradigm is concern over sustaining ecological intangibles that are resistant to simple market solutions and straightforward private property resolutions. Things like ecological processes that transcend human convention, vast Western vistas that forge a national identity, natural communities (plant and animal) that know no property boundary, and water and air flows that knit human-divided landscapes into a common watershed are emergent commons whose sustainability is of increasing concern to environmentalists.

Greens and market liberals part company at this point, one resigned to government intervention as the least of two evils and the other entrenched in ideas and solutions that appear to be the only option compatible with individual liberty and personal freedom. As a result, greens and market liberals have reached an impasse, but one that is far more modest than either side dares to realize or accept. The great divide that sets them apart is not Grand Canyonesque in scale; it is merely a subtle change in the lay of the land and the color of the grass on the other side of the tracks.

The Market and the Marketplace

Strange as it may seem, environmentalists and market liberals are both creatures of the market. Where their difference lies is in which market—or, *more accurately, on which side of the market*—one or the other finds comfort and solace. On one hand, the market is a global network of impersonal economic exchanges. Through the media of currency and free trade, it shuffles information, goods, and people between near and distant places. As such, the market is process; it is the unrelenting flow of energy (in the form of price) that magically orchestrates and coordinates infinite transactions between mostly anonymous people. Individuals may succeed or fail according to their merits, but society as a whole prospers and advances in the wake of free exchange. This is the market celebrated by market liberals, the market relied on by free marketeers to bring harmony between man and nature.

While the market of global process and exchange is essential to the well-being of society, it is not sufficient for the happiness of most people. The market that matters most to people lies closest to home. It is the place—*the marketplace*—where people gather to exchange in voluntary fashion everything from cash to good ideas to friendship to mutual aid and cooperation. It is the *deep market* of community, the cooperative flip side to the market of competition and impersonal economic forces. Here, people fill needs and seek values that can't be readily satisfied by the currency of dollars or measured by the usual standard of efficiency. They join together to embark on an open-ended pursuit of happiness, to give and acquire through consensual sharing the social currency that builds secure homes, safe neighborhoods, and happier lives. Through association and community, people tame and subdue the crueler side of the impersonal market, creating without direction or intent the fabric of an enduring social order. This is the marketplace to which the greens owe allegiance, the felicitous realm of local production for local need.

Environmental critique of free market environmentalism invariably arrives at the distinction between the market and the marketplace. To many greens, the market is oppressive because it *seems* to relegate to impersonal forces the final authority over decisions that rightfully belong to the individual and community. Market liberals, of course, are quick to remind greens that the market is founded on voluntary exchange; there is no compulsion for the individual to act against his or her will. While this is true, the greens do make a valid point, particularly in an America where political power rests not in small communities but resides in an all-powerful, centralized state.

For all their fuzzy-mindedness, greens seem to understand what Alexis de Tocqueville meant when he advanced community and association as the individual's sole bulwark against "the most galling tyranny," the tyranny of the American majority. However, what greens have done, and what upsets market liberals most, is to expand Tocqueville's fear of unbridled democracy to encompass free markets. This does not mean that greens are anti-free market by conviction any more than Tocqueville was opposed to democracy in America in principle. It simply means that environmentalists have figured out what free marketeers should have long known: markets bereft of the buffering effect of voluntary association and community are as threatening to liberty as the unbridled state. Therein lies the challenge to both greens and market liberals—how best to save the marketplace from both the state and the impersonal market.

Little Platoons and Little Commons

Community and association are the common ground where both greens and free marketeers can ply their libertarian visions in unison to forge a viable option to the environmental welfare state. For greens, community is the organizing principal of self-regulating nature. It is also the moral and environmental context in which individuals can and should practice a land ethic—an ethic that entails membership in a local land community and that elicits care towards nature in its full diversity.

For market liberals, voluntary association and community are a proud heritage, in which the libertarian tradition in America flourished for nearly three centuries. Pioneers from almost every corner of the earth arrived in the youthful nation, coalesced into voluntary communities, and built towns where democracy involved more than yearly elections; it was immediate and participatory, creating what Tocqueville fondly described as little laboratories of liberty. Town meetings were the templates of liberty; "[they] are to liberty," Tocqueville wrote, "what primary schools are to science; they bring it within the people's reach, they teach men how to use and how to enjoy it."

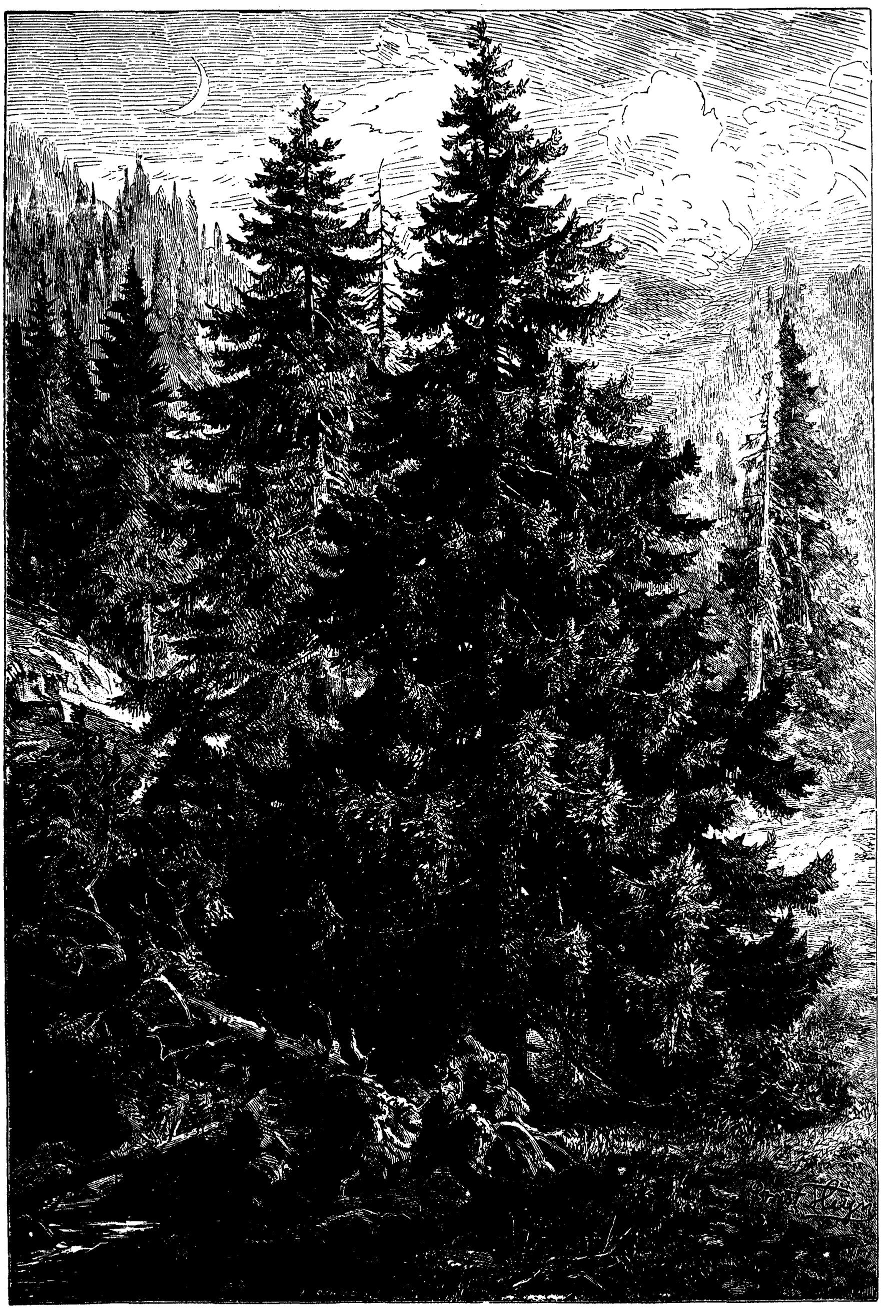
Tocqueville's town meetings and voluntary associations are either nonexistent or attenuated in today's America. The state has usurped the role and function of community in attending to the vital needs of both nature and civil life. The roots of social disintegration and environmental degradation lie there, in the death of what Edmund Burke affectionately called *little platoons.* "Take away the functions," writes Charles Murray in his book, *In Pursuit of Happiness and Good Government,* "and you take away the community. The cause of the problem is not a virus associated with modernity, it is centralization of functions that shouldn't be centralized, and this is very much a matter of political choice, not ineluctable forces."

Clearly, closing the green gap of market liberalism means adding community and association to the repertoire of free market tools. This is not to say that market liberals have forgotten community and association while advancing the cause of liberty. In the realms of health care and social welfare they have creatively and eagerly embraced social cooperation and voluntary association as part of a libertarian solution. Now it is time to do the same in the realm of nature and the environment.

Free marketeers must look beyond market gimmicks and private property rights to solve festering environmental problems—and to solve them in a manner still consistent with liberty. The new environmental commons of ecological processes, scenic vistas, unbounded communities of plants and animals, and free-flowing streams of air and water demand solutions that encompass yet go beyond ordinary markets and property rights. Dealing with that commons requires more than buying a piece of land or setting the invisible hand free on an unfettered market. The environmental commons is a challenge to community—or, in the absence of community, a challenge that will be eagerly and hungrily taken up by a centralized state in search of an equivalent to militarism.

Greens and market liberals can engage in the common cause of good environment and sustainable liberty if they will only take the time to appreciate and exploit the less obvious and deeper expressions of the free market paradigm. Sustaining free-ranging ecological processes may require neighbors and neighborhoods to cooperate and enter into an array of protective covenants and binding social agreements at the local level. Communities that value open spaces and untrammeled vistas may have to find new tools of self-governance to curb the tragedy of the commons that is now transforming desirable environments into exploited landscapes. Associations and cooperatives may have to be formed to protect unbounded communities of plants and animals and steward free-flowing streams of water and air.

None of this is impossible. Local, self-governing solutions to common resource dilemmas are emerging in greater numbers every day. On the north fork of the Clark River in northwestern Montana, neighbors are joining together voluntarily to protect their most prized common resource: the river. From coast to coast, neighbors and likeminded people are combining in association to tackle the toughest of environmental problems—problems for which private property rights and markets fall short and for which the state is unwelcome. And emerging from these trial-and-error experiments in Jeffersonian democracy are the nuclei of community—little platoons whose meaning and purpose reside in caring for the many little commons ushered in by the age of environmentalism. □



THE FREEMAN
IDEAS ON LIBERTY

"Predatory Pricing" Laws: Hazardous to Consumers' Health

by Donald J. Boudreaux

The local Wal-Mart in Conway, Arkansas, began selling pharmaceuticals in 1987. As with all of its other products, Wal-Mart sold high-quality medicines and health and beauty aids at rock-bottom prices. Not surprisingly, Wal-Mart's pharmacy business boomed. But rather than receive applause for its enterprising efforts, Wal-Mart was sued for violating antitrust law. In October 1993, an Arkansas trial court ordered Wal-Mart to raise its pharmaceutical prices and to pay treble damages to three local competitors who complained about Wal-Mart's low prices.

Unfortunately, harassment of firms that charge low prices is not unusual in the Alice-in-Wonderland world of American antitrust law. Although antitrust statutes are trumpeted as protectors of competitive markets and consumers, these laws in fact stifle competition and injure consumers. The pernicious nature of antitrust laws is nowhere more blatant than in so-called "predatory pricing" regulations, such as that used against Wal-Mart in Arkansas.

The "Logic" of "Predatory-Pricing" Prohibitions

"Predatory pricing" is said to occur when a firm seeking to monopolize a market sells its wares at prices below the firm's costs of production. Such below-cost pricing, it is said, unjustifiably inflicts losses on equally efficient rivals ("prey"). These losses force the prey eventually into bankruptcy, leaving the predator as the only seller in the market. The predator becomes a monopolist tomorrow by charging "excessively" low prices today. Thus, the benefit consumers get from today's low prices is more than offset (it is assumed) by the harm they suffer from tomorrow's monopoly prices.

If successful "predatory pricing" as described in the preceding paragraph occurred with some frequency, the case for legal sanctions against it would have a plausible basis. There is no good reason, however, to suppose that "predatory pricing" occurs. A vast amount of theory and evidence suggests that firms attempting to monopolize markets via below-cost pricing are almost sure to fail.[1] And profit-seeking firms are not prone to pursue strategies that consistently misfire. It follows that legal prohibitions against "predatory pricing" are, at best, unnecessary.

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Why "Predatory Pricing" Is Not a Problem

While no one doubts that each firm *wants* to be a monopolist, economics shows that below-cost pricing is an especially futile method of achieving monopoly power. "Predatory pricing" will not work because a predator's prey have available several practical counterstrategies to ensure that they are not run out of business by "predatory pricing."

Suppose Predator, Inc., seeks monopoly power by charging a price below cost. Predator, Inc., must be willing to expand its output and sales at the below-cost price, for only then will it take customers away from its prey and, thereby, force its prey likewise to charge prices below cost. So, the predator inevitably suffers losses during the predatory period. Although the prey may also suffer losses from having to meet Predator, Inc.'s below-cost price, each prey suffers *fewer* losses than does the predator: Predator, Inc., must expand its sales at the below-cost price while each of the prey reduces its sales volume to loss-minimizing levels.[2]

The fact that predators would necessarily incur greater losses than their prey should be sufficient, standing alone, to demolish arguments in support of government prohibitions of "predatory pricing." Government serves no good purpose by policing against actions that no one has incentives to pursue. However, advocates of laws against "predatory pricing" reply that predators typically have "longer purses" than do prey—i.e., access to greater wealth to fund price wars. Accordingly, even though predators incur greater losses than do prey, predators are thought to have greater ability to withstand such losses.

This argument is unfounded. "Longer purses" are unlikely in economies with functioning capital markets. In predatory-price wars, efficient prey with no spare funds of their own would be able to borrow the funds necessary to wage counterattacks against predators. After all, predatory pricers (by assumption) attempt to bankrupt firms that promise to be profitable once they've withstood the predation. Investors make their living by successfully identifying firms that can use money today to turn profits tomorrow.

But even if predators do have access to "longer purses" than do prey, it is doubtful that firms with funds on hand will invest in attempts to drive efficient rivals from business via below-cost pricing strategies. A much more profitable use of these funds would be to improve production efficiency or to enhance product quality. Not only does improved efficiency or product quality directly add to profits, but rivals cannot match such improvements as easily as they can match price cuts. Firms seeking enduring competitive edges over rivals will invest in ways that rivals find difficult to mimic. Moreover, unlike a predatory pricer, a firm that improves its efficiency or product quality typically suffers no greater expenses than its copycat rivals.

There are yet other reasons to doubt the reality of below-cost pricing as a monopolization scheme. Suppose Predator, Inc., somehow manages to run all of its rivals from the industry. What now? Predator, Inc., must jack its prices up to monopolistic levels in hopes of earning enough monopoly profits to more than offset the losses it incurred when it priced below cost. But nothing cures monopoly like excess profits. Predator, Inc.'s price hikes will attract rivals into the industry, squelching its ability to recoup its predatory losses. Predator, Inc., will find that it spent money in a failed effort to achieve a monopoly.

Of course, entry of new firms doesn't happen instantaneously—but neither does the exit of preyed-upon rivals. Predator, Inc., wants its prey to exit the industry quickly (so that its up-front losses are small) and new rivals to enter, if at all, only slowly (so it has sufficient time to recoup its predatory losses via monopoly pricing). Unfortunately for Predator, Inc., however, industries in which exit is quick are industries in which new entry is quick; industries in which new entry is slow are industries in which exit is slow.

The symmetry between rivals' exit-time and entry-time discourages reasonable firms from pursuing "predatory-pricing" strategies. This symmetry exists for a straightforward reason. Ignoring government-erected barriers, entry by firms into an industry will be slow only insofar as investments of capital goods in that industry are "industry specific"—that is, only if equipment for use in that industry has no good alternative uses. Investors are naturally reluctant to commit to projects requiring capital goods whose only other use is as scrap. They realize that once they commit their funds to industry-specific machines, tools, and buildings, they cannot easily go elsewhere for a profit if the industry proves to be unremunerative. (For example, once money has been used to build railroad tracks, the next-best use for railroad tracks is as scrap. Therefore, a railroad will not quickly be run out of business by a rival who charges unusually low rates. A predatory railroad would have massive up-front predation costs.) Thus, the only industries in which the entry of rivals will be slow are industries in which running existing firms out of business takes a long time. The huge up-front predation costs in such industries render "predatory pricing" foolish.

Conversely, industries in which the prey quickly exit are industries that use large proportions of capital having good alternative uses. In these industries, although exit of the prey may be quick, entry will likewise be rapid. The predator will have insufficient time to recoup its losses. In this case, recoupment of predatory expenses would be impossible in the face of rapid entry.

Conclusion: Policies Against "Predatory Pricing" Are a Problem

Economics suggests a number of other reasons why "predatory pricing" is unlikely to succeed (and, hence, unlikely to occur). Space does not permit a review of these additional reasons here. It is important to indicate, however, why laws aimed at stopping "predatory pricing" are themselves quite dangerous.

One way to see the folly of laws against "predatory pricing" is to ask: What would be the value of telling the police to protect citizens against, say, invasions of fire-breathing dragons? *If* dragons were real, and *if* these creatures posed a genuine threat to human safety, *then* such police actions might be appropriate. But, of course, fire-breathing dragons don't exist (although lots of folks have written about them). Whatever monies public agencies spend guarding against dragon invasions are wasted—diverted from real and more pressing needs. So it is with laws against "predatory pricing." "Predatory pricing" is a mythical beast. Funds spent to hunt down and subdue the beast are wasted.

Unfortunately, there is another, more severe problem with laws proscribing "predatory pricing." "Predatory-pricing" prohibitions dampen vigorous competition. In the words of the U.S. Supreme Court, "cutting prices in order to increase business often is the very essence of competition." Consequently, mistaken inferences of predation—and, the Court might have added, the very ability to sue rivals for predation—"chill" healthy competitive rivalry.[3]

For example, Wal-Mart was sued by rival pharmacists, not by consumers fearful of future monopoly prices. These pharmacists sought shelter from competitive forces. Rather than suffer lower profits or the necessity of matching the new higher standard of responsiveness to customer demands set by Wal-Mart, the plaintiffs instead accused Wal-Mart of "predatory pricing." Their wish—granted by the trial court—was to make Wal-Mart less customer-friendly so that they, Wal-Mart's rivals, might avoid robust competition. At trial, one of the plaintiffs whined that he had to do "a lot of belt tightening" after Wal-Mart opened.[4] Another plaintiff declared that he sued to make Wal-Mart raise its prices: "I want them to raise their prices. . . . I cannot compete with Wal-Mart."[5]

Fact is, Wal-Mart behaved just as firms in competitive market economies are supposed to behave. Wal-Mart charged lower prices because it pioneered more efficient retail-distribution methods. These efforts redounded to the benefit of both Wal-Mart (higher profits) and customers (lower prices). But the trial court effectively kicked consumers in the teeth by ruling for the plaintiffs. Firms everywhere now will more readily resort to the courts for protection against spirited competition. Consumers are the unambiguous losers under a legal regime recognizing the legal right of firms to sue rivals for so-called "predatory pricing." Sadly, there is much truth in columnist Llewellyn Rockwell's claim that "the long, sorry history of anti-trust shows that the policy is really about using government to create cartels, not enforce competition."[6] □

1. See, e.g., Kenneth G. Elzinga and David E. Mills, "Testing for Predation: Is Recoupment Feasible?" *Antitrust Bulletin*, Vol. 34 (Winter) 1989, pp. 869–893.

2. Robert Bork summed up the case against "predatory-pricing" laws: "It looks like the best method of predation is to convince your rival that you are a likely victim and lure him into a ruthless price-cutting attack." Robert H. Bork, *The Antitrust Paradox* (New York: Basic Books, 1978), p. 152.

3. *Matsushita Electrical Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574 (1986), p. 589.

4. Testimony of plaintiff James Hendrickson, *Wal-Mart Stores, Inc. v. American Drugs, Inc., et al.*, p. 1634 of the trial record. This same plaintiff also admitted that the pharmaceuticals market became more competitive after Wal-Mart entered. See trial transcript at p. 1649.

5. Trial testimony of Dwayne Goode, *id.*, p. 1615.

6. Llewellyn H. Rockwell, Jr., "Mashing Microsoft," *The Washington Times*, Friday, July 22, 1994.

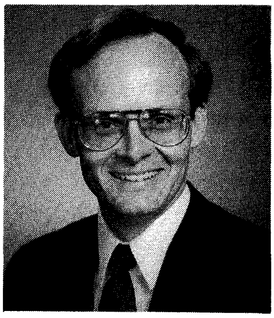
The Blindness of Planners

IDEAS ON LIBERTY

There is more than a germ of truth in the suggestion that, in a society where statisticians thrive, liberty and individuality are likely to be emasculated. Historically, Statistics is no more than State Arithmetic, a system of computation by which differences between individuals are eliminated by the taking of an average. It has been used—indeed, still is used—to enable rulers to know just how far they may safely go in picking the pockets of their subjects. A king going to war wishes to know what reserves of manpower and money he can call on. How many men need to be put in the field to defeat the enemy? How many guns and shirts, how much food, will they need? How much will all this cost? Have the citizens the necessary money to pay for the king's war? Taxation and military service were the earliest fields for the use of Statistics. For this reason was Domesday Book compiled.

We are reminded of the ancient statisticians every Christmas when we read that Caesar Augustus decreed that the whole world should be enrolled, each man returning to his own city for registration. Had it not been for the statisticians Christ would have been born in the modest comfort of a cottage in Nazareth instead of in a stable at Bethlehem. The story is a symbol of the blindness of the planners of all ages to the comforts of the individual. They just didn't think of the overcrowding there would be in a little place like Bethlehem.

—M. J. Moroney
Facts from Figures



Environmental Regulations Aren't Cheap

Are the costs of environmental regulations spiralling out of control? Just ask the city of Columbus, Ohio.

In 1991, the city commissioned a pioneering study of federal and state environmental requirements as they impinge upon city finances. Nearly 20 percent of the total city budget, the study predicted, would have to be spent by 1995 to comply—a sum well in excess of $100 million.

"We will spend millions cleaning up an already clean water system, and it's questionable whether we would improve the health" of city residents, the mayor's chief of staff said recently.

At least Columbus won't have to spend any more to test water for a pesticide that was once used exclusively on pineapples in Hawaii and has been banned for nearly two decades. The federal Environmental Protection Agency (EPA) was finally convinced last year that cities shouldn't have to do that any more.

Businesses and governments all across America are waking up to a shocking fact of life: environmental regulations are a supergrowth industry, and one that threatens to swallow up their resources and cripple their ability to survive in an increasingly competitive, penny-pinching world. It's enough for many to recall what the Founders accused King George of in 1776: "He has erected a multitude of new offices, and sent hither swarms of officers, to harass our people, and eat out their substance."

The principal culprit in all this, America's geyser of environmental rules, is the EPA. With lots of money and plenty of staff, the agency churns out regulations and mandates as if cost is no object and conjecture is sufficient evidence of likely benefit. It boasts a staff that exceeds 18,000 and an operating budget approaching $5 billion. *Forbes* magazine calculates that the EPA's staff has quadrupled since 1970 and its inflation-adjusted spending has gone up ten times.

In 1990, the EPA estimated that compliance with its regulations was costing Americans approximately $115 billion per year—almost $500 for every man, woman, and child. That's without a doubt the understatement of the decade. Municipalities, notes *Science* magazine Deputy Editor Philip H. Abelson, have reported instances in which real costs exceeded EPA estimates by a factor of 20 or more.

Philadelphia mayor Ed Rendell has cited many instances of EPA's grossly underestimated costs to his city. The agency, for example, figured that preparing storm water permits would cost the city only $76,681, while the actual number turned out to be $916,950.

Experts in both government and industry are raising questions about the worth of all this spending for regulatory compliance. The federal Office of Management and Bud-

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get stated in 1990 that regulation of atrazine in drinking water as carried out by EPA under the Safe Drinking Water Act would cost $93 billion for every life prolonged. The Dallas-based National Center for Policy Analysis calculates that an EPA rule on wood preservatives costs an astounding $5.7 trillion for every life presumed to have been saved by it.

Statistical models developed in California have shown that one fatality is induced every time regulations reduce Gross National Product by between $5 million and $12 million. The expenses of compliance with EPA rules, those models suggest, already are responsible for inducing over 30,000 deaths per year. When the Clean Air Amendments are fully implemented, you can add another 5,000 to that.

"I've never seen a single rule where we weren't paying at least $100 million per life," Yale Law School Professor and recent EPA legal counsel E. Donald Elliott told *Forbes*.

Studies have confirmed that the death rates for high school football are anywhere from 100 to 2,000 times higher than death from asbestos in school buildings. Children are from 2,700 to 54,000 times more likely to drown than to die from asbestos. Yet, under orders from the EPA, communities have spent hundreds of millions to remove asbestos from schools.

There are other ways to assess the impact of the problem. The American Council for Capital Formation says that by the year 2005, environmental regulations as a whole will have reduced the U.S. capital stock by 4.3 percent and increased the cost of capital by 5.5 percent. CONSAD Research Corporation, a Pittsburgh-based consulting firm, projects that at least 200,000 jobs will be lost due to the Clean Air Act amendments of 1990 alone.

Adding salt to the wounds, EPA Administrator Carol Browner boasted in November 1993 that her agency had issued 25 new air regulations in the first 10 months of the Clinton administration.

On and on it goes. The numbers add up as our standard of living and our liberties erode. The environmental juggernaut just rolls on oblivious to the damage it leaves in its wake. The EPA, the Congress, and many state agencies are presiding over the greatest expansion of the intrusiveness of government Americans have ever seen, all in the name of cleaning up the country and often with little or no good to show for it.

This is real money that governments and businesses are spending. These are real lives that regulations are costing. Neither money nor lives are inexhaustible resources. Nor are the freedoms we sacrifice each time we allow government to trample property rights in the name of environmental regulation.

All this zealous "regulate for the sake of regulating" activity is occurring, by the way, at a time when scientific evidence overwhelmingly suggests that our environment today is cleaner than it was 50 years ago, and safer for humans than at any time in history. That fact is documented thoroughly in a new book published under the auspices of the Chicago-based Heartland Institute, entitled, *Eco-Sanity: A Common Sense Guide to Environmentalism*.

Authors Joseph L. Bast, Peter J. Hill, and Richard C. Rue assemble unassailable facts and figures and the most compelling argumentation to make this point: government has been a poor environmental steward and a counterproductive regulator. Genuine environmentalism that keeps the environment clean calls for respecting property rights and utilizing marketplace incentives. It's a case that cries out for public attention, for it constitutes the only viable alternative strategy to the current regulatory Inquisition.

Those of us who believe in both freedom and a clean environment must make the case that these two things are not at all incompatible or we may end up losing both. □

THE FREEMAN
IDEAS ON LIBERTY

The Government as Robin Hood

by E. C. Pasour, Jr.

Robin Hood robbed the rich to give to the poor. Although most people are critical of Robin Hood's actions, relatively few question the legitimacy of governmental coercion to redistribute income. The typical justification for government welfare programs hinges on a highly dubious assumption. It is assumed, at least implicitly, that government has both the motivation and the ability to aid the poor. As shown below, there are a number of reasons to question this assertion.[1] Collectivization of charity is objectionable on ethical grounds and there is mounting evidence that it is harmful to the long-run interests of the poor.

Information and incentive problems that complicate both the administration and analysis of government poverty programs are first discussed. These problems are partly responsible for the fact that the programs have done little to improve the lot of the poor in the United States. Ethical issues are then explored in addressing the question of whether government *should* be involved in poverty relief.

Information and Incentive Problems

Poverty programs assume that decision-makers in the political process, being imbued with supernatural power like Aladdin's magical lamp, have both the knowledge and desire to act in ways that promote the public weal. However, information and incentive problems stymie collective efforts to alleviate poverty.

First, there is the question of *why* poverty exists. In the case of the minimum wage and similar governmental restrictions on competition, poverty results from constraints beyond the control of the individual. In other cases, such as poor job skills that can be traced to dropping out of school, poverty results from choices made by the individual.

Second, there is a difference between short-run and long-run effects of food stamp and other poverty programs. Recipient benefits are highly visible in the short run, but an important part of the costs—the effects of the programs in fostering dependency—occur in the long run. However, whatever the time period, the greater the stigma associated with poverty relief, the greater the effort people will make to be self-reliant and, hence, the smaller will be the poverty problem.

The effectiveness of poverty relief is eroded over time because the programs create perverse incentives that affect both the poor and the non-poor. First, any program that transfers income to the poor decreases the incentives of the poor to provide for themselves. Consequently, donors face what has been termed a "Samaritan's dilemma" (the term is based on the biblical parable of the Good Samaritan).[2] A dilemma arises because the assistance rendered will lead to a decrease in self-reliance and, consequently, an increase in the amount of need. An increased willing-

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ness on the part of the state (the Samaritan) to offer food stamps, for example, will reduce the incentive to work which, in turn, will increase numbers of people seeking and qualifying for this type of dole.

Moreover, both welfare recipients and decision-makers in the political process have incentives to overstate the need. In transfer programs subject to a means test, there is an incentive to underreport income because the penalty is likely to be quite low. In the school lunch program, for example, individual schools are responsible for monitoring but have no way to verify incomes reported on students' application forms. Moreover, such programs provide an important source of support for members of Congress having large low-income constituencies and a livelihood for officials administering the programs.

Why Poverty Programs Are Ineffective

Let us now consider other reasons why poverty relief may be counterproductive in the long run.

In a competitive system, one's income is earned in the process of producing and marketing goods and services and is determined largely by the individual's contribution to output, as evaluated by consumers. Government transfers inevitably influence individual choice, adversely affecting the production of goods and services. As marginal tax rates increase, leisure is substituted for work, people work more on jobs where they are less productive, and more resources are used to avoid and evade taxes. In short, redistribution reduces productivity and, consequently, the creation of wealth.

Moreover, government relief tends to prolong and intensify the very disease it seeks to cure. Henry Hazlitt draws two lessons from the effects of the dole in ancient Rome.[3] First, once public relief programs are introduced, they almost invariably get out of hand. Second, once this happens, the poor become more numerous and worse off than they were before. The programs become counterproductive not only because of their harmful effects on recipients' self-reliance, but also because the sources of wealth and production on which the poor depended for either doles or jobs are adversely affected.

The nature of the state has not changed since the Roman days of providing bread and circuses for the masses.[4] Historically, the state has been a device for producing affluence for a few at the expense of the many. Poverty programs in a majoritarian democracy are not produced in isolation; instead such programs emerge as part of a package of programs affecting education, agriculture, and other sectors that redistribute income mainly among the middle class. It is naive to expect the political process to implement only programs that assist the destitute while ignoring special interest programs that transfer income mainly among middle- and upper-income groups. Over time, the redistribution destroys wealth and weakens the very means of achieving income security. Thus, there may well be a direct relationship between the size of the transfer sector and the incidence of poverty.[5]

In short, there are practical implementation problems related to the effectiveness of governmental efforts to improve the lot of the poor—even if there were a consensus that people *should* be protected against severe deprivation. During the past forty years in the United States, for example, distribution of income has barely changed despite huge outlays by government ostensibly designed to assist the poor.[6] The relief programs have had virtually no effect on the rate of poverty because almost all of the expenditures tend to promote self-destructive behavior among the poor.[7]

Ethical Considerations

As F. A. Hayek has shown, the concept of a fair distribution of income has little meaning other than the distribution of income as determined by market forces.[8] Certainly there is little evidence that the political process is superior to the market process in this respect. Indeed, it is likely that most citizens agree that a system in which financial rewards are unrelated to one's contribution is *not* fair. This attitude is reflected in the chronic complaints about government handouts to able-bodied people.

Some people contend that government relief is objectionable because redistribution is wrong in principle. The law can be an instrument of equalization only as it takes from some and gives to others. Frederic Bastiat provided an argument against redistribution through state power that continues to be persuasive. In this view, the mission of the law is to protect persons and property, but once the state exceeds this proper limit "you will then be lost in an uncharted territory. . . because fraternity and philanthropy, unlike justice, do not have precise limits. Once started where will you stop?"[9]

Hazlitt's objection to redistribution on ethical grounds is no less clear cut. "It is clearly wrong in principle to allow the government forcibly to seize money from the people who work and to give it unconditionally to other able-bodied people whether they accept work or not."[10] Indeed, Madison and other Founding Fathers of the U.S. Constitution held that justice was obtained in the process of protection of private property and destroyed in the process of forced transfers.[11] In this view, individuals have no legal obligation to help others because this would imply that potential recipients have a right to take what is not theirs, which is inconsistent with the laws of justice.[12] Individuals acting on their own are free to help the less fortunate of course and, indeed, as moral persons "ought" to do so.

Conclusions and Implications

Coercion is inherent in government redistribution. Robin Hood behavior that is objectionable on the part of the individual is no more legitimate on the part of the state. That is, if it is not right for two people acting privately to take the property of a third, neither is it legitimate for them to do so when they form a political majority and invoke the name of government in their behalf.[13]

Any government transfer program is subject to the "law of unintended rewards"—it increases the net value of being in the condition that prompted the transfer.[14] Consequently, responses by both poor and nonpoor people to the perverse incentives inherent in poverty relief programs over time erode the effectiveness of such programs. Moreover, the reduction in productivity and destruction of wealth accompanying government redistribution weaken the very means of achieving financial security.

In short, government acting in the role of Robin Hood is neither ethically defensible nor effective. □

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1. Some of the following discussion is adapted from E. C. Pasour, Jr., "Redistribution and Constitutional Political Economy," *Constitutional Political Economy*, Winter 1994, pp. 81–98.
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3. Henry Hazlitt, *The Conquest of Poverty* (New Rochelle, N.Y.: Arlington House, 1973), p. 71.
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5. D. R. Lee and R. B. McKenzie, "Helping the Poor Through Governmental Poverty Programs: The Triumph of Rhetoric Over Reality," in J. D. Gwartney and R. E. Wagner, eds., *Public Choice and Constitutional Economics* (Greenwich, Conn.: JAI Press Inc., 1988), p. 92.
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THE FREEMAN
IDEAS ON LIBERTY

Invisible Value

by Jane S. Shaw

My father lives in a home that has been in the family for half a century. It is full of heirlooms collected by an earlier generation—crystal glassware, china, Currier & Ives prints, and antique silverplate. My father is trying to figure out what to do with such things.

A kindhearted person, he would like to give them away, perhaps to a young bride furnishing her first home. It bothers him to think that a newlywed couple is buying an expensive new set of crystal glassware when a perfectly good (although perhaps incomplete) set is sitting unused on a remote kitchen shelf in his home.

But brides in the family are few, and none lives nearby. No one is likely to make a special trip to St. Louis to look at these heirlooms, and the chance of any one bride preferring this particular set of glassware or china, rather than something modern, is not great, anyway.

There may be people near his home who would love the crystal, the Haviland china, or the engraved samovar, but which people are they? Lack of knowledge (on their part and on his) means that good intentions are not going to get these collectibles to the people who really want them.

Readers of these pages know that there is a way to move these items into the hands of those who want them the most. People who specialize in discovering valued antiques can buy them and distribute them to places where would-be brides (or perhaps their mothers or grandmothers) are likely to shop. These people may be called antique brokers or secondhand dealers. (Working a little differently, some are managers of house sales.)

Through markets, these people accomplish what good intentions cannot.

But sometimes owners are reluctant to enter the market. For example, my father would really rather give these items away. The only "payment" he wants is the knowledge that the items are being enjoyed and appreciated. If he sells them through the impersonal market, he will never know who receives them.

Furthermore, by entering the market, he will have to face the fact that the market may evaluate the items differently than he expects. Perhaps the crystal isn't worth much, after all. The set may be badly chipped, out of fashion, too fragmentary, or perhaps not very precious to begin with. Even though my father does not want the heirlooms, and doesn't need the funds they might bring, he has lived with them for many years. Having decided to sell them, he might find it painful to learn that the market doesn't think much of them.

Such considerations explain some of the distaste we all have, at times, for market transactions. But there may be a more fundamental reason as well.

Markets like the antique market require "middlemen." These are people who redistribute goods over space and time. They

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have a vital role, but the value they add is often invisible.

In his classic book *Knowledge and Decisions,* Sowell illustrates this role.[1] During the Second World War, markets sprang up in prisoner-of-war camps even though everyone's rations and Red Cross packages were identical. Trade occurred because people's preferences for the items differed and because the contents became more valuable if they were saved until most packages had run out. Some people—middlemen—saved their rations and arranged trades, providing services that others wanted. But they were also resented.

Why? Sowell explains that the prisoners accepted the "physical fallacy." Physically, the cigarettes and food packages were all the same. Trade occurred because the values increased when the items were moved through space or time.

But since the physical qualities of the items did not change, many people thought the value hadn't changed. Prisoners who received what they thought was a pittance for their cigarettes were resentful when the middleman resold them for a higher price. And the people who paid the higher price felt cheated by the middleman who had obtained them so cheaply. Indeed, the failure to understand the role of the middleman helps explain the resentment of people who fulfill this distributive role throughout the world and over centuries.

Fortunately, most of the time we accept the services of middlemen without thinking much about them. We recognize that a new appliance delivered to our door is more valuable than one we must pick up and bring home ourselves, and we are willing to pay the extra. Because the American economy is so efficient, such charges are usually quite small.

But every once in a while, when the role of the middleman looms larger than usual, the "physical fallacy" takes front stage. It can happen when we try to dispose of unwanted heirlooms, if we fail to understand that a samovar gathering dust in the attic is less valuable than the same samovar sitting in the dining room of someone who loves antiques.

It may also loom large when we want to sell our home. Most of us go to a real estate broker, a middleman who has expert knowledge about prices and market conditions. But if we think that this person is merely "showing" the house, something that we can do ourselves, we may try to sell it ourselves and bypass the broker. We avoid a commission but we avoid the benefits of specialized knowledge as well. Similarly, we sometimes avoid literary agents, stockbrokers, and other individuals whose chief service is providing knowledge that brings buyers and sellers together. Doing this, we may be making a mistake.

So, for people reluctant to enter the market, I conclude with some advice. First, remember that free markets are composed of willing buyers and sellers, and a seller can reject any offer. Second, recognize that the market can be a vehicle for generosity. The proceeds from a sale can go to one's favorite charity.

As for the "physical fallacy," the problem is an intellectual one: understanding that distribution and related activities increase value. We get rid of what we value less than others will, and send it along the market chain to someone who values it more.

Moving heirlooms to someone who values them is my father's goal. If he is armed with a willingness to turn down an unsatisfactory offer and if he is ready to give the proceeds to charity, he can accomplish his objective through the market and feel good about the process. □

1. Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, Inc., 1980), pp. 67–72.

THE FREEMAN
IDEAS ON LIBERTY

Liberty and Entrepreneurship

by Brian Lee Crowley

Once upon a time, in ancient Greece, sailors were transporting a cargo of natron, a washing powder, somewhere in the Mediterranean. They stopped to prepare a meal on a fine white sandy beach. Lacking stones on which to support their kettle, they used lumps of natron to hold the kettle over the fire. The heat from the fire fused the natron and the sand, creating glass. For all we know, similar accidents may well have occurred elsewhere without anyone seeing and appreciating what had happened. In this case, however, the accident and an intelligent observer worked together to bring a highly valuable creation to humanity, increasing, not by design but by happy circumstance, our power to achieve our purposes.

The nameless sailor who saw the shiny crust that had formed under the fire and whose mind rushed on to the possibilities implicit in this discovery was an entrepreneur. He had discovered, by accident, a single bit of useful information, one of nature's slumbering secrets. By seizing it, experimenting with it, and then exploiting it, he unknowingly unleashed a series of powerful transformations and innovations. It became possible to have both warmth *and* natural light in buildings. Pots could be glazed. The seeds of mason jars, petri dishes, and the great stained glass masterpieces of Chartres had been planted.

Multiply this ancient example across all the many fields of human activity and we gain a new perspective on the entrepreneur's trade. Part of our human character is an urge to chafe against and try to transcend the limits on our freedom to realize our dreams. We want constantly to expand the areas in which we are not merely subject to mute and uncontrollable forces, but in which we control our actions and remake the world nearer to our heart's desire. When we are successful, we expand the realm of freedom, not only for ourselves, but to all to whom we make our knowledge available.

In this natural history of freedom, the entrepreneur's role is often neglected or overlooked because the contribution, while central, is little understood. Just as the ubiquity of the air we breathe masks its indispensability to life, so too the workaday character of the entrepreneur's contribution passes unremarked.

If it is true that human beings chafe against their limitations, then one way of defining the entrepreneur is as the person who makes experiments in transcending our limits, rather than merely contemplating them, who strives to make the first candle and thus to transcend the darkness. Entrepreneurs are the drones of the knowledge discovery process, the footsoldiers in our never-ending battle to beat back the frontiers of human ignorance.

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Knowledge and Power

Knowledge *is* power. When we master nature's secrets, we can put her forces in our service rather than be subject to them. We can build skyscrapers, travel to the moon, or send information around the globe in the space of a heartbeat. And the more we know, the better we are able to outwit governments and other powerful human agencies that want us to live according to their priorities rather than our own. This crucial information-gathering and dissemination function is one of the great contributions of the entrepreneur's work.

I am frequently struck, however, in the academic literature about the entrepreneur, by the degree to which his role is overrationalized, how he is reduced to a logical type or to some supposedly exhaustive inventory of his knowledge and techniques. The entrepreneur defies such easy classifications precisely because his role is played out at the confluence of the two great bodies of human ignorance—ignorance about the world we inhabit and ignorance about ourselves.

We as a culture pride ourselves on an impressive body of knowledge about all these things, and so such emphasis on our ignorance does not sit well with many of us. Yet this may just be precisely the overweening arrogance of the ignorant at work. While we pride ourselves on our knowledge of the physical world, for example, in fact much of it is brought to us by entrepreneurs who happened by chance to witness some accident and understood at least part of the practical significance of what they saw. Here the unpretentious and deeply untheoretical role of the entrepreneur shines through most clearly.

The Greek sailor who discovered glass is merely the earliest recorded example that I know of this principle at work. Many other discoveries that were the fruit of fortuity have changed the course of human life for the better. The telescope, aniline dyes, photography, x-rays, the discovery of the relationship between electricity and magnetism, the curing of rubber, the telephone, the phonograph, welding, steelmaking, and penicillin are only a few choice examples. We knew nothing about the potential of the physical world to supply us with such wonders until someone stumbled upon them and *really* saw what they meant. We could not have sought them directly without knowing what they were, and had we known what they were, we would already have discovered them!

Markets and Incentives

Because we know and understand our world so poorly, we can never have a comprehensive overview of the resources at our disposal. We simply don't know the potential of the world and the people who surround us. In these circumstances, markets and a regime of private property have the curious and unintended effect of multiplying the knowledge available to us. Markets do this by creating an incentive to seek out the opportunities that our unique knowledge of time and place reveals to us, making potential "knowledge entrepreneurs" of us all.

Consider a man I know who makes Scottish highland paraphernalia, things like sporrans, daggers, and bagpipe fittings. One day he was reading the newspaper and his eye happened to fall on a call for tenders from an aircraft manufacturer looking for subcontractors to make aircraft parts. He ran his eye idly over the advertisement. Suddenly, he realized that with the equipment he had for making highland paraphernalia, he had the capacity to make the aircraft parts that were described there. In that brief moment, this entrepreneur's understanding of himself and his capabilities was transformed; he now saw himself not only as a maker of daggers and sporrans, but as an aircraft manufacturing subcontractor. He now employs a number of people in the aircraft parts business, as well as carrying on his traditional activities.

A second example comes from a town near where I live. This town, originally founded on coal mining, had been in decline for decades following the closure of the mines. One snowy winter's day, a man was out walking his dog in the town and noticed a patch of ground where the snow had melted and steam was rising. His curiosity was piqued and on investigation he discovered that the mine shafts underneath the town had filled with water that was being heated geothermally. A chance surface leak, together with a man who was not content merely to see, but able to observe, transformed this town. An entire industrial park has been built on the exploitation of this cheap, plentiful, but strictly local and accidental source of energy.

Both of these examples illustrate just how limited is our knowledge of the physical world. More important than this kind of ignorance, however, is our ignorance about that most basic force of the economy: human wants, needs, and desires.

If the economy is, as it should be, about satisfying these wants and needs, the primary question must be: How do we know what these wants and needs *are*?

What people want depends on what they know—about themselves, their resources, and the real choices open to them. To discover what people really want, we must be constantly striving to offer them ever-changing choices, letting them know that these choices exist. Since by its very nature this information can never be complete, we are embarked, in a free economy, on a permanent quest for knowledge. This quest is for knowledge about our fellow humans: about their expectations, their wishes, their desires, and their thoughts. These determine their economic actions, and therefore the value of goods, services, and money.

Joseph Schumpeter wrote about the "creative destruction" inherent in capitalism, the ceaseless questing change that seethes within a market system. That change is driven by the twin forces of the constantly changing nature of human needs and the constant discovery of new knowledge that is one of the chief roles of the entrepreneur. The destructiveness of this process of change, can, of course, be deeply disquieting, so that the transformative work of the entrepreneur is often resisted by political authorities in the name of the preservation of a comfortable status quo.

Yet change which at first looks destructive often brings great and quite unexpected benefits later. No one, not even the entrepreneurs who spark these changes, can foresee all the consequences of what they have unleashed.

Consider in this regard something as simple as the invention of the motorcar. No one foresaw the myriad social transformations that would be wrought by this invention as people began to see and exploit its potential. Certainly its inventors were no better at crystal-ball gazing than anyone else; they believed that the total number of cars in the world would be forever limited by one insurmountable obstacle: the number of members of the working class intelligent enough to be trained as chauffeurs.

Yet the car was nearly to destroy, for example, the horse industry. Almost 20 million horses lived and worked in North America at the turn of the century, creating work for blacksmiths, livery boys, and makers of nails, harnesses, and saddles. Hay and oats were major cash crops. Of all this, almost nothing remains today. Local institutions like the rural school and church fell victim to the school bus and the Sunday drive. City centers shrank, suburbs blossomed, hemlines, drive-ins, and highways went up—barns, travel time, and (arguably) sexual mores came down. Millions of individual ideas, adjustments, desires, and innovations all conspired to work a transformation on the face of society which even the most prescient could not have envisioned. Indeed, many lawmakers early in the century resisted the automobile's rise, fearing the economic and social transformations they dimly sensed would come in its train.

Now we may find Zimbabwean chrome and Malaysian tin, French tires and Dutch chemicals, Taiwanese steel and German robots running on American software being used by Canadian workers under Japanese management to make cars for export to the Far East. Most of the jobs performed in the manufacture of a car didn't even exist at the turn of the century, and now the industry, directly or indirectly, employs millions of people in literally every corner of the globe.

A similar transformation occurred as thousands of feudal peasants moved from the countryside to the city during the Industrial Revolution. If authorities had had the power to stop such social transformations, to prevent entrepreneurial experimentation, some immediate suffering might have been prevented and some established interests protected. But we would still be working the land, and few of us would have horses, let alone automobiles.

The Entrepreneur as Subversive

And so the vital link between entrepreneurship and liberty begins to emerge. In this connection, my earlier definition of the entrepreneur—"the person who makes experiments to try to transcend our limitations"—suddenly assumes a decidedly subversive hue, especially in the context of authoritarian or totalitarian political orders.

After all, the obstacles to achieving our goals can be intentionally man-made, and such restrictions will be just as tempting to defeat as natural ones, thus expanding again our potential for free growth. When Chinese students in America wanted to pierce the censorship at home about what was happening at Tiananmen Square, one method they chose was to program a computer systematically to dial telephone numbers in China, enabling them to locate fax machines throughout the land to which information was dispatched. China had permitted fax machines as part of its drive for economic growth, not realizing the subversive potential of the network they had created. But to the eyes of the entrepreneur seeking to transcend his limitations, it was an engraved invitation to fill an unforeseen need.

As the cascading effect of the entrepreneurial impulse sends powerful ideas sweeping across societies, these ideas are incrementally altered, redirected, refined, improved, and expanded. Dirigiste or authoritarian governments—governments that want to dictate outcomes and shape their society rather than facilitate exchanges of goods, services, and information which will be put to unknown and unknowable purposes—will suffer one of two fates. They may suppress changes driven by entrepreneurs, in which case their society will stagnate as they are unable to integrate and use vast quantities of knowledge. Only knowledge known to and approved of by rulers is permitted to be used in such societies, and that body of knowledge is always infinitely more limited than the knowledge possessed by the population as a whole. The pressure for change in such societies will become unbearable as they fall inexorably behind their more entrepreneurial and experimental competitors. Alternatively such regimes may recognize the need for entrepreneurs to promote growth, but will find their own power as rulers incrementally undermined and transferred to those empowered by the innovations. Of course, these two hypothetical examples describe roughly what happened in the former Soviet Union and the People's Republic of China, respectively.

The only regime which cohabits easily with a society in which entrepreneurship is allowed to work its magic of social, cultural, *and* economic transformation is a regime of limited government. Such a government accepts its own citizens' ability and right to make responsible choices about their own lives and how to live them. And, of course, it is necessarily optimistic that the bad side-effects of the entrepreneur's free experimentation and innovation will themselves give rise to corrective experiments and innovations. A society which is congenial to the twin impulses of entrepreneurial creativity and freedom realizes that both emerge from incremental experimentation, a constant seeking of improvement, and not from the imposition of a grand design from above. □

THE FREEMAN
IDEAS ON LIBERTY

Beyond Equality of the Sexes

by Jennifer Roback

Many readers of this journal are well aware of the many flaws in the statistical evidence purporting to prove the existence of substantial discrimination against women. Typically, these limitations of discrimination statistics are pointed out by people such as myself who oppose further government intervention to reduce the earnings gap. But I have repeatedly observed that these arguments are not persuasive to my opponents. In fact, those who disagree with me are often infuriated by the arguments, even while acknowledging their theoretical correctness.

Rather than repeat the statistical debates, I propose to open some slightly different areas for discussion. The emotional intensity of the discussion of the earnings gap between men and women is typically far out of proportion to the magnitude of the problem as measured by the data. What might account for this intensity of feeling? If the problem is really about earnings, or even relative earnings, why do high status women, with high educational attainment and earnings, seem to be the most distressed, not to say embittered, about it? Many women are far from satisfied, despite the gains in women's economic status. Some argue that this dissatisfaction arises because the goal of equality has not been completely achieved. I shall argue that the problem lies in the goal of equality itself, and in the means chosen to attain it.

My claim is that equalizing earnings is a flawed social goal. I do not conclude from this, however, that women ought to retire passively from public life and return docilely to the kitchen. I believe that improving the well-being of women is an important and worthy social objective that requires their full participation in every aspect of American life. What I dispute is that the equalization of earnings, or of any other particular indicator, is an accurate index of women's well-being. In short, making women equal to men in any particular is not equivalent to making women better off.

Why We Are Not Persuaded by Statistics

I have a working hypothesis about why my opponents in the debates are unsympathetic with arguments over the statistics. They feel that I am telling them that there is no discrimination, when they know perfectly well that they have experienced it themselves. We are not having an argument about the statistics at all: we are having an argument about the significance of our experience.

Frequently, the discussion begins to shift away from the "official" evidence at this point. People begin to make claims about relative bargaining power in the employment context, or about relative ability to

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This essay is adapted from Dr. Roback's article in the Georgetown Law Journal, *vol. 82, no. 1. Reprinted with the permission of the publisher,* judge and protect one's own interests, or about the presence of hidden costs assessed on overly assertive women. These claims are inherently more difficult to quantify with any accuracy, even though most people have observed the phenomena under discussion in their own lives. All too often, the conversation breaks down at this point, both because of our lack of professional expertise and because of the intensity of feeling that inevitably surrounds one's personal experience.

I have come to believe that the critical point in the conversation is when we begin, finally, to discuss the aspects of the problem that we know from ordinary personal experience. These are the things we actually care about. It is unfortunate that we sometimes disqualify ourselves from speaking about the very things we feel most strongly about. Our lack of formal training in these matters does not invalidate the reality of our experience and our feelings about that experience.

We who are trained in the social science tradition rely heavily on statistical evidence because we believe it conveniently summarizes information about a wide variety of cases. It seems safer to generalize from information drawn from a large sample than from cases that a single individual could personally observe. We even have a pejorative name for personal evidence: we call it "anecdotal evidence."

But surely one can imagine situations in which the statistical average is of much less interest than the evidence drawn from personal experience. Suppose a parent faces the question of whether to give her child an over-the-counter medication, with a minuscule probability of harm to the child. Suppose further that this child's full-blooded sibling has had an adverse reaction to this medication. Surely, it is not irrational for the mother to refuse to give this medication to her second child. The fact that her first child's bad reaction was statistically unlikely is of no comfort to her. She is certainly not irrational to place an extremely heavy weight on the one observation closest to her.

Consider another person who has used an unconventional therapy to gain relief from a painful and potentially deadly illness. Perhaps all the studies show that this particular therapy is not successful in a statistical sense. Surely this individual is not irrational to give greater weight to his own success than to the experience of strangers summarized in a study. This fortunate individual will be completely committed to the unconventional method of treatment. He is unlikely to be persuaded to abandon his therapy on the basis of statistical generalizations, no matter how sound.

I believe that the discussion of discrimination and segregation is more similar to these examples than we might suppose. People are often discussing their experiences more than the generalizations. And I believe that is proper. A person who has been subjected to a painful and humiliating experience ought not to disregard it. Whether the experience is one of discrimination by an employer or abuse by a government agency, surely it ought to figure prominently in one's subsequent behavior and thinking.

Some of the passion surrounding the interpretation of the "official" evidence arises because those who feel victimized are infuriated by the claim that their experience is statistically unlikely. They feel that their experience is being discounted, and that in some way they and their experience do not matter. Most people do not react very well to being told that they do not matter.

An unsympathetic reader might think that the use of "soft" evidence is confined solely to matters that involve women, but I have observed this phenomenon in totally unrelated matters. For instance, the reaction to public choice theory often bears some relationship to the person's background.

I have noticed that many of my public choice colleagues come from rather modest backgrounds. As I look up and down the corridor at George Mason, and as I recollect the participants at Public Choice Society meetings, I observe a large percentage of people from working class or agricultural backgrounds. It seems that such people are quite comfortable with the notion that elected officials and public administrators are motivated by personal gain. Most of my public choice colleagues do not realistically imagine themselves grasping the levers of power. Stripping the illusion of the "disinterested public servant" is relatively easy for people like myself and my colleagues. We do not have to give up any cherished image of ourselves or people close to us. We do not become squeamish about the exercise of power that we never were going to have in the first place.

Not so my former colleagues and students at Yale. Many members of the Yale community have realistic aspirations for or actual experience of wielding political power. The "disinterested public servant" may be a beloved relative of theirs who devoted a lifetime to doing what he thought best. It becomes easier to justify governmental power for those who can reasonably foresee people like themselves exercising the discretion necessarily involved in public life. It is more costly for people in relatively privileged positions to fully embrace the public choice paradigm and all its implications.

I will not speculate about the "real" evidence that might be motivating those who disagree with me about appropriate policy for dealing with the earnings gap. But I will try to provide some clarity from my own corner of this debate. I will try to reflect on the "real" reasons why I am reluctant to endorse government intervention to improve the status of women.

In some respects, my experience is similar to that of my opponents. I have experienced discrimination. I have experienced sexual harassment. Despite my skepticism about the statistical evidence of discrimination, I am not so wanting in candor as to claim that it does not exist.

But these experiences have not devastated me, nor have they been especially formative in my thinking or behavior. Indeed, I have been upset the most not by anything that has happened to me but by incidents my students have reported to me. I find it much worse to hear from my students that they have been discriminated against in job interviews or sexually harassed. I feel protective of my students and responsible for them. But I am powerless to protect them once they are out of my care. The devastation of feeling powerless is a theme to which I shall return.

It would take me a long time to explain why I am unwilling to empower the government to correct social ills, even very serious and painful ones like discrimination. But I can say why I think the pursuit of equality cannot work. My reasons are real, not statistical or theoretical.

Why Equality Cannot Work

Consider what the realization of equality implies. I can either try to be more like the other person, or I can try to get the other person to be more like me. In my experience, trying to be more like the men I observe focuses my attention outside myself and leads me to judge myself with reference to external rather than internal cues. I turn the volume way down on my own signals of what I like and dislike, what is important to me, what gives me satisfaction, what makes me proud.

It would be foolish to assert that one can or should make these judgments entirely independently of input from other people. But my experience has been that too much input from others leads me far afield from myself. I cannot increase my happiness by judging myself with reference to others because as I look outside myself, I forget myself. In the pursuit of equality, I forget what makes me happy. Ultimately, I become angry and start looking around for someone to blame. But in truth, my discomfort comes not from others but from my inattention to my own needs, wants, and values.

This is the real reason I am persuaded that increasing equality is not the same as increasing anybody's well-being. It is not a theoretical argument for me; it is my actual experience. The most miserable times in my life have been when I was most anxiously mimicking people (men and women alike) I regarded as successful. I have not successfully maximized my own utility by trying to be equal to anyone. My utility is maximized by learning from others while still attending to my own values.

Nowhere does this conflict between equality and utility become more dramatic than in the balancing of children and work. Shall we women try to be as much like men as possible? Shall we arrange our affairs so that the arrival of our children has a minimal impact on our working lives? Or shall we relish the fact that a once-in-a-lifetime, never-to-be-repeated person has come into our world?

Here is the contribution of the late Jonathan R. T. Hughes to my life. I told him about the arrival of my two-year-old adopted son and the impending arrival of my daughter, who was born six months later. Jonathan said to me: "When you get to be my age, you realize that being a parent was the one thing in life that was really worth doing." As he was dying of cancer when he said that to me, I place great weight on his testimony. I recall his words on a daily basis as I make my decisions about time at home and time at work.

The alternative approach to equality would be to try to get the other person to behave as I do. This approach almost inevitably leads to power struggles. I want my husband to do his fair share of the household chores. I want my colleagues to do their fair share of departmental grunt work. It sounds so reasonable when expressed that way. But actually it is not reasonable at all; it is so unreasonable that it is crazy-making. For when I want my husband to do "his half" of household chores, what I really mean is that I want him to do half of everything important to me. But he has his own priorities. He values some things that I do not, and he does not value everything I do. Among the things we both value, he assigns different relative importance to each item.

Now the reality is that I am no more important or valuable than anyone else in this world, including my husband. It is not my business to tell him what he ought to value, and how much. And he, in turn, is no more valuable or important than I am. He has no intrinsic right to control my agenda. So what to do?

This seems like a problem only because the objective was chosen originally to be "equality." Clearly there is no one right or correct way to adjudicate between two people's conflicting values in matters of this kind. We cannot possibly be "equal" because there is no underlying metric that would allow us to compare ourselves in any meaningful way. I am continually astonished by the amount of ill-will and chaos that I can create by trying to force other people to be the way I want them to be.

My way out of the problem is to ignore equality and get on with my real business. My values are mine to choose and mine to pursue. If I am doing too much for others, I am the one who needs to say no to them and yes to myself. Other people in my life can be helpful to me, but it is not their duty to be so. The most effective appeal for help is a simple direct request, not an appeal to equality. A statement like, "Would you be willing to do this for me, it is important to me," has some chance of being heard with sympathy. As a side benefit, I can offer some genuine cooperation and even generosity when I stop keeping score on my partner.

On the other hand, I am more likely to encounter resistance and outright hostility with a statement like, "You owe it to me to do this for me, because I did that for you yesterday, and last week, and the week before that." I have a way of magnifying my own contributions and minimizing the other person's, because I am not really engaged in an accounting project. In fact, I am trying to persuade someone to do something of value to me. People are most uncooperative when I am minimizing their efforts.

Thus, the appeal to equality is not a successful persuasive strategy. Nor does it enhance the pleasure of my interpersonal relationships. On the contrary, trying to be more equal by trying to get the other person to be more like me creates power struggles with all the conflict and unpleasantness they inevitably entail. I can honestly say that the pursuit of "equality" per se has not increased my utility or happiness. Indeed, that pursuit has never even allowed me a moment's peace.

This is a clue to the passions surrounding discussions of the earnings gap between the sexes. The objective of equality has frustration built into it, because it is unachievable. It is also a clue to why so many professional women, who have attained high educations, incomes, and status, seem to be the most embittered about the earnings gap. I observe far less anger about women's status among my friends who are full-time mothers or who work part-time or in traditionally female jobs. These women's lives are not without problems. They too have complaints and concerns. But their concerns are different from those that dominate academic discussions of the earnings gap. These friends of mine have interpreted the women's movement as offering them a variety of opportunities from which to choose, not as requiring them to achieve parity or sameness with men.

On the other hand, those of us who have chosen to pursue high-powered careers in male-dominated professions have taken the goal of equality the most seriously. We have modeled our careers on male career paths, our behavior on male behavior. We have attained the rewards of these lives, but also some of the problems.

In particular, we are the ones who actively engage in the interpersonal comparisons and competitiveness that the equality paradigm invites. But we are often confused about the difference between well-being and income. In trying to be equal in the myriad of behaviors necessary for equalizing incomes, we distort our choices and betray our own values. We actually make ourselves worse off in the scramble to become equal to men.

If, on the other hand, we pursue the strategy of trying to get the men in our immediate environment to be more like us, we enter into a power struggle with them. We embark upon a path that can only lead to frustration. For the pursuit of power, once begun, is insatiable. No amount of control will ever be enough. And as we enter into the power struggle with the people who are supposed to be the closest and most important to us, we encounter a very basic human difficulty.

We are in fact powerless over the most important things in our lives. Birth, death, health, ability—we control none of them in any ultimate sense. We can control some of their determinants, but we cannot control the final result. We resist admitting this, because we hate that feeling of powerlessness. Yet powerlessness is the most basic fact about our interpersonal relationships as well.

We cannot control what other people do, think, or feel. Other persons are autonomous acting individuals with goals and values of their own. We can influence others, sometimes decisively. We can choose to surround ourselves with people whose values are most in harmony with our own. But we cannot control the final outcome. Because we need other people in our lives, we necessarily experience a great deal of powerlessness. And we hate that.

When we try to achieve equality by trying to control others, we are refusing to face the basic reality of the limits of our own effectiveness. Powerlessness is not uniquely a women's issue. It is a human issue. In many respects, traditional sex roles make it more difficult for men to embrace their own limitations than for women. Men were supposed to be powerful, invincible, and in control. They were not supposed to admit to their weakness, vulnerability, or neediness. By trying to imitate men in the pursuit of power, we women have actually signed up for one of the most fruitless endeavors imaginable.

Some might object that I have given up on equality too easily. Surely, equality is valuable and even necessary. Of course, in some dimensions, we need equality very much. But trying to achieve equality in inappropriate arenas is actually destructive.

For instance, I frequently spend more time with my four-year-old son than with my one-year-old daughter. I agonize over this, as I suppose most parents would. Is it because he is older, or because he is adopted, or because (heaven forbid) he is a boy? The fact is that his needs are complex and many, while hers are simple and few. It would be foolish for me to take her to speech therapy twice a week because he needs it and she should be treated equally. I am equally committed to meeting their needs, whatever they might be, whenever they might arise. But that is not the same as equalizing any particular contribution to them. Both children would be worse off, that is, both would have their needs met less well, if I tried to equalize in that way.

Likewise, we can be committed to the principle that men and women are equally valuable without insisting that they receive identical incomes. (What madness to suppose that a person's income measures her value!) We can be committed to the principle that men and women alike should be free to choose their occupations, the extent of their family commitments, and the level of their working effort, without insisting that all make the same choices.

Conclusion

These then, are the real reasons why I believe that the pursuit of sexual equality of incomes is a flawed social goal. I have tried to apply the principles that would lead to equal incomes to my own life, and have consistently found the result to be disappointing. I have no reason to believe that the application of these principles on a more general scale, through political processes, would be any more satisfactory. Noting the wide variety of behaviors that would have to be equalized in order to equalize incomes, noting the scope of the intervention required to completely eliminate employer differentiation between men and women, the project seems impossible from the outset.

Moreover, government policies required to equalize incomes would certainly not be agreed to by everyone. When I distort my own values in the name of equality, at least I am the one choosing the alternative values. The values chosen by government policy makers reflect the values of a politically dominant coalition. Certainly some, perhaps most, people will find their relative values distorted by the imposition of politically determined taxes and subsidies on various activities. If I try privately to model my behavior after men, I can at least arrest the process if I find it wanting. The distortions created by government policy would necessarily be more difficult to correct. I have found trying to equalize incomes by equalizing behavior to be self-defeating at the personal level. Extrapolating the project from the personal to the societal can only increase the odds of failure.

And what of the power struggle? Can I convince myself that using governmental power to achieve income parity between men and women will avoid the ugliness that I have consistently observed when people try to control each other? Do I believe that hiding behind the political process makes the effort to control another person any less distasteful to them, or any more ennobling of myself? Am I persuaded that powerlust for the sake of equality can be satisfied any more than powerlust for any other objective?

I am not so persuaded. I do not so believe. I am not so convinced. And these are the real reasons that I oppose further government intervention to equalize the incomes of men and women. □

THE FREEMAN
IDEAS ON LIBERTY

Libertarianism as Communitarianism

by Daniel B. Klein

The Age of Irreverence

In former decades there was a certain decorum about fundamental values. Even if you did not share the other fellow's sentiments about religion, politics, or family living, you knew to let your differences lie: "Never talk sex, religion, or politics in mixed company."

But in recent years manners have been changing rapidly. Not only are the old values losing their hold, but values of any kind are deemed fair game for the knife and the mallet. Intellectuals apply their classroom dissection to hallowed notions—from theology to constitutional law. P. J. O'Rourke argues the whoredom of Congress, radioman and sometime gubernatorial candidate Howard Stern lampoons politics, television fathers Homer Simpson and Al Bundy make a farce of the loving family, rap singer Ice T smashes conventional thinking about law enforcement, and Hollywood ridicules organized religion. Sensuality and violence, those great solvents of sentimentality, permeate popular culture. Ours is the Age of Irreverence.

It is therefore no surprise that so many alarmed voices now fret about the breakdown of cultural value. One sure marker of this trend is the rise of an intellectual movement known as communitarianism. Led by George Washington University sociologist Amitai Etzioni, the communitarians have gained prominence by means of projects like the quarterly journal *The Responsive Community* and the immensely popular Society for the Advancement of Socio-Economics.

The Communitarians

Although the rapid rise of communitarianism is apparent, the same cannot be said of its fundamental message. Its major, if somewhat insipid, chord is that cultural values are crucial to the proper functioning of society, and that these values are born and bred in healthy community living. A favorite method among communitarians for adumbrating this message is to chide "mainstream" economics for viewing individuals as atomistic agents with preferences that are mysteriously "given."

As for politics, the communitarians are rather squishy. Given their intellectual base in sociology and their emphasis on community norms, it isn't surprising that few communitarians regard capitalism as the unknown ideal. Laissez-faire capitalism is sometimes fingered as a source of our problems. Indeed, government is often held up as the agent of social betterment. Etzioni's *The*

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Spirit of Community: Rights, Responsibilities and the Communitarian Agenda (1993) is replete with specific suggestions for government action and regulation.

But don't write off the communitarians as a bunch of closet statists. On the question of the state, Etzioni, like communitarians in general, runs hot and cold. In a recent issue of *The Public Interest*, he writes:

> [A] strong case can be made that it is precisely the bonding together of community members that enables us to remain independent of the state. The anchoring of individuals in viable families, webs of friendships, communities of faith, and neighborhoods—in short, in communities—best sustains their ability to resist the pressures of the state. The absence of these social foundations opens isolated individuals to totalitarian pressures.

Indeed, Etzioni recognizes the potential compatibility of libertarianism and communitarianism: "One can be as opposed to state intervention and regulation as a die-hard libertarian and still see a great deal of merit in people encouraging one another to do what is right."

Another communitarian, Thomas Spragens, wrote a two-part article, "The Limits of Libertarianism," in *The Responsive Community*. He says that libertarians dogmatically invoke "inalienable rights," often lose sight of how liberty interacts with other human values, evade tough cases like security and national defense, and "fail to conceive the crucial social purpose to be creating and protecting personal autonomy, rather than . . . treating market outcomes as morally sacrosanct." In all this I applaud Spragens.

But Spragens sees libertarianism in false caricature. He sees libertarian policies as indifferent or even inimical to his cherished goals of personal autonomy and the sense of community. Libertarianism grants "its greatest privilege . . . to mere appetite," "the bonfire of the vanities," and the "loosening of social constraints on sexual conduct." It reduces social relations to "the cash nexus," "using each other as stepping stones," and fosters the ethic of "those with the most toys wins." It promotes "robber barons, company towns, [and] corporate domination"—Lions and tigers and bears, oh my!

Whereas Etzioni sees a potential compatibility between libertarianism and communitarianism, Spragens seems to find a necessary incompatibility. I am much more inclined to agree with Etzioni. Nay, I go further: The policy agenda of the libertarians is necessary for achieving the social goals of the communitarians.

Understanding the Communitarian Cycle

The communitarians long for members of society to be raised in stable, functioning communities with constructive goals and civil ways. Individuals raised in such communities would then internalize the values, habits of mind, and ways of interacting. This process gives the individual a moral foundation from which to find his own path in the world. It gives him an enduring sense of purpose, and, in consequence, self-worth. From there he can go on to meet the world in his own way and, like a salmon returning to its spawning waters, contribute to society his own developments and refinements in community ways. The ideal communitarian cycle is for the individual to be reared in healthy communities, to internalize coherent and constructive values, to achieve a responsible personal autonomy, to meet the outer world, and to contribute to the development of current communities that influence others anew.

The process is sensible, but the central question is: How is it achieved? Here the communitarians would do well to learn more free-market economics. I don't mean the arid exercises of graduate-school economics. Rather, I mean Adam Smith and his true intellectual progeny. The communitarians should give more consideration to the Invisible Hand, that is, to the beneficial decentralized processes whereby individuals and families choose voluntarily for themselves.

Liberty and Community

In making a success of the communitarian cycle, it is crucial that our community values and practices be meaningful. The community activities must reach inside our soul and move us in some manner. We must want to be part of the community, and learn gratitude for what it gives to us. To achieve this our communities must exercise our powers and speak to our soul.

But each of us—even as a youngster—has a different set of powers and a different soul. Lumping people together arbitrarily is not going to make for a meaningful community. The meaning must come from the proper mixing of aspirations, attitudes, and talents. The surest way to make this happen is to let people sort themselves into community activities.

Suppose that in a neighborhood there are 16 youngsters who love to make music. But their interests differ. Four are hot on jazz, four love rock and roll, four love Bach, and four love marching music. If we leave them free to follow their bliss they will sort themselves into four separate quartets in which each individual finds community experience highly meaningful and rewarding.

If instead we somehow corralled all 16 into one ensemble, none would find the same spiritual and social edification. Suppose it were decided that the program of the large ensemble would be just jazz. Then twelve of the members would be stuck playing a style that didn't suit their souls, and even the four who love jazz would suffer because their community would be spiritually diluted by the lackluster participation of the others.

Besides the happy coincidence of interest that is achieved when communities are formed by voluntary participation, the voluntary process itself also has a definite value. Besides neatly collating individuals into groups, the voluntary process imbues the groups with a sense of *ours-ness*. This is *our* project. *We* decided to come together to form this group. The bottom-up sense of enterprise gives a personal meaning and dignity to the participants, a meaning that top-down approaches to group formation invariably fail to give.

Although libertarians are not known for their "touchy-feeliness," we can find communitarian themes in both the classical liberals and modern-day intellectuals who favor voluntarism.

The State Against Community

Alexis de Tocqueville made a searching study of how early Americans vigorously participated in all sorts of voluntary associations. Voluntary initiative saw to nearly every form of "public" service—schools, libraries, highways, bridges, fire fighting, crime prevention, hospitals, and so on. "Local freedom," Tocqueville says, "leads a great number of citizens to value the affection of their neighbors and of their kindred, [and] perpetually brings men together and forces them to help one another." As for the state, "the more it stands in the place of associations, the more will individuals, losing the notion of combining together, require its assistance."

Community depends on involvement in institutions that bring lives together. What better device to promote that goal than school choice? Parents would choose the school that fits their interests and values, and schools would attend to those needs; they would evolve from the community for the community, rather than be imposed from without. In *Public and Private High Schools: The Impact of Communities* (1987), sociologists James Coleman and Thomas Hoffer credit the role of community and "social capital" for the exceptional performance of the private Catholic schools. Political scientists John Chubb and Terry Moe, in *Politics, Markets and America's Schools* (1990), give a hard-hitting account of the failure of government schools to create an *esprit des corps* and a personally edifying community experience. Inner-city neighborhoods are most eager for—and most in need of—school choice, to enhance learning as well as a sense of community.

Another area where the mighty state might usefully withdraw is poor relief and social insurance. Historian David Beito has written about America's fraternal societies. During the 1920s their members reportedly amounted to 30 percent of the adult male population, and they were strong among blacks and immigrants. Mutual aid was based on voluntary participation, reciprocity, deservingness, and gratitude. What better way, in Spragens' words "to express compassion for fellow citizens?" The rise of the welfare state was one of the reasons for the system's decline. Charles Murray has discussed how many welfare-state programs undermine meaningful community values and practices.

One potentially rich setting for the development of community activities is the workplace, which enjoys logistic advantages and a hardy stock of social capital. It would make a lot of sense to have schools, social clubs, recreation, charity, and prayer sprout up around the workplace. But such spontaneous associations are blocked by numerous regulations of the firm and its employees. Laws that block the fluid adaptation of voluntary activity from commercial to noncommercial action include anti-discrimination laws, workers' compensation laws, zoning laws, safety regulations, licensing restrictions, union restrictions, Social Security taxes, child labor laws, minimum wage laws, and the corporate tax code. The libertarian favors repeal of all of these obstacles to voluntary association.

Personal Autonomy as a Reason for Liberty

The value of personal autonomy, which Spragens accuses the libertarians of neglecting, was the centerpiece of the libertarian manifesto written by Wilhelm von Humboldt in 1791, *The Limits of State Action.* "Whatever does not spring from a man's free choice . . . does not enter into his being, but still remains alien to his true nature." In *On Liberty*—a rather libertarian document—John Stuart Mill emphasizes personal autonomy and pays high tribute to Humboldt. Thomas Szasz, a passionate and penetrating student of personal autonomy, is a thoroughgoing libertarian.

Community in Modern Society

In today's society it must be recognized that, while the family remains the cradle of identity, community is no longer only about neighborhoods. It is no longer strictly a matter of propinquity, as faraway places become less far with each passing year. Also, community is no longer unified. As Rick Henderson recently wrote in *Reason* magazine, "A person can simultaneously be a Presbyterian, a softball player, a parent, a weekend auto mechanic, and a mystery reader." It may be that with each role comes a distinct circle of companions.

Rather than seeing this as a tragic collapse, we should celebrate it as a great liberation. In her recent book, *In Defense of Modernity: Role Complexity and Individual Autonomy*, Rose Coser tells of the greedy and stultifying side of community, and how modernity frees us from it. Thanks to modern communications and transportation, adults can choose the community that suits them best. We can better find a circle of friends who share our aspirations and appreciate our contributions. Communitarians must keep in mind that airplanes, telephone signals, and computer screens are sometimes the conduits of close community ties. To some extent commerce disposes of community—thank heavens—but to some extent it only recasts it in ways that make it hard to spot.

The expanding wealth of the free economy affords everyone the means of pursuing personal interest amongst a circle of friends and associates. A community that gives one both social bonds and gratification of his individuated aspirations is a luxury that most people of the world simply cannot afford. The laissez-faire economy offers the richest menu of personal growth.

Towards a Libertarian Communitarianism

Is there any fundamental conflict between communitarian goals and libertarian policies? There may be a conflict in one respect: Sometimes it seems that communitarians crave a *common* social experience, an experience that bonds the individual not just to *some* community but to *the* community. It is here, perhaps, that we understand why communitarians have balked at the idea of school choice. To libertarians, a plan for a universal experience sounds like a recipe for statist oppression. The only universal social values that ought to be upheld by the state are respect for just laws. That, I would argue, is the best way, the only way, of serving communitarian goals and maintaining common decency in this Age of Irreverence. □

THE FREEMAN
IDEAS ON LIBERTY

Time to Kill Draft Registration

by Doug Bandow

For more than 20 years volunteer soldiers have protected America. Naturally, there were people who didn't believe that it could be done. In 1967 the Civilian Advisory Panel on Military Manpower Procurement warned against proposals that would leave "the nation placing its faith in its own citizenry to rally to its defense when the national security is threatened." Six years later, however, the United States inaugurated the All-Volunteer Force (AVF) which, despite much early criticism, has produced the best-educated and -trained military in the world today.

In fact, conscription was always a minority part of the American experience. The colonists won their independence without a national draft and only "porous" conscription at the local level through the militia system. The United States defended itself during its second war with Britain, killed untold numbers of Indians, invaded Mexico, seized Cuba and the Philippines from Spain, intervened in an assortment of Latin American countries earlier this century, invaded Grenada and then Panama, and defeated Iraq, all without resorting to the draft. Great Britain, America's first adversary, long maintained its global colonial empire with a volunteer military.

Even large wars have been fought with heavy reliance on volunteers. The bulk of soldiers on both sides during the American Civil War joined voluntarily. In the North, which had an ample population base, conscription probably contributed little to ultimate victory, other than by allowing General Ulysses Grant to carry out his costly attrition campaign against General Robert E. Lee's Army of Northern Virginia. The majority of British soldiers in World War I were volunteers; only after the steady stream of patriotic young recruits could not satisfy the army with sufficient replacements to continue attacking impregnable German trenches did the government resort to "national service." Unfortunately, this step made possible an even worse personnel meat-grinder, termed the "sausage machine," than Grant's 1864 campaign. Most of the extra men generated from conscription were simply dissipated. Complained Prime Minister David Lloyd George years later: "The generals could not be expected to judge the issue dispassionately. Their reckless wastage of the man power so lavishly placed at their disposal also vitiated their judgement."

The United States turned to the draft during this century's great conflagrations, World Wars I and II, and then maintained forced service to prosecute the Cold War. The prospect of a cataclysmic clash between NATO and the Warsaw Pact kept a renewed draft as a possibility even after creation of

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the AVF. But today the only scenarios that envision renewed conscription in order to defend America could serve as scripts for J.R.R. Tolkien. Otherwise, a draft would be necessary only if the U.S. decided to play globocop, intervening in local conflicts around the world and attempting to reconstruct failed societies. Few American young people then would likely join the military, risking their lives to arrest foreign warlords, reinstate deposed demagogues, and separate clans, ethnic groups, and tribes that have been killing each other for decades and even centuries. Only conscription could provide cannon fodder for such dubious endeavors.

This is unlikely, however, because average Americans won't allow it. Some analysts actually complain about the public's reluctance to mindlessly send soldiers to their deaths, pining instead for the good ol' days when people didn't mind having their sons die in imperial adventures abroad. Edward Luttwak, for instance, waxes eloquent when discussing the fact that "the populations of the great powers of history were commonly comprised of" large families at a time when "infant mortality rates were also high." Thus, he explains, "the loss of one more youngster in war had a different meaning than it has for today's families." For Mr. Luttwak, 1914, when Europe sent millions of young men streaming off into war, was obviously a very good year. Happily, in the American republic today people value both life and liberty. So when 18 soldiers unnecessarily died in Somalia for no purpose, Americans rightly said "Enough!"

And yet the conscription apparatus—Selective Service and draft registration—remains firmly in place. It is almost as if politicians in Washington think that it is still 1917, 1940, or 1980, the other times in this century that Selective Service began to sign men up for war.

Just look back to 1980, when Jimmy Carter began registering 18-year-old men for a possible draft. The Cold War was raging, NATO confronted a numerically superior Warsaw Pact, the Soviets had invaded Afghanistan, Iran was holding Americans hostage, and U.S. confidence was slipping. Today there is no more Soviet Union, no more bipolar struggle, no more threat of global conflict. Communism is dead, Washington's allies dominate the globe, and America reigns supreme, both economically and militarily. The Pentagon fought the Gulf War with volunteers, foresees no future need for conscripts, and says draft registration is unnecessary. The Selective Service System, it would seem, has become a forlorn anachronism.

However, President Bill Clinton, the avid "national service" advocate who worked so hard to avoid serving in Vietnam, apparently still lives in 1980. He now proclaims his opposition to proposals to end the draft sign-up. It is, he explained to the Speaker of the House, "essential to our national security." And so the federal government continues to gather names for an outdated list in order to acquire surplus soldiers for a fanciful conflict.

The Origins of Registration

When Congress approved conscription for World Wars I and II, it simply registered young men en masse. With the reinstitution of a peacetime draft after World War II, Selective Service initiated an ongoing registration program, a practice continued despite the inauguration of the All-Volunteer Force in 1973. Two years later President Gerald Ford suspended registration, and Selective Service was placed into "deep standby" status. Concern over lagging quality in the AVF led to proposals for renewed registration and conscription; while Congress rejected those proposals, it did begin to expand Selective Service, and the Carter administration developed a plan for post-mobilization registration. Then came the Soviet invasion of Afghanistan, leading President Carter to, among other things, propose the registration of both men and women. After rancorous debate, Congress approved funding to sign up 18-year-old men.

Carter administration officials contended that registration was "a necessary step to preserving or enhancing our national security requirements.'' Unfortunately for them, one week before the president's announcement Selective Service itself had prepared a report endorsing post-mobilization registration as ''preferable'' to a peacetime system. Thus, OMB Deputy Director John White acknowledged, the President really was ''indicating to the world our resolve.'' Alas, there is little evidence that the Soviets, let alone anyone else, noticed.

During the 1980 presidential campaign Ronald Reagan, a long-time opponent of conscription, denounced registration for doing ''little to enhance our military preparedness,'' decreasing ''our military preparedness, by making people think we have solved our defense problems,'' and destroying ''the very values that our society is committed to defending.'' However, once elected, President Reagan faced strong Pentagon and Selective Service pressure to preserve the sign-up. The issue reached him for decision after Poland's Soviet-induced crackdown on the labor union Solidarity, causing him to place exaggerated importance on the program's alleged symbolic importance. He officially based his decision to retain registration on its alleged efficacy in procuring emergency manpower, but his arguments, like Carter's, were immediately undercut by the facts, in this case the findings of his own Military Manpower Task Force that peacetime registration would save little time during war and other alternatives were available. So the administration was reduced to contending that the United States would appear weak if it dropped the program after Warsaw's actions.

Once in place, registration proved permanent. Eventually the Soviets withdrew from Afghanistan, Polish voters rebuffed the Communist Party, the Berlin Wall fell, Solidarity's Lech Walesa became president of Poland, the U.S.S.R. collapsed, the Warsaw Pact disbanded, with its former members seeking to join NATO, and Russia's military disintegrated at increasing speed. Still the draft sign-up continued. Last year the House voted to end both Selective Service and registration, but the Senate balked and the agency survived. In December of 1993 the Department of Defense issued a report acknowledging that the program could be dropped with ''no effect on military mobilization requirements, little effect on the time it would take to mobilize and no measurable effect on military recruitment.'' As a result, stated DOD, ''suspending peacetime registration could be accomplished with limited risk to national security considering the low probability of the need for conscription.'' At last the case was closed, or so it would seem.

Presidential Image-Building

But after a few months of thinking it over, President Clinton announced that he intended to keep registration. The likeliest explanation is that Bill Clinton, like Presidents Carter and Reagan before him, was attracted by the sign-up's perceived symbolic value. However, there is no longer a Soviet Union to overawe regarding either Afghanistan or Poland; indeed, there is no nation anywhere that the United States needs to impress about much of anything. Thus, President Clinton presumably saw registration as a means of burnishing his own military reputation. He is roundly disliked by brass and grunt alike; his incompetent and inconsistent foreign policy worries the most insular American. Keeping registration appears, however superficially, to be a ''pro-military'' decision.

That Clinton's motives must reflect such unstated political concerns is evident from the fact that none of his three official reasons for keeping registration are believable—or, indeed, even make sense. The first is security insurance, the second is an international signal, and the third is promotion of better civil-military relations.

Security Insurance. According to the president: ''Maintaining the SSS [Selective Service System] and draft registration provide [sic] a hedge against unforeseen threats and is a relatively low-cost 'insurance policy' against our underestimating the maximum level of threat we expect our Armed

Forces to face." Acting Selective Service Director G. Huntington Banister has similarly argued that funding his agency "equates to paying a reasonable insurance premium to provide our Nation with a hedge against the unknown."

The notion of security insurance sounds superficially appealing, but in the case of registration we should ask, "Insurance against what?" Virginians have little need of earthquake insurance; farmers who till Nebraska's cornfields needn't purchase hurricane insurance. America today does not need registration.

The sign-up was always intended to quickly generate a large conscript army—à la America's 12 million-man military in World War II—for a protracted conventional war against the Soviet Union and Warsaw Pact centered in Europe. The possibility of that kind of conflict today is about the same as an invasion from Mars. Which means that the premium for registration "insurance" would be better spent elsewhere.

Indeed, what is so different today than even a decade ago is that both sides of the military equation have changed. The global hegemonic threat, the Soviet Union, is gone, replaced by a much weaker Russia, with decaying military and imploding economy. At the same time, America's populous and prosperous allies have spurted ahead, joined by the Central and Eastern European states, which are more closely aligned with Washington than Moscow. Last year NATO outspent Russia by 15 to one; Britain, France, and Germany each spent more than Moscow on the military. It is hard to concoct even the most implausible military scenario requiring the instantaneous creation of a huge conscript army.

Militarily Valueless

Even if generating an immediate supply of plentiful manpower mattered, the draft sign-up is an expensive irrelevancy. Draftees have to be trained as well as conscripted, meaning that it would be five to six months before any significant number reached the battlefield. Thus registration, to the extent that it does anything, only advances by a couple of weeks the production of a few extra soldiers *months after the United States would have gone to war.* As a result, the program would be useless in the smaller conflicts we are likely to see in the future. For instance, the war with Iraq would have ended before any significant number of conscripts would have made it to the battlefield had President Bush restarted the draft when he first sent troops to Kuwait.

Registration isn't even necessary to preserve the option of conscription. All registration does is advance inductions, making soldiers available slightly more quickly months down the line after they finish basic and specialized skill training. But the actual time saved is minimal and of no practical value. Selective Service now says that it could deliver the first draftee 13 days after mobilization but it would take weeks more without advanced registration. In fact, Carter administration officials developed a post-mobilization plan—shelved with no little embarrassment after the President switched course—to deliver the first inductee within 17 days. Only slightly more pessimistic were the Congressional Budget Office in 1978 and Selective Service System in 1979, which both figured that a post-mobilization sign-up would yield the first draftee within a month. Similarly, President Reagan's Military Manpower Task Force concluded that it would take about a month to begin conscripting young men without peacetime registration. And that estimate came in 1982, before a decade's worth of dramatic technological change.

Equally important is that at the start of any war the training camps would be overwhelmed with new recruits awaiting training, reservists needing retraining, members of the Delayed Entry Program, who have signed up to enter the service at a later date but could be inducted immediately in an emergency, and volunteers. The first three categories alone would generate a minimum of 40,000 new soldiers within a month. Even more volunteers are likely. American experience during World Wars I and II demonstrates that any crisis serious enough to warrant consideration of conscription would likely bring forth a flood of recruits. As a result, there would be *no room for draftees for one or two months or even longer,* at which point a post-mobilization system would be delivering an equal stream of conscripts.

Wrong Signal. The President explained that his second reason for not ending registration was that "Terminating the SSS and draft registration now could send the wrong signal to our potential enemies who are watching for signs of U.S. resolve." This argument is not new. Both Presidents Carter and Reagan contended that registration would demonstrate toughness to the Soviets. General David Jones, then chairman of the Joint Chiefs of Staff, termed registration a "visible sign of commitment—to allies, friends, potential enemies" and a "clear manifestation of U.S. will." As overwrought as these arguments were then, in 1980 there was at least an adversarial power to whom a demonstration of resolve had some value, especially after the disastrous Carter years. Yet even then the draft sign-up was not a serious symbolic weapon. Observed Reagan, before he flip-flopped on the issue: "the Soviets can tell the difference between computer lists of inexperienced young men, and new weapons systems, a million-man reserve, and an experienced army."

Today the "resolve" argument is far sillier. Who are, one wonders, the enemies to be cowed by continuing registration? Does President Clinton really believe that North Korea's Kim Jong Il or Serbia's Slobodan Milosevic would be emboldened if the administration stopped forcing 18-year-old American men to fill out a form at the post office? Or that Boris Yeltsin might order the seizure of Latvia, Poland, or even Alaska, to pacify opposition nationalists, if President Clinton dropped registration? Just who is President Clinton hoping to impress?

Civil-Military Relations. Finally, President Clinton argued:

> As fewer and fewer members of our society have direct military experience, it is increasingly important to maintain the link between the All-Volunteer Force and our society at large. The Armed Forces must also know that the general population stands behind them, committed to serve, should the preservation of our national security so require.

What is most striking about this argument is that it comes from a president who worked hard to avoid service. To now force young men to sign up for the draft in order to expand their contact with the military seems a bit hypocritical, to say the least.

Still, the president's concern is valid: politicians who understand the reality of military service are probably less likely to squander the citizens' lives in senseless adventurism. Indeed, the Pentagon has proved itself to be most reluctant to enter into such disastrous civil conflicts as Lebanon and Somalia. It was Defense Secretary Caspar Weinberger who took the more cautious position during his very public debate with Secretary of State George Shultz over the use of military force.

Alas, registration does nothing to, in the president's words, "maintain the link between the All-Volunteer Force and our society at large." Selective Service spokesman Lewis Brodsky argues that the draft sign-up "is virtually the only thing left that the typical American man has to do that's associated with military service." Signing a card when turning 18 does not turn one into a patriot, however, or give one any sense of the rigors of wartime service. Nor does registration indicate that "the general population stands behind" the armed forces, as claimed by the president—after all, Bill Clinton *had registered* before he went off to Oxford University. That obviously did not mean that he stood behind the military. In a conflict that is popular, volunteers will flood forth; in one which many people perceive to be unnecessary, meaningless, and immoral, like Vietnam, registration and conscription will generate social division and hatred of the military. The president would achieve much more in this regard simply by reaffirming the worth of the military as a vocation and encouraging young people to serve.

Private Alternatives

Even if registration had some value, there is a better private alternative, one which would fulfill the president's three stated objectives for peacetime registration. For instance, the administration could create a registration analogue of the All-Volunteer Force—a reserve pool of untrained volunteers ready to accept immediate call-up in the event of a national emergency and mobilization.

How to create such a Reserve Volunteer Force (RVF)? The Pentagon could sign up, say, 100,000 or 150,000 young men (perhaps women too, though they are not presently registered or drafted). In a national emergency, they would be liable to report to the Department of Defense within two weeks, the period within which Selective Service currently promises to deliver the first inductee. Members could be paid a nominal sum, perhaps $100 annually, involved in the military "family" through participation in events organized by the active and reserve forces as well as armed services associations, and praised by the President.

This sort of system would provide better security benefits than peacetime registration, since it would yield a current list of people ready to serve, not an outdated roster of forced participants. The RVF's size could be adjusted depending upon the size of the safety margin desired. A successful voluntary registration would demonstrate genuine patriotic resolve to America's adversaries, whoever they may be. Moreover, involving tens of thousands of young people through an RVF in military activities would enhance civil-military relations, and probably help promote recruiting, too. Most important, a voluntary program would be consistent with America's philosophical heritage, one represented by the creation of the AVF. In any time other than "the most severe national emergency," stated Ronald Reagan in 1980, "a draft or registration destroys the very values that our society is committed to defending." An RVF would demonstrate to the world just how important those principles are to tens of thousands of young Americans.

Conclusion

Registration had little enough security value 15 years ago, when it was first proposed by President Carter; it has none today. Registration arguably had some symbolic worth in the aftermath of the Soviet invasion of Afghanistan, but that justification disappeared years ago. Today conservatives as well as liberals should recognize the difference between inaccurate lists of untrained 18-year-olds and real defense measures.

At a time when the watchword in Washington is reinventing government, dropping registration and dismantling the Selective Service System would be a good place to start. What better way to begin cutting government waste and the deficit than by eliminating this relic of the Cold War, which currently costs $25 million a year? Indeed, if Bill Clinton's rationale for retaining registration is to be believed (a tough sell, given both his public and private records), it is hard to imagine the circumstances under which the United States could abandon the program—the world will, after all, always be dangerous and uncertain. But this supposed insurance offers no serious military value. Even DOD, which rarely finds a military program that it doesn't support, admits that "registration could be suspended with no effect on military mobilization requirements, little effect on the time it would take to mobilize, and no measurable effect on military recruitment."

In the end, peacetime draft registration stands as an embarrassing example of how difficult it is to end a government program, however irrelevant it has become. More important, the sign-up remains a glaring inconsistency with our commitment to raise America's armed forces in a manner consistent with the fundamental freedoms that underlie the founding of our nation and that the military exists to defend. □

The Real Enemy of Liberty

Recently, my family and I moved. Not far—only about nine blocks. That didn't make it any less of an ordeal, however. It took us five exhausting days and nights, and considerable expense, to truck everything to our new house.

Packing up and moving to a new home is emotionally wrenching and physically grueling. It's especially difficult if you love your old residence, as we did. It was a big house on a tree-lined street. It had lots of dark oak throughout, a charming dining room, and a finished attic that held my library and office. In addition, we had many fine neighbors who organized annual parties and clean-up days for our block. And our mortgage was outrageously low.

So why did we move? The deciding factor was the mounting threat of crime in the neighborhood.

Break-ins, thefts, and vandalism, once rare, were on the rise. A wonderful Victorian place at the end of our block, vacant for some time, had in recent months been systematically stripped of its chandeliers, beveled glass windows, and fireplace mantelpieces. Today it's a boarded-up eyesore. Last summer, a block away, a youth arrested repeatedly for arson set his own apartment house on fire. A few nights before we moved, the young couple across the street scared off a prowler trying to force entry in their home.

All this was eroding neighborhood morale. Attendance at our latest annual block party was poor. Some neighbors had given up and were neglecting their own houses and lawns. Families with children—the bedrock of any community—were either relocating or talking about it.

The trend was unmistakable. So with great regret we bailed out, evicted from a home we loved by the threat of predatory crime.

Viewed statistically, crime is horrific enough. The U.S. Bureau of Justice Statistics reports that there are some 34 million personal and household victimizations annually—a figure that doesn't even include commercial and business crime. Moreover, our streets and communities are far less safe than they used to be. In 1960, only 161 violent crimes were recorded for every 100,000 people. By 1991, there were 758 violent crimes per 100,000 people. In other words, in just 30 years the violent crime rate, per capita, has nearly *quintupled.*

But statistics can't capture many of the other costs criminals impose on society. Consider, for example, the waste, disruption, and pain this single move has inflicted upon my family. Start with the loss of a home we loved and neighbors we treasured. Then there were the costs of locating, purchasing, mortgaging, and renovating a substantially more expensive home in a neighborhood with much higher property taxes—costs that will amount to many tens of thousands of dollars over the years. Add to this the physical demands and economic impact of the move itself; the time lost from work and other pursuits; the hefty price tag of reinstalling utilities at the new home; the outlays for everything from new furnishings to new business cards and stationery and a new kennel for our dogs (kept largely for security—another hidden cost of crime).

If you add such expenses, and many not mentioned, to similar costs borne by millions of other citizens, you'll get a tiny hint of the enormous impact crime is having upon all aspects of American life.

According to the polls, crime is the number one concern of the public. Yet curiously,

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

the problem has gotten scant attention from most proponents of the free market system. To read libertarian journals, you'd get the impression that the only crime problems are those artificially created by intrusive government regulations and the illegality of drugs. In the absence of such interventions, some argue, crime would largely disappear.

This naive perspective is utterly demolished by the outstanding essays which I have compiled for the newly released FEE volume, *Criminal Justice? The Legal System Versus Individual Responsibility*. People don't commit crimes because stupid laws "forced" them to, any more than because any other aspect of their environment "forced" them to. Criminality is a matter of freely-chosen values; and today's crime wave is the result of decades of assault on our most basic cultural and moral values.

Why have so few inside the free market and libertarian camps come to grips with the crime problem? I think because many of them tacitly maintain a double standard about violations of individual rights.

Free marketeers typically posit government per se as the "enemy" of individual rights and liberty. Of course, an *unlimited* state certainly can be the worst enemy of individual rights, as the bloody history of this century grimly attests. However, in their eagerness to denounce *governmental* violations of rights, these same individuals ignore the very evils that governments were established to eradicate: *individual* violations of rights.

Some years ago I wrote about the plight of Simon Geller, an elderly radio station owner then threatened with cancellation of his FCC broadcast license on the grounds of programming content. This was an unconscionable instance of attempted plunder, and violation of the man's First Amendment rights, by federal officials.

But I have also written extensively about the far more common plunders and predations imposed upon innocent victims by ordinary criminals. Consider that during 1992 alone, there were an estimated 12,211,000 personal thefts and an additional 14,817,000 household thefts.

Were these *actual* violations of property rights by criminals any less real or devastating to their victims, than the *threatened* violation of rights that Simon Geller faced from FCC bureaucrats? Then why treat governmental violations of rights as somehow far worse than private violations of rights?

As our Founders knew, government does have a legitimate role: to respond forcibly against any initiation of force or coercion. But many proponents of laissez faire, habituated to viewing *government* as "the enemy," can't bring themselves to admit that there is, indeed, a place for vigorous government intervention: intervention against *private* violations of individual rights.

To acknowledge the full scope of predatory activity in modern American society, free marketeers would have to concede the need for a tough, ambitious governmental response. Yet to acknowledge *any* justifiable role for government flies in the face of many libertarians' utopian fantasies about "market alternatives to the state."

For too long, the free market argument has ignored the very real value concerns of the public. Americans typically feel irritated and exasperated by politicians; but by contrast, they feel profoundly frightened and threatened by criminals. What are they to think of those who magnify government evils but minimize private ones—who try to convince them that their rights and liberties are far more jeopardized by the local postman than by the neighborhood pedophile?

The public rightly finds this disproportionate and silly. The free market case loses all credibility when its advocates dismiss Americans' very real and immediate fears, while magnifying those that remain more distant and even hypothetical.

Typing these words with battered fingers, surrounded by unopened boxes from an exhausting move, helps put things back in proportion. It was not the government, after all, but crime, that caused me this unwelcome disruption.

All violations of rights are equally evil. And the real enemy of liberty is anyone—public *or* private—who would violate individual rights. □

THE FREEMAN
IDEAS ON LIBERTY

Health-Care Reform: Déjà Vu All Over Again

by Steven Horwitz and Ronald M. Horwitz

Imagine that a major sector of the economy is widely thought to be in crisis: it consistently fails to provide the expected level of service; it leaves people without access to its product; and everyone agrees that it needs to be dramatically reformed. Imagine further that study commissions are formed and retreats are held using the talents of industry, academia, and government to diagnose the problem and provide solutions. Imagine also that virtually all involved are convinced that more government intervention is the answer but they want to avoid centralized, public sector solutions.

Eventually a reform package is passed creating regional quasi-governmental institutions designed to supplement what markets already provide. These are overseen by a weak national board located in Washington whose job is mainly to coordinate the activities of the regional entities. Imagine the reformers claim this new system will capture what's good about both competitive markets and government intervention while avoiding the problems of centralized bureaucracies.

If you guessed this imaginary scenario refers to health-care reform, give yourself only half credit. In fact, this scenario was played out over 80 years ago when the United States reformed its banking industry and created the Federal Reserve System. The Fed, much like the regional alliances in the original Clinton health reform plan, was initially designed as a decentralized system of regional reserve banks that would supplement market-driven institutions, but evolved into a centralized regulatory bureaucracy that replaced the systems it was intended to supplement. The lessons of that history are instructive as Congress continues its debate over health-care reform.

Both the Fed and the Clinton plan grew out of legitimate concerns over the way each industry was operating. In both cases, the commonly accepted view was that the market had failed and government help was needed. However, in both cases government interventions were the contributing causes of many of those failures.

Prior to the enactment of the Federal Reserve Act, the banking industry had regulations which included prohibitions on interstate banking that prevented sophisticated interbank relationships, stiff reserve requirements that put New York City banks at the base of an inverted pyramid of bank reserves, and requirements that banks purchase government bonds to serve as collateral for the currency they issued, leading to seasonal currency shortages. Very few voices pointed out that these regulations, and not inherent market forces, might have

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caused the banking industry problems that were leading to the calls for reform.

Analogously, as critics of the Clinton plan have noted, many of today's health-care problems are themselves the result of existing government intervention. For example, a disproportionate amount of increasing health-care costs are due to government-run Medicare and Medicaid. From 1989 to 1991, the absolute level of personal health-care spending from those two programs rose at an average of 15 percent per year, while private sector spending grew at 9 percent. Further, the differential tax treatment of fringe benefits has led to employer-provided health insurance. Because employees can purchase health insurance through employers using pre-tax dollars, obtaining it outside the workplace has become prohibitively expensive. This partially explains why those who are between jobs and those who are employed but are either part-timers or recent hires tend not to have health insurance. In addition, licensing laws that prevent more doctors from entering the market and restrict the sorts of services that qualified nurses and other physician-substitutes can perform limit the supply of health care and prevent effective price competition.

Like the Clinton health-care plan, the Federal Reserve Act shied away from complete nationalization as a solution. Instead the Act created twelve ostensibly autonomous reserve banks, each responsible for a specific geographic region and all overseen by a Federal Reserve Board in Washington, whose function was limited to coordinating the policies of the district banks. The system's main task was to end seasonal currency shortages by more efficiently managing reserves and supplying currency. If the term had been in the vernacular in those days, such a scheme might have been tagged "managed competition."

More Centralization, More Power

Despite these intentions, the Fed quickly evolved into a more centralized institution, with increased power in the Federal Reserve Board (later the Board of Governors and the Federal Open Market Committee) in Washington. There are two explanations for this shift and increase in power. First, if the regional banks could not cooperate and generate consistent policies, the Board's job was to adjudicate such disputes and thus, de facto, create policy. It was only a matter of time before the Board itself gained de jure policy-making power by creating "appropriate" policies in the first place and forcing the district banks to fall into line.

Second, Federal Reserve Board appointees were, as they are today, political. The members of the Board then, and the Board of Governors today, owe their positions to the political process and, as much research indicates, are likely to conduct policies that benefit that process.

The Fed's acquisition of the power to deal in the open market (as part of the Banking Act of 1935) was an inevitable result of the Federal Reserve Board's assuming powers that went beyond mere adjudication; once it tried to centrally direct policy, it needed the tools to do so. However, this new power brought further problems, such as instability in the money supply (and prices and output), leading in turn to more crises and more cries for increased and centralized power. So, what was originally supposed to assist a competitive market that didn't work well, eventually wound up replacing large sections of the market. This is instructive as we contemplate the possible long-run results of health-care reform.

Rather than a Canadian-style single payer or a British-style nationalized system, the Clinton plan (like the original Fed) was based on regional health alliances that were intended to lower costs by acting as group buyers of health insurance. Either through employers or through the alliances directly, all Americans would have had health insurance that included a standard package of minimum benefits. Overseeing all of this was to have been a National Health Board (politically appointed) which would have been responsible for restraining costs across the alliances and ensuring that the system as a whole did not exceed a national health-care spending limit. Supporters of the plan claim it was not a centralized bureaucracy, while critics claimed it was.

The system was not intended to be centrally run. However, the issue is not intentions, but the likely *unintended consequences* of adopting such a reform plan. As with the Fed, the creators' intentions are likely to be markedly different from what eventually emerges in practice. With the power to set premiums and determine benefit packages, a National Health Board would likely be the focal point of disagreement and debate among major health-care players, including the various alliances. As was the case with the original Federal Reserve Board, attempting to coordinate these diverse demands is likely to quickly turn into pre-emptory policy-making with the other players following the National Health Board's lead.

It is also likely that any national health board will become highly politicized, especially with statutory limits on total expenditures. Imagine the opportunities for political dealing if the FOMC had strict limits on how much base money it could create, yet had discretionary control over which bond dealers it would buy from. The only thing worse than rationing is politicized rationing and, given the historical evidence for the eventual centralization of power in a political board and limits on spending, that seems a probable outcome.

Despite claims to the contrary, the Clinton health-care reform plan, if enacted as first presented, would have likely become another centralized and politicized bureaucracy. Like the Fed, we could have expected recurring "crises" leading to further calls for the National Health Board to have more power, and hence even more crises and a further centralization of power. Something close to nationalization could eventually result. One need only compare the Fed's powers today with those stipulated in the original Act for a perfect historical parallel.

Although the disappearance of purchasing alliances in more recent proposals is an encouraging development, most of the bills under consideration as Congress adjourned included a provision for setting health plan standards at the national level and called for a National Health Board to determine the scope and duration of services and cost-sharing details. Even if the stipulated powers of such a board are weak, as was the case in the early years of the Fed, it would not be surprising if it acquired greater powers in the chaotic environment that would follow its creation. As a result, Congress would still be wise to remember the experiences of the Federal Reserve System.

As history demonstrates, the banking crises before so-called reforms pale in comparison to those that followed it: the bank failures of the Great Depression, the inflation of the 1970s and '80s, and the savings-and-loan crisis and commercial bank failures of the mid and late '80s. All of these can in some way be attributed to those very "reforms" and the increased government intervention they entailed. The evidence suggests strongly that (to borrow an appropriate metaphor) an interventionist cure is often worse than the disease. We had best heed the lessons of history if we are to avoid an uncomfortable feeling of déjà vu after "reforming" the health-care delivery system. □

THE FREEMAN
IDEAS ON LIBERTY

Origins of Federal Control Over Education

by Charlotte Twight

Extensive federal control over elementary, secondary, and post-secondary education has long been a reality in the United States. The key federal statutes that gave rise to that control were the National Defense Education Act of 1958 (NDEA) and the Elementary and Secondary Education Act of 1965 (ESEA). Although these two statutes form the bedrock of federal education control, their passage involved extensive misrepresentation of the bills' substance and the politico-economic circumstances ostensibly justifying the measures. Here as elsewhere in the twentieth-century expansion of U.S. government control over American citizens, key myths were actively cultivated by government officials to secure passage of legislation intended to serve as the foundation for future federal control.

The National Defense Education Act of 1958

The National Defense Education Act authorized unprecedented federal involvement in providing scholarships and loans to undergraduate and graduate students, in addition to funding state efforts to strengthen math, science, and foreign language courses in public schools. There had been earlier measures such as the Morrill Acts of 1862 and 1890, granting first land and later money to the states for colleges emphasizing agriculture and the mechanical arts. The 1917 Smith-Hughes Act supported vocational education, and the first G.I. Bill (1944) authorized direct payments to veterans for educational purposes. In 1950 federal "impacted area aid" legislation authorized payments to school districts for property tax revenues lost due to the presence of federal facilities. But none of these earlier measures approached the NDEA's involvement in the public school curriculum.

The usual explanation of the NDEA is that it was a logical, necessary, and perhaps inevitable reaction to the Soviet Union's successful launching of Sputnik I (the first earth-orbiting satellite) on October 4, 1957, followed shortly thereafter by a dog-carrying Sputnik II. These events were represented to be of crisis proportions, demanding substantive U.S. response.

But the crisis was a sham, sold to the American public by politicians who knew it was a sham. Many legislators for years had wanted to expand federal control over education, and they saw in Sputnik an opportunity to package such expanded federal controls as a response to a "national defense crisis."[1] Members of Congress openly discussed the purported national emergency as a "better sales argument" to secure passage of the legislation. Shortly after the bill's

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passage, Representative Frank Thompson referred to the NDEA as "a bill having a gimmick in it, namely the tie to the national defense."[2]

Witness after expert witness acknowledged to congressional committees that there was no crisis—that U.S. military capabilities exceeded those of the Soviet Union. Even experts who began their testimony with claims of crisis and Soviet military superiority recanted later in their testimony. For instance, General James H. Doolittle unequivocally agreed that "we are behind Russia in military preparation," concluding that "for us to catch up . . . we must overhaul our own educational system." Later, however, he said "I will have to qualify that by saying that at the present time I believe that we are stronger, militarily, than Russia." Likewise, after testifying extensively about the "present emergency" and Russian scientific superiority, Dr. Edward Teller stated that "we are ahead of the Russians in most scientific fields right now."

Some administration witnesses such as Neil McElroy, Secretary of Defense, and Donald Quarles, Deputy Secretary of Defense, flatly denied that the Russian missile development program was ahead of the U.S. program. Even HEW's Lawrence Derthick, U.S. Commissioner of Education, who urged Congress to pass the NDEA to strengthen U.S. education for reasons of "national security," acknowledged that "as of this moment, we are not in grave danger" although such danger might materialize in 10 or 15 years.

Members of Congress well understood this testimony. For instance, a key Senate committee report stated that "the committee was informed that we are now probably ahead of the Russians in many scientific fields. . . ." Nonetheless, key congressional leaders, including Senator Lyndon Johnson, Representative George McGovern, and Senator Lister Hill, repeatedly raised the specter of Soviet supremacy as the essential rationale for the NDEA. Senator Hill claimed that "for the first time in the life of our Nation we are all looking down the cannon's mouth." In the end, with not a hint of the extensive testimony to the contrary, the conference committee report declared the "security of the Nation," the "present emergency," and the "defense of this nation" as the justifications for the NDEA.

Similar misrepresentation surrounded the issue of federal control of education. Given widespread public fear of expanding federal authority, legislators included a provision in the NDEA expressly prohibiting federal control of education. Designed to reassure the public, that provision meant something quite different to its authors than to the general public. To federal officials, federal "control" was avoided so long as states and localities were allowed to determine for themselves exactly how they would satisfy objectives that were established by the central government. As HEW's Lawrence Derthick testified, "we identify a critical national need. . . . Now . . . you make a plan as to how you are going to meet this need in your State, and how you are going to administer this plan." Representative Udall found the NDEA "unassailable on the point of Federal control" because "you are leaving the details of these plans, with general guidelines laid down, in State and local hands."

Such are the origins of the "National Defense" Education Act of 1958. Nonetheless, despite senators' perceptions of the NDEA's "unbelievable remoteness from national defense considerations" and congressional recognition that the national defense rationale was only a "sales argument," the Sputnik myth secured passage of the NDEA. As Senator Goldwater foresaw, the NDEA proved to be the proverbial "camel's nose" of the central government in the education tent.

The Elementary and Secondary Education Act of 1965

A similar pattern is evident in events surrounding passage of the Elementary and Secondary Education Act. Between 1959 and 1964, proposals for expanded federal education legislation had become mired in the politics of desegregation. Only after the 1964 Civil Rights Act separated the two issues by prohibiting distribution of federal funds to institutions practicing racial discrimination was that barrier to future education bills removed. Political victories by Democrats in the 1964 presidential and congressional elections further smoothed the way for passage of the ESEA in 1965. However, despite favorable political circumstances, legislators again lied to the public to gain passage of the education bill.

This time the education bill was portrayed as an essential component of President Lyndon Johnson's "war on poverty." Johnson recommended *"a major program of assistance to public elementary and secondary schools serving children of low-income families."* The bill itself authorized federal financial assistance to local educational agencies "for the education of children of low-income families." Again and again, legislators portrayed the bill's objective as helping to enhance the educational opportunities of low-income children.

But the supposed benefits to low-income children were only the window-dressing, a sales argument analogous to the defense rhetoric that facilitated passage of the NDEA. In fact the ESEA was deliberately drawn to disproportionately benefit the wealthy, not the poor. Under its grant formula, each county would receive federal monies equal, initially, to 50 percent of the average per-pupil educational outlays in the state multiplied by the number of school-aged children of families in the county with incomes of less than $2,000. Since districts with as few as 10 low-income children (as well as counties with only 100 low-income children) would qualify for federal grants, the formula guaranteed that more than 90 percent of all school districts would receive assistance under this "antipoverty" measure.

The formula's reliance on state per-pupil expenditures assured disproportionately large federal benefits to wealthier counties. Calling it an "absurd distribution of funds," the House minority report showed that the formula would result in almost twice as much money being given to the ten wealthiest counties in the U.S. ($8,918,087) as to the ten poorest counties in the nation ($4,507,149). Moreover, once the funds were distributed, they could be spent to benefit rich and poor children alike. Senator Winston Prouty expressed it clearly, stating that "the aid which we render the school districts that qualify, will be available to all schools in that particular district and will not be primarily for those poverty-stricken families."

The chosen strategy was to target the ESEA's education expenditures so as to make them politically irresistible, creating entitlements county by county. To facilitate the ESEA's passage, the executive branch prepared (and the Senate Labor and Public Welfare Committee printed and distributed) charts showing on a county-by-county basis first-year federal funds that would be distributed under the proposed law. Combining county-level entitlements disproportionately benefiting the wealthy with the rhetoric of helping the poor proved politically unstoppable. As one witness put it, "Who can oppose war on poverty? Who can refuse to assist low-income families?"

Fear of government control remained a politically potent issue, as it had been with the NDEA. As in 1958, government officials again tried to redefine the meaning of "control" to assuage these fears. When challenged regarding federal control of education, administration witnesses insisted that government involvement did not amount to "control" unless it entailed interference in the actual administration of a program. According to their definition, if federal rules specified the overall direction of educational policy without involving the federal government in the actual implementation of that policy, we should not call it "control."

Thus in his written testimony Francis Keppel, Commissioner of Education, stated that the federal role in program administration under the ESEA would be "restricted to," *inter alia*, "preparing regulations establishing the *basic criteria* to be applied by

State educational agencies in approving local plans. . . ." Disavowing federal "control" under the ESEA, Keppel defined control as "appointment of teachers, selection of what is taught, decision on when buildings are going to be put up, the nature of equipment, and the like." Representative Charles Goodell expressed dissatisfaction with such linguistic maneuvering, stating:

> I have read and reread in every single education measure . . . this nice, high-sounding, sweet little paragraph that there will be no control. Then you go right into the center of this bill where the power is, and it is right on page 8. The Commissioner sets the basic criteria for every State plan. The State gets the money only if they have a plan that meets the Commissioner's basic criteria. . . . You can say it is not control, but they are telling them exactly how to go about it.

The "sweet little paragraph" indeed was included in the ESEA, with HEW Secretary Anthony Celebrezze and Commissioner Keppel insisting throughout that the federal powers established by the legislation represented only federally established "objectives" or federal "influence"—not "control"—over educational outcomes in the United States.

Another obstacle to passage of the ESEA was the church-state issue, centering on the First Amendment's requirement that "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof. . . ." In the past, the education lobby had been split by the common understanding that the First Amendment proscribed federal aid to parochial schools. Yet the text of the ESEA mandated that federal monies and programs be accessible to parochial school students, specifically bypassing state constitutional restrictions on state aid to parochial schools.

Again, the resolution of this issue did not entail open public debate of the relevant issues. Instead, the President enlisted Commissioner of Education Keppel to work out an *ex ante* accord between the key interest groups to avoid serious congressional debate of the issue. As Representative John Brademas explained:

> [T]he White House believed that, if an agreement could be worked out among the groups that had, in the past, exerted such strong crosscutting pressures on Congress the way would be cleared for legislative acceptance of whatever compromise would be developed outside of Congress.[3]

Through discussion at a series of private dinners, the interest groups reached an off-the-record accord on the church-state issue, resolving to present a united front asserting that the "constitutional question" had been overcome. They agreed to put forth a "child-benefit" theory, asserting that no constitutional problem existed if the federal funds were intended for the benefit of the child rather than for the benefit of the parochial school which the child attended. Thus, at the beginning rather than at the end of congressional hearings on the ESEA, Senator Jacob Javits stated that the church-state issue "appears to be resolved." The off-the-record agreement that such expenditures would not be regarded as federal support of a religious institution precluded full and public congressional consideration of the serious constitutional questions involved.

The ESEA was rushed through Congress in less than three months. The strategy of the bill's supporters was to avoid lengthy congressional consideration of the bill and to avoid divergent House and Senate bills that might require deliberation by a conference committee. Even senators who supported the bill with reservations signed a minority report protesting executive pressure to pass the ESEA without meaningful Senate participation:

> This important and complex piece of legislation—on which our committee [on Labor and Public Welfare] heard more than 90 witnesses whose testimony filled six volumes and more than 3,200 pages —is to pass this body without a dot or comma changed; this is by fiat from the

Chief Executive. . . . Privately, members of the majority and officials of the executive branch have been apologetic for this new effort to destroy the role of the Senate in the national legislative process. Yet they are powerless to change the rules laid down from above.

Why the rush? Why the deception? Why the private dinners and the off-the-record accord? As noted by Philip Meranto, public opinion polls show that the "passage of the Education Act of 1965 was not the result of increased public support for federal aid," adding that "if the 1964 and 1965 polls were at all reflective of public attitudes, less than half of the adult population approved of the action taken." A Gallup poll conducted January 28-February 2, 1965, found that only 49 percent agreed that the federal government should pay more of the costs of supporting public schools.[4]

Conclusion

Intentional misrepresentation by government officials undergirded passage of both the National Defense Education Act of 1958 and the Elementary and Secondary Education Act of 1965. With the NDEA, the bill's ostensible justification was the "Sputnik crisis"; with the ESEA, it was the "war on poverty." But those fanning public apprehension about the Sputnik crisis did not believe it was a crisis, just as those promoting the ESEA as an antipoverty measure understood that it would disproportionately benefit the wealthy. It matters little how many come to understand the truth now: the bills became law; they altered U.S. institutions; and in due time they ineradicably changed public perceptions of the accepted (and hence acceptable) role of government. □

1. Regarding the complex reasons for President Dwight Eisenhower's support of the NDEA, see Robert A. Divine, *The Sputnik Challenge* (New York: Oxford University Press, 1993), pp. 4–5, 31, 35–39, 41.
2. Quotations of public officials here and elsewhere in this article are from contemporaneous public documents such as the relevant House and Senate hearings and committee reports. For details, see Charlotte Twight, "Federal Control Over Education: Crisis, Deception, and Institutional Change" (1994).
3. John Brademas, *The Politics of Education: Conflict and Consensus on Capitol Hill* (Norman, Okla.: University of Oklahoma Press, 1987), p. 16.
4. Philip Meranto, *The Politics of Federal Aid to Education in 1965: A Study in Political Innovation* (Syracuse, N.Y.: Syracuse University Press, 1967), pp. 42–50, at p. 46; Dr. George H. Gallup, *The Gallup Poll: Public Opinion 1935-1971*, Vol. 3 (New York: Random House, 1972), p. 1928.

Passing Laws: Is Governing That Simple?

by Eric-Charles Banfield

Ask Americans what "governing" means, and you'll evoke a wide variety of answers. A common response is that governing should mean protecting American liberty and property. But administration officials and Congressmen in Washington, D.C., have a different idea. To them, governing simply means passing legislation. The more legislation, the better they're doing their job. It's a simplistic view. But politicians go to great lengths to defend it.

It doesn't matter, it seems, what the legislation is. It doesn't matter that none of the politicians will ever read the entire piece of legislation they pass. Nor that, as is often

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the case, the law isn't even completely written yet. It doesn't matter that there are so many volumes of legislation that every single American is guilty of ignorance of the law (no excuse, of course).

And it doesn't matter whether or not the legislation passed is really good for all American taxpayers and consumers. Indeed, in most cases, the legislation harms most citizens, through higher taxes and mandated costs, while lavishing huge benefits upon a particular group or special interest.

None of that matters. To many politicians, any legislation that gets passed is good.

That concept—that simply passing a law is good governing—is familiar to many folks. For example, every year or so, by October 1, Congress must approve a new budget for the government's fiscal year. Also, by year-end the government has already reached its legal debt limit; Congress must also approve an increase in that limit. That way it can borrow more money to finance its ever-increasing spending.

But some Congressmen don't like the details of the budget, or they propose raising the debt limit to a different level. They squabble over the particulars of the bill, delaying its passage. Amid the gridlock, a chorus of politicians from all sides cries that "We must come to a budget agreement so the American people understand that WE CAN GOVERN." Politicians grandstand that failing to agree to a budget or to pass some law is a "failure" of government. "Americans will lose faith in our ability to govern" is a common refrain.

No Government?

Politicians defend that idea by enhancing the drama with scare tactics. For example, without a budget, the government cannot operate. Politicians warn that if the government cannot function, "vital services that protect Americans" will be shut down. Some politicians even try to scare the public by telling the media that things like school milk programs or children's vaccines or "the safety of our streets" will be threatened.

Blurring the distinction between the government sector and the market sector, politicians warn that "The country will be at a standstill." That's not true, of course. The rest of the country will continue operating just fine. But the drama reinforces the politicians' point: they must keep passing more legislation, or else cities will crumble and America will fall.

Simply, Congress believes that the more legislation it passes, the better it is doing for "America." That's their job, isn't it?

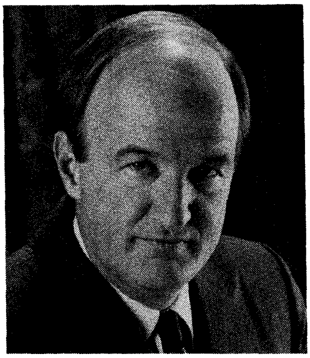
The Other Option

But surely things aren't that simple. Many citizens and voters are coming to realize that government has passed far too many pieces of legislation. Americans could dearly stand a comprehensive repeal of most of the legislation and regulations passed in the last 30 or 60 years. Indeed, many believe the country would operate a lot better without all that legislation, and all the regulations that flow from it. A few basic laws against murder, theft, assault, rape, arson, and fraud are sufficient to protect American lives and property.

To end that "legislating-is-governing" mentality, perhaps we can persuade Congressmen to consider another option. Maybe good governing—at least occasionally—means passing *no* legislation. Or, better, a wise legislator might try considering the advice of many economists and policy analysts. Try correcting the problem at hand by *repealing existing regulations* that caused it. It's always better to remove existing restraints than add new ones.

Politicians could gain points with voters by pointing out how many new laws they *killed* by arguing *against* new legislation. Facing voters back in the home district, the elected official could pitch: "I saved consumers in my district $100 million dollars by repealing twelve pieces of onerous and harmful legislation. I prevented the silent but deadly destruction of thousands of jobs by repealing a dozen harmful regulations."

The crowd cheers. Our lives are simpler. And governing is good again. □



Baseball Strikes Out: Who's to Blame?

"It is quite amazing that America's pastime is exempt from the rules of supply and demand. . .The time has come for Washington to act. Remove baseball's antitrust exemption now."

—*Business Week* editorial
September 26, 1994

According to *Business Week*, the reason the World Series was canceled in 1994 is simple: baseball is a government sanctioned-cartel. Remove baseball's immunity from market forces and the Cleveland Indians might well be playing in their first World Series since 1954. Sounds convincing, but why blame only the owners? The players' union is exempt from antitrust, too.

Misconceiving the Market

Will imposing the Sherman, Clayton, and other antitrust acts on baseball's owners and players resolve their conflicts? I doubt it. In fact, Congress should move in the opposite direction. It should exempt all businesses, large and small, from antitrust law. During the Reagan-Bush administrations, antitrust enforcement was minimal. Under the Clinton administration, the antitrust division of the Justice Department is flexing its muscle again. It's an unfortunate new trend.

Economist D. T. Armentano, who has made a lifetime study of antitrust, demonstrates that government intervention in this area is counterproductive. He concludes, "the entire antitrust system—allegedly created to protect competition and increase consumer welfare—has worked, instead, to lessen business competition and lessen the efficiency and productivity associated with the free-market process."[1]

Apologists for antitrust assume that most mergers, tying agreements, price collusion, and other forms of "monopolistic" behavior reduce social welfare. This view is based on a misconception of the marketplace. They fail to understand that the market consists of both competitive and cooperative processes. In sports, for example, teams compete for players, but they also must cooperate in scheduling games. Only the voluntary decisions of all market players can determine the degree of competition versus cooperation that should exist in business.

Market Failure?

In this case, the antitrust issue is actually a red herring. The strike is essentially a private dispute between two headstrong duopolists, neither of whom wants to back down from its position. It is a classic case of temporary market disequilibrium.

Of the two organizations, I believe that

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the players' union is making the more serious blunder and has the most to lose.

Consider the facts. Both the league owners and players have done extremely well over the past thirty years, as evidenced by attendance figures, revenues, franchise prices, and players' salaries, fringe benefits, and endorsements. But the players have clearly advanced the most in the past twenty years, especially after free agency and arbitration were adopted in the major leagues. In the past decade, players' salaries have almost quadrupled to an average $1.2 million, not including outside endorsements and other forms of compensation. In sum, players' salaries and fringe benefits have skyrocketed since the 1960s. Criticism of high player salaries is unfounded but, by the same token, today's players need to be more appreciative of what baseball has done for them recently.

In my judgment, the ballplayers are foolishly fighting the owners' proposed revenue sharing and salary cap. Such measures may indeed trim the growth in salaries and restrict free agency and arbitration, but it won't keep salaries from advancing, especially in expectation of higher television revenues. It certainly hasn't reduced the average compensation to basketball and football players.

Players' Union Gone Awry

Meanwhile, the players have sullied their reputations far more than the owners. After all, it was they—not the owners—who called the strike, in the middle of a season that promised to be the most exciting finish in baseball history: three players knocking on Roger Maris's homerun record, two players close to winning the Triple Crown, a hitter breaking .400, and the Cleveland Indians possibly winning the pennant. I doubt if the fans will be very forgiving in the future.

The Yankee great Mickey Mantle says that he does not begrudge today's players their high salaries, and neither do I. The Mick states: "They deserve what they can get. For so many years, players were like second-class citizens, forced to accept whatever the owner or general manager wanted to pay them." But now, according to Mantle, "it's probably gone too far in the other direction. . . .I didn't like the idea of baseball players having a union, although I guess it's necessary for some people. But I was opposed to walkouts and strikes and all the things a union needs to get what it wants. I just wanted to play baseball."[2]

The Future of Baseball

Next year at spring training, the wills of management and labor will be tested. The owners will probably invite minor league players to put on the pinstripes and play ball. There aren't very many young ballplayers who will give up a chance to play in the big leagues. In a free society, labor has the right to strike, but management must have the right to hire strike-breakers. Several years ago, the National Football League ended a players' strike in a few weeks when they hired outside players.

My prediction: The players' union will be humbled and the smart players will return to what they know best, playing ball. □

1. D. T. Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure*, 2nd ed. (New York: Holmes and Meier, 1990), p. 271.
2. Mickey Mantle, *My Favorite Summer 1956* (Doubleday, 1991), p. 242.

BOOKS

Cauldron

by Larry Bond

Warner Books • 1993 • 592 pages • $22.95

Reviewed by George C. Leef

The Left has long used popular fiction as a means of communicating and popularizing its egalitarian-statist philosophy. To cite but one well-known example, Upton Sinclair's *The Jungle* was intended to make people believe that laissez-faire capitalism was horribly unjust and dangerous to our health as well. Appeals to fear and envy, the Left's stock-in-trade, are easily woven into novels and the impact of such works on the outlook of the masses cannot be denied.

Writers of a libertarian bent have not ventured into fiction as frequently, with the notable exception of science fiction, where many novels have demonstrated the dystopian nature of socialism. Alas, for every Robert Heinlein or Ayn Rand, there have been many Upton Sinclairs. Most of the intellectual energy of the defenders of liberty has gone into scholarly works refuting the contentions of the socialists and exposing the counterproductivity of their nostrums. That is important, but as long as the opponents of liberty are on the attack, we risk losing the crucial battle for the hearts and minds of the populace.

That is why the appearance of Larry Bond's *Cauldron* is such a happy event. *Cauldron* is an elaborate working out of the disastrous consequences of a breakdown in free trade internationally. The bad guys in this book are opportunistic politicians who revel in power and despise the idea of the free market. They are ruthless scoundrels who will sacrifice thousands of innocent lives in order to attain their objectives. They fight dirty. Although war is not their desire, they are inexorably led to engage in it by the ripple effects of their anti-market policies. Brutal warfare is the result of governmental meddling in the peaceful operations of the free market. Bastiat once wrote that if goods don't cross borders, soldiers will. This book is an excellent illustration of the truth of that statement.

The villain of the piece is Nicolas Desaix, the French foreign minister. He dreams of Napoleonic glory for France—the statist's glory of hegemony over one's neighbors. The advanced age and poor health of the French President allows Desaix to seize de facto control over the government and he quickly sets about solving the many economic problems which beset France with, naturally, more coercion. He is especially eager to protect French industry from foreign competition. He has no use for "bubble-headed" economists who advocate free trade. What he desires is a European Confederation (EurCon), a French-dominated monetary union and trading bloc.

His plans go awry, however, when several nations—Poland, the Czech Republic, and Slovakia—decline to join EurCon. To bend Poland to his will, he engineers a natural gas shut-off from Russia. The United States and Britain attempt to keep Poland supplied by shipping liquified natural gas to Gdansk. When his orchestrated environmentalist campaign against the shipments fails to stop them, he has one of the tankers blown up.

Conflict erupts when the Hungarians overthrow their pro-Desaix government. French and German EurCon forces invade to restore their version of law and order. But aided by the U.S.-trained and equipped Polish air force, the Hungarians put up a surprisingly stiff battle. Desaix next attacks Poland to knock out their air bases and ultimately to subdue the independent Poles. That precipitates full-scale U.S. involvement, but Desaix is confident that he can win before American forces can intervene.

Bond is a talented writer and the military action on land, sea, and in the air is gripping. The issue is long in doubt, but eventually the anti-EurCon leaders find a way to exploit EurCon's internal weaknesses. It crumbles under an unanticipated counter-attack. Desaix and like-minded authoritarians are swept from power. In the aftermath, the U.S. President proclaims that he seeks a new international alliance based on four firm principles: "free trade, free enterprise, free markets, and free governments." Put one in the win column for Frederic Bastiat! □

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The Right Data

by Edwin S. Rubenstein, et al.

National Review Books • 1994 • 409 pages • $17.95 paper

Reviewed by Robert Batemarco

Did you know that 82 percent of the jobs created between 1982 and 1989 required high levels of skill and paid accordingly? . . . or that in 1990, there was one tax consumer for every 1.3 taxpayers? . . . or that during the 1980s housing became more affordable for those of middle income? . . . or that charitable giving during that same period increased by more than can be accounted for by higher incomes? If you did, you did not learn it from the mainstream press, whose constant refrain was that the '80s were a period of greed and indifference in which government programs were slashed, the rich got richer, the poor got poorer, and the middle class got shafted. If you didn't, reading Ed Rubenstein's *The Right Data*, will expose you to these facts plus many more.

The first half of this book consists of Rubenstein's "The Right Data" columns which appeared in *National Review* between 1988 and 1993, grouped by topic. This is followed by a series of articles published by various authors in a special 1992 issue of that same fortnightly, entitled "The Real Reagan Record." Contributors include Paul Craig Roberts, Martin Anderson, William Niskanen, Alan Reynolds, and Rubenstein, among others. The remainder of the book presents raw data tables with a minimum of commentary.

Although a supply-sider, Rubenstein transcends the caricature of that position by placing more emphasis on how high tax rates depress private economic activity, and less on how they cost the government revenue. Indeed, I found his discussion of the impact of various policies on job formation most enlightening. He cites OMB data which put the cost of the jobs government public work projects "create" at anywhere from $136,000 to $400,000 (versus $40,000 for the private sector), making it clear why such projects are net job destroyers. He also cogently illustrates how freer trade with Mexico has created jobs—both directly through exports (to which he attributes almost 400,000 new jobs between 1986 and 1990) and through the cost-cutting it made possible.

In the same vein, Glenn Yago's essay on that most maligned of financial innovations, high-yield bonds (pejoratively and more commonly dubbed junk bonds by their detractors), pinpoints how they led to employment gains, with job growth six times higher than industry averages among those firms whose debt is classified as "junk." He also puts the lie to James Stewart's contention that junk bond-financed takeovers were a major contributor to unemployment, noting that only 6.6 percent of jobs lost in the '80s were lost as a result of takeovers (p. 250).

While, as I said earlier, the theoretical framework binding together the facts and figures presented here is basically sound, there are a number of unfortunate lapses. One of the worst is that the author seems to have a soft spot for the nearly oxymoronic idea of government investment. This leads him to downplay the harm done by government deficits so long as they "finance roads, bridges, defense installations, schools, and other capital projects that will increase future GNP . . ." (p. 57). But what about those roads and urban rail systems costing thousands of dollars more per rider per year than their customers are willing to pay for them, the bridges which are investments not in future GNP but rather in votes and campaign contributions for the legislators who "bring home the bacon," the military bases that even the Pentagon considers useless (Rubenstein himself cites the Defense Department's claim that fewer than one tenth of our bases are essential), and the schools whose inefficacy is a national scandal? The nature of government guarantees that such waste will constitute a large portion of government spending. And it renders absurd Paul Craig Roberts' suggestion that we should adopt the Japanese practice of counting government spending as investment (p. 230).

Most of the articles in this book are two pages long, with none longer than twelve pages. This, plus a thorough index, makes it easy for one to quickly find out what one wishes to know about a specific topic. It also means that the seeker after an in-depth treatment of these issues will have to look elsewhere. Nevertheless, anyone looking for the facts that can poke holes in the most common misrepresentations of our recent economic record would find this book a good place to start. □

In addition to editing the book review section of The Freeman, *Robert Batemarco is a marketing manager for economic analysis at J. Crew in New York City and teaches economics at Marymount College in Tarrytown, New York.*

Money Meltdown: Restoring Order to the Global Currency System

by Judy Shelton

The Free Press • 1994 • 399 pages • $24.95

Reviewed by Raymond J. Keating

The importance of a sound monetary system should not be underestimated. Without a solid monetary foundation, markets cannot operate properly and economies crumble. Nonetheless, monetary policy often receives short shrift outside academia and off currency trading floors. The machinations of the Federal Reserve, for example, at times seem too arcane for the average taxpayer or concerned citizen.

Fortunately, Judy Shelton, a research fellow at the Hoover Institution, has come forward with a clear, substantive look at developments in the international monetary system since World War II, as well as balanced assessments of the various schools of monetary thought.

Money Meltdown presents compelling arguments against both floating exchange rates and a pegged rate system based on nothing more than government acclamation. Regarding floating rates, Shelton concludes that "governments cannot resist the temptation to intervene and . . . government intervention causes perverse financial effects. Who ends up paying the price? Consumers, of course, who are deprived of the benefits of genuine comparative advantage. But also producers—the individuals who would prefer to avoid the risk of currency gyrations altogether and concentrate instead on delivering products that are competitive on their own merit." The floating exchange rate system turns out to be a "dirty float"—with governments attempting to manipulate currency values in vain efforts to achieve often mythical advantages in the international marketplace. Devaluation seems to be the last bastion of acceptable trade protectionism.

Shelton notes the fundamental difference between a stable exchange rate system based on government fiat and an anchored system: "Turning to an outside anchor permits trading partners to safely transcend politics in their monetary relations. Unlike a pegged rate system, an outside anchor offers an objective monetary point of reference instead of requiring countries to coordinate policies or subjugate their own economic agenda to the domestic priorities of the dominant regional power." As Europeans attempt to pick up the pieces after the disintegration of their pegged rate system, they should take serious note of Shelton's arguments.

Though sympathetic in many ways to the theory of privately supplied money, Shelton doubts whether a system of private currencies is workable. She is especially concerned as to whether competing currencies would be accepted by the average person.

More critically, though, Shelton understands that price stability is just as necessary in international markets as in domestic markets. The author explains, "If you can't evaluate competitive goods and services across borders in terms of their prices, you cannot have a functioning free market." Shelton continues, "Risk and uncertainty are needlessly increased when firms are unable to discern the real costs of production or estimate potential rewards from investment because they operate in a global economic environment characterized by unpredictable currency values." The result is slower economic growth around the globe, as the benefits of free trade and investment—the benefits of comparative advantage—are hampered.

Shelton concludes that, "given the disadvantages of other systems—the corruptness of floating rates, the superficiality of pegged exchange rates, the confusion of competitive private currencies—an international gold standard emerges as the most attractive option." She goes on to neatly summarize a key benefit of gold: "A gold standard, in short, would prevent governments from using their currencies as tools of short-term economic policy, trading the temporary advantage of cheap exports against the longer-term problems of decreased purchasing power for their citizens in the global economy. The emphasis among participants in the international marketplace would rightly turn to comparative advantage and genuine competence."

Shelton's idea for a gold standard would seek to remove two fundamental flaws of the Bretton Woods system by extending the right of convertibility to private citizens and avoiding reliance upon a single anchor currency. The author explains, "Had private citizens enjoyed the same convertibility rights as foreign central banks under the Bretton Woods agreement, their individual actions would have brought about a more diffused adjustment to changes in the U.S. money supply and alerted officials to dangerous developments long before the integrity of the entire system came under threat." On the second point of a single anchor currency, Shelton observes, "Monopoly power has an inherent tendency to be abused; this fact is no less true for the key currency issuer than for suppliers of other economic goods."

Shelton views the economy from a comprehensive supply-side perspective. As such, she not only understands the benefits of lower taxes and less regulation, but also the rewards of sound money—both domestically and internationally. Though the author goes too far in arguing that the government could no longer run a budget deficit under a gold standard; she is correct to note that "the government could not monetize a budget deficit." Therefore, the incentive to run deficits would be greatly reduced. Shelton also understands how best to eliminate a deficit, as noted in a passage that ventures into the realm of fiscal policy: "Instead of shrinking the nation's level of productive economic activity by imposing higher tax rates in a misguided attempt to raise government revenues, private business activity should be spurred through lower tax rates. Despite the drubbing supply-side economics has been subjected to, lower marginal tax rates can lead to higher overall levels of tax revenue as individuals respond to opportunities to reap greater personal rewards from their entrepreneurial activities."

The implementation of a gold standard will enhance the rewards for entrepreneurship as well by maintaining price stability and reducing currency risks in the international marketplace. In *Money Meltdown*, Shelton adeptly explores the benefits of anchoring currencies to gold, and thereby has added another valuable tome to the expanding library of supply-side economics. □

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Lost Rights: The Destruction of American Liberty

by James Bovard

St. Martin's Press • 1994 • 408 pages • $24.95

Reviewed by William H. Peterson

"The most cogent reason for restricting the interference of government is the great evil of adding unnecessarily to its power. Every function superadded to those already exercised by the government causes its influence over hopes and fears to be more widely diffused, and converts, more and more, the active and ambitious part of the public into hangers-on of the government, or of some party which aims at becoming the government."

So wrote John Stuart Mill in 1859. Concurring is policy analyst James Bovard who has written a whale of a book, at once courageous, entertaining, and thoroughly documented. Bovard, author of *The Fair Trade Fraud* (1991) and a frequent contributor to the *Wall Street Journal* and *New York Times*, holds that Americans pay dearly for idolizing the State and treating its interventionist laws as gospel.

He argues that the more we glorify government, the more liberties we lose, that the central issue of our times is between letting people build their own lives and compelling them to build their lives as the state dictates, that people are drowning in a flood of legislative and administrative law, that the American government wars on private property rights which are at the very heart of liberty, and that the vast effort of government intervention to improve society is "a dismal failure."

In the war on property, Bovard cites the case of St. Bartholomew's Church on New York's Park Avenue. The parish tried to sell its community house next to the church and replace it with a high-rise office building which would have netted $100 million. But the New York City Landmarks Preservation Commission denied the church's petition because of its historic designation. The church sued that the designation amounted to an illegal seizure under the Fifth and Fourteenth Amendments, only to face an adverse federal appeals court ruling in 1991: "The church has failed to prove that it cannot continue its religious practice in its existing facilities. . . . So long as the church can continue to use its property in the way that it has been using it—to house its charitable and religious activities—there is no unconstitutional taking." In other words, bye-bye $100 million. Bovard sees the ruling as effectively handing over to local governments almost unlimited power to selectively place private property—and human freedom—in limbo.

As evidence of the flood of legislative and administrative law, the author points out that the *Federal Register* publishes each year some 70,000 pages of fine print of new laws, rulings, regulations, and proposals. The average citizen could hardly read this legal outpouring, let alone understand it; but it nonetheless silently gnaws at his life, liberty, and property as presumably enunciated by the Declaration of Independence and the Bill of Rights.

Bovard wonders how liberty fares when Equal Employment Opportunity Commission officials can levy a fine of $145,000 on an owner of a small business in Chicago because he did not have 8.45 African-Americans on his payroll, when U.S. Agriculture Department agents can prohibit Arizona farmers from selling 58 percent of their lemon crop to other Americans, when government subsidies become a major factor in squeezing out unsubsidized developers, schools, theater producers, and farmers, when total federal spending has jumped in nominal terms, from $100 billion in 1963 to over $1.5 trillion in 1994. And this jump is before enactment of a Clintonlike health plan which would federalize (read socialize) one-seventh of the nation's Gross Domestic Product.

Clearly, government in America overreaches, overtaxes, overgoverns—with abysmal results. James Bovard closes with an apt quotation from Henry David Thoreau: "If you see a man approaching you with the obvious intent of doing you good, run for your life." □

Dr. Peterson, Distinguished Lundy Professor of Business Philosophy Emeritus at Campbell University in North Carolina and a Freeman *Contributing Editor, is completing a book manuscript entitled* Peterson's Law: Why Things Go Wrong.

INDEX
THE FREEMAN
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Prepared by Gregory P. Pavlik and Beth A. Hoffman

Note: In page references, the number preceding the colon designates the month, the numbers following refer to pages. 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 720.

ADLER, Jonathan H. *See* Book reviews (Epstein; Meiners and Yandle; Rauch)
AFFIRMATIVE action, ethics of (Yates) 7:351–353
AFRICA
Some international neglect would be good for Africa (Ahiakpor) 8:447–450
AHIAKPOR, James C. W.
Some international neglect would be good for Africa. 8:447–450
AHRENS, John
Sweet speculation. 7:358–360
ALEXANDER, Scott
Treachery? 9:491–492
ALL of us are equal? (Machan) 4:198–199
AMERICA's economics knowledge deficit (Reed) 9:480–482
ANDERSON, William L.
Higher airfares ahead? 4:177
ANTITRUST policy, failure of (Armentano) 6:294–296
ARE government statistics necessary? (Youngblood) 4:204
ARE women exploited by the free market? (Chodes) 9:508–513
ARMENTANO, D. T.
The failure of antitrust policy. 6:294–296
ART and commerce (Dodsworth) 7:361–364
AT home, but hardly alone (Christie) 8:415–416
ATTARIAN, John
Freedom versus fear. 3:136–140
See also Book reviews (Bannister; Gwartney and Stroup; Paterson; Peterson)

BAIRD, Charles W.
Labor cartels, competition, and government. 8:426–429
Strikers and scabs. 3:143–144
Guest editor, August
BANDOW, Doug
Mother's little helper. 4:200–203
The pharmaceutical industry: problem or solution? 2:55–60
Reforming America's medical system through deregulation. 8:396–405
Time to kill draft registration. 12:690–695
See also Book reviews (Bernstein and Foster and Huber; Lewis)
Guest editor, February
BANFIELD, Eric-Charles
One information superhighway: take it or leave it? 8:429–430
Passing laws: is governing that simple? 12:705–706
BARONE, Stephen G.
Peace, political science, and pedagogy. 7:379–380
BASEBALL strikes out (Skousen) 12:707–708
BATEMARCO, Robert
Lending discrimination: the unending search. 5:259–262
See also Book reviews (Bordo and Eichengreen; *Freeman* Classics; Rubenstein)
BEFRIENDING volunteer: Octavia Hill (Clayton) 10:563–564
BEISNER, E. Calvin
The double-edged sword of multiculturalism. 3:104–112
Guest editor, March
BEITO, David T.
Lodge doctors and the poor 5:220–225
BEST alternative (Clites) 1:32–33
BEYOND equality of the sexes (Roback) 12:679–684
BEYOND the invisible hand (Gow) 10:550
BIDINOTTO, Robert James
The real enemy of liberty. 12:696–697
BILLINGSLEY, K. L.
If you build it they will come. 8:408–409
Owls, ferrets, and free markets. 5:251–252
BOERNER, Phil
A firm hand up for street addicts. 10:559–560
BOETTKE, Peter J.
Guest editor, May
BOLCH, Ben W. *See* Book reviews (Putnam)
BOUDREAUX, Donald J.
Losing touch. 6:297–299
"Predatory pricing" laws: hazardous to consumers' health. 12:664–667
BROWN, David M. *See* Book reviews (Commager; Fulda)
BROWN, Tim
The New York asbestos debacle. 2:91–92
BUCKLES, Brian
Morality and wisdom. 4:205–206
BUSINESS in the global community (McGee) 7:377–379
BUSINESS, business ethics
Art and commerce (Dodsworth) 7:361–364
Businessmen and the war of ideas (Reed) 7:343–345
Communitarian and individualist ideas in business (Skoble) 7:336–339
Duty and interest (Den Uyl) 7:339–342
Social responsibility of corporations and how to make it work for you (Hasnas) 7:332–335
Sour days at the lemonade stand (Levinson) 10:561–562
Treachery? (Alexander) 9:491–492
Worker in contemporary society (Chesher) 7:346–350
BY any means necessary? (Zimmerman) 6:304–306

CAPITALISM: an alternative for inner-city gangs (Reiland) 3:134–135
CAPITALISM
Eating the seed corn (Kazmann) 8:451–452
Things are better than we think . . . (Shaw) 6:276–278
What is a capitalist? (Clites) 9:518–519
CASE against managed "fair" trade and strategic trade. (Kamath) 8:436–442
CASE for home schooling (Lechtreck) 1:36–39
CHAMBERLAIN, John. *See* Book reviews (Cornuelle; Gale and Rostow; Kirk; Roche)
CHESHER, J.E.
The worker in contemporary society. 7:346–350
See also Book reviews (Machan)
CHODES, John
Are women exploited by the free market? 9:508–513
The new forest. 4:166–167
CHRISTAINSEN, Gregory B.
Environmental regulation: just as bad as any other. 8:410–412
CHRISTIE, Jim
At home, but hardly alone. 8:415–416
See also Book reviews (Raimondo)
CHURCHES
Do English cathedrals need government help? (Payne) 8:455–456
Pensiongate: the emerging crisis of church investments (Dickson) 8:453–455
CLAYTON, Peter
The befriending volunteer: Octavia Hill. 10:563–564
CLEVELAND, Paul A.
The immorality of government-mandated health care. 11:594–597
CLITES, Roger M.
The best alternative. 1:32–33
Hoarders, speculators, and other scapegoats. 11:635–636
What is a capitalist? 9:518–519
CLOSING the green gap of market liberalism (Hess) 12:658–663
COMMERCIAL banking in a free society (Horwitz) 7:370–373
COMMUNITARIAN and individualist ideas in business (Skoble) 7:336–339
COMMUNITARIANISM, libertarianism as (Klein) 12:685–689
COMPETITION
Incredible ticket machine (Ellig) 5:231–235
CONDRY, Robert A.
Transitting away from the free market. 9:516–518
CONSCRIPTION
Time to kill draft registration (Bandow) 12:690–695
CORDATO, Roy E. and Richman, Sheldon
A tax deduction for education. 6:299–301

CORRECTION, please! (Mark Skousen column)
Baseball strikes out. 12:707–708
The free market works fine, except . . . 9:525–527
An ignoble prize in economics? 7: 385–387
I'm all for free trade, but . . . 10:573–575
Is this the age of ignorance or enlightenment? 6:320–322
The mother of all myths. 5:263–265
Paul Samuelson finally gets it right. 3:145–147
The perversity of Wall Street. 11: 637–638
What's missing from this picture? 8:457–459
Will Keynes ever die? 4:209–210
CRIME
Real enemy of liberty (Bidinotto) 12: 696–697
CRISIS in the making: Europe's welfare burden (Elliott) 9:505–507
CROWLEY, Brian Lee
Liberty and entrepreneurship. 12: 675–678
CULTURE
Double-edged sword of multiculturalism (Beisner) 3:104–112
To repair the culture, free the market (Rockwell) 3:113–117
CUNNINGHAM, Jill K.
Uncle Sam's high priced "volunteers." 10:571–572

DATA manipulation as crisis (Pulsinelli) 11:620–622
DAVIS-BACON: Jim Crow's last stand (Frantz) 2:66–70
DEMOCRACY
What's wrong with democracy? (Hatzilambrou) 6:312–315
DENNIS, Kimberly O.
Some philanthropists turn their backs on voluntarism. 10:565–566
DEN UYL, Douglas
Duty and interest. 7:339–342
DICKSON, Charles
Pensiongate: the emerging crisis of church investments. 8:453–455
DILORENZO, Thomas J.
Economic fascism. 6:288–293
Guest editor, June
DISASTER relief, insurance
How government makes natural disasters worse (Rockwell) 6:279–281
Natural disaster protection act: a disaster waiting to happen (Wolfram) 8:417–420
DISCOURAGED employer (Weidenbaum) 11:615–619
DO English cathedrals need government help? (Payne) 8:455–456
DODSWORTH, Barbara
Art and commerce. 7:361–364
DOUBLE-edged sword of multiculturalism (Beisner) 3:104–112
DUDLEY, Michael Bixby
Why old proverbs don't apply anymore. 8:445–446
DUFF, Michael R.
The moral hazard of government. 6:307–311

DUTY and interest (Den Uyl) 7:339–342

EATING the seed corn (Kazmann) 8: 451–452
ECONOMIC education
America's economics knowledge deficit (Reed) 9:480–482
ECONOMIC fascism (DiLorenzo) 6: 288–293
ECONOMIC illiteracy makes bad law (Pulliam) 9:482–485
ECONOMIC opportunity needs a moral dimension (Reed) 6:282–283
ECONOMIC way of thinking (Nash) part 4, 1:4–7; part 5, 2:52–54; part 6, 3:100–103; part 7, 4:156–158; part 8, 5:256–259
ECONOMICS
Data manipulation as crisis (Pulsinelli) 11:620–622
Get a grip, Garth! (Schlager) 8:443–445
Is this the age of ignorance—or enlightenment? (Skousen) 6:320–322
EDUCATION
At home, but hardly alone (Christie) 8:415–416
Case for home schooling (Lechtreck) 1:36–39
Double-edged sword of multiculturalism (Beisner) 3:104–112
Free-market university (W. Peterson) 4:164–165
Morality and wisdom (Buckles) 4: 205–206
New York asbestos debacle (T. Brown) 2:91–92
Now for some serious educational reform (Machan) 6:302–303
Origins of federal control over education (Twight) 12:701–704
Piper will be paid (Van Eaton) 11: 623–626
School choice for inner-city kids (Ehrgott) 10:553–554
School violence (Hood) 2:85–90
A tax deduction for education (Cordato and Richman) 6:299–301
Time to smarten up rather than dumb down (Perlmutter) 10:569–570
EDWARDS, James Rolph
Free markets and externalities: the symmetry of unintended effects. 8:421–425
EGG and I (Pike) 4:170–171
EHRGOTT, Timothy P.
School choice for inner-city kids. 10: 553–554
ELLIG, Jerry
The incredible ticket machine. 5:231–235
ELLIOTT, Nicholas
A crisis in the making: Europe's welfare burden. 9:505–507
EMPLOYMENT
Discouraged employer (Weidenbaum) 11:615–619
ENDING welfare as they knew it (Wisz) 10:540–542
ENTREPRENEURSHIP
Liberty and entrepreneurship (Crowley) 12:675–678
Parable of the talents: the Bible and entrepreneurs (Sirico) 7:354–357
What makes entrepreneurs tick? (Williams) 10:545–549

ENVIRONMENT and free trade (Kwong) 2:61–65
ENVIRONMENTAL regulation: just as bad as any other (Christainsen) 8:410–412
ENVIRONMENTAL regulations aren't cheap (Reed) 12:668–669
ENVIRONMENTALISM
Closing the green gap of market liberalism (Hess) 12:658–663
New forest (Chodes) 4:166–167
Owls, ferrets, and free markets (Billingsley) 5:251–252
Science—Coming out of the closet (Hagen and Worman) 9:501–504
Things are better than we think. . . (Shaw) 6:276–278
EQUALITY
All of us are equal? (Machan) 4:198–199
ETHICS of affirmative action (Yates) 7:351–353
EUROPE
Crisis in the making: Europe's welfare burden (Elliott) 9:505–507
Post-Communist traumas east and west (Machan) 5:253–255
Promote free and not command constitutions (Siegan) 4:191–192
"Thou shalt not steal" (Malek) 9: 486–490

FAILURE of antitrust policy (Armentano) 6:294–296
FAMILY leave, unseen costs of (Sirico) 2:83–84
FASCISM
Economic fascism (DiLorenzo) 6: 288–293
Fascist epithet (Tanner) 6:284–287
FEDERAL transit subsidies: how government investment harms the U.S. economy (Semmens) 2:71–75
FEMINIST lesson from economics (Walker) 5:226–230
FIRM hand up for street addicts (Boerner) 10:559–560
FOLEY, Jr., Ridgway K.
Mr. Dickens was right. 1:8–12
FOOD and Drug Administration (FDA)
FDA and the market in natural medicine (Hiller) 9:520–524
Should the government kill people to protect their health? (Higgs) 1:13–17
FOREIGN aid the voluntary way (Smith) 10:555–556
FOUR myths about America's Great Depression (Nash) 11:603–610
FRANTZ, John
Davis-Bacon: Jim Crow's last stand. 2:66–70
FREE-market university (W. Peterson) 4:164–165
FREE market works fine, except. . . (Skousen) 9:525–527
FREE markets and externalities: the symmetry of unintended effects (Edwards) 8:421–425
FREEDOM or free-for-all? (Reed) 4: 172–173
FREEDOM versus fear (Attarian) 3: 136–140
FREEDOM
Best alternative (Clites) 1:32–33

GALLES, Gary M.
We need free trade in deed as well as word. 1:23–24
GASMAN, Lawrence. *See* Book reviews (Keating)
GET a grip, Garth! (Schlager) 8:443–445
GIARUSSO, Frederick and Hudson, Gary C.
The space program: no prize. 1:29–31
GOLD. *See* money
GOOD intentions under the microscope (Hyatt) 10:557–558
GOVERNMENT as Robin Hood (Pasour) 12:670–672
GOVERNMENT-created poverty (Martino) 4:187–189
GOVERNMENT "investment" (Semmens) 4:168–169
GOVERNMENT redistribution impoverishes the poor (Lee) 3:129–130
GOVERNMENT regulation, planning, intervention
Discouraged employer (Weidenbaum) 11:615–619
Keeping bad company? (Mixon) 4:189–190
Moral hazard of government (Duff) 6:307–311
Mother's little helper (Bandow) 4:200–203
Needful blessing for the tsar (Trieb) 3:141–143
Of meat and myth (Reed) 11:600–602
One information superhighway: take it or leave it? (Banfield) 8:429–430
Passing laws: is governing that simple? (Banfield) 12:705–706
Past is prologue (Heaton) 5:241–243
Regulation and productivity (Hospers) 7:373–376
Space program: no prize (Giarusso and Hudson) 1:29–31
Unseen costs of family leave (Sirico) 2:83–84
What is government waste? (W. Peterson) 1:18–19
GOW, Haven Bradford
Beyond the invisible hand. 10:550
GRASSROOTS mentors (Woodson) 10:543–544
GREAT DEPRESSION, four myths about America's Great Depression (Nash) 11:603–610
GREAVES, Bettina Bien
How much money? 3:131–134
Why war? 4:159–163
See also Book reviews (Holtz)
Guest editor, September
GROFF, Patrick. *See* Book reviews (Sowell)

HAGEN, Eric W. and Worman, James J.
Science—coming out of the closet. 9:501–504
HASNAS, John
The social responsibility of corporations and how to make it work for you. 7:332–335
HATZILAMBROU, L.
What's wrong with democracy? 6:312–315
HAZLITT, Henry
Is politics insoluble? 9:468–473
HEALTH care and the chronically ill (Hodson) 11:588–589
HEALTH care, health insurance
Canadian health care a good model for the U.S. to follow? (Walker) 8:405–407
FDA and the market in natural medicine (Hiller) 9:520–524
Good intentions under the microscope (Hyatt) 10:557–558
If you build it, they will come (Billingsley) 8:408–409
Immorality of government-mandated health care (Cleveland) 11:594–597
Level playing field (Zimmerman) 1:34–35
Pharmaceutical industry: problem or solution (Bandow) 2:55–60
Reforming America's medical system through deregulation (Bandow) 8:396–405
Should the government kill people to protect their health? (Higgs) 1:13–17
Socialized health-care nightmare (Maltsev and Omdahl) 11:590–594
What NBC didn't tell you about health-care reform (Orient) 11:598–599
HEALTH-CARE reform: déjà vu all over again (Horwitz and Horwitz) 12:698–700
HEATON, K. Maureen
The past is prologue. 5:241–243
HESS, Jr., Karl
Closing the green gap of market liberalism. 12:658–663
HIGGS, Robert
Nineteen neglected consequences of income redistribution. 12:652–657
Should the government kill people to protect their health? 1:13–17
Guest editor, December
HIGHER airfares ahead? (Anderson) 4:177
HILL, Octavia: The befriending voluntarism (Clayton) 10:563–564
HILLER, Stephanie
FDA and the market in natural medicine. 9:520–524
HOARDERS, speculators, and other scapegoats (Clites) 11:635–636
HODSON, Hope
Health care and the chronically ill. 11:588–589
HOOD, John
School violence. 2:85–90
See also Book reviews (Wooster)
HORWITZ, Ronald M. (co-author). *See* Horwitz, Steven
HORWITZ, Steven
Commercial banking in a free society. 7:370–373
See also Book reviews (Timberlake)
HORWITZ, Steven and Horwitz, Ronald M.
Health-care reform: déjà vu all over again. 12:698–700
HOSPERS, John
Regulation and productivity. 7:373–376
HOUSTON says no to zoning (Saltzman) 8:431–435
HOW government makes natural disasters worse (Rockwell) 6:279–281
HOW Japan realized her "impossible dream" (Murata) 9:493–499
HOW much money? (Greaves) 3:131–134
HUDSON, Gary C. (co-author). *See* Giarusso
HULTBERG, Nelson
Is individualism dead? 6:316–319
HUMAN rights around the globe (Machan) 2:80–81
HYATT, Thomas A.
Good intentions under the microscope. 10:557–558

I'M all for free trade, but. . . (Skousen) 10:573–575
IDEAS and consequences (Lawrence W. Reed column)
America's economics knowledge deficit. 9:480–482
As values collapse, government grows. 5:236–237
Businessmen and the war of ideas. 7:343–345
Economic opportunity needs a moral dimension. 6:282–283
Environmental regulations aren't cheap. 12:668–669
Freedom or free-for-all? 4:172–173
"Immigration problem." 10:551–552
Of meat and myth. 11:600–602
Power of positive example. 8:413–415
IF you build it, they will come (Billingsley) 8:408–409
IGNOBLE prize in economics? (Skousen) 7:385–387
"IMMIGRATION problem" (Reed) 10:551–552
IMMORALITY of government-mandated health care (Cleveland) 11:594–597
INCREDIBLE ticket machine (Ellig) 5:231–235
INDIVIDUAL RIGHTS
Communitarian and individualist ideas in business (Skoble) 7:336–339
Human rights around the globe (Machan) 2:80–81
Is individualism dead? (Hultberg) 6:316–319
Power of positive example (Reed) 8:413–415
Rights versus entitlements (Yates) 9:478–479
INDUSTRIAL policy
Economic fascism (DiLorenzo) 6:288–293
INSIDE the federal hurting machine (Payne) 3:124–128
INTEREST rates and the business cycle (Tenney) 11:611–614
INVISIBLE value (Shaw) 12:673–674
IS Canadian health care a good model for the U.S. to follow? (Walker) 8:405–407
IS individualism dead? (Hultberg) 6:316–319
IS politics insoluble? (Hazlitt) 9:468–473

JAPAN
How Japan realized her "impossible dream" (Murata) 9:493–499
JORDAN, David Starr
The moral aspect of the protective tariff. 1:20–22
JURY nullification: cornerstone of freedom (Koopman) 2:81–82

KAMATH, Shyam J.
The case against managed "fair" trade and strategic trade. 8:436–442
KAZMANN, Raphael G.
Eating the seed corn. 8:451–452
KEATING, Raymond J. *See* Book reviews (Boorstin; *Freeman* Classics; Gasman; Gilder; Henderson; Shelton; Thatcher and Lawson)
KEEPING bad company? (Mixon) 4: 189–190
KEYNES, John Maynard, ideas of
Will Keynes ever die? (Skousen) 4: 209–210
KING Charles' ax: property rights, human freedom, and the quality of life (Robson) 5:244–250
KINSELLA, N. Stephan. *See* Book reviews (Hoppe)
KIRZNER, Israel. *See* Book reviews (Ioannides)
KLEIN, Daniel B.
Libertarianism as communitarianism. 12:685–689
The moral consequences of paternalism. 5:238–240
Private highways in America, 1792-1916. 2:75–79
KNOWLEDGE
Feminist lesson from economics (Deborah Walker) 5:226–230
Invisible value (Shaw) 12:673–674
KOOPMAN, Roger
Jury nullification: cornerstone of freedom. 2:81–82
KWONG, Jo
Environment and free trade. 2:61–65

LABAND, David N.
Singing the ticket scalping blues. 9: 514–515
LABOR cartels, competition, and government (Baird) 8:426–429
LABOR
Baseball strikes out (Skousen) 12: 707–708
Davis-Bacon: Jim Crow's last stand (Frantz) 2:66–70
Monopoly demand for labor? (Tenney) 4:174–176
Strikers and scabs (Baird) 3:143–144
LAPIN, Daniel
Money and its image problem. 7:365–369
LAW, legal services
Mr. Dickens was right (Foley) 1:8–12
Property rights, American Constitutionalism and international human rights "law" (Daniel Walker) 9:474–477
Zsa Zsa and the litigation explosion (Reiland) 10:567–568
LECHTRECK, Roy
The case for home schooling. 1:36–39
LEE, Dwight R.
Government redistribution impoverishes the poor. 3:129–130
LEEF, George C. *See* Book reviews (Bond; Lieberman)
LENDING discrimination: the unending search (Batemarco) 5:259–262
LEVEL playing field (Zimmerman) 1: 34–35
LEVINSON, Ted
Sour days at the lemonade stand. 10:561–562
LIBERTARIANISM as communitarianism (Klein) 12:685–689
LIBERTY and entrepreneurship (Crowley) 12:675–678
LODGE doctors and the poor (Beito) 5:220–225
LOSING touch (Boudreaux) 6:297–299

MACHAN, Tibor
All of us are equal? 4:198–199
Human rights around the globe. 2: 80–81
Now for some serious educational reform. 6:302–303
Post-Communist traumas east and west. 5:253–255
Guest editor, July
MALEK, Jan Michal
"Thou shalt not steal." 9:486–490
MALTSEV, Yuri and Omdahl, Louise
Socialized health-care nightmare. 11: 590–594
MARTINO, Joseph P.
Government-created poverty. 4:187–189
MCGEE, Robert W.
Business in the global community. 7:377–379
MIXON, J. Wilson
Keeping bad company? 4:189–190
MONEY and inflation (Parks) 4:207–208
MONEY and its image problem (Lapin) 7:365–369
MONEY, banking, inflation, credit
Commercial banking in a free society (Horwitz) 7:370–373
How much money? (Greaves) 3:131–134
Interest rates and the business cycle (Tenney) 11:611–614
Lending discrimination: the unending search (Batemarco) 5:259–262
What is a dollar? (Vieira) 11:627–630
What's missing from this picture? (Skousen) 8:457–459
MONOPOLY demand for labor? (Tenney) 4:174–176
MORAL aspect of protective tariff (Jordan) 1:20–22
MORAL consequences of paternalism (Klein) 5:238–240
MORAL hazard of government (Duff) 6:307–311
MORALITY and wisdom (Buckles) 4: 205–206
MORALITY, ethics
As values collapse, government grows (Reed) 5:236–237
Beyond the invisible hand (Gow) 10: 550
Economic opportunity needs a moral dimension (Reed) 6:282–283
Ethics of affirmative action (Yates) 7:351–353
Moral consequences of paternalism (Klein) 5:238–240
Parable of the talents: the Bible and entrepreneurs (Sirico) 7:354–357
MOTHER of all myths (Skousen) 5: 263–265
MOTHER'S little helper (Bandow) 4: 200–203
MR. Dickens was right (Foley, Jr.) 1: 8–12
MULTICULTURALISM; *see* culture
MURATA, Toshio
How Japan realized her "impossible dream." 9:493–499

NASA
Space program: no prize (Giarusso and Hudson) 1:29–31
NASH, Ronald
Four myths about America's Great Depression. 11:603–610
The economic way of thinking. (Parts 1, 2, and 3 published in 1993)
Part 4: 1:4–7
Part 5: 2:52–54
Part 6: 3:100–103
Part 7: 4:156–158
Part 8: 5:256–259
See also Book reviews (Novak)
Guest editor, November
NATURAL disaster protection act: a disaster waiting to happen (Wolfram) 8:417–420
NEEDFUL blessing for the tsar (Trieb) 3:141–143
NEW forest (Chodes) 4:166–167
NEW York asbestos debacle (Brown) 2:91–92
NINETEEN neglected consequences of income redistribution (Higgs) 12: 652–657
NOW for some serious educational reform (Machan) 6:302–303

OMDAHL, Louise (co-author). *See* Maltsev
ONE information superhighway: take it or leave it? (Banfield) 8:429–430
ORIENT, Jane M.
What NBC didn't tell you about health-care reform. 11:598–599
ORIGINS of federal control over education (Twight) 12:701–705
OSTERFELD, David. *See* Book reviews (Walter)
OUR own mad clockwork (Zimmerman) 3:118–123
OWLS, ferrets, and free markets (Billingsley) 5:251–252

PARABLE of the talents: the Bible and entrepreneurs (Sirico) 7:354–357
PARKS, Lawrence M.
Money and inflation. 4:207–208
PASOUR, Jr., E. C.
The government as Robin Hood. 12: 670–672
PASSING laws: is governing that simple? (Banfield) 12:705–706
PAST is prologue (Heaton) 5:241–243
PATERNALISM, consequences of (Klein) 5:238–240
PAYNE, James L.
Do English cathedrals need government help? 8:455–456
Inside the federal hurting machine. 3:124–128
Guest editor, October
PEACE, political science, and pedagogy (Barone) 7:379–380
PENSIONGATE: the emerging crisis of church investments (Dickson) 8:453–455

PERLMUTTER, Philip
Time to smarten up rather than dumb down. 10:569–570
PERSON, Lawrence. *See* Book reviews (Magnet)
PERVERSITY of Wall Street (Skousen) 11:637–638
PETERSON, Robert A.
Shipwrecked in New Jersey. 1:26–28
PETERSON, William H.
A free-market university. 4:164–165
What is government waste? 1:18–19
See also Book reviews (Bovard; Dietze; Hanke, Jonung, and Schuler)
Guest editor, April
PETRO, Sylvester
Social security, the welfare state, and the market. 4:178–186
PHARMACEUTICAL industry: problem or solution? (Bandow) 2:55–60
PIKE, William E.
The egg and I. 4:170–171
PIPER will be paid (Van Eaton) 11: 623–626
POLITICAL correctness
By any means necessary? (Zimmerman) 6:304–306
Why old proverbs don't apply anymore (Dudley) 8:445–446
Zsa Zsa and the litigation explosion (Reiland) 10:567–568
POLITICS
Is politics insoluble? (Hazlitt) 9:468–473
Losing touch (Boudreaux) 6:297–299
POST-COMMUNIST traumas east and west (Machan) 5:253–255
POVERTY
Ending welfare as they knew it (Wisz) 10:540–542
Government as Robin Hood (Pasour) 12:670–672
Government-created poverty (Martino) 4:187–189
Government redistribution impoverishes the poor (Lee) 3:129–130
Lodge doctors and the poor (Beito) 5:220–225
"PREDATORY pricing" laws: hazardous to consumers' health (Boudreaux) 12:664–667
PRICES, pricing
Free market works fine, except. . . (Skousen) 9:525–527
"Predatory pricing" laws: hazardous to consumers' health (Boudreaux) 12:664–667
Singing the ticket scalping blues. (Laband) 9:514–515
PRIMICH, Frank J. *See* Book reviews (Annis)
PRIVATE highways in America, 1792-1916 (Klein) 2:75–79
PROFIT without honor (Sproul) 11: 631–634
PROMOTE free and not command constitutions (Siegan) 4:191–192
PROPERTY rights
American Constitutionalism and international human rights "law" (Daniel Walker) 9:474–477
Egg and I (Pike) 4:170–171
King Charles' ax: property rights, human freedom, and the quality of life (Robson) 5:244–250

PULLIAM, Mark S.
Economic illiteracy makes bad law. 9:482–485
PULSINELLI, Robert W.
Data manipulation as crisis. 11:620–622

REAL enemy of liberty (Bidinotto) 12: 696–697
REED, Lawrence W.
America's economics knowledge deficit. 9:480–482
As values collapse, government grows. 5:236–237
Businessmen and the war of ideas. 7:343–345
Economic opportunity needs a moral dimension. 6:282–283
Environmental regulations aren't cheap. 12:668–669
Freedom or free-for-all? 4:172–173
"Immigration problem." 10:551–552
Of meat and myth. 11:600–602
The power of positive example. 8: 413–415
REFORMING America's medical system through deregulation (Bandow) 8:396–405
REGULATION and productivity (Hospers) 7:373–376
REILAND, Ralph
Capitalism: an alternative for inner-city gangs. 3:134–135
Zsa Zsa and the litigation explosion. 10:567–568
RICHMAN, Sheldon (co-author). *See* Cordato
RIGHTS versus entitlements (Yates) 9:478–479
ROBACK, Jennifer
Beyond equality of the sexes. 12: 679–684
ROBSON, John
King Charles' ax: property rights, human freedom, and the quality of life. 5:244–250
ROCKWELL, JR., Llewellyn H.
How government makes natural disasters worse. 6:279–281
To repair the culture, free the market. 3:113–117

SALTZMAN, James D.
Houston says no to zoning. 8:431–435
SCHLAGER, Reid
Get a grip, Garth! 8:443–445
SCHOOL choice for inner-city kids (Ehrgott) 10:553–554
SCHOOL violence (Hood) 2:85–90
SCIENCE—coming out of the closet (Hagen and Worman) 9:501–504
SEMMENS, John
Federal transit subsidies: how government investment harms the U.S. economy. 2:71–75
Government "investment." 4:168–169
SHAW, Jane S.
Invisible value. 12:673–674
Things are better than we think (and could be better yet). 6:276–278
SHIPWRECKED in New Jersey (R. Peterson) 1:26–28
SHOULD the government kill people to protect their health? (Higgs) 1:13–17
SIEGAN, BERNARD H.
Promote free and not command constitutions. 4:191–192

SINGING the ticket scalping blues (Laband) 9:514–515
SIRICO, Robert A.
The parable of the talents: the Bible and entrepreneurs. 7:354–357
The unseen costs of family leave. 2:83–84
SKOBLE, Aeon J.
Communitarian and individualist ideas in business. 7:336–339
SKOUSEN, Mark
Baseball strikes out. 12:707–708
The free market works fine, except . . . 9:525–527
An ignoble prize in economics? 7: 385–387
I'm all for free trade, but . . . 10:573–575
Is this the age of ignorance—or enlightenment? 6:320–322
The mother of all myths. 5:263–265
Paul Samuelson finally gets it right. 3:145–147
The perversity of Wall Street. 11: 637–638
What's missing from this picture? 8:457–459
Will Keynes ever die? 4:209–210
SLAVERY
Our own mad clockwork (Zimmerman) 3:118–123
SMITH, Menlo F.
Foreign aid the voluntary way. 10: 555–556
SOCIAL responsibility of corporations and how to make it work for you (Hasnas) 7:332–335
SOCIAL security, the welfare state, and the market (Petro) 4:178–186
SOCIALIZED health care nightmare (Maltsev and Omdahl) 11:590–594
SOME international neglect would be good for Africa (Ahiakpor) 8:447–450
SOME philanthropists turn their backs on voluntarism (Dennis) 10:565–566
SOUR days at the lemonade stand (Levinson) 10:561–562
SPACE program: no prize (Giarusso and Hudson) 1:29–31
SPECULATORS
Sweet speculation (Ahrens) 7:358–360
SPROUL, Jr., R. C.
A profit without honor. 11:631–634
STANSEL, Dean. *See* Book reviews (Rusk)
STATISTICS
Are government statistics necessary? (Youngblood) 4:204
STRIKERS and scabs (Baird) 3:143–144
SWEET speculation (Ahrens) 7:358–360

TANNER, Mack
The fascist epithet. 6:284–287
TAX deduction for education (Cordato and Richman) 6:299–301
TAXES, taxation
Inside the federal hurting machine (Payne) 3:124–128
Shipwrecked in New Jersey (R. Peterson) 1:26–28
TAYLOR, Jeff A. *See* Book reviews (Euchner)

TENNEY, Glen
Interest rates and the business cycle. 11:611–614
Monopoly demand for labor? 4:174–176
THINGS are better than we think (and could be better yet) (Shaw) 6:276–278
"THOU shalt not steal" (Malek) 9:486–490
TIME to kill draft registration (Bandow) 12:690–695
TIME to smarten up rather than dumb down (Perlmutter) 10:569–570
TO repair the culture, free the market (Rockwell) 3:113–117
TRADE, international
Business in the global community (McGee) 7:377–379
Case against managed "fair" trade and strategic trade. (Kamath) 8:436–442
Environment and free trade (Kwong) 2:61–65
I'm all for free trade, but. . . (Skousen) 10:573–575
Moral aspect of the protective tariff (Jordan) 1:20–22
We need free trade in deed as well as word (Galles) 1:23–24
Why war? (Greaves) 4:159–163
TRANSFER payments
Nineteen neglected consequences of income redistribution (Higgs) 12: 652–657
TRANSITTING away from the free market (Condry) 9:516–518
TRANSPORTATION
Federal transit subsidies: how government investment harms the U.S. economy (Semmens) 2:71–75
Government "investment" (Semmens) 4:168–169
Higher airfares ahead? (Anderson) 4:177
Incredible ticket machine (Ellig) 5: 231–235
Private highways in America, 1792-1916 (Klein) 2:75–79
Transitting away from the free market (Condry) 9:516–518
TREACHERY? (Alexander) 9:491–492
TRIBAL premise of welfare capitalism illustrated (Wortham) 7:381–384
TRIEB, Phil
A needful blessing for the tsar. 3: 141–143
TUCKER, Jeffrey. *See* Book reviews (Luttwak)
TWIGHT, Charlotte
Origins of federal control over education. 12:701–704

UNCLE Sam's high priced "volunteers" (Cunningham) 10: 571–572
UNSEEN costs of family leave (Sirico) 2:83–84

VAN EATON, Charles D.
The piper will be paid. 11:623–626
VIEIRA, Jr., Edwin
What is a dollar? 11:627–630
VOLUNTARY action, voluntarism
Befriending volunteer: Octavia Hill (Clayton) 10:563–564
Do English cathedrals need government help? (Payne) 8:455–456
Ending welfare as they knew it (Wisz) 10:540–542
Firm hand up for street addicts (Boerner) 10:559–560
Foreign aid the voluntary way (Smith) 10:555–556
Grassroots mentors (Woodson) 10: 543–544
Lodge doctors and the poor (Beito) 5:220–225
Some philanthropists turn their backs on voluntarism (Dennis) 10:565–566
Uncle Sam's high priced "volunteers" (Cunningham) 10:571–572

WALKER, Daniel F.
Property rights, American Constitutionalism and international human rights "law." 9:474–477
WALKER, Deborah
A feminist lesson from economics. 5:226–230
The women's agenda. 4:193–197
WALKER, Michael
Is Canadian health care a good model for the U.S. to follow? 8:405–407
WALL Street, perversity of (Skousen) 11:637–638
WAR
Losing touch (Boudreaux) 6:297–299
Peace, political science, and pedagogy (Barone) 7:379–380
Time to kill draft registration (Bandow) 12:690–695
Why war? (Greaves) 4:159–163
WE need free trade in deed as well as word (Galles) 1:23–24
WEIDENBAUM, Murray
The discouraged employer. 11:615–619
WHAT is a capitalist? (Clites) 9:518–519
WHAT is a dollar? (Vieira) 11:627–630
WHAT is government waste? (W. Peterson) 1:18–19
WHAT makes entrepreneurs tick? (Williams) 10:545–549
WHAT NBC didn't tell you about health-care reform (Orient) 11:598–599
WHAT'S wrong with democracy? (Hatzilambrou) 6:312–315
WHY old proverbs don't apply anymore (Dudley) 8:445–446
WHY war? (Greaves) 4:159–163
WILL Keynes ever die? (Skousen) 4: 209–210
WILLIAMS, Gary S.
What makes entrepreneurs tick? 10: 545–549
WISZ, Gerald
Ending welfare as they knew it. 10: 540–542
WOLFRAM, Gary
The natural disaster protection act: a disaster waiting to happen. 8:417–420
WOMEN and the market
Are women exploited by the free market? (Chodes) 9:508–513
Beyond equality of the sexes (Roback) 12:679–684
Feminist lesson from economics (Walker) 5:226–230
WOMEN'S agenda (Deborah Walker) 4:193–197
WOODSON, Robert L.
Grassroots mentors. 10:543–544
WORKER in contemporary society (Chesher) 7:346–350
WORMAN, James J. (co-author). *See* Hagen
WORTHAM, Anne
The tribal premise of welfare capitalism illustrated. 7:381–384

YATES, Stephen
The ethics of affirmative action. 7: 351–353
Rights versus entitlements. 9:478–479
YOUNGBLOOD, Robert
Are government statistics necessary? 4:204

ZIMMERMAN, Robert
By any means necessary? 6:304–306
A level playing field. 1:34–35
Our own mad clockwork. 3:118–123
ZSA ZSA and the litigation explosion (Reiland) 10:567–568

BOOK REVIEWS

(Reviewer's name in parentheses)

ANNIS, Edward R. *Code blue: health care in crisis* (Primich) 9:534–535

BANNISTER, Robert C., ed. *On liberty, society, and politics: the essential essays of William Graham Sumner* (Attarian) 1:42–43

BERNSTEIN, David (co-editor). *See* Foster

BOND, Larry. *Cauldron* (Leef) 12:709–710

BOORSTIN, Daniel J. *The creators: a history of heroes of the imagination* (Keating) 1:46–47

BORDO, Michael D. and Eichengreen, Barry, eds. *A retrospective on the Bretton Woods system—lessons for international monetary reform* (Batemarco) 2:94–96

BOVARD, James. *Lost rights: the destruction of American liberty* (W. Peterson) 12:712–713

COMMAGER, Henry Steele. *Commanger on Tocqueville* (D. Brown) 6:324–326

CORNUELLE, Richard. *Reclaiming the American dream* (Chamberlain) 6:323–324

DIETZE, Gottfried. *American democracy: aspects of practical liberalism* (Peterson) 10:582–583

EICHENGREEN, Barry (co-editor). *See* Bordo

EPSTEIN, Richard. *Bargaining with the state* (Adler) 8:460–461

EUCHNER, Charles. *Playing the field* (Taylor) 5:272

FOSTER, Kenneth and Bernstein, David and Huber, Peter, eds. *Phantom risk: scientific interference and the law* (Bandow) 7:388–391

FREEMAN Classics. *Bankers and regulators* (Batemarco) 7:391–392

________. *Man and nature* (Keating) 9:535–536

FULDA, Joseph S. *Are there too many lawyers? and other vexatious questions* (Brown) 11:639–640

GALE, Robert Peter. *Final warning* (Chamberlain) 4:211

GASMAN, Lawrence. *Telecompetition: the free market road to the information highway* (Keating) 11: 644–646

GILDER, George. *Recapturing the spirit of enterprise* and *Wealth and poverty* (Keating) 3:148–150

GWARTNEY, James D. and Stroup, Richard L. *What everyone should know about economics and prosperity* (Attarian) 4:213–214

HANKE, Steve H. and Jonung, Lars and Schuler, Kurt. *Russian currency and finance* (Peterson) 9:531–532

HENDERSON, David R., ed. *The Fortune encyclopedia of economics* (Keating) 5:270–272

HOLTZ, William. *The ghost of the little house: a life of Rose Wilder Lane* (Greaves) 9:528–529

HOPPE, Hans-Herman. *The economics and ethics of private property: studies in political economy and philosophy* (Kinsella) 11:640–642

HUBER, Peter (co-editor). *See* Foster

IOANNIDES, Stavros. *The market, competition and democracy: a critique of neo-Austrian economics* (Kirzner) 1:44–46

JONUNG, Lars (co-author). *See* Hanke

KIRK, Russell. *The politics of prudence* (Chamberlain) 1:40

LAWSON, Nigel. *The view from no. 11: memoirs of a Tory radical* (Keating) 10:579–580

LEWIS, Martin. *Green delusions: an environmentalist critique of radical environmentalism* (Bandow) 1:41–42

LIEBERMAN, Myron. *Public education: an autopsy* (Leef) 8: 461–463

LUTTWAK, Edward N. *The endangered American dream* (Tucker) 8:463–464

MACHAN, Tibor R. *The virtue of liberty* (Chesher) 10:576–579

MAGNET, Myron. *The dream and the nightmare: the sixties legacy to the underclass* (Person) 11:642–644

MEINERS, Roger E. and Yandle, Bruce, eds. *Taking the environment seriously* (Adler) 4:214- 216

NOVAK, Michael. *The Catholic ethic and the spirit of capitalism* (Nash) 1:43–44

PATERSON, Isabel. *The god of the machine* (Attarian) 9:530–531

PETERSON, Peter G. *Facing up: how to rescue the economy from crushing debt and restore the American dream* (Attarian) 10:581–582

PUTNAM, Robert D. *Making democracy work: civic traditions in modern Italy* (Bolch) 4:211- 213

RAIMONDO, Justin. *Reclaiming the American Right: the lost legacy of the conservative movement* (Christie) 6:326–327

RAUCH, Jonathan. *Kindly inquisitors: the new attacks on free thought* (Adler) 3:150–152

ROCHE III, George C. *Free markets, free men* (Chamberlain) 10:576

ROSTOW, Eugene. *Toward managed peace* (Chamberlain) 4:211

RUBENSTEIN, Edwin S., et al. *The right data* (Batemarco) 12:710–711

RUSK, David. *Cities without suburbs* (Stansel) 5:267–70

SCHULER, Kurt (co-author). *See* Hanke

SHELTON, Judy. *Money meltdown: restoring order to the global currency system* (Keating) 12:711–712

SOWELL, Thomas. *Inside American education: the decline, the deception, the dogmas* (Groff) 6: 327–328

STROUP, Richard L. (co-author). *See* Gwartney

THATCHER, Margaret. *The Downing Street years* (Keating) 10:576–579

TIMBERLAKE, Richard. *Monetary policy in the United States: an intellectual and institutional history* (Horwitz) 5:266–267

WALTER, Edward. *The rise and fall of leftist radicalism in America* (Osterfeld) 2:93–94

WOOSTER, Martin Morse. *Angry classrooms, vacant minds* (Hood) 9:532–534

YANDLE, Bruce (co-editor). *See* Meiners