

THE FREEMAN

IDEAS ON LIBERTY

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Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$30.00 or more receive a subscription to *The Freeman*. Student subscriptions are \$10.00 for the nine-month academic year; \$5.00 per semester. Additional copies of this issue of *The Freeman* are \$3.00 each. For foreign delivery, a donation of \$45.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

PERSPECTIVE

Economic Research and Economic Education

In 1948, Ludwig von Mises wrote a memorandum to FEE President Leonard Read on the objectives of economic education.¹ In this memorandum, Mises laid out the main "fallacies . . . which economic education must unmask." Exposing economic error requires a transcendence of the practical problems of the day: "The urgent tasks of the daily routine impose on [businessmen, professionals, politicians, editors, and journalists] an enormous quantity of pressing work, and no time is left for a thoroughgoing examination of . . . principles and doctrines."

The practical man, in fact, often scorns theory. But, as Mises pointed out, this disdain "is mainly caused by the mistaken belief that the facts of experience speak for themselves, that facts by themselves can explode erroneous interpretations." Facts must be interpreted through the lens of theory. The intellectual conflicts of any age are *theoretical* conflicts, not factual ones.

Theories give meaning to facts. "Hence," Mises wrote, "it is obvious that the attempts to free the people, especially the intellectual youth, from the fetters of 'unorthodox' indoctrination must begin on the philosophical and epistemological level."

This was, in Mises' view, the purpose of FEE. To educate thoughtful people, especially the intellectual youth, on the political, philosophical, and economic issues of the age was the main task of a foundation for economic education. A disinclination to deal with "theory" would mean submission to Marxism and Progressivism. According to Mises, the doctrine of the age promoted ten major economic fallacies which must be debunked.

1. Modern technological developments, it is contended, have delivered humanity into a post-scarcity situation. Thus, remaining *economic* problems are a result of inherent contradictions with capitalism, not due to the problem of limited resources and unlimited wants.

2. Following from the post-scarcity situation, monetary expansion can solve problems. Poverty can be eradicated simply by printing new money.

3. Business cycles, it is said, are not a result of government mismanagement, but instead a natural consequence of the contradictions of capitalism.

4. Mass unemployment is endemic to capitalism and the free enterprise system cannot provide enough jobs. Technological improvements in production are beneficial to some, but a scourge to the masses.

5. Improvements in the working class are due to actions of government, and especially, pro-labor union legislation.

6. Despite the best intentions of government and labor unions, the masses of workers remain in a desperate state of affairs.

7. Bargaining power within the economy rests disproportionately with businessmen, and against labor. Without the aid of collective bargaining, wages would be pushed to subsistence levels by businessmen, who see this as the way they will increase their profits.

8. Competitive capitalism might have accurately described a previous era, but in the world of today the market is dominated by monopolies.

9. In a world dominated by monopolies, the idea of consumer sovereignty is a myth. Business firms do not attempt to supply the wants of consumers, but instead attempt to manipulate those wants in order to increase profits.

10. Since we live in a post-scarcity world, and income distribution is so top-heavy, redistribution of income from rich to poor will not have any effect on economic productivity.

These fallacious economic propositions, one should recognize, were later embodied in such influential writings as John Kenneth Galbraith's *The Affluent Society*. But at the time Mises was writing to Leonard Read, the intention was to give a purpose and direction to FEE's educational mission. This required first and foremost the continued refinement of economic theory, significant historical work guided by correct theory, and the ability to communicate the results of these theoretical and historical investigations to as wide an audience as possible. According to Mises, "Success or failure of endeavors to substitute sound ideas for unsound will depend ultimately on the abilities and the personalities of the men who seek to achieve this task."

Mises, the philosopher and economic theorist, was complemented in his effort by Henry Hazlitt, the economic journalist. Leonard Read—the entrepreneur of ideas—was

able to coordinate the activities of Mises, Hazlitt, and other scholars and writers to translate theory into the modern idiom, thus challenging the prevailing Progressivism of postwar America.

If we compare the current state of economic knowledge with the economic outlook of the late 1940s, as presented by Mises' analysis, then classical liberals have reason both to rejoice and to despair.

On a fundamental level, the work of Mises, Hazlitt, and others—and such organizations as FEE—has done much to unmask error. But too many economic myths persist. A new generation must pick up where Mises and Hazlitt left off, advance the theoretical and historical understanding of economic life, and learn to communicate these ideas to the "intellectual youth" more effectively.

Much has been made of the failure of universities and colleges in recent years. Self-indulgent professors, who pursue their esoteric research at the expense of the education of their students, have come under increased scrutiny as tuition continues to rise. Teaching, not research, should be the primary function of faculty, though it must be understood that research is vital for improved instruction—in particular, careful academic study and writing that meet the scholarly demand of peer review. But with the legitimate critique of the existing situation, there also tends to be a "disdain of theories and philosophies" that Mises warned would lead to the spread of economic fallacies.

As classical liberals work to fulfill their mission in the coming years, they must take inspiration from the accomplishments of Mises, Hazlitt, and Read. If they too readily reject basic research and theory in favor of practical knowledge and superficial instruction, then Mises' challenge will remain unmet.

—PETER J. BOETTKE
New York University
Guest Editor

1. This memorandum has been published in Ludwig von Mises, *Economic Freedom and Interventionism* (FEE, 1990), pp. 179–186.

Understanding Say's Law of Markets

by Steven Horwitz

One of the problems in the world of ideas, particularly in the social sciences, is that the insight behind old ideas can get lost as new ideas crowd the intellectual landscape. Often, the historian of ideas has the thankless task of reminding his colleagues that what they think some long-dead writer said is not, in fact, what he was talking about at all.

Such misunderstandings are frequently more than just simple errors; they can have profound effects on our theories of the social world, our interpretations of history, and our proposals for policy. In economics, one can find numerous examples of this phenomenon. My task here is to explore one of them: the way in which Say's Law of Markets (named for the great Classical economist Jean-Baptiste Say) has been fundamentally misunderstood by economic theorists and laypersons alike, and to explore some of the consequences of this misunderstanding.

W. H. Hutt once referred to Say's Law as "the most fundamental 'economic law' in all economic theory."¹ In its crude and colloquial form, Say's Law is frequently understood as "supply creates its own demand," as if the simple act of supplying some good or service on the market was sufficient to call forth demand for that product. It is certainly true that producers can undertake expenses, such as advertising, to persuade people to purchase

a good they have already chosen to supply, but that is not the same thing as saying that an act of supply *necessarily* creates demand for the good in question. This understanding of the law is obviously nonsensical as numerous business and product failures can attest to. If Say's Law were true in this colloquial sense, then we could all get very rich just by producing whatever we wanted.

In a somewhat more sophisticated understanding, one which John Maynard Keynes appeared to pin on the Classical economists, Say's Law is supposed to be saying that the aggregate supply of goods and services and the aggregate demand for goods and services will always be equal. In addition, Say was supposed to have been saying that this equality would occur at a point where all resources are fully employed. Thus, on this view, the Classical economists supposedly believed that markets always reached this full-employment equilibrium. In one sense this is trivially true. If we compare the actual (ex post) quantities of goods bought (demanded) and sold (supplied) they will always be equal. Whatever is sold by one person is bought by another. Presumably, however, Keynes thought the Classical economists meant something else, perhaps more along the lines of "market economies will never create general gluts or shortages because the income generated by sales will always be sufficient to purchase the quantity of goods available to buy." There is a strong sense in which this is true, but by itself

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it does not assure that full employment will take place because obvious examples of significant unemployment and unsold goods can easily be pointed to. And, in fact, this is what critics of Say's Law have done. By pointing to the various recessions and depressions that market economies have experienced, they claim to show that Say's Law was at the very least naive, and probably downright wrong.

What Say Said

If we want to get a more accurate understanding of Say's Law, perhaps we should consult what Say himself had to say about his supposed law. In the passage where he gets at the insight behind the notion that supply creates its own demand, Say writes: "it is production which opens a demand for products. . . . Thus the mere circumstance of the creation of one product immediately opens a vent for other products."² Put another way, Say was making the claim that production is the source of demand. One's ability to demand goods and services from others derives from the income produced by one's own acts of production. Wealth is created by production not by consumption. My ability to demand food, clothing, and shelter derives from the productivity of my labor or my nonlabor assets. The higher (lower) that productivity, the higher (lower) is my power to demand.

In his excellent book on Say's Law, Hutt states this as: "All power to demand is derived from production and supply. . . . The process of supplying—i.e., the production and appropriate pricing of services or assets for replacement or growth—keeps the flow of demands flowing steadily or expanding."³ Later, Hutt was to be somewhat more precise with his definition: "the demand for any commodity is a function of the supply of noncompeting commodities."⁴ The addition of the modifier "noncompeting" is important. If I sell my services as a computer technician, it is presumed that my resulting demands will be for goods and for services other than those of a computer technician (or something similar). The goods or services competing with those that I sell can always be obtained by applying

my labor directly, so I am unlikely to demand them. The demand for my services as a computer technician is a result of the supplying activities of everyone but computer technicians.

This way of viewing Say's Law gets at the interconnections between the various sectors of a market economy. In particular, it makes sense of the claim that "the employment of all is the employment of each." As each worker finds employment, he or she is able to turn around and demand goods and services from all other noncompeting suppliers, creating the opportunity for their employment. From this perspective, Say's Law has nothing to do with an equilibrium between aggregate supply and aggregate demand, but rather it describes the process by which supplies in general are turned into demands in general. It is always the level of production which determines the ability to demand.

Production Must Come First

This process can be seen in the differences between small, poor, rural towns and wealthier suburban areas. In the small town, the fact that less value is being produced by residents means that their ability to demand goods and services is correspondingly limited. As a result, the selection of products, the number and diversity of sellers, and the degree of specialization among producers is quite limited. By contrast, in the wealthier suburb, there is an amazing array of products, with a large number of diverse sellers all offering very specialized goods. Perhaps most important is that in the wealthier area, there is a greater degree of competition, as the market can support multiple sellers of particular goods given the level of wealth being generated by producers. Say points out that this explains why a seller will likely get more business as one among a large number of competitors in a big city than the sole seller of an item in the more sparsely populated countryside.⁵ The key to understanding Say's Law of Markets is that it is *production* that must come first. Demand, or consumption, follows from the production of wealth.

To a degree, Say's Law is just an extension

of Adam Smith's insight that "the division of labor is limited by the extent of the market."⁶ Smith's point was that the degree of specialization that one would see in a given market depended upon how much demand there was for the specialized product. Thus, small towns rarely have ethnic restaurants beyond the very popular Chinese and Italian, nor do they have radio stations that specialize in very narrow musical formats (oldies from the 1970s only, for example). Larger, wealthier communities can support this degree of specialization because there is sufficient demand, deriving from a larger population and a larger degree of wealth being produced. It is in this sense that production (supply) is the source of demand.

Because all movements between supplying and demanding have to take place through the medium of money, it is somewhat oversimplified to say that production is the source of demand. Actually demanding products requires the possession of money, which in turn requires a previous act of supply. We sell assets or labor services for money, which we then use to demand. Money is an intermediate good that enables us to buy the things we ultimately desire. However, we have to be careful to remember that what enables us to purchase is not the possession of money, *per se*, but the possession of productive assets that can fetch a "money's worth" on the market. When we sell that asset (or our labor services) we receive wealth in the form of money. As we spend that money, we demand from the wealth our production created. However, because we do not spend all of our wealth that we temporarily store as money, but choose to continue to hold some of it in the monetary form, the demand for current goods and services will not precisely match the value of what has been produced, as some money remains in the producers' possession. Thus it looks as though, given the existence and use of money, Say's Law, even rightly understood, leaves open the possibility that aggregate demand is insufficient to purchase what has been supplied.

However, if the monetary wealth is stored in the form of bank-created money, such as a checking account (but not Federal Reserve

Notes), then that withheld consumption power will be transferred to those who borrow money from the bank that created it. The money I leave sitting in my checking account is the basis for my bank's ability to lend to others. The power to consume that I choose not to utilize by leaving my production-generated wealth as money is transferred to the borrower. When she spends her loan, her addition to aggregate demand fills in for the "missing" consumption demand resulting from my decision to hold money. There is, therefore, no excess or deficiency in aggregate demand, as long as the banking system is free to perform this process of turning the saving of depositors into the spending of borrowers. Say's Law of Markets cannot be fully appreciated unless one understands the working of the banking system and its role in intertemporal coordination.⁷

All Markets Are Money Markets

Because all market exchanges are of goods or services for money, all markets are money markets, and the only way there can be an excess supply or demand for goods is if there is an opposite excess supply or demand for money. Take the more obvious case of a glut of goods, such as one might find in a recession. Say's Law, properly understood, suggests that the explanation for an excess supply of goods is an excess demand for money. Goods are going unsold because buyers cannot get their hands on the money they need to buy them despite being potentially productive suppliers of labor. Conversely, a general shortage, or excess demand for goods, can only arise if there is an excess supply of the thing goods trade against, which can only be money. Recessions and inflations are, therefore, fundamentally monetary phenomena, as Say's Law points us in the direction of looking at what is going on in the production of money to explain the breakdown of the translation process of production into demand.

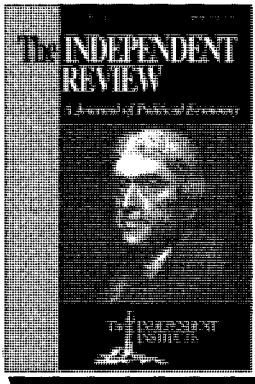
Unlike Keynesian critics of Say's Law of Markets who saw deficient aggregate demand resulting from various forms of market failure as causing economic downturns, we have

argued that a more accurate understanding of Say's Law suggests that there is no inherent flaw in the market that leads to deficient aggregate demand, nor is the existence of real-world recessions a refutation of the Law. Rather, once we understand the role of money in making possible the translation of our productive powers of supply into the ability to demand from other producers, we can see that the root of macroeconomic disorder is most likely monetary, as too much or too little money will undermine that translation process. Despite having been dismissed in the onslaught of the Keynesian revolution, Say's Law, when properly understood both in its original meaning and its relationship to the banking system, remains a powerful

insight into the operations of a market economy. □

1. W. H. Hutt, *A Rehabilitation of Say's Law* (Athens, Ohio: Ohio University Press, 1975), p. 3.
2. J. B. Say, *A Treatise on Political Economy* (New York: Augustus M. Kelley, 1971), pp. 133, 134–35.
3. Hutt, *op. cit.*, p. 27.
4. W. H. Hutt, *The Keynesian Episode* (Indianapolis, Ind.: Liberty Press, 1979), p. 160.
5. Say, *op. cit.*, p. 137.
6. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Chicago: University of Chicago Press, 1976), p. 21ff.
7. On the relationship between the banking system and Say's Law, see George Selgin, *The Theory of Free Banking* (Totowa, N.J.: Rowman and Littlefield, 1988); Larry J. Sechrest, *Free Banking: Theory, History and a Laissez-Faire Model* (Westport, Conn.: Quorum, 1993); and Steven Horwitz, "Capital Theory, Inflation, and Deflation: The Austrians and Monetary Disequilibrium Theory Compared," *Journal of the History of Economic Thought* 18:2 (Fall 1996).

THE NEW JOURNAL ON LIBERTY



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The Socialist Roots of Modern Anti-Semitism

by Tyler Cowen

Auschwitz meant that six million Jews were killed, and thrown on the waste-heap of Europe, for what they were considered: money-Jews. Finance capital and the banks, the hard core of the system of imperialism and capitalism, had turned the hatred of men against money and exploitation, and against the Jews. . . . Antisemitism is really a hatred of capitalism.

—ULRIKE MEINHOF, left-wing German terrorist of the 1970s¹

Capitalism and the market economy encourage racial, ethnic, and religious tolerance, while supporting a plurality of diverse lifestyles and customs. Heavily regulated or socialist economies, in contrast, tend to breed intolerance and ethnic persecution. Socialism leads to low rates of economic growth, disputes over resource use, and concentrated political power—all conditions which encourage conflict rather than cooperation. Ethnic and religious minorities usually do poorly when political coercion is prevalent. Economic collapses—usually associated with interventionism—worsen the problem by unleashing the destructive psychological forces of envy and resentment, which feed prejudice and persecution.

While discrimination is present in societies

of all kinds, discriminators must pay pecuniary costs for indulging their prejudices in a market setting. Even the prejudiced usually will trade with minorities; bigots attempt to oppress minorities by socializing the costs through government action, but bigots usually are less willing to bear these costs themselves. Repeated commercial interactions also increase the social familiarity of customs or lifestyles that otherwise might be found unusual or alien. Sustained economic growth alleviates political and social tensions by creating more for everybody.

The history of the Jewish people illustrates the relatively favorable position of minorities in a market setting. Hostility toward trade and commerce has often fueled hostility toward Jews, and vice versa. The societies most congenial to commercial life for their time—Renaissance Italy, the growing capitalist economies of England and the Netherlands in the seventeenth century, and the United States—typically have shown the most toleration for Jews. Ellis Rivkin, in his neglected masterpiece, *The Shaping of Jewish History: A Radical New Interpretation*, wrote:

Since World War II Jews and Judaism have been liberated in every country and territory where capitalism has been restored to vigorous growth—and this includes Germany. By contrast, wherever anticapitalism or precapitalism has prevailed the status of Jews and Judaism has either undergone deterioration or is highly precarious. Thus at this very moment the country

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where developing global capitalism is most advanced, the United States, accords Jews and Judaism a freedom that is known nowhere else in the world and that was never known in the past. It is a freedom that is not matched even in Israel. . . . By contrast, in the Soviet Union, the citadel of anticapitalism, the Jews are cowed by anti-Semitism, threatened by extinction, and barred from access to their God.²

The socialist origins of modern anti-Semitism illustrate the link between statism and the persecution of minorities. Anti-Semitism as a formal, intellectual movement arose in the middle of the nineteenth century, when Jewish conspiracy theories grew in popularity. German writers picked up on earlier anti-Enlightenment theories of a Judeo-Masonic conspiracy to rule the world. During the French Revolution, the Jews, along with the Masons, were identified as forces for liberalism, secularism, and capitalism. German writers quickly found the Jews to be a more popular target than the Masons, perhaps because they were more visible or more different. The originally Judeo-Masonic theories eventually discarded the other conspirators, such as the Templars and the Illuminati, and focused on the Jews.

Anti-Semitism in Nineteenth-Century Germany and Austria

The anti-Jewish creed was formalized by Wilhelm Marr, the German writer who coined the term "anti-Semitic." In 1879 Marr published his book *The Victory of Judaism over Germandom*, which went through twelve editions in six years. He also founded the "Antisemitic Journal," and started an "Antisemitic League." Marr idolized Tsarist Russia, and earlier in his career he had been a radical socialist. The new anti-Semites who followed Marr expanded the medieval attacks on Jewish traders and usurers and developed them into a full-scale economic critique. The Jews who provoked the most anger were those who embraced cosmopolitan, Enlightenment values, and who achieved economic success.

In the second half of the nineteenth century, Germany became the first country to

develop systematic anti-Semitic political and intellectual movements. In Germany, Adolf Stöcker's Christian Social Party (1878–1885) combined anti-Semitism with left-wing, reformist legislation. The party attacked laissez-faire economics and the Jews as part of the same liberal plague. Stöcker's movement synthesized medieval anti-Semitism, based in religion, and modern anti-Semitism, based in racism and socialist economics. He once wrote: "I see in unrestrained capitalism the evil of our epoch and am naturally also an opponent of modern Judaism on account of my socio-political views." Stöcker had revered the Prussian aristocracy since his youth.

Georg Ritter von Schönerer led the left-wing, anti-Semitic movement in Austria. Schönerer's German Liberal Party, developed a lower-middle-class, anti-Semitic, anti-capitalistic platform in the 1880s. Schönerer directed his anti-Semitism at the economic activity of the Rothschilds; he advocated nationalization of their railroad assets. Later, he broadened his charges to attack Jewish merchants more generally. Hitler was an avid admirer of Schönerer, and as a young man even hung Schönerer's slogans over his bed.

The growing nineteenth-century socialist movements did little to stem the anti-Semitic tide and often explicitly promoted anti-Semitism. The initial link between socialism and anti-Semitism arose through intellectual affinity. Throughout the nineteenth century, the socialist critique of capitalism and the anti-Semitic critique used the same arguments. Many socialists considered anti-Semitism to be a way station on the path toward a more consistent socialist viewpoint. The very first systematic socialist philosophers, the French Utopians of the early nineteenth century, had implicated the Jews in their critique of capitalism. French Jewry was highly commercial, financial, and capitalistic. Proudhon and Fourier, who stressed the abolition of usury, saved their most vitriolic anti-Semitic tirades for Jewish moneylenders.

Karl Marx continued the anti-Jewish polemics of the socialists. The historical association between Jews, private property, and commerce led to his well-known anti-Semitic diatribes. Marx, who sought to reconstruct

society according to his master plan, detested the particularistic nature of Jewish religion and custom. Some of Marx's followers, such as Dühring and Lassalle, used anti-Semitism as a means of introducing anti-capitalist doctrine. They believed that if the public could be convinced to hate Jewish capitalists, the public would eventually come to hate non-Jewish capitalists as well.

A widely circulated nineteenth-century witticism described anti-Semitism as "the socialism of fools" [*der Sozialismus des blöden Mannes*]. It was widely recognized that the anti-Semites shared the same gripes as the socialists; the anti-Semites simply chose too narrow a target. The socialists happily accepted the spirit of anti-Semitism, provided the target was widened to the entire capitalist class. More recently, the historian Paul Johnson has noted with irony that socialism has served as the "anti-Semitism of the intellectuals."³

Even when socialists opposed anti-Semitism, as later came to pass for tactical reasons, European socialist parties failed to provide effective opposition to anti-Semitic trends. Most socialists, with their dislike of capitalism, were unwilling to defend the economic activities of Jews. Socialism pretended to be a revolutionary, liberal movement but in fact embraced the conservative doctrine of concentrated state power. Most socialists supported World War I, which provided a tremendous boost to anti-Semitism, without hesitation. Later, the Nazi party, the most dedicated enemy of the Jews, was a national socialist party from the beginning.⁴

Soviet Anti-Semitism

The actual practice of socialism has not been kind to its religious and ethnic minorities, including Jews. The Soviet government adopted consistently anti-Semitic policies. Lenin was strongly opposed to anti-Semitism, but Soviet policy reversed shortly after his death. Totalitarian states, with their inevitable economic failures, eventually need scapegoats. Economic performance rarely matches the official promises, and the subsequent privations feed social resentment; one person

gains only at the expense of another. The necessities of totalitarian government, in time, override whatever nonracist feelings might be held by the leaders, and create strong pressures for political support of racism. Control over the press and rights of speech makes racist feeling relatively easy to whip up.

Soviet anti-Semitism flourished after the Second World War, as the Communist leaders were unable to resist the target that had proven so successful for Hitler. In 1953 Stalin alleged the existence of a "Doctors' Plot," masterminded by Jews, to poison the top Soviet leadership. Stalin died before a trial was called, but he had been planning to forcibly deport two million Jews to Siberia. The "economic crimes" executions of the early 1960s were directed largely against Jews.

Textbooks were rewritten either to remove the Jewish role in history, or to provide negative stereotypes of Jews. Government texts dealing with Germany and World War II mentioned neither the Jews nor the Holocaust. The Russian pogroms were reinterpreted as justified retribution for the capitalistic excesses of the Jews. The Soviet government attacked all forms of religion, but Judaism most of all.

Eastern Germany continued the earlier Nazi polemics against Jews, substituting the words "Zionist" or "Israel" for Jew, and referring to the salutary effects of "progressive socialist forces," a scant difference from the earlier Nazi terminology of "national socialism." Many former Nazi journalists were hired to write these "anti-Zionist" polemics. Similar trends came to pass throughout eastern Europe. In the early 1950s, thirteen leaders in the Czech Communist party (ten were Jewish), were accused of being "Zionists," and were hanged. In 1968 the Polish media spent months debating the "unmasking of Zionists in Poland," although Jews comprised less than one-fifteenth of one percent of the population. The anti-Zionist campaign was accompanied by demonstrations, arrests, surveillance, police persecution, and other typical methods of totalitarian oppression.

The contrast with the more capitalistic

United States is striking. The United States started off with few Jews but attracted many Jewish immigrants with its relatively free economy and atmosphere of relative tolerance. By the 1920s, three of the four cities with the most Jews were located in the United States. New York had the largest number of Jews, and Chicago and Philadelphia were third and fourth (Budapest was second). Today Jews account for only two percent of the American population, but they account for half of the billionaires. The history of the Jews provides a stark illustration of the differences between capitalism and socialism. □

1. My translation draws upon that of Paul Lawrence Rose, *Revolutionary Antisemitism in Germany: From Kant to Wagner* (Princeton, N.J.: Princeton University Press, 1990), p. 304.

2. Ellis Rivkin, *The Shaping of Jewish History: A Radical New Interpretation* (New York: Charles Scribner's Sons, 1971), pp. 239–240.

3. Paul Johnson, *A History of the Jews* (New York: Harper-Collins, 1987), p. 353.

4. European socialist attitudes toward anti-Semitism shifted in the last decade of the nineteenth century. At this time the socialists realized several truths. First, anti-Semitism was a way station to state control, but the right-wing and fascist parties were likely to capture the benefits. Second, the socialists realized that the anti-Semites (like Judaism itself, in socialist eyes) had become precisely the kind of particularist sympathy that held back the more universalist socialist ideal. These points became clearest in Germany, where most leftists had abandoned anti-Semitism by the early twentieth century. The French left, in contrast, was much slower to repudiate the ideology of racism, perhaps because French politics never polarized the way German politics did.

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Income and the Question of Rights

by Roy E. Cordato

On C-SPAN's *Journalist Roundtable* program, Victor Kamber, a Democratic Party political consultant, and conservative author David Frum were discussing whether Congress should pass an amendment to the Constitution allowing states to ban flag burning. As an aside, Mr. Kamber said that this would be the first amendment to the Constitution that actually reduced people's rights. (He dismissed prohibition by pointing to the fact that it was repealed.) To counter this claim, Mr. Frum pointed to the Sixteenth Amendment, which allowed the government to impose an income tax. Amazingly, Kamber *denied* that the Sixteenth Amendment reduced anyone's rights, claiming that it simply allowed the government to tax people's income. The clear implication was that people do not have a right to their income, i.e., the fruits of their labor. Therefore, the Sixteenth Amendment, which allowed the government to coercively take a portion of individual income (presumably up to 100 percent), did not reduce anyone's rights.

This entire digression lasted for less than a minute. Yet it can be viewed as defining the fundamental difference between contemporary liberalism and conservatism.

How one views the rights that people have over the income that their productivity gen-

erates can go a long way toward explaining positions that are taken on a large cross section of public policy issues. This includes not only budget and fiscal policy issues, but also most regulatory issues, which involve forcing people to use their incomes in ways that they would not freely choose. A person's right to his or her income means nothing if it doesn't mean having the right to choose how that income is used.

If Kamber's view, that the person who generates or earns a particular amount of income has no moral claim to it, is representative of American liberal thought, then many issues fall neatly into place. For example, the overriding concern that many modern liberals have for "tax fairness" is driven by an underlying egalitarian ethic—no one should have a greater income than anyone else. Hence, it is always "fair" to raise taxes on upper-income people, and tax cuts that accrue to the wealthy will always be "unfair."

Conservatives and especially libertarians might suggest that the egalitarian perspective itself is unfair because it disproportionately denies people the right to their income. But if income is viewed not as being the property of the people who earn it, but as a "common pool" resource, then there is no moral dilemma. The government's job is simply to make sure that "society's economic pie" is divided "fairly." Wealth redistribution schemes, then, are never an issue of robbing from Peter to pay Paul, because the term

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“robbery” implies that Peter has a “right” to what is being taken.

Corporate Welfare

A second example is the issue of “corporate welfare.” Historically, government welfare or “relief” has implied a transfer of income, via taxation, from people who have earned it to some subgroup that “needs” the income but has not been able to generate it through productive effort of its own. From this perspective, such programs as subsidies to farmers and government loan guarantees to businesses would all qualify as “corporate welfare.” However, in recent years, many politicians and political pundits have been referring to a new kind of corporate welfare, known as a “tax subsidy.” While it is not always precisely clear what constitutes a tax subsidy, a business is typically said to be receiving such corporate welfare if there are certain “loopholes” in the tax code that allow it to reduce its tax liability.

From the perspective of those who feel that people have a fundamental right to income that they have generated, i.e., that the Sixteenth Amendment was rights reducing, the expression “tax subsidy” is an oxymoron. As many conservatives are fond of pointing out,

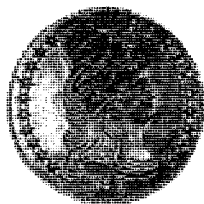
“you can’t subsidize someone with his own money.” But what if it isn’t his own money? What if none of his income, beyond what the government allows him to keep, is his own money? If this were the case, then the concept of a tax subsidy makes complete sense. Indeed, from this perspective, any amount of income that the tax system allows the individual income earner to keep and use for his or her own purposes is a “tax subsidy.”

If my hypothesis is correct, that this short, “beside-the-point” dispute on C-SPAN is at the center of many of our most pressing economic policy debates, then much of current political discourse can be seen as missing the point. The fundamental debate should focus on a question that is rarely, if ever, asked: What should be the relationship between the income that a person generates and the legitimacy with which he can claim rights to that income? This is not an issue of economics or of pragmatic public policy. It is a fundamental issue of morality. It is the right to the fruits of our labor and effort that makes our “Creator-Endowed” rights to life, liberty, and the pursuit of happiness meaningful. In reality, if the Sixteenth Amendment to the Constitution did not reduce our rights as a free people, then neither did the first ten amendments secure those rights. □

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The Problem of Education Doesn't End at the 12th Grade



The sad story of poor student performance in America's public schools is so widely known these days that most people greet each new study that confirms it with a kind of numbed disgust.

That was the case in my state of Michigan last September when the results of proficiency tests in math, reading, writing, and science were reported in the press. Barely one-third of high school seniors were rated proficient in science and writing and fewer than half achieved that basic level in math and reading. "So what else is new?" seemed to be the common response.

The decline in students' test scores and of literacy in America are often laid at the doorstep of K-12 public education. Children are clearly being shortchanged, but not by the K-12 system alone. Indirectly but decisively, children are being shortchanged by the system that teaches the teachers who teach the children—*higher education*.

Last September, the National Commission on Teaching & America's Future released an important study. The bottom line: Large numbers of public-school teachers are not qualified to teach the subjects to which they are assigned. Close inspection suggests that the problem is not that too few teachers are graduating with good grades and degrees in education; the problem is what goes on in

the courses they take from university departments of education.

Poor student performance and poor teacher preparation are directly related. In a recent study for the Mackinac Center for Public Policy, Professor Thomas Bertonneau argued that general undergraduate instruction in the state universities is deficient and deteriorating. Far too many graduates lack basic verbal and cognitive abilities, and the reasons are disturbing: the disintegration of an effective core curriculum; the pervasiveness of trendy, politically correct courses that stress indoctrination over genuine learning; the dumbing down of instruction in proper writing and reasoning skills; and a growing gap between what students are taught and what they must know to succeed as teachers or other professionals.

Analyst David P. Doyle describes teacher education in these terms: "It is a classic example of a 'closed' system, one in which there is little or no feedback from the outside world. Once through the process, teachers heave a sigh of relief and get on with their work. Teacher educators, institutionally insulated, have been under little pressure to change or improve. Worse yet, their inertia is reinforced by state teacher licensing requirements that mirror the vapid courses they offer."

Let's examine a few of the dubious exercises our universities are engaged in.

Most college graduates over the age of 40 will recall taking freshman English composition. That's the course in which they learned

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the fundamentals of written exposition, including a review of grammar and syntax, and some lessons in informal logic and the rules of evidence. A tedious but valuable course, freshman composition once sharpened universally applicable skills that helped us deal meaningfully with material and assignments in other courses.

But in universities today, much of what passes for freshman composition is trivial and irrelevant, or worse. Heather MacDonald writes in *The Public Interest*, "The only thing composition teachers are not talking and writing about these days is how to teach students to compose clear, logical prose."

Course syllabi and related materials from English departments and writing programs in universities across the country reveal a general lowering—and in some cases, an abandonment—of standards of correct writing. Self-expression and moral liberation (the "anything goes" approach) are often emphasized over prose competency. Typical is this professor's advice from a freshman composition course syllabus at Eastern Michigan University: "Don't worry about writing perfect papers. I do not have a set standard for what I consider 'good writing.'"

Professor Bertonneau conducted a survey of the master syllabi for freshman composition at Michigan's universities. His work revealed the dominance of a school of thought that denigrates the very notion of "basic skills." According to this view, there is no connection between a knowledge of grammar, syntax, and logic on the one hand, and the communication competency of students on the other. Emphasizing basic skills is characterized as "elitist," or as an exercise in "discrimination" against ethnic minorities, or as a manifestation of an "oppressive" economic system.

A study from the Empire Foundation last summer showed that the same philosophy pervades the state universities of New York. Indeed, this is a cancer that afflicts higher education—and hence, teacher training—all across America.

The abandonment of rules and standards in the universities shows up in other ways too—in a popular but dubious focus on "peer teaching," for example. This is an activity

in which students who have not yet gained competency in prose are supposed to substitute for the teacher and teach each other what none of them by himself knows, namely, the elements of clear and correct communication.

Dr. Peter T. Koper, one of Professor Bertonneau's colleagues at Central Michigan University, dissents from this prevailing orthodoxy. He sees the trends cited here as inherently divisive. In Koper's view, "Grammar is not elitist. It is, rather, quintessentially democratizing, the ability to use Standard Written English being the condition for participating in public life in this country and in much of the rest of the world."

A preference for trivia is also part of the problem in today's teacher education courses. The curricula offered by university education departments are heavy on fuzzy "self-awareness," "multicultural," and other fad-dish or politicized material, and light on the hard knowledge of the subjects that teachers will eventually have to teach. One assignment, offered as a model to teaching assistants at a major university, asked students to watch and discuss TV talk shows like *Oprah* and *Montel* for two weeks of a 15-week semester.

Rigorous content in the traditional liberal arts has disintegrated in favor of cultivating emotions and politically correct opinions. The result is a huge disservice to prospective teachers who pay good money to become prepared for the classroom but are instead diverted into shallow, unproductive, and even irrelevant course work. If that were the end of it, it would be tragedy enough. But millions of taxpayers who help pay the bill and millions of children who suffer at the hands of poorly prepared teachers are casualties too.

This cake was baked with ingredients that could hardly have produced any other outcome: a tax-funded, politicized education system leavened with institutionalized protection for incompetence and annual financial rewards for mediocrity.

Education reformers have scored points everywhere by painting K-12 public education as an unresponsive government institution in need of competition, accountability, even privatization. If they take a look at universities, they will find much the same thing. □

Mises, Hayek, and the Market Process: An Introduction

by Nevenka Čučković and David L. Prychitko

Why Mises and Hayek?

After decades of self-managed socialism, Croatia has embarked upon a market-capitalist transition of historical proportions; yet it is still a country that struggles in search of sound economic foundations.

The collapse of the Yugoslav system has unleashed a new dialogue in Croatian scholarship over the promises and prospects of classical liberalism. The visions of Ludwig von Mises and F.A. Hayek, two leading figures of the Austrian School, have enjoyed a growing interest, although their work is often discussed solely in terms of the historical socialist calculation debate within the economics profession during the 1930s and 1940s. There are some exceptions, such as the largely neoclassical textbook of Djordje Pribičević, which explores some later Austrian themes, including the notion of competition as a discovery procedure. Very little of Mises' and Hayek's work, however, has been translated into the Croatian language. We hope to make a small step forward with the publication of this slender volume.

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This article is adapted from the introduction to the Croatian-language edition of Mises, Hayek, and the Market Process, to be published later this year in Zagreb.

The problem of central planning has been the distinguishing theme of the modern Austrian School through the twentieth century, nurtured through the concentrated efforts of Mises and Hayek. Both Mises and Hayek developed an epistemological case against comprehensive planning, and argued that modern society owes its preservation to private or separate ownership of the means of production and to market-exchange processes. The "economic freedom" stemming from private ownership and free markets becomes a necessary condition (though, emphatically, not sufficient: witness fascism) for an overarching political freedom.

Property Rights and the Market Order

But what is ownership? Scholars of the former Yugoslavia have asked this question for decades. Articles by Aleksandr Bajt (1968) and Eirik Furubotn and Svetozar Pejovich (1970) provided a pioneering critical analysis of the notion of "social ownership," which would go a long way in establishing the "property rights" analysis within modern neoclassical economics (and its corresponding critique of self-managed socialism). More recently, Andrija Gams (1988) offered a comprehensive and important treatise on the subject, although the book (*Svojina*—ownership) is unknown to most Western economists.

The Austrian economists anticipated the development of modern property-rights economics and articulated a clear notion of ownership as early as 1881, with Eugen von Böhm-Bawerk's short book *Rechte und Verhältnisse vom Standpunkte der volkswirtschaftlichen Güterlehre*. Böhm-Bawerk is the first economist that we are aware of to distinguish between legal (de jure) ownership and factual (de facto) ownership of the means of production and by doing so maintain that economics must necessarily study de facto ownership and its corresponding social processes. Part I of our present collection addresses the implications of the Austrian study of ownership and the emergence of the market economy.

In the first essay, "Ownership," Ludwig von Mises explores the full implications of these two kinds of categories of ownership rights. What matters for economic analysis is an exploration of who actually holds the power to use scarce economic goods, rather than simply focusing on the formal connections between those who enjoy the legal or juristic titles to economic goods. The juristic notion defines who, if anybody, "should have" the power to dispose of the means of production. In the 1974 Yugoslav Constitution, for example, the juristic notion of social ownership declared that society as a whole (and thereby "nobody") owns the means of production. But the goal of the economist, according to Mises, is to pierce through the juristic network of formal ownership claims and uncover *who, or what groups, are actually controlling "society's" resources*. The implications for the study of the factual workings of Yugoslav self-managed socialism are now obvious, but the seeds of the critique were actually planted, it seems to us, in this early essay by Mises.

Mises himself would embrace the idea that property rights emerged *because people anticipated, in advance, the net benefits to be gained from such a social order*, and he would continue to dismiss, as he does in this particular essay, the evolutionary explanation based on "natural selection" processes.

In the second essay, "Our Moral Heritage," Hayek offers an alternative evolutionary explanation of the development of private prop-

erty rights and other moral rules and codes that allowed small societies to thrive and eventually led to the extended order of the modern market-capitalist system. Hayek fully accepts the importance of the de jure/de facto distinction. Yet, he tries to explain how our overarching set of moral rules (those of contract, justice, trust, honesty, reputation, family, even private property itself) emerged over time, as largely an *unintended* and *unanticipated* consequence of individual cooperative and competitive behaviors.

Hayek argues that people did not accept the moral rules of property and family because they rationally understood the enormous social consequences that would emerge; instead, those small groups of people (Hayek is considering the earliest emergence of civilization here) who stumbled upon such unwritten, tacit codes of conduct tended to prosper, and their populations tended to multiply compared to those who had not. Later these would become codified into commandments, laws, and so forth. It was these de facto practices and customs that allowed people to prosper and civilization to emerge; only later would these customs reach de jure stature. The de jure codes of conduct did not *create* the extended market order, but rather helped *reaffirm* the embodied wisdom that had arisen through a complex process of selective, cultural evolution that emerged over the course of thousands of years.

The contemporary market order, then, is the product of a centuries-long unfolding of countless human actions, but it is certainly not the product of intentional human design. It is, in other words, a *spontaneous* order.

Hayek clearly discusses the distinction between organization—a fully planned or designed order—and unintended, unplanned, or "spontaneous" order in "Kinds of Order in Society," the third essay in our book. Individual households and enterprises are generally goal-related organizations: their members cooperate to attain a common aim (for example, a family holiday, or university education for the children; higher productivity or increased sales for the firm). What emerges, however, is an integrated *social* division of labor and an overall market process that is at once more

complex and informationally efficient than the participants could have ever intentionally engineered: the cooperative and competitive exchange processes and the system of commodity production at once *harness* knowledge from the level of individuals, households, and firms and, through changes in prices, interest rates, rents, incomes, profits, losses, and so on, also *further inform* them of the economic efficiency of their plans. In this way, the spontaneous ordering of the market process goes well beyond the epistemological limitations of individual human minds and plans.

The Knowledge Problem

The implications for socialist planning are enormous. Call it the “knowledge problem,” the subject of Part II.

The first article in this section, “The Use of Knowledge in Society,” provides Hayek’s most celebrated article in economic theory. Writing in response to the neoclassical market-socialist models of Oskar Lange, Abba Lerner, and Joseph Schumpeter, Hayek argues that models of socialism (advocating central planning or market socialism) *assume away* the central problem of economics: precisely *how* will planners gather the knowledge and information required to successfully design and coordinate a modern economy?

Most planning models demonstrate that planners could design a comprehensive and efficient plan if they possessed all the relevant information, including the preferences of millions of consumers and, even more incredibly, the availability and alternative uses of all scarce resources. The “solution,” then, is a mere unfolding of the logic of rational action, a task suitable indeed for neoclassical economics. But Hayek, as an Austrian economist, argues that these exercises in pure logic assume away the real economic problems that societies face: how can plans be integrated when people *do not* possess all the relevant information? Lange’s model went no further in addressing this question, since it assumed that consumer preferences, production functions, costs of production, and availability of resources are *all* given “data,” and the only knowledge that planners lack is that of the

corresponding equilibrium prices. (Actually, Hayek’s criticism in this chapter can also be interpreted as a criticism of neoclassical economics in general. Whether the model is used, as Lange did, to defend market socialism, or whether it is used, as, say, Milton Friedman does, to defend capitalism, in either case it assumes too much for the planners or for the capitalist enterprises.)

How, then, does capitalism work? Building upon Mises’ path-breaking 1920 article, “Die Wirtschaftsrechnung in sozialistischen Gemeinwesen” (translated into English as “Economic Calculation in the Socialist Commonwealth,” and omitted here for lack of space¹), Hayek argued that spontaneously generated market prices inform participants, after the fact, of the economic suitability and consistency of their individual plans. Enterprise organizations use past, present, and, especially, expected future prices to develop their *ex ante* plans, to make calculative business judgments and guesses about the future. They will learn whether their plans and calculations were worthwhile, however, by the actual unfolding of events that define the market process: *ex post*, the actualized market prices will inform enterprise owners of bottom-line profits or losses.

Both Mises and Hayek argue that the calculative or epistemological characteristics of the market pricing system cannot be limited to mere markets for consumer goods, but must also encompass higher-order capital goods and resources, including the means of production. Consumer-goods markets inform enterprise organizations of *what* to produce; but it takes a market process in the means of production to inform enterprises *how* to produce both consumers goods and higher-order goods.

By abolishing the market for means of production, through collectivization and nationalization, and by seeking, essentially, to turn all of society into a single, integrated *organizational* order, socialism must fail. Its complexity and ability to coordinate the millions of individual plans among households and enterprises and other suborganizations in society on the basis of an all-encompassing, comprehensive *ex ante* plan will be limited to

the epistemological abilities of the central planning authorities. Lacking a market process and private or separate property in the means of production, and clinging to the goal of *ex ante* plan coordination, even decentralized or self-managed socialist planning schemes (such as Croatian economist Branko Horvat's sophisticated attempt to answer Hayek) are equally vulnerable to the Austrian-School critique.

While Hayek's article, written in 1945, was geared toward the economics profession, and considered a closing argument in the "socialist calculation debate," Mises' "The Delusions of World Planning" (the fifth chapter in this volume) appeared in 1944 as part of his observations of World War II in his book *Omnipotent Government*. Here Mises applies the Austrian arguments to immigration policies, foreign trade agreements, international monetary arrangements, and the planning of international capital transactions. Mises challenges the belief that a capitalistic market order can be rationally managed through broad-sweeping governmental (and intergovernmental) planning policies. Although his criticisms predated the post-Bretton Woods monetary order, they are applicable to today's International Monetary Fund and the policies of the World Bank.

Hayek broadens the discussion of planners and their plans in chapter six, on "The Pretense of Knowledge," his Nobel Memorial Lecture of 1974. For Hayek, the motivation to plan and intervene in spontaneous market order may largely be the result of *scientism*, or our over-fascination with positivistic science. People have placed too much faith in scientific expertise, as if science *alone* enjoys a monopoly on the generation of knowledge and truths, and the experts themselves have wrongly assumed that complex social phenomena can be managed and controlled much the same as natural phenomena. Scientism rests on the mistaken assumption that spontaneous social order can be rationally managed and scientifically engineered through state intervention and national economic planning. The cooperative and competitive behavior among individuals, households, and enterprises appears too haphazard and anar-

chic against scientism's social-engineering ideal; better to rationally *control* those behaviors in order to facilitate an ever more efficient social outcome.

The pretense of science rests in the vain hope to predict and control social outcomes. We've recently learned, if chaos theory has any truth to it, that prediction is problematic even in the natural sciences. The social sciences differ from the natural in that they study phenomena of the highest complexity, not mere physical phenomena, but instead humans capable of imagining and forming expectations, and *changing* their expectations and plans on the basis of changes in socioeconomic conditions (which can therefore unintentionally frustrate the carefully designed plans of the best social engineers). Hayek reminds us in the next chapter, on "Competition as a Discovery Procedure," that neoclassical economics itself leans toward the scientistic ideal by its almost exclusive emphasis on general equilibrium and its welfare characteristics.

Recalling the central theme of his "The Use of Knowledge in Society" essay, here Hayek more clearly articulates that a real, rivalrous market process—in actual *disequilibrium* conditions—spontaneously discovers the data (the efficient ways to produce and distribute scarce goods and services) that are otherwise unexplained and already assumed in advance in the abstract fiction of a general economic equilibrium. Hayek discusses how, by its very nature as a process, rather than an already attained equilibrium, the results of a competitive discovery procedure cannot be predicted in advance.

On Economic and Political Freedom

These essays set the stage for Mises' and Hayek's confirmation of classical liberalism: economic freedom is a necessary condition for political freedom, the subject of Part III. Society seems to face a choice: Either we can allow millions of people to use property as they see fit (within a set of constitutional rules, of course) and engender a market-based discovery procedure, or we can abolish

ownership and private initiative in favor of an increasingly centralized plan designed by expert authority and employing the latest scientific procedures.

In chapter eight—"Interventionism"—Mises argues that there is no "third" way between a market system and a planned economy. He states it bluntly and provocatively: either capitalism or socialism—there exists no middle way. State "interventions" into the market system (such as price controls) will *unintentionally* create distortions in other parts of the system (such as shortages or surpluses) which, in turn, will create more demands for intervention in order to solve *those* problems. Rational and partial interventions into the economy beget more interventions, which further choke the system's discovery properties, generating further discoordination and inefficiencies which only promote louder cries for systemic and all-encompassing intervention. In this sense, capitalist economies might *tend* toward—but due to the knowledge problem—will never fully achieve, outright socialist planning.

What emerges is neither a more efficient capitalist economy nor greater political freedom. Instead, as Mises maintains in the next chapter, "The Social and Political Implications of Bureaucratization," the piecemeal state interventions into capitalism create an ever-spreading and contradictory bureaucracy, a panoply of state bureaus and agencies with often conflicting and incompatible agendas that crowd out both the market process and civil society.

Chapter ten, on "Why the Worst Get On Top," is taken from Hayek's provocative book *The Road to Serfdom*. Here Hayek seems, on the surface, to affirm Mises' "dictatorship complex" argument. Hayek argues that the interventions and creeping bureaucratization of society create a new kind of competitive selection mechanism—one that *rewards* totalitarian discipline and readiness to disregard society's accepted morals in order to execute more rational plans and policies. The centralized, state-bureaucratic institutions reward precisely those individuals who can place the "community" in the abstract—but especially the institutions of the state it-

self—at a higher moral level than the millions of concrete individuals whom the democratic state was originally meant to serve; one who can confidently and without moral hesitation consider individuals—including those filling the bureaucracy—as the means to attain the collectivist goals of the state itself. The economic power of individuals (through private ownership of the means of production and labor mobility) becomes increasingly appropriated by the institutions of the state, re-emerging as a tremendous instrument of *political power* that destroys political freedom—freedom of the press, of religion, of emigration, and so on. Those who *despise* such political freedoms are more likely to rise to the top as opposed to those who are indifferent to (let alone those who cherish) such freedoms.

Is Self-Managed Socialism the Answer?

What about democratizing the interventionist state? Or, recalling the writings of some members of the Praxis Group, such as Mihailo Marković—which enjoyed critical international acclaim among disillusioned Marxists in the West—why not insist on a radically self-managed socialism as a corrective to the centralized socialist state? (Marković himself argued that *both* the abolition of private ownership of the means of production *and* the abolition of politics as a profession are *necessary* conditions for true political freedom, which, when fully combined, amount to a *sufficient* condition.) Would *this* answer the Mises-Hayek objections?

Attempting to draw the Austrian critique to the Yugoslav model of self-managed socialism, one of the present editors has argued that self-managed socialism would face, even under some hypothetically "ideal" condition, the same set of knowledge problems *and* totalitarian problems as that of the centrally planned case.²

The maintenance, reproduction, and well-being of the self-managed socialist society still depends, absolutely, on a smoothly functioning, rational plan. But the planning board—democratically self-managed or not—would

Lessons for Lithuania

I think the West is still a good example of how to get rich or at least how to emerge out of poverty. But only as long and as much as there is a grain of capitalist spirit and practice there—only as much and no more. It would be a big mistake to copy socialist tendencies of Western socioeconomic life—tendencies that are contrary to capitalist spirit and practice. Unfortunately, it is these attributes of Western life that seem to have a particular fascination for some of us.

As to Lithuania, the adoption of constructive capitalist elements that continue to glimmer in the West would mean two simple things: first, the necessity to continue privatization of all state domains and functions without exception, starting, say, with the monetary and credit systems and all the way through to education, health care, social security, pension insurance, and others; and second, the necessity to put an end to all sorts of government controls and regulations that restrain and stifle private initiative. This is inevitable as Lithuania continues to extend the scope and weight of the private sector by using private property in the most beneficial way for people and the most profitable way for the owner.

I believe that such reform guidelines that will lead to a free-market capitalism will help us to build up a better and more decent life—based on our own ingenuity and reason rather than government favors. Government, after all, is not an almighty gracious God that works miracles.

—AUDRONIS RAGUOTIS

(Excerpted from The Free Market, a newsletter of the Lithuanian Free Market Institute.)

still face an immeasurable degree of complexity when it attempts to formulate a feasible plan of action. Without private ownership of the means of production, and thus a series of prices emerging from a spontaneous market process, the economy has no systemic discovery procedure to evaluate the relative scarcities of goods and services—especially that of the means of production. The planners would find that their task is constrained more by epistemological limitations than by moral principles. That is, although they may believe they possess objective, concrete guidelines regarding political-economic justice (whether traditional—to each according to his needs, from each according to his abilities, or more contemporary rules articulated by Marković and others), the planners will soon face an enormous epistemological wall: they will in-

evitably lack useful criteria to help them acquire and transmit the detailed and relevant knowledge necessary to comprehensively coordinate and plan the entire economy. The relevant information surely will not be unearthed through the workers' councils.

The planners, in a sincere effort to create a unified and comprehensive plan worthy of its name, will not allow—indeed, they cannot allow—everyone to participate in plan formulation. The organizational logic must be one whereby planning tasks must be delegated to experts—at the level of councils, enterprises, ministries, and the central organs of state power itself. In order to feed the people (let alone clothe, house, educate, safeguard, and enrich the masses) the planning board will find that it cannot place socially important technical problems into the

hands of society as a whole. Rather, the planning board, in conjunction with other centralized bureaus of the state, will deem it necessary, if rationalized production, distribution, and consumption processes are ever to commence, to appropriate control over the means of production and pursue the social goals that it deems technically possible and economically and socially worthwhile. The knowledge problem inherent in socialist proposals—to the extent that socialism seeks to abolish private ownership by whatever method of planning (centralization, self-management, or market socialism of the Lange variety)—paves the way for the totalitarian problem, the logical tendencies behind Mises' bureaucratization of the world or Hayek's road to serfdom.

So what's left? In chapter eleven—"Economic Freedom and Representative Government"—Hayek sketches what he considers the basic economic and political principles for a free, liberal society. How do we maintain or, in the case of the new regime in Croatia and other parts of Eastern Europe, cultivate, a market-based economy that fights the gradual erosion of political liberty and civil space—the tendencies to drift back toward statism and totalitarianism? Hayek argues that government must adopt a strict

constitutionalist approach—a rule of law—that enforces *general* codes of just conduct equally applicable to all citizens. The details on the use of property, and so on, would be left to individual and group initiatives, to cooperative and competitive behavior among people and organizations, as long as they follow the broad rules articulated within the general constitution. (There is nothing prohibiting, for example, the emergence of cooperatives and other self-managed organizations, at least in principle, to compete alongside more traditional privately owned enterprise.)

This type of constitutional approach is of key importance for present-day Croatia. The editors do not, of course, pretend that Hayek should have the first *or* the last word on the subject. Rather, we offer this chapter in order to complete the Mises-Hayek analysis of the problems of socialism and interventionism, and the corresponding appeal for the establishment of a general rule of law as opposed to the rule of men. □

1. See F. A. Hayek, ed., *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism* (London: George Routledge and Sons, Ltd., 1935), pp. 87–130.

2. David L. Prychitko, *Marxism and Workers' Self-Management: The Essential Tension* (New York and London: Greenwood Press, 1991), pp. 45–55, 83–100.

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Breaking Up Antitrust

by Edward J. Lopez

In one of the most famous passages in *The Wealth of Nations*, Adam Smith cautions, “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. . . .”

Supporters of antitrust laws believe that Smith couldn’t speak the truth more plainly. They deem this sort of anticompetitive behavior bad for consumers. Antitrust regulation, they argue, is necessary to protect competition and the well-being of society from these kinds of conspiracies.

But is Adam Smith right? He correctly warns of the natural incentive that businesses have to get the highest price possible for their products, and perhaps to monopolize their industry or collude with one another to increase prices. One might legitimately conclude that free markets cannot always be left free, and that government institutions like antitrust are necessary for the protection of society’s interests.

As awful and ridiculous as this may sound, people who love freedom must take this claim seriously. Antitrust supporters generally have a strong foundation, not only in Adam Smith, but in much of the conventional economic theory of the twentieth century. Economists have at their disposal powerfully convincing ways of showing that monopoly is harmful,

and that antitrust enforcement is the perfect remedy, at least in theory.

The real world also provides plenty of examples that support the claims of antitrust supporters. The kind of behavior that Smith describes does indeed occur. One such case was the notorious fare-fixing telephone conversation initiated by American Airlines chairman Robert Crandall with Braniff president Howard Putnam in 1983.¹

The early 1960s gave us another infamous example. General Electric, Westinghouse, Allis-Chalmers, and I-T-E coordinated a pervasive price conspiracy in selling heavy electrical equipment to the government. A single company would enter a bid lower than all its “competitors,” all of whom would enter identical bids higher than the lowest. In one instance, seven different companies entered a bid of exactly \$198,438.24, and the contract was awarded to the single firm that bid lower. It was a very effective cartel.

These were supposed to be secret bids, and the conspiracy would never have worked if not for the cartel’s ingenious enforcement strategy. The firm to enter the lowest bid was determined by the fullness of the moon. This “phase of the moon” strategy was foolproof for decades, and was only discovered in 1959 by a reporter in Tennessee, who noticed the peculiarity of the identical bids. The conspiracy is estimated to have cost consumers \$175 million in every year of its decades-long existence.²

These examples illustrate the creativity that businesses sometimes use in trying to monopolize a market. When cartel members can

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actually enforce the agreement, or when a firm actually succeeds in monopolizing a market, the result is almost invariably bad for consumers.³ Whether antitrust enforcement does the job or not, we still need to take the threat of monopoly seriously. And we still need to recognize and acknowledge that antitrust is, at least in theory, a way to deal with this threat.

But do classical liberals need to concede that antitrust regulation actually *does* the job? Do we need to agree that antitrust deals effectively with the threat of monopoly and that it is therefore *good* for society? The answer is clearly no. In fact, sober economic analysis can explain how antitrust policy fails to combat the monopoly threat, how it betrays the public interest it is pledged to protect, and how it therefore serves the private interests of the businessmen, politicians, and bureaucrats involved. In short, we need to voice the reasons why the antitrust laws should be repealed.⁴

Antitrust Enforcement: The Ideal Versus the Real

One would rightly be suspicious to discover that antitrust laws in this country are enforced by two separate federal agencies, the Antitrust Division of the Department of Justice and the Federal Trade Commission.⁵ Each agency is subject to Congress by way of budget appropriation, confirmation of appointees, and general oversight into agency activities. Because of this oversight, we can be fairly certain that the agencies enforce the statutes according to the wishes of the current Congress.⁶

In a perfect world in which Congressmen are public servants, antitrust should work the way it is supposed to. We should expect that once Congress allocates an amount to each agency, staff members there take an inventory of the monopoly inefficiency in the economy, make a list according to the costs to society, and bring cases against these monopolies in order of their importance until their budgets are exhausted. There might be some red tape and pre-investigation procedures to worry about, but overall this seems to be the way it should work. What better way to make society better off? How much better can a policy get?

Unfortunately, the naive assumption that there is a "public-interest" standard in government dominates discussions of antitrust and in so doing abstracts entirely from the existence and power of special interest groups. Policies that were introduced in the name of promoting competition have become tools to protect against competition. Congress, businesses, and the antitrust bureaucracy all have much at stake in the antitrust game. They form a triangle of private interests that drive antitrust enforcement at the expense of the general public.

The Antitrust Bureaucracy

First, consider the incentives of those who are in charge of enforcing the antitrust statutes. At the Antitrust Division, there are 331 attorneys and 50 economists, while the FTC maintains a comparable 435 attorneys and 63 economists. These agencies are hierarchical and experience much of the red tape that any government bureau does. But at some point, every decision is made by an individual, who has his own career agenda and objectives.

One study of the Antitrust Division⁷ found that the strengthening of the anti-merger laws (the 1950 Celler-Kefauver amendment), and especially the early cases brought to court, made antitrust expertise more valuable in the private marketplace. There was a clear increase in the demand for these skills so that a young lawyer had a great deal to gain by working in the Antitrust Division. What's more, he or she had even more to gain from the specific experience of arguing cases at trial in the federal courts. Lawyers at the Antitrust Division have every incentive to choose cases that will go to trial, and go to trial quickly, regardless of the efficacy of the action in combating monopoly, or its effect on consumer welfare.

A similar study focuses on the FTC.⁸ The study found that the ultimate career objective of most FTC lawyers was a job at a prestigious private law firm. Robert Katzmman writes that some cases "threaten the morale of the staff because they often involve years of tedious investigation before they reach the trial stage."⁹ Therefore, the FTC opens "a number

of easily prosecuted matters, which may have little value to the consumer . . . in an effort to satisfy the staff's perceived needs."¹⁰ One FTC attorney is quoted in the study as saying, "for me, each complaint is an opportunity, a vehicle which someday could take me into the courtroom. I want to go to trial so badly that there are times when I overstate the possibilities which the particular matter might offer."¹¹

It's clear from studies like these that the antitrust bureaucracy doesn't select cases to prosecute on the basis of their potential net benefit to society. Instead, the staff at FTC and the Antitrust Division use the discretion that they do have to further their own private interests and careers rather than those of the public at large. The antitrust bureaucracy cannot be counted on to uphold the public interest in enforcing antitrust laws.

The Congress

Although the antitrust bureaucrats would like to exercise complete control over their enforcement agendas, they are ultimately accountable to their congressional oversight and appropriations committees. Now, consider the incentives of members of Congress. The goal for most members is to get re-elected or ascend to a higher office. There is a much greater chance that this will happen if they support local or narrow interests rather than some vague notion of the national or public interest.

Antitrust is one of many pork-barrel programs that Congress uses to transfer wealth from large, unorganized groups of individuals to the narrow, organized interests of others. In many ways, antitrust is the perfect wealth-transfer vehicle. It is highly inconspicuous, covering the entire economy rather than just specific industries. It applies to specific business practices, and can therefore be used to protect less efficient companies from their more efficient competitors. Antitrust can therefore deliver potent benefits (directly limiting the competitiveness of one's rivals), while the costs occupy a tiny line on the federal budget and are hardly noticeable at all. The stockholders of the protected com-

pany gain at the expense of the stockholders of the more efficient, yet legally hampered, competitor.

The evidence on the matter is clear. Antitrust enforcement falls less stringently on companies headquartered in the congressional districts of members on the key committees with oversight and budget authority over the antitrust bureaus.¹² And if a committee's membership changes significantly, the antitrust bureaucracy changes as well. After the 1976 and 1978 elections, the key oversight committees experienced rapid turnover of its members. Prior to that, the FTC had a very avid enforcement agenda. But the new committee members found their constituent interests demanded a different approach. Therefore, in 1979, the Congress blasted the FTC as a runaway and out-of-control bureaucracy. After a series of heated hearings, the FTC systematically watered down or simply halted most of its controversial activities. As the currents change in pork-barrel waters, so too does the antitrust bureaucracy.

Other aspects of antitrust also reveal private interests at work. While the original Sherman Act was ostensibly supposed to rein in the "dangerous concentrations of wealth" among the "giant monopolies" of the day, history reveals little monopoly power existed at the time. Prices were falling throughout the economy and output was surging.¹³ This only serves to benefit consumers, and Congress even recognized this as true.¹⁴ So why did Congress enact an antimonopoly law in such an apparently competitive climate? Because the law protected small or inefficient businesses from the rigors of competition, and it portrayed Congress as a champion of justice and freedom. Other studies find similar results for the Clayton Act.¹⁵ Still other studies show that antitrust not only fails to benefit consumers, but also harms them.

The conclusion from examining the incentives created by antitrust laws, and actions taken under them, is that antitrust laws do not serve the public interest as their supporters would claim. Antitrust does not combat the monopoly threat, but rather protects less efficient companies from their competitive

rivals, bolsters the political capital of members of Congress, and furthers the careers of Washington bureaucrats. In short, the only thing that antitrust makes more efficient is the cozy triangle of special interests.

Conclusion

Classical liberals should take the threat of monopoly seriously. But the answer to this threat is not antitrust laws. Any potential monopoly must instead be exposed to the discipline of market competition. Economists have long made convincing arguments that a natural monopoly is rare. Most monopolies exist because of government intervention. By repealing antitrust statutes, and ending government-sponsored monopoly, we will allow the threat of monopoly to be dealt with in the most effective manner possible: the market process.

Adam Smith rightly warned us of the dangers of business conspiracies. But in the same famous passage quoted earlier, he went on to warn of the even greater danger of relying on government institutions to combat it:

It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary. □

1. Howard Putnam taped this conversation. It was entered as evidence in the case brought by the government against American Airlines and Crandall. Quoted from Roger E. Meiners, Al H. Ringleb, and Frances L. Edwards, *The Legal Environment of Business*, 3rd ed., p. 401.

2. Dennis W. Carlton and Jeffrey M. Perloff, *Modern Industrial Organization*, pp. 181–183, and Richard A. Posner, "The Social Cost of Monopoly and Regulation," *Journal of Political Economy*, 83:807–827.

3. Probably most successful monopolization is achieved through government protection.

4. A compelling case has been made along these lines by D. T. Armentano. See *Antitrust and Monopoly* (New York: John Wiley and Sons, 1982) and *Antitrust Policy: The Case for Repeal* (Washington, D.C.: Cato Institute, 1986).

5. This arrangement has been the subject of widespread and extensive criticism, which typically calls for the elimination of the FTC. See Richard S. Higgins, William F. Shughart II, and Robert D. Tollison, "Dual Enforcement of the Antitrust Laws," in Robert J. Mackay, James C. Miller III, and Bruce Yandle, eds., *Public Choice and Regulation: A View from Inside the Federal Trade Commission* (Stanford, Calif.: Hoover Institution Press, 1987).

6. Barry R. Weingast and Mark J. Moran, "Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission," *Journal of Political Economy*, October 1983, 91:765–800.

7. Suzanne Weaver, *The Decision to Prosecute: Organization and Public Policy in the Antitrust Division* (Cambridge: MIT Press, 1977).

8. Robert A. Katzmann, *Regulatory Bureaucracy: The Federal Trade Commission and Antitrust Policy* (Cambridge: MIT Press, 1980).

9. *Ibid.*, p. 83.

10. *Ibid.*

11. *Ibid.*, p. 61.

12. Richard A. Posner, "The Federal Trade Commission," *University of Chicago Law Review*, 37:47–89, 1969. Roger L. Faith, Donald R. Leavens, and Robert D. Tollison, "Antitrust Pork-barrel," *Journal of Law and Economics*, 15:329–342, 1982.

13. Thomas J. DiLorenzo, "The Origins of Antitrust: An Interest-Group Perspective," *International Review of Law and Economics*, 5:73–90, 1985.

14. *Ibid.*, pp. 80–81.

15. Robert B. Ekelund, Michael J. McDonald, and Robert D. Tollison, "Business Restraints and the Clayton Act of 1914: Public- or Private-Interest Legislation?" in Fred S. McChesney and William F. Shughart, *The Causes and Consequences of Antitrust: The Public Choice Perspective* (Chicago: University of Chicago Press, 1994).

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The Economic Woes of Pro Sports: Greed or Government?

by Raymond J. Keating

Beyond labor strife, two issues particularly annoy pro sports fans today—exorbitant player salaries and city-hopping by teams.

Player salaries that seem wildly out of kilter have been bothersome for some time. For example, the average Major League Baseball player reportedly earned \$1.2 million dollars last year. Payrolls averaged about \$32 million per team. The Montreal Expos were considered cheap—their payroll was *only* a bit more than \$15 million, compared with the New York Yankees' top payroll, reportedly exceeding \$60 million by year's end.

Almost as irksome are team owners who move, or threaten to move, their teams from city to city. Art Modell's recent uprooting of the NFL's Browns from Cleveland to become the Ravens of Baltimore is the most-publicized example—though actual and threatened moves have spread into a mini-plague in pro sports.

Fans regularly identify private greed as the source of these annoyances. However, the true genesis of these problems is government action. In this instance, federal, state, and local governments contribute to the mess.

At the federal level, antitrust legislation serves as one culprit in the city-switching games played by teams. Pro sports leagues

have been classified by government officials as monopolies, and are therefore subject to antitrust regulation. This makes it all but impossible for leagues to exert any control over team movements. If a league wishes to stop a team from picking up and moving to another city, it faces an expensive and probably losing litigation battle. The exception to this has been Major League Baseball, which operates under an antitrust exemption, and indeed, baseball teams remain far less mobile than, for example, NFL teams.

In reality, pro sports leagues can in no serious economic way be considered monopolies. Leagues are nothing more than partnerships competing for consumers' entertainment dollars. Members of Congress often remind Major League Baseball how lucky it is to be granted an antitrust exemption. And baseball is indeed lucky to be granted a reprieve from congressional economic ignorance. Antitrust regulation stands on highly precarious ground even in more seemingly simple cases. On the field of pro sports, it lands clearly out of bounds.

All pro sports leagues should be exempt from antitrust regulation. The effect of this action would allow leagues to be run as the partners see fit, including the power to stop team movements that hurt the sport.

At the state and local levels, government subsidies boost player salaries and also en-

Mr. Keating is chief economist with the Washington, D.C.-based Small Business Survival Foundation.

courage team mobility. These subsidies take the form of taxpayer-financed stadiums and arenas.

In essence, the taxpayers pick up the majority of a team's capital costs—usually running anywhere between \$100 million and \$400 million for a new stadium (though New York City is talking about more than \$1 billion for a new Yankee Stadium on the city's West Side). The annual debt-service costs on a new ballpark can run into the tens-of-millions-of-dollars range. Obviously, relieved of such expenses, owners are free to bid player salaries ever higher, while boosting their own bottom lines as well.

Government-built stadiums also transform teams from the status of owners to renters. It's always easier for a renter to up and leave than it is for an owner. So, perversely, government officials who believe that only a taxpayer-built stadium can attract or keep a major league team in their state or city merely ensure that teams will continue issuing threats

and moving. Naturally, under this scenario, teams possess every incentive to pit city against city and state against state in a vicious game of corporate welfare.

My fellow fans, in the end, it is not the greed of players and owners that result in skyrocketing salaries and city-hopping by teams, but the actions of government officials.

In a truly free sports market, leagues operate free of antitrust regulation, teams receive no subsidies, owners build their own stadiums, and player salaries stay within the realm of sanity as owners are forced to consider the *full* cost of team operations including stadium or arena financing. Indeed, this is how the pro sports business largely worked until the 1960s and 1970s, when corporate welfare expanded along with all other forms of government activity.

Government needs to deregulate, privatize, and downsize, allowing the market to work. The result will be healthier sports leagues, happier fans, and savings for taxpayers. □

Superstar Athletes Provide Economics Lessons

by K.L. Billingsley

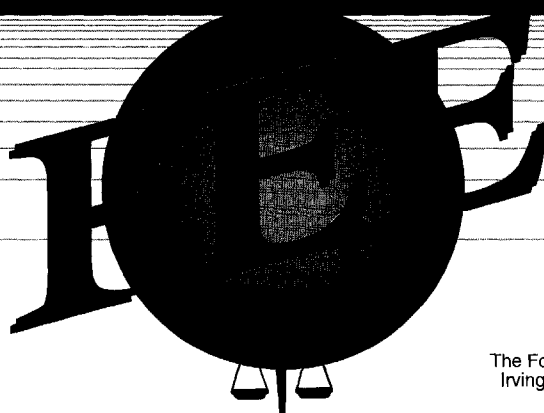
What do former San Francisco 49ers quarterback Joe Montana, L.A. Raiders running back Bo Jackson, and San Diego Chargers quarterback Dan Fouts have in common?

All three are former National Football League stars and all three are multimillionaires—not the sort of status that would rank

them with, say, a plasterer in Pasadena or a sheet-metal worker in Santa Ana. Yet, as the *San Diego Union-Tribune* recently reported, all three—along with many other athletes—are tapping into workers' compensation in the state of California.

Since 1990, nearly 200 members of the San Diego Padres and Chargers alone have applied for workers' compensation, a generous \$8 billion system—primarily funded through compulsory contributions of employers—to

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January 1997

Welfare Reform

All fashions of this world pass away. The welfare state which came into vogue during the 1930s may be with us for a while yet, but not for long. It is dying by inches, going out with the tide of socialism and its many variations.

Welfarism is bound to die from its innate venom and virus. Sired by the doctrines of labor exploitation and class conflict, born of social and economic conflict, nursed on progressive taxation and confiscation, feasting on deficit spending and monetary depreciation, and saddling its trillion dollar debt on future generations, it embodies all the social ills that men may endure. It is bound to end ignominiously as the growing burden of the welfare state is grinding more and more people into dependence and poverty. With more than \$5 trillion in debt, which is expected to rise to \$8 trillion in a few years and half a trillion in annual interest costs, with Medicare and Medicaid spending doubling every few years, it is destined to self-destruct. It may implode rather suddenly, like Soviet communism. Or it may disintegrate slowly, perhaps over decades, as is evident in the old industrial countries from France to Germany, Italy, and Britain.

The sweeping federal welfare act of August 22, 1996 is an indication of many

more reforms to come. The legislation transfers control of much of the nation's welfare system from the federal government to the states and imposes many new restrictions on aid. It requires workfare for most recipients, imposes strict time limits on benefits, and cuts back on benefits for immigrants. It affects millions of people for whom welfare has become a way of life.

The reform is bound to bring some confusion, pain, and condemnation. The transfer of control from the federal government to the states removes its monolithic structure and introduces a measure of flexibility and competition among the states. In time, it will lead to differences in state legislation and regulation which will give rise to large differences in welfare benefits and tax burdens. Facing economic stagnation and decline, the states most generous in benefits and most severe in tax burdens can be expected to lament the reform and call for an immediate return to the old system.

The new system of state-run workfare builds on the assumption that the recipients can actually be led to forego the dole and return to the labor market. It completely overlooks and ignores the numerous institutional obstacles which the reformers themselves have erected. Surely,

some people are lured to the dole by generous benefits which may approach or even exceed the wages they could earn in the labor market. Assistance payments plus housing allowance, food stamps, and free medical care may exceed the wages an unskilled laborer may earn, which is a powerful incentive for shunning employment. But even if all such inducements were removed, real obstacles to gainful employment would remain.

Unskilled workers face formidable barriers to the labor market. Federal and state laws regulating minimum wages, child labor, and working conditions legally bar poor people from securing employment. Minimum wage legislation may be the worst barrier which millions of unskilled workers, old and young, are unable to clear. **It is tragic, and yet so typical of politics, that the very legislators who enacted the workfare reform recently raised the minimum barrier to the labor market.** Lifting it to \$5.15 an hour to which the mandated fringe costs must be added, such as Social Security levies on employers, workman's compensation, unemployment taxation, paid holidays, and other mandated employment costs, raising the employment costs to some \$8 an hour, government is blocking countless workers from reaching the market. **At \$8 an hour, many welfare mothers are searching far and wide without meeting a single employer.**

Other legal barriers stand in their way. The Davis-Bacon Act of 1931 commands contractors performing work for the government or with government assistance to pay their workers "prevailing" wage rates, that is, union rates. Such rates are even higher than an \$8 minimum, which makes

it rather unlikely that any welfare recipient will ever clear it.

The Employment Retirement Security Act of 1974 (ERISA) and its several supplements erected unsurmountable barriers for many elderly workers. The law made pensions for elderly workers a cause of political concern, prescribing rules of eligibility, vesting portable pension benefits, and giving pension claims the same status as tax exactions. The financial burdens and the bureaucratic hazards cause many employers to be rather reluctant to engage elderly welfare people and soon thereafter pay them a pension.

Similarly, the Equal Employment Opportunity Commission (EEOC) which was created by the civil rights acts of 1964 and 1967 aims to ensure that employers do not discriminate against anyone on the basis of race, age, gender, religion or national origin. It makes the employment of public-assistance people doubly hazardous. Prevented from entering the labor market and unable to clear the obstacles built by government, they are likely to lay the blame on employers. After all, it is they who deny employment. A simple charge of "discrimination" is easily made and rather difficult and costly to refute.

The welfare reformers are laboring to roll the welfare stone up the mountain to the barriers they themselves erected. Their inevitable failure may reinforce the very system they are seeking to abolish. A true welfare reform would eliminate the political barriers to the labor market.



Hans F. Sennholz

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assist workers who are unable to perform their jobs because of injury. Athletes, on the other hand, often enjoy guaranteed contracts that pay them big money even when they are injured, or when they are healthy and don't play at all. And their respective teams pick up the cost of treating their injuries.

Other wealthy athletes dipping into the public purse include basketball great Bill Walton, former Cy Young award-winning pitcher Randy Jones, and legendary receiver Lance Alworth, who began collecting workers' compensation nearly 20 years after he stopped playing football. Walton, Fouts, and Montana declined to discuss their windfalls, which average \$50,000 to \$70,000 per claim.

Joe Montana was once the highest paid player in the NFL, earning \$13 million over four years. Both the stars' salaries and the current workers' compensation caper illustrate key economic realities.

Though some fans are outraged at the high salaries of today's athletes, those salaries are simply a reflection of the willingness of millions of people to pay money to watch them play and perform. They are part of the entertainment business—software if you will—providing vicarious thrills for a mostly sedentary populace. If 80,000 cheering fans were willing to part with \$20 apiece to watch accountants add, teachers teach, or window washers wash, then these occupations could command similar salaries, complete with lucrative commercial endorsements.

Besides illustrating market forces, athletics shows how a nearly pure meritocracy works. Nobody starts at quarterback for the Dallas Cowboys or guard for the Los Angeles Lakers because his father once played or happens to own the team. If a misguided urban youth can run, pass, kick, and play defense better than those raised in the wealthy suburbs, he will get

the job, whatever his race, nationality, or religion. In sports, nepotism is a guarantee of failure, something that government needs to learn. But the attempt of some stars to gain money by other means is also illuminating.

A key player in the scheme is lawyer Ron Mix, a former NFL lineman. Along with a squad of attorneys working with the NFL Players Association, Mix pushes the envelope. He even urged former Baltimore Colts quarterback Johnny Unitas, now 63, to file a claim in California. It was one of the few turned down. Word quickly spread that California's system is an easy mark. Even those living in other states, and who played for non-California teams, have cashed in.

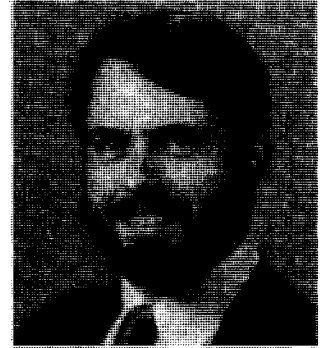
The superstars' compensation game confirms that those willing to exploit such programs need not be low-income people. Indeed, in recent years, the wealthy from Mexico, Central America, and as far as Sri Lanka, have had elaborate surgeries such as quadruple bypasses performed under Medi-Cal, the Golden State's health-care system for low-income people. Word has spread worldwide that this is the place to go for free care, courtesy of taxpayers ineligible to use the system themselves.

If a welfare, workers' compensation, or medical-aid system exists, it will be exploited, with the exploitation abetted by professionals who get a piece of the action. Such systems, by their very nature, will always be inefficient and corrupt, however noble the intentions and rhetoric of their political creators.

For policymakers, the rule would seem to be that it is better not to establish such a system in the first place. It is always easier to set up a system than to reform it, much less shut it down. To paraphrase the baseball fantasy *Field of Dreams*: if you build it, even the millionaires will come. □



Replace the Monopoly, Not the Superintendent



There's a lot wrong and not much right with the Washington, D.C., public schools: Buildings aren't safe, kids are gunned down in front of their classmates, money is wasted, and precious little learning occurs. So the financial control board, created by Congress in effect to govern the city, engaged in a very public debate over firing the local superintendent. But blame for the failure of the D.C. system, and for government schools elsewhere around the nation, doesn't lie with a particular administrator. It lies with the public nature of education, and especially the monopoly enjoyed by the public school system.

After all, the District's problems merely reflect a larger national crisis. Average SAT scores dropped from 980 to 899 between 1963 and 1992, a period during which real per-pupil spending rose 160 percent. Over the last 20 years the number of top scorers on the SAT has dropped in half. And nothing has changed during the 1990s despite even more money and a panoply of "reforms." The 1994 National Assessment of Education Progress test found that 36 percent of 4th-graders, 39 percent of 8th-graders, and 57 percent of 12th-graders failed to meet basic standards in history. Students' ignorance of geography, math, and other subjects is legendary. The only thing American children excel at internationally is self-esteem: While scoring at the

bottom compared to students in other countries, they rate themselves at the top.

But if suburban kids aren't learning as much as they should, city children aren't learning much at all. In 1988 the Carnegie Foundation declared: "The failure to educate adequately urban children is a shortcoming of such magnitude that many people have simply written off city schools as little more than human storehouses to keep young people off the streets." Half of urban kids typically fail to graduate. Those who do find their diplomas to be about as valuable as Czarist bonds. Unfortunately, the District's diplomas probably aren't even worth that much: Student scores on the Comprehensive Test of Basic Skills dropped again in 1996.

The tragedy is not simply that we are losing ground in education. We are losing ground at a time when companies elsewhere in the economy routinely provide us with better quality for less cost. Consider the advances in banking, communication, computers, and transportation. To merely stand still today is to be falling behind.

Money, of course, is not the answer to failed public schools. Inflation-adjusted per-pupil spending has been rising 40 percent a decade since World War II, without obvious effect on the quality of education. Washington's expenditure per student of \$9,400 is higher than that at elite Gonzaga preparatory school. Nationwide, private schools cost less (averaging less than half the per-pupil spending of public schools) and achieve better results. The late sociologist James Coleman's extensive re-

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search was recently bolstered by Sol Stern's survey, published in *City Journal*, of New York City's experience. Students in parochial schools—which mirror the socio-economic characteristics of public facilities—score better, suffer fewer expulsions, and ultimately earn more.

The basic problem is public monopoly. As Albert Shanker, head of the American Federation of Teachers, admits: "It's no surprise that our school system doesn't improve; it more resembles the communist economy than our own market economy." The solution, then, is parental choice, real choice in the private marketplace. Allowing students to switch from failing public institutions to private ones would have the same effect on education that it has everywhere. It would simultaneously put competitive pressure on existing schools and spur the development of innovative new facilities.

Choice means different things to different people, but every form of it is resisted ferociously by the teachers unions and their political allies. Yet many of the strongest opponents of choice personally exercise choice. The president and nearly half of the members of Congress send their children to private schools. One has to look far and wide to find members of urban education boards who place their kids in the schools they run. Moreover, controlling for income, public school teachers are four times as likely as private citizens to send their children to private schools. Over one-third of public school teachers in Boston, Cleveland, Chicago, Grand Rapids, and San Francisco put their kids in private facilities. So, too, did the head of the Jersey City teachers union, who threatened a boycott of Pepsi products when the company announced its plan to give scholarships to poor children for use in private schools.

The right form of choice is full privatization. That is, public education should be abolished and the money left with parents, who would have responsibility for their children's education. Such a prospect is, of course, seen as beyond the pale by the edu-

cational establishment. Professional educators don't trust parents, even affluent ones. And what about the poor?

Yet, today poor parents make incredible efforts to get their kids out of decrepit inner-city schools. Those sacrifices, if undertaken by people holding better jobs in a stronger economy (less burdened by high taxes and strengthened by better trained workers) and helped by charitable assistance, would expand the opportunity for quality education. Indeed, it would be hard to devise a worse system for poor kids than today's.

The arguments against choice are unpersuasive. One is that public money should not go to private schools. But the money ultimately belongs to parents, not the government; let them keep and use their money to better educate their children. Another is that we can't let the public schools fail. *But they already are failing.* Instead of holding them accountable, we now give them more money and students. Failing schools should close.

Finally, some people worry about the presumed democratizing role of public education. Yet most private schools are more integrated than public systems. Even with equally segregated systems, choice would increase diversity. In New York City, for instance, the public schools are 90 percent minority while the private institutions are 80 percent white. Choice, by allowing minority students to move from public to private schools, would actually promote integration.

In any case, the bottom line should be performance. Washington's schools, like those in so many other cities, don't educate. They don't even protect students and teachers from violence. Shoveling more money into failed institutions would only reward failure, guaranteeing more of it. The ultimate answer is to treat causes, not symptoms, by turning loose on education the same market forces that have had such a transforming impact elsewhere in the economy. Politicians must decide about whom they are most concerned: the children being cheated by the current educational monopoly or the interest groups being paid by it. □

Teen Smoking: The New Prohibition

by D. T. Armentano

The expressed goal of the Clinton Administration's proposed regulations on cigarettes and smokeless tobacco products is to reduce adolescent consumption by one half. Roughly three million American juveniles smoke and an additional one million young males use smokeless tobacco. Putting aside (for the moment) all of the other difficulties with the new regulations, can they possibly accomplish their objective?

The government proposes severe new restrictions on the advertising of cigarettes under the mistaken assumption that there is a direct relationship between advertising and the decision to begin smoking. But there is little reliable evidence in the literature to support this contention and plenty of evidence to contradict it.

Juvenile smoking actually increased in Finland after a complete ban on tobacco advertising was implemented in 1978. Norway, which completely prohibited tobacco advertising in 1975, has a higher percentage of juvenile smokers than does the United States. And black teens in the United States, presumably exposed to the same "persuasive" advertising as white teens, have far lower smoking rates.

It is widely acknowledged (outside of Washington) that the decision to start using tobacco products is influenced primarily by

culture, family, and peer pressure, not corporate advertising. So banning brand-name event sponsorships, or limiting cigarette brand logos on race cars and drivers' uniforms, will have no measurable effect on any ten-year-old's decision to light up.

FDA Commissioner David Kessler would have us believe that billboards near playgrounds and the use of cigarette brand names on t-shirts (which would all be prohibited under the new regulations) have created a teen-smoking health epidemic. Nonsense. The marginal increase in teen smoking recorded since 1991 is easily swamped by the longer-term steadily *downward* trend.

Listening to the FDA one would never know that the percentage of high school seniors who smoke daily has fallen from over 28 percent in 1977 to less than 20 percent in 1994. Heavy smoking (half a pack or more per day) among high school seniors had declined from 17.9 percent in 1975 to approximately 11 percent today. Yet the Administration now proposes to restrict tobacco advertising in teen-oriented magazines to a black-and-white, text-only format even though there is no evidence that such publishing censorship would impact teen cigarette consumption.

The bottom line is that these new regulations have little to do with changing cigarette consumption by teenagers. What they will do, however, is hurt certain advertisers, promoters of sporting events, tobacco manufacturers and their employees, and vending machine

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owners. Even more importantly, they will enhance the power of government bureaucrats to exercise additional control over private markets and lifestyles. And that's what the antismoking crusade is really all about.

Make no mistake about it. The FDA would like to severely restrict the sale of *all* cigarettes in the United States. The Administration knows that total prohibition is politically impractical at the moment so it starts the crusade with regulations that aim to "protect the children." And when these fail, as they must, the regulators will return with stronger recommendations and sterner controls.

But controls are already a way of life in this industry. Laws addressing tobacco sales to minors are on the books in every state and the District of Columbia. Dozens of governmental agencies, including the Department of

Health and Human Services, the Federal Trade Commission, and the Bureau of Alcohol, Tobacco and Firearms, already police and regulate the industry. Every state taxes cigarettes and most lump a sales tax on top of the excise tax. Cigarettes are already among the most taxed and regulated products in America.

The Administration has invited public comment, so it should be told that its new regulations will not affect teen smoking but will, instead, reduce employment and income in tobacco-related industries. It should also be told that its contrived rationale to regulate cigarettes as a "medical device" is as phony as a three-dollar bill. Finally it should be told that freedom and persuasion, not censorship or regulation, are the primary social values that we choose to pass on to our children . . . whether they smoke or not. □

Government and Governance

by Fred E. Foldvary

Policy debates typically center around the role of markets versus the role of governments. But this is a misleading distinction. Human society always has governance. Private organizations such as corporations and clubs have management, rules, and financial administration similar in function to those of government. The difference is that private governance is voluntary, while state-based government is coercively imposed on the

people within some jurisdiction. So a central question is not whether the market or the government can best accomplish some task, but whether the governance shall be voluntary or coercive.

The Market-Failure Doctrine

Most economists would agree that we don't live in the best of all possible worlds. But the doctrine of market failure found in most economics textbooks fails to distinguish between consensual and coercive governance as correctives. The prevailing theory asserts that

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while markets might provide private goods efficiently in a competitive economy, markets fail to provide the collective goods that people want. There are two basic reasons offered as to why markets are not sufficient. Markets can easily determine the demand for private goods, but how can we tell how much each individual wants of a collective good? We could ask people how much they are willing to pay, but how do we get a truthful answer? Free riders also are a problem. Once the collective good is provided, folks can use it whether they pay or not, so why pay?

So, the market-failure story goes, markets fail to deliver collective goods. Entrepreneurs lack incentive because they can't get their customers to pay for the service the way they can get people to pay for individually consumed private goods.

The market-failure argument does have one valid point: governance is required for the provision of typical collective goods. But this argument fails to recognize that governance can be consensual and contractual. Compounding the flaw in the argument is the confusing use of the terms "private" and "public." These have completely different meanings when referring to goods and to the sectors of an economy. A private good is individually consumed in quantity, whether provided by government or by a market. A "public" good is collectively used, whether provided by the "private" or the "public" (government) sector. But in typical economics texts, the public sector and public goods get sewn together, mingled and mangled into one cloth. Perhaps Leviticus 19:19 is a symbolic injunction against such insalubrious combining: "thou shalt not sow thy field with mingled seed: neither shall a garment mingled of linen and woollen come upon thee."

Voluntary Governance

Economists who study institutions recognize the importance of private governance. For example, Oliver Williamson's work on industrial organization concludes that when assets are specific to certain uses, when opportunism is possible, when transactions recur frequently, and when transactions costs would

be large with many small units, governance within an institution is more effective than transactions among firms.

An important industry in which these elements make governance play a key role is the development and operation of real estate. Spencer Heath in *Citadel, Market and Altar* and Spencer MacCallum in *The Art of Community* both recognized the similarities in functions between hotel and city governance. A hotel provides management, a town square (the lobby), streets (hallways), transportation (elevators and escalators), fire protection, recreation, and many other services. The collective goods are paid for from the rental that the guests pay, while user fees pay for the more individually consumed items such as room service and telephone calls.

Other real estate complexes operate by the same principles. Many developers now build not just homes but also community facilities, which are then operated by an association. Just as cities have councils, associations are governed by elected boards. A key difference is that property owners have a voice, though tenants in some communities also have a vote and are welcomed on the committees that do much of the work and decision-making.

Condominiums, housing cooperatives, residential associations, and land trusts are among the forms such private-sector governance can take. For example, in a typical condominium, a unit such as an apartment is individually controlled, while the "common elements" such as the grounds, some utilities, security, and exteriors are operated by the association. Each unit owner pays an annual assessment, just as a hotel guest pays a rental. In both cases, the collective goods increase the market rental value of the site, so the collective goods become self-financing. They are paid for out of the increased rent they generate. Proprietary communities, such as shopping centers, marinas, and industrial parks, operate with such economic principles as well; the governance in these cases usually is provided by the owner.

The complexity of real estate relationships, especially for more permanent residency, requires contractual governance with a consti-

tution (master deed and bylaws) and ongoing administration. These associations are voluntary at the constitutional level—when you join, you agree to follow the constitutional rules. Unlike imposed government, the association is a property relationship bound by an explicit contract by legally equal parties.

While the “free-rider” argument would suggest that voluntary services will be deficient, in practice this depends much on the culture of a community and on social entrepreneurs. The condominium community in Virginia where I once lived was managed professionally, but the board and all the committees were served by volunteers. Most residents did ride free, but there were sufficient volunteers to do the job. Occasional parties provided social glue for the activists; the minor cost was money well spent, reaping dividends in community spirit and volunteer work.

Territory and Rent

The market-failure doctrine, besides not recognizing the possibility and fact of contractual governance, omits a critical component of real-world collective goods: space. Typical community services such as streets, parks, policing, fire protection, and transportation are territorial, impacting a particular area. The services make the territory more desirable, therefore increasing what economists call rents. These rents provide the means to pay for the civic goods. The concept of rent sufficiently paying for collective goods has been termed the “Henry George Theory” by some economists, after Henry George, who theorized that rent could fund all government.

But while this concept has been recognized, most public-finance economists have not drawn the logical conclusion. The result is not just that the taxation of labor, enterprise, and goods is not economically required, but that rent can also be collected by private, contractual, consensual means, to provide collective goods via the market process. The need to pay rent in order to use territorial goods (either by buying or renting land) further topples the free-rider argument. The need to

pay rent implies that there are no free riders for community services.

In contractual communities, rent serves another function besides financing the collective services. Rent is also a measure of whether the services are profitable, and of whether the community is being run efficiently. Wasteful and ineffective management will cause rent to decline. So a profit-making proprietary governance will attempt to keep the rental income high by serving their customers well, and democratically run associations will attempt to keep their property values high with good management and efficient services.

Contrast this with the blight of our cities and the waste in typical governments. Just as firms providing individually consumed goods compete, so too do private communities compete for customers and users. Not just hotels and shopping centers, but also residential associations and developments compete, as recognized by the “Tiebout” model of public economics. The Austrian economists F. A. Hayek and Ludwig von Mises recognized the importance of market competition and decentralization. Hayek emphasized the decentralized nature of knowledge and Mises expounded the need for capital markets in the efficient allocation of goods. Both of these elements are important parts of the competitive contractual provision of community services.

Can we use these Austrian insights for the reform of the public finances of government? We can, by moving government and its services closer to how contractual communities operate. Consensual communities thus offer a model for tax reform and the reform of government itself. Among the principles for reform are the decentralization and demonopolization of operations, making government more contractual, and the use of market-based rentals and fees rather than arbitrarily imposed taxation. We can turn the market-failure doctrine on its head: not only does the market work well, but it shows how government can be made to work better, both more efficiently and less coercively. We can reform government—both by making it smaller and by bringing government closer to voluntary governance. □

A Sentinel for Auto Emissions

by Daniel B. Klein

The 1992 Clean Air Act amendments require local governments in smoggy regions to abide by an array of tough regulations. The most controversial are Smog Check, car-pooling mandates, electric vehicle sales quotas, and alternative fuel programs. Yet it may be time to expunge all of these command-and-control measures.

Consider Smog Check, which requires that cars have their emissions tested every other year. The vast majority of motorists spend a lot of time and money to find out that their car is clean. It's like making people report for a scheduled checkup to prove that they do not have halitosis.

In the past few years, scientists have developed a new technology called "remote sensing," and it promises to be the silver bullet for auto-generated smog. Remote sensors are mobile roadside devices that read tailpipe emissions using infrared and ultraviolet beams. They measure carbon monoxide and hydrocarbons with very good accuracy and nitrous oxides with fair accuracy.

Imagine the following system: government randomly scans your car's emission levels using remote sensors and reads your license plate. If your emissions are excessive, you get a postcard. Because the technology is so inexpensive, the government can read your car four or even eight times a year. First you'd

get warnings. If you continued to drive in a smoggy fashion, you'd get fines. If you refused to pay the fines, you'd eventually get pulled over and your car would be impounded.

Sound scary? Maybe the remote sensor isn't very accurate. Maybe the license plate identification is faulty. Maybe the remote sensor caught your car during an uncommon acceleration. Big Brother is sniffing your tailpipe!

In fact, there isn't much cause for alarm. The key point is that more than half of the auto-generated carbon monoxide comes from less than 10 percent of the cars. The same is true of hydrocarbon emissions. The problem is a small number of extremely dirty cars. The roadside sensors can use lenient criteria to make almost certain that only the truly polluting cars receive citations. Furthermore, synchronized radar guns can check your acceleration and infrared cameras can check whether your car is warmed up.

No one wants to be subject to a new penalty or fine. But the bright side is bright indeed. Remote sensing will intrude on your life only if your tailpipe emissions continue to exceed the limits.

More important, a full-scale remote sensing program is all we really need to police against excessive emissions. We'll have to live with the chance of smog fines, but we can get rid of Smog Check, forced car-pooling, forced alternative fuels, electric vehicle mandates, and meddlesome regulations imposed on engine design in Detroit.

Dr. Klein, associate professor of economics at Santa Clara University, is co-author with Pia Koskenoja of The Smog Reduction Road: Remote Sensing Versus the Clean Air Act, recently published by the Cato Institute.

All these programs have been notoriously troublesome, bureaucratic, politicized, and inefficient. My research indicates that a remote sensing program implemented in Los Angeles would prove far more effective than the current Smog Check program—at one-fifth the cost. A recent on-road study in Orange County, California, conducted by the Desert Research Institute, found that a program of remote sensing combined with free engine repairs reduces emissions 10 to 20 times more cheaply than does mandatory car-pooling. With remote sensing on duty

like a passive sentinel, we can be free of meddling and hassles and really clean up the air.

Remote sensing challenges the entrenched groups who stand behind all the inefficient programs. Its advancement has been a slow and arduous battle. But no slower than we should expect from the massive and lumbering system of policymaking. Every year remote sensing is in greater usage on the road, and is becoming known to the public. It is destined to change the face of air quality management. □

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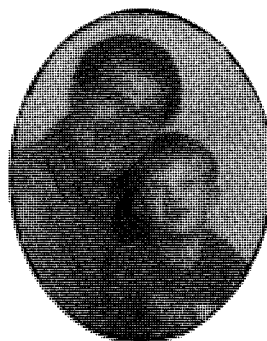
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The Benefits of Outsourcing

by Brian Boland and Walter Block

Imagine yourself an entrepreneur planning a new firm. After extensive market research, you decide to manufacture pencils. You begin selling them for five cents each. Your accountants have determined that it costs you two cents to produce each eraser—40 percent of your selling price. Another firm can produce erasers for you for only one cent each (a 50 percent savings on erasers). Do you continue to make them yourself or do you farm out this operation?

Common sense dictates the latter course. This demonstrates the principle of outsourcing—purchasing parts or hiring labor from an outside source in order to cut manufacturing costs.

Traditional economic theory holds that firms are created to keep the cost of transactions down. By reducing the costs and inefficiencies associated with searching for and training the proper personnel, businesses can better maximize profits. For example, if a CEO had to place an ad in the paper for a secretary every time he needed a report typed, time and money would be wasted. By maintaining a staff sufficient to cover the firm's needs, such inconveniences are avoided.

Occasionally the enterprise must look outside its own personnel to fill its needs. Subcontractors may be called in when they can be expected to do a job better or more efficiently than those presently employed. The profit-maximizing firm will be expected to do that which is in the best interest of its bottom line. Contrary to union rhetoric, often the best

way to get the job done is to have someone else do it.

For instance, the superintendent of a building typically has a working knowledge of electricity, plumbing, and heating; he will perform many repairs or adjustments that arise. While he may be very capable, he may not be the best person for each and every task. There may be times when a heating specialist should be called in because he has the expertise to do a job better or more efficiently. When it snows, the super may hire local kids to shovel the sidewalk, leaving him free to attend to other tasks. It all comes down to the most efficient allocation of resources.

A successful manager recognizes that there are occasions when it is best to hire a specialist. This is because there are opportunity costs involved. The superintendent in this example delegates responsibility so that every task is completed efficiently. His time is worth more installing light fixtures than shoveling snow, so he assigns someone else to clear the sidewalks. He doesn't hire a full-time snow shoveler for his staff since this sort of work is seasonal. Nor can he afford to retain a heating specialist on a 24-hour basis. Such help is called upon only when needed.

A Sensible Choice

Outsourcing makes good sense. Profits increase as resources are allocated more efficiently. But not everyone agrees.

Some critics argue that outsourcing causes unemployment. Consider again our example of the pencil factory. Many would condemn outsourcing eraser production to another firm

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because such action means unemployment for workers on the in-house eraser assembly line. The “exploitative” capitalist has maximized his own profits at the expense of the workforce.

On the surface, the criticism seems to have some validity. Purchasing services from others does weaken dependency on the current staff. If output remains constant, the need for staff employment will decrease. If the trend continues, the classic workforce will be slowly rendered obsolete; the logical implication is a world where everyone is self-employed—working for firms on a temporary or catch-as-catch-can basis.

Moral and Religious Criticisms

Pope John Paul II has condemned outsourcing because he thinks it contributes to “the scourge of unemployment” and denies the worker “a just wage and the personal security of the worker and his or her family.”¹

The Pope went on to say, “Every effort must be made to ensure that in this kind of system . . . the human person can preserve his awareness of working for himself. If it is not done, incalculable damage is inevitably done throughout the economic process, not only economic damage but first and foremost damage to the man.”²

The U.S. Catholic bishops have supported the priority of labor and condemned profit maximization. They believe that the market improperly places profits before people. Entrepreneurs are only concerned with their own self-interest and will act without regard for their fellow humans in seeking profits.³

The bishops are missing the point. Profits are an indication that needs are being met and customers are being satisfied. If someone attempts to provide a service for which there is no demand, it will be a losing endeavor. Under capitalism, as Adam Smith pointed out, one’s best interest is to provide a service that is also in someone else’s best interest. If it is not, there will be no sale at all, let alone a profit. A profitable business venture does not exploit workers; rather, it serves customers, employees, investors, and suppliers by providing opportunities they consider beneficial.

Pope John Paul II recognizes the inherent good in profit. In his 1991 encyclical, *Centesimus Annus*, he said “The Church acknowledges the legitimate role of profit as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied.”

But what constitutes a productive factor’s proper employment? Henry Ford developed a method of producing cars that made them more affordable and hence accessible to the average consumer. When this happened, the horse-and-buggy industry was all but destroyed. Should the owners of buggy factories be forced to remain open if there is no demand for their product? Should the government step in and provide subsidies for horse breakers, carriage makers, or whip and bridle manufacturers? Of course not. To do so would be to render more difficult and costly the production of cars and trucks. Given the new technology, this would be highly inefficient—and unsatisfactory.

Manipulating the Market

Some people are able to manipulate the market so they can thrive in conditions that would otherwise drive them out of business. Government intervention—including subsidies, bailouts, and special privileges—allows them to compete in a market that would not sustain them otherwise. The Chrysler bailout of the early 1980s and the strike at General Motors in the spring of 1996 are two examples of such behavior.

GM had been entertaining the notion of outsourcing brake production and shutting down two of its brake plants in Dayton, Ohio. The threatened workers went on strike. Unfortunately for GM, the company had recently adopted a just-in-time theory of inventory management and had very few surplus parts on hand. Keeping inventory to a minimum, while more efficient, creates a stronger dependence on suppliers, and gives them greater bargaining power. Without brakes, GM could not build new cars. Production ceased in 26 of its 29 assembly plants in North

America. The 3,000 workers in Dayton were able to make GM capitulate and thus saved their jobs. Union leaders heralded the event as a tremendous victory. But all they really did was to perpetuate inefficiency.

If the brake plants had been profitable, would GM have considered closing them down? Not at all. But the plants were not performing adequately. The workers in essence have forced GM to provide them with work although they are not producing at levels that would enable them to be paid their salaries. GM tried to avoid a waste of resources, but was not allowed to do so.

GM line workers cost the company \$45 an hour in wages and benefits—double the labor costs of some outside contractors.⁴ The company saw considerable savings in producing parts elsewhere. Some might argue that GM's decision would have rendered 3,000 workers unemployed. But what about the people who would have been employed at non-GM plants? The Dayton workers are more "guilty" of self-interest than any of the capitalists who wanted to close the plants.

The strength of this strike was due to a welter of U.S. labor laws—Norris-La Guardia, the Wagner Act, and Taft-Hartley—which give unfair advantage to unionized workers vis-à-vis capitalists and competing nonunion labor. In an attempt to preserve their own "right to work"—that is, the "right" to prevent the owner from hiring whom he wished—the Dayton workers forced thousands of other GM employees into idleness. It is impossible to ignore the fact that these 3,000 workers consciously decided to force the temporary unemployment of thousands of others, without regard for their right to work.

It is easy for intellectuals critical of capitalism to condemn outsourcing as a cause of unemployment without considering why the company might choose to look elsewhere or what the long-term effects might be. No one can deny that outsourcing causes unemployment, at least initially. But the same can be said every time an entrepreneur declines to use a specific factor of production in favor of a more efficient alternative.

In effect, the GM workers are attempting to

promulgate the spread-the-work schemes criticized by Henry Hazlitt in *Economics in One Lesson*. The Dayton employees used their protected legal position to ensure that more labor is employed than is truly necessary. GM would be better off if it had been able to close the plant, or at least to engage in outsourcing. Both options were thwarted by labor legislation; the firm could have been accused of "unfair labor practices" had it chosen either alternative.

By outsourcing, companies can achieve improved levels of efficiency. Even an extremely conservative estimate places the savings by outsourcing at a healthy 9 percent.⁵ Lower production costs lead to a decreased price for the consumer in a competitive market. That frees up more of the consumer's income to purchase other goods and services.

Had the market been allowed to function properly, those 3,000 workers in Ohio would be looking for new jobs, where they could now produce items hitherto unavailable to the public. In addition, thousands of other workers would be employed elsewhere and the general public would have enjoyed more affordable automobiles. Here is just one more example of the shortsightedness our society so often rewards.

Let nothing said above be interpreted as a blanket advocacy of outsourcing. Subcontracting is but one tool management can use. Sometimes it can be profitable; at other times it can reduce profits, as in the case where the workers already hired can do the same job more cheaply than outsiders. What can be said, however, is that if the entrepreneur is allowed to pick and choose, the profit-and-loss system will allocate resources efficiently. But this is all that the system of free enterprise can promise in any case. □

1. *Laborem Exercens* (Washington, D.C.: Catholic News Service, 1995), p. 19.

2. *Ibid.*, p. 35.

3. Pastoral Letter on Catholic Social Teaching and the U.S. Economy: *Origins*, NC Documentary Service, November 15, 1984, Vol. 14, No. 22/23; "Second Draft of the U.S. Bishops' Pastoral Letter on Catholic Teaching and the U.S. Economy," *Origins*, October 10, 1985.

4. Bill Vlasic, "Bracing for the Big One," *Business Week*, April 1, 1996, pp. 34–35.

5. *Ibid.*

Marcus Tullius Cicero, Who Gave Natural Law to the Modern World

by Jim Powell

Marcus Tullius Cicero expressed principles that became the bedrock of liberty in the modern world.

He insisted on the primacy of moral standards over government laws. These standards became known as natural law. Above all, Cicero declared, government is morally obliged to protect human life and private property. When government runs amok, people have a right to rebel—Cicero honored daring individuals who helped overthrow tyrants.

Intellectual historian Murray N. Rothbard praised Cicero as “the great transmitter of Stoic ideas from Greece to Rome. . . . Stoic natural law doctrines heavily influenced the Roman jurists of the second and third centuries A.D., and thus helped shape the great structures of Roman law which became pervasive in Western civilization.”

For centuries, people read Cicero because of his beautiful Latin prose. He transformed Latin from a utilitarian language, which served generals, merchants, and lawyers, into a poetic language. The first century A.D.

Roman author Quintilian remarked that Cicero was “the name not of a man, but of eloquence itself.” As a writer, Thomas Jefferson called Cicero “the first master of the world.” Historian Edward Gibbon, who elegantly chronicled Rome’s decline, recalled that when reading Cicero “I tasted the beauties of language, I breathed the spirit of freedom, and I imbibed from his precepts and examples the public and private sense of a man.”

As Rome’s most famous orator, Cicero prosecuted crooked politicians and defended citizens against rapacious officials. On one occasion when Cicero spoke, mighty Julius Caesar reportedly trembled so much that he dropped papers he was holding. Scholar H. Grose Hodge observed that Cicero at his best offered “a sustained interest, a constant variety, a consummate blend of humour and pathos, of narrative and argument, of description and declamation; while every part is subordinated to the purpose of the whole, and combines, despite its intricacy of detail, to form a dramatic and coherent unit.”

Amidst a violent age, Cicero was a man of peace. He refused to build a personal army like other leading Roman politicians, and he spoke out against violence. “A war which is launched without provocation,” he wrote, “cannot possibly be just.” He warned: “violence is more ruinous than anything else.”

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Cicero never challenged Roman slavery, which was among the most brutal in history, but he was more humane than his contemporaries. He preferred to have his farms worked by tenants rather than by slaves.

Cicero lived during an era of great sculpture, but only one bust is marked as his. It has been the basis for identifying others. These sculptures tend to portray Cicero as having a high forehead, large nose, small mouth, and worried expression, as if he were agonizing over the fate of the Roman Republic.

More is known about Cicero than any other ancient personality because hundreds of his candid letters, dispatched by courier throughout the Mediterranean, have survived. Cicero often comes across as intellectually curious, affectionate, charming, and generous. One critic, the pro-Caesar University of Michigan classicist D.R. Shackleton Bailey, belittled Cicero as "a windbag, a wiseacre, a humbug, a spiteful, vain-glorious egotist." But classicist J.A.K. Thomson provided more perspective when he observed: "It is probable that Cicero is the greatest of all letter-writers. The importance of his matter, the range of his public and private interests, the variety of his moods, his facility in expressing every shade of sense and feeling, the aptness of his quotations, above all his spontaneity, have never in combination been excelled or equalled."

When the chips were down, Cicero displayed the courage of his convictions. He opposed Julius Caesar's schemes for one-man rule. After Caesar's assassination, he denounced Mark Antony's bid to become dictator. For that, Cicero was beheaded.

Cicero's Early Years

Marcus Tullius Cicero was born January 6, 106 B.C., on his grandfather's country estate in Arpinum, about 70 miles southeast of Rome. His father, who shared all three names, was a frail aristocrat with literary interests, property in Arpinum, and a house in Rome. His mother, Helvia, was from a socially connected family in Rome. The Cicero family name doesn't suggest much dignity—in Latin, *cicer* means chickpea.

His family moved to Rome so he could get

a better education. He was about eight. He had some Greek teachers who exposed him to Homer, Euripides, and Greek orators. He attended lectures on law, philosophy, and rhetoric. For a while, he studied dialectics under Diodotus, the Stoic.

He emerged as a great author and speaker because he worked at it. "The time which others spend in advancing their own personal affairs," he recalled, "taking holidays and attending Games, indulging in pleasures of various kinds or even enjoying mental relaxation and bodily recreation, the time they spend on protracted parties and gambling and playing ball, proves in my case to have been taken up with returning over and over again to these literary pursuits."

Cicero aimed to be a defense attorney as the best bet for success in politics. While defense attorneys didn't get a formal fee, they often could borrow money, receive legacies, and gain political support from their clients.

There was plenty to keep a defense attorney busy. Murder had been a way of life in Roman politics since at least 133 B.C., when a reformer named Tiberius Sempronius Gracchus was clubbed to death by senators he had criticized. Cicero also witnessed the years of bloody struggle between pro-Senate Lucius Cornelius Sulla and allegedly popular leader Gaius Marius.

Amidst the tyranny, Cicero became famous as a brilliant, hard-working attorney who won difficult cases. His methods don't meet today's standards for due process. He focused on the motive for a crime, often ignoring the specifics about how the act was committed. He made claims, such as that his client wasn't near the crime scene, without offering specific proof. He didn't seem to call witnesses. He sometimes resorted to blatant logical fallacies.

Yet Cicero prospered. He acquired villas in Asturae, Puteoli, and Pompeii, an estate near Formiae, and a mansion in Rome's fashionable Palatine district, plus lodges where he could stay while traveling to these properties.

By 79 B.C., he was worn out. As he explained in the *Brutus* (46 B.C.), which includes perhaps the earliest piece of intellectual autobiography: "I was at that time very slender and not strong in body, with a long, thin neck;

and such a constitution and appearance were thought almost to promise danger to life, if combined with hard work and strain on the lungs. Those who loved me were . . . alarmed, that I always spoke without remission or variation, using all the strength of my voice and the effort of my whole body. When my friends and doctors begged me to give up speaking in the courts, I felt I would run any risk rather than abandon my hope of fame as a speaker. I thought that by a more restrained and moderate use of the voice and a different way of speaking I could both avoid the danger and acquire more variety in my style; and the reason for going to Asia was to change my method of speaking. And so, when I had two years' experience of taking cases and my name was already well known in the Forum, I left Rome."

He spent time in Athens and then toured the Peloponnesian islands and Greek cities of Asia Minor. He studied philosophy with the Athenian Antiochus, who reflected Stoic influence, and at Rhodes with the learned Stoic Posidonius. He also studied oratory with Posidonius' teacher, Molon. "I came home after two years," Cicero reported, "not only more experienced, but almost another man; the excessive strain of voice had gone, my style had . . . simmered down, my lungs were stronger and I was not so thin."

Cicero Enters Politics

Cicero first sought political office when he was 30—as *quaestor*, the lowest major office, which involved administrative responsibility for a province. Elections took place every July, after the harvest. They were held in the Field of Mars. Voters scratched the name or initials of their chosen candidate on waxed wooden ballots, then dropped these in baskets for counting. Elected, Cicero was assigned Western Sicily, where he made sure corn supplies were remitted to Rome. His proudest personal achievement during the one-year term seems to have been discovering the grave of Archimedes, the third-century B.C. Greek mathematician. "I noticed a small column projecting a little way from the bushes, on which there was the shape of a sphere and a

cylinder," he recalled. "I at once told the Syracusans I thought that was just what I was looking for."

As *quaestor*, Cicero joined the Senate. This had about 600 members, nearly all of whom were from families who owed their position to military conquest. They were members for life. Although the Senate had a prestigious advisory role in the government, and candidates for higher political office came from the Senate, it lacked its own power base. There weren't any Senate elections or political parties. The Senate didn't command an army. By law, senators were banned from business. Senators looked forward to winning an appointment as governor of a province where they could enrich themselves.

In 70 B.C., Cicero moved his way up the political ladder when he got elected *adile* (responsible for the Roman food supply and games). That year, people from Sicily filed suit against their former governor Gaius Verres, who had done considerable looting during his three years there. Cicero was asked to handle the case. The odds were with Verres because he was defended by Quintus Hortensius Hortalus, the most famous orator of the day, and senators who sat on the jury were, as always, reluctant to return a guilty verdict against an influential politician.

The trial began August 5, and there were crowds of spectators since people had come to Rome for elections and games. "This one man's brutality and cupidity," Cicero thundered, "were depriving [Sicilians] of the advantages and privileges bestowed on them by the Senate and the Roman people." What we know about the case comes primarily from Cicero's orations, and while they cannot be treated as factual documents—they were partisan briefs—Verres subsequently fled Rome for Marseilles. Cicero's reputation was enhanced.

In 66 B.C., Cicero was elected First Praetor, which meant that he administered the highest civil court in Rome. As soon as Cicero's one-year praetorship was up, he began lobbying to be elected as a consul, the highest office in Rome. Two consuls served at a time, each with the power to veto decisions by the other. Cicero became a consul in 64 B.C.—

remarkably, without resorting to bribery or violence.

One of the unsuccessful contenders, Lucius Sergius Catiline, a wild man who gained support from Julius Caesar, schemed for revenge. He tried to recruit foreign armed forces, assassinate Cicero, and take over the government. During Senate debates, Cicero unleashed powerful orations attacking Catiline. Caesar cited an old law that a death sentence required prior approval by a popular assembly. He advocated seizing the property of conspirators and banishing them. Cicero favored capital punishment. Catiline's top five associates were executed, and Catiline was subsequently killed in battle. For years, Cicero irritated people by boasting how he saved the Republic from Catiline.

Cicero attacked Rome's policy of endless wars. "It is a hard thing to say," he declared, "but we Romans are loathed abroad because of the damage our generals and officials have done in their licentiousness. No temple has been protected by its sanctity, no state by its sworn agreements, no house and home by its locks and bars—in fact there is now a shortage of prosperous cities for us to declare war on so that we can loot them afterwards. Do you think that when we send out an army against an enemy it is to protect our allies, or is it rather to use the war as an excuse for plundering them? Do you know of a single state that we have subdued that is still rich, or a single rich state that our generals have not subdued?"

Choosing Among Evils

If Rome had stopped its conquests, the Republic might have developed. Corrupt and limited though it was, it offered the best chance of averting one-man rule. But the aggression continued, and successful generals eclipsed the power of the Senate and other republican institutions. Cicero found himself in the uncomfortable position of choosing among evils.

The least dangerous, he believed, was Cnaeus Pompeius (Pompey), a highly capable military commander, remarkable administrator, and political opportunist. During his early days, he was known as the "boy executioner." Pompey lacked political principles and re-

portedly changed wives to improve his political prospects. While he skirted constitutional restraints to advance his career, he never tried to overthrow the traditional (unwritten) Roman constitution. He wanted fame rather than political power.

Pompey crushed Rome's adversaries in the Middle East. He wiped out the piracy in the eastern Mediterranean that had disrupted Rome's vital food supplies. He conquered some 1,500 towns and fortresses. He organized four new Roman provinces—Asia, Bithynia, Cilicia, and Syria—which extended Roman frontiers to the Caucasus mountains and the Red Sea. He started or rebuilt 39 cities. He established a network of client rulers who helped Rome guard the eastern frontiers. He boosted Rome's revenue from the region by 70 percent and became the wealthiest Roman.

In December 62 B.C., Pompey returned to Rome and dismissed his army. All he asked for was that the Senate pass a bill rewarding his soldiers with land in the provinces—the traditional way of compensating combatants after a successful military campaign. But the Senate blocked such a bill, and Pompey became convinced he should consider collaborating with his rivals.

The best-financed rival was Marcus Crassus. Crassus had inherited a small fortune—300 talents—and parlayed this into some 7,000 talents largely in the proscriptions, which meant buying cheaply and then reselling the properties of people condemned to death. Until Pompey's lucrative triumph in the Middle East, Crassus had been the wealthiest Roman. He built his own army and crushed the slave revolt led by Spartacus, crucifying some 6,000 slaves on the Appian Way.

To strengthen his position against Pompey, Crassus bought the political support of Gaius Julius Caesar, who was an ambitious, spend-thrift demagogue. He had been elected a *quaestor* in 68 B.C. and assigned to administer Further Spain, where he discovered his genius as a military commander. Equally important, he acquired loot for expanding his power. He gained a popular following by sponsoring lavish "free" games and banquets whose astonishing cost—19 million *sesterces*, almost a

tenth of government revenues—were underwritten by Crassus.

Cicero led successful opposition to a Senate bill promoted by Caesar and Crassus, which would have empowered them to sell overseas Roman territory, and use the proceeds to acquire land in Italy for redistribution to their political supporters. Cicero spoke against the bill three times, and he displayed considerable skill defeating it without alienating ordinary people who hoped for free land.

The First Triumvirate

In 60 B.C., Pompey, Crassus, and Caesar were frustrated by Senate efforts to thwart their ambitions, so they formed a dictatorship known as the First Triumvirate. During the next decade, they controlled candidates for office, and they parceled out provincial loot among themselves. Crassus got the East. Pompey, Spain. Caesar, Cisalpine Gaul (northern Italy) and Illyricum (eastern Adriatic coast). Cicero declined an invitation to join them.

Despite their friendly overtures, Crassus, Pompey, and Caesar didn't defend Cicero when, in 58 B.C., the gangster-senator Publius Clodius Pulcher (an ally of Caesar's known as Clodius) proposed a law banishing Cicero from Rome. Clodius also plundered three of Cicero's homes. Cicero was exiled for 16 miserable months, which he spent at a friend's home in Salonika (northeastern Greece). "Your pleas have prevented me from committing suicide," he wrote Titus Pomponius Atticus, his banker, publisher, and friend, who helped cover his expenses in exile. Cicero returned to Rome when Pompey decided he needed an ally against Clodius.

But the triumvirs wouldn't tolerate the free expression of Cicero's views. "I who if I speak as I ought on public matters am thought mad," he wrote Atticus, "if I say what expediency demands, appear a slave, and if I am silent, seem oppressed and crushed. . . . What if I choose to give up and take refuge in a life of leisure? Impossible. I have to take part in the fight." He added: "I am sustained and strengthened by literature, and prefer to sit in your little chair under the bust of Aristotle, than in our consuls' chairs of office."

Meanwhile, Crassus pursued more wealth and military glory, and he led his army against the Parthians, a nomadic people based in western Persia. Their territory sat astride the great Silk Road that connected China with the Mediterranean. Crassus' forces were routed by Parthian bowmen, and he was slain in May 53 B.C.

The Rise of Caesar

Caesar had been busy building his personal empire in Gaul, which included territory now in France, Belgium, part of Holland, and Switzerland, plus Germany west of the Rhine. Caesar reportedly sold 53,000 members of the Nervii tribe as slaves. He boasted that he slaughtered 258,000 Helvetii men, women, and children. He went on to slaughter some 430,000 Germans.

Caesar combined his tactical genius—especially surprise attacks—with effective propaganda, something the aloof Pompey neglected. Caesar appealed for popular support by promising peace. Caesar repeatedly sought Cicero's backing because he needed legitimacy. Caesar had always been cordial to Cicero and even lent him money, but Cicero reluctantly sided with Pompey. After a tense meeting with Caesar, Cicero wrote Atticus: "I think Caesar is not pleased with me. But I was pleased with myself, which is more than I have been for a long time."

In January 49 B.C., the Senate ordered Caesar to return from Gaul without his army. But he refused to cooperate in his political destruction. On the evening of January 10, 49 B.C., Caesar led one legion of soldiers across the Rubicon, a small river on the northwestern Italian peninsula, separating Gaul from Rome. This violated Roman law requiring that armies be kept in the provinces, and another civil war was on. Unable to defend himself in Italy, Pompey fled to the East on March 17. Caesar entered Rome on the first of April, 49 B.C.

Whether Caesar or Pompey won, Rome would clearly be ruled by a strongman. In one of his letters, Cicero lamented the "general destruction; so vast are the forces which I see will take part in the conflict on both sides. . . .

Nothing can exceed the misery, ruin and disgrace. . . . The sun seems to me to have disappeared from the universe.”

Caesar seized the Roman treasury to finance his military campaigns. He went to Spain, preventing Pompey from rebuilding an army there. Caesar's deputy, Mark Antony, took charge of Italy. Caesar destroyed Marseilles, which had supported Pompey. Then Caesar returned to Italy and defeated Pompey's larger forces at Pharsalus, north of Athens, on August 9, 48 B.C. Cicero was offered command of Pompey's surviving forces, but he wanted no part of the violence. Pompey fled to Egypt, where he was murdered upon landing by local people who had enough of Rome's wars. When Caesar arrived in Egypt, he was presented with Pompey's severed head. He subsequently became a lover of young Queen Cleopatra, who joined him back in Rome. Caesar crushed remnant opposition—some 10,000 people were slaughtered, and their leader Marcus Porcius Cato pulled a sword into his abdomen.

During the bloodbaths, Cicero sought refuge in Brindisi. Victorious Caesar pardoned him, as he pardoned many of his adversaries, and Cicero returned to Rome in 47 B.C. Almost 60, Cicero learned that many of his compatriots and rivals were dead. “I was reconciled with my old friends, I mean my books,” he wrote, “though I had not abandoned their companionship because I was angry with them, but because I felt a sense of shame. I thought that I had not obeyed their precepts by plunging into turbulent events with such untrustworthy allies.”

Cicero did his best to influence Caesar. He urged that Caesar “restore this city of ours to stability by measures of reorganization and lawgiving.” But it was a hopeless task, since Caesar had already planned another campaign of overseas conquest.

Cicero's Personal Woes

While the Roman Republic was collapsing, Cicero's personal life was, too. In 46 B.C., he and his wife, Terentia, were divorced apparently because of financial disputes. He soon remarried a rich young woman named Pub-

lilia, but she couldn't get along with his daughter, Tullia, so they divorced about a year later. Then Tullia died in childbirth. “Next to yourself,” he wrote Atticus, “I have no better friend than solitude. In it all my converse is with books. It is interrupted by weeping, against which I struggle as much as I can. . . .”

Cicero turned more to writing about philosophy and secured his immortality. While he didn't construct any new philosophical system, he interpreted his favorite Greek thinkers and made the ideas soar. He drew from his own library, since there weren't any public libraries in Rome. He wrote with a reed pen and ink on papyrus scrolls. The ink was made from lampblack and gum. He worked to expand Latin which, among other things, lacked an equivalent of “the” and had few metaphors or compound words. He adapted words from Greek, which had been a philosophical language for centuries. Cicero introduced such words as *essentia*, *qualitas*, and *moralis* to Latin, which makes him the source of the English words “essence,” “quality,” and “moral.”

Atticus had slaves make copies of Cicero's works, the standard practice. One thousand copies were produced initially. For their trouble, authors like Cicero received prestige and gifts—royalties were unknown.

“The Law of Nature . . .”

Cicero transmitted the Greek Stoic idea of a moral “higher law” to the modern world. In his dialogue *De Legibus* (On the Laws, 52 B.C.), he talked about the “supreme law which existed through the ages, before the mention of any written law or established state.” He also referred to it as “the law of nature for the source of right.” In *De Republica* (*The Republic*, 51 B.C.) he says “True law is right reason in agreement with nature; it is of universal application, unchanging and everlasting . . . there will not be different laws at Rome and at Athens, or different laws now and in the future, but one eternal and unchangeable law will be valid for all nations and all times, and there will be one master and ruler, God, over us all, for he is the author of this law, its promulgator, and its enforcing

judge. Whoever is disobedient is fleeing from himself and denying his human nature, and by reason of this very fact he will suffer the worst penalties . . .”

Cicero further distinguished the “higher law” from the laws of governments. He declared it was “quite absurd to call just every article in the decrees and laws of nations. What if those laws were enacted by tyrants? . . . The essential justice that binds human society together and is maintained by one law is right reason, expressed in commands and prohibitions. Whoever disregards this law, whether written or unwritten, is unjust.”

While Cicero derived many ideas from the Greeks, he also contributed some key ideas of his own. Greek philosophers had conceived of society and government as virtually the same, coming together in the *polis* (city-state). Cicero declared that government is like a trustee, morally obliged to serve society—which means society is something larger and separate. Appreciation for the myriad wonders of civil society, where private individuals develop languages, markets, legal customs, and other institutions, didn’t come until the eighteenth century, but it was Cicero who began to see the light.

Cicero was the first to say that government was justified primarily as a means of protecting private property. Both Plato and Aristotle had imagined that government could improve morals. Neither had conceived of private property—an absolute claim to something over everyone else.

Cicero’s *De Officiis* (*On Duties*, 44 B.C.): “the chief purpose in the establishment of states and constitutional orders was that individual property rights might be secured . . . it is the peculiar function of state and city to guarantee to every man the free and undisturbed control of his own property.” Again: “The men who administer public affairs must first of all see that everyone holds onto what is his, and that private men are never deprived of their goods by public men.”

Caesar continued to seek Cicero’s goodwill by praising his work. Caesar dedicated his book *De analogia* (*On Analogy*, 54 B.C.) to Cicero, saying “You have gained a triumph to be preferred to that of the greatest generals.

For it is a nobler thing to enlarge the boundaries of human intelligence than those of the Roman Empire.” The two men had dinner at one of Cicero’s villas—Caesar came with his retinue of about 2,000 soldiers. Later Cicero told Atticus: “my guest was not the sort to whom one says, ‘Do pray come again when you are back.’ Once is enough. We did not talk about serious matters, but a great deal about literature.”

Caesar proceeded to twist the Roman constitution beyond recognition. He packed the Senate with some 400 of his partisans. He rigged the election of a new consul. He became the first living Roman to have his portrait appear on coins. He had himself named *dictator perpetuus*—dictator for life.

As historian John Dickinson observed, Caesar “indulged in a lifetime of double talk, professing slogans of democracy, while debasing and destroying the powers of the electorate, and insisting on constitutional technicalities, while persistently undermining the constitution. In the end, his prescription for government turned out to be a surprisingly simple one: to reduce its mechanism to the simplest and most primitive of all institutional forms, personal absolutism, and to employ it for one of the simplest and most primitive of all purposes, foreign conquest.”

Some influential Romans, however, still cherished republican principles.

Gaius Cassius, who hated Julius Caesar, seems to have hatched the plot against him. He was joined by his intense brother-in-law, Marcus Brutus. Both men had fought with Pompey. Caesar pardoned both and named both praetors. But Brutus felt betrayed after Caesar had promised a new order and pursued one-man rule. Brutus decided he had a historic role to play, because an ancestor had dispatched a tyrant, and he was the nephew of Cato, stalwart foe of Caesar and defender of the Roman Republic. Cassius and Brutus recruited about 60 co-conspirators.

The Ides of March

Caesar planned to leave Rome for another war, against the Parthians, on March 18, 44 B.C. Brutus and Cassius decided that the

assassination must take place on March 15—the Ides of March—during a Senate meeting. It was held in a hall next to the Theatre of Pompey. Apparently Cicero was there, although the conspirators hadn't confided in him because of his age and his tendency to talk.

After Caesar, 63, sat on a gilded chair, a man named Tillius Cimber approached Caesar and requested a pardon for his brother. When Caesar refused, Cimber grabbed Caesar's purple toga, the signal for attack. "The Liberators," as the conspirators called themselves, fell on him with their daggers. Cassius struck Caesar in the face. Brutus cut Caesar in the thigh. Altogether, he was cut 23 times and fell dead before a statue of Pompey. Reportedly, Brutus held high his dagger, shouted Cicero's name and congratulated him on the recovery of freedom.

Brutus and Cassius apparently expected the Republic to revive on its own—they didn't make any plans to exercise power themselves. Cicero, however, recognized that the problems of the republic went beyond one man. "We have only cut down the tree not rooted it up," he told Atticus.

Soon hard-drinking and brawling Mark Antony bid to succeed Caesar as dictator. He got possession of Caesar's papers and personal fortune—some 100 million *sesterces*, about one-seventh as much as was in the entire Roman treasury, which Caesar had intended for his 18-year-old adopted son, Octavian. Antony recruited his own armed forces. He pushed through a law giving him control of north and central Cisalpine Gaul.

On September 2, 44 B.C., Cicero delivered a speech asserting that Antony's actions were unconstitutional, unpopular and contrary to Caesar's intentions. On September 19, Antony countered with a scathing speech that blamed Cicero for the murder of Catiline, the assassination of Clodius, and the split between Caesar and Pompey. Antony made clear that Cicero was a mortal enemy.

Cicero wrote a second blistering speech which, while never delivered, became one of the most famous political pamphlets in history. He blasted Antony for inciting violence and provoking the Civil War. He portrayed Antony as an unscrupulous opportunist.

"I fought for the Republic when I was young," Cicero declared, "I shall not abandon her in my old age. I scorned the daggers of Catiline; I shall not tremble before yours. Rather I would willingly expose my body to them, if by my death the liberty of the nation could be recovered and the agony of the Roman people could at last bring to birth that with which it has been so long in labour." He expressed the wish that "at my death I may leave the Roman people free."

Cicero delivered another dozen attacks on Antony by April 21, 43 B.C. He urged that the Senate brand Antony as a public enemy and recognize the legitimacy of Octavian as the lesser of evils. These speeches became known as the *Philippics*, inspired by Demosthenes' speeches three centuries before, intended to stir Athenians against the invader Philip of Macedon who was the father of Alexander the Great.

Cicero withdrew to his Arpinum estate, away from the turmoil of Rome. He finished his final book, *De Amicitia (On Friendship)*—dedicated to his friend Atticus who, ironically, carried on a cordial correspondence with Antony and Octavian.

The rivals Antony, Octavian, and Marcus Aemilius Lepidus concluded that they weren't in a position to crush each other or get cooperation from the Senate. Consequently, they established themselves as Triumvirs for the Restoration of the Republic, and they divided spoils in the western provinces. They also announced rewards for anyone who could produce the heads of their enemies. Antony saw that Cicero's name appeared on the proscription list, and Octavian did nothing about it.

The Murder of Cicero

Cicero fled. He started sailing for Greece, where he had heard that Brutus had some armed forces, but rough winter weather soon forced him ashore. He sought shelter at his house near Formiae, along Italy's west coast. There, on December 7, 43 B.C., assassins caught up with him. A soldier named Herennius cut off his head and hands. Herennius brought these to Antony. Fulvia, Antony's

wife, pushed a hairpin through Cicero's tongue, and Cicero's head and hands were nailed to the Forum Rostra where orators spoke.

This was just the beginning of renewed violence. Antony ordered the murder of some 300 senators and a couple of thousand influential citizens. Antony and Octavian crushed the republican forces of Brutus and Cassius at Philippi (northeastern Greece), October 43 B.C., and both republicans committed suicide. A decade later, Antony and Octavian were at each other's throats. Antony lost three-quarters of his fleet at Actium (western Greece), then fled with Cleopatra to Egypt where they committed suicide in 30 B.C. Octavian, who became known as Augustus, launched the Roman Empire.

According to the first-century A.D. Roman biographer Plutarch, Augustus came upon one of his grandsons reading a book by Cicero. The boy tried to hide it, but Augustus picked it up and remarked: "My child, this was a learned man, and a lover of his country."

Cicero's works generally fell out of favor during the Empire. The fifth-century Catholic philosopher Saint Augustine confessed: "I came in the usual course of study to a work of one Cicero, whose style is admired by almost all, not so his message." By the early Middle Ages, many of Cicero's works were lost.

The Renaissance scholar Petrarch found some of Cicero's speeches (58 were eventually recovered). Then in 1345 at the Verona cathedral library, he discovered a collection of Cicero's letters—864 altogether, 90 to Cicero and the rest by him—which had been published in the first century A.D. Half were written to his friend Atticus, mostly based in Greece. All the letters date from the last 20 years of Cicero's life. Petrarch exulted: "you are the leader whose advice we follow, whose applause is our joy, whose name is our ornament." Cicero was cherished by Erasmus, the Dutch Renaissance man who deplored religious intolerance among both Catholics and Protestants.

In seventeenth-century England, according to one observer, it was "the common fashion at schooles" to use Cicero's *De Officiis* [*On*

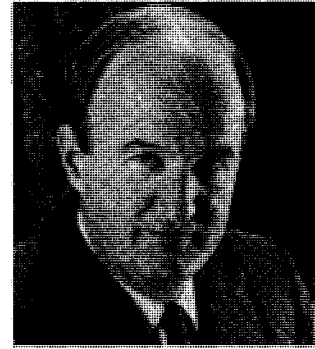
Duties] as an ethics text. Philosopher John Locke recommended Cicero's works. Cicero's vision of natural law influenced such thinkers as Locke, Samuel Pufendorf, and *Cato's Letters'* authors John Trenchard and Thomas Gordon who had the most direct intellectual impact on the American Revolution.

Cicero's defense of the Roman Republic made him a hero to many others. In Germany, he was admired by the libertarian poet and dramatist Johann Christoph Friedrich von Schiller. French Baron de Montesquieu, who urged the importance of dividing government powers, considered Cicero "one of the greatest spirits." Voltaire wrote that Cicero "taught us how to think." Inspired by Cicero, during the French Revolution, journalist Jean-Baptiste Louvet de Couvray boldly attacked Maximilien de Robespierre for promoting the Reign of Terror.

Cicero's oratory continued to stir friends of freedom. It helped inspire the libertarian ideals of the great historian Thomas Babington Macaulay. It influenced the dramatic speaking styles of young (libertarian) Edmund Burke, Charles James Fox, William Ewart Gladstone, and Winston Churchill. Cicero's oratory helped convince Frederick Douglass that if he mastered public speaking, he could fight American slavery—and he did.

Cicero's views became unfashionable when imperial Germany emerged as a major power during the late nineteenth century. Nobel Prize-winning historian Theodor Mommsen, for instance, was an ardent admirer of Caesar and sneered at Cicero's republicanism. While Hitler did much to make Caesarism unpopular, far more people today are interested in the conqueror Caesar than in an author and orator like Cicero.

Yet Cicero remains an "absorbingly significant builder of western civilization," as historian Michael Grant put it. Cicero urged people to reason together. He championed decency and peace. He gave the modern world some of the most fundamental ideas of liberty. Back when speaking freely meant risking death, he denounced tyranny. He has helped keep the torch of liberty burning bright for more than 2,000 years. □



Economics in One Page

“What makes it [economics] most fascinating is that its fundamental principles are so simple that they can be written on one page, that anyone can understand them, and yet very few do.”¹

—Milton Friedman

The above statement by Friedman got me thinking: Is it possible to summarize the basic principles of economics in a single page? After all, Henry Hazlitt gave us a masterful summary of sound principles in *Economics in One Lesson*. Could these concepts be reduced to a page?

Friedman himself did not attempt to make a list when he made this statement in a 1986 interview. After completing a preliminary one-page summary of economic principles, I sent him a copy. In his reply, he added a few of his own, but in no way endorses my attempt.

After making this list of basic principles (see the next page), I have to agree with Friedman and Hazlitt. The principles of economics are simple: Supply and demand. Opportunity cost. Comparative advantage. Profit and loss. Competition. Division of labor. And so on.

In fact, one professor even suggested to me that economics can be reduced to one word: “price.” Or maybe, I suggested alternatively,

“cost.” Everything has a price; everything has a cost.

Additionally, sound economic policy is straightforward: Let the market, not the state, set wages and prices. Keep government’s hands off monetary policy. Taxes should be minimized. Government should do only those things private citizens can’t do for themselves. Government should live within its means. Rules and regulations should provide a level playing field. Tariffs and other barriers to trade should be eliminated as much as possible. In short, government governs best which governs least.

Unfortunately, economists sometimes forget these basic principles and often get caught up in the details of esoteric model-building, high theory, academic research, and mathematics. The dismal state of the profession was expressed recently by Arjo Klamer and David Colander, who, after reviewing graduate studies at major economics departments around the country, asked, “Why did we have this gut feeling that much of what went on there was a waste?”²

On the following page is my attempt to summarize the basic principles of economics and sound economic policy. If anyone has any suggested improvements, I look forward to receiving them.

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, and editor of Forecasts & Strategies, one of the largest investment newsletters in the country. The third edition of his book Economics of a Pure Gold Standard has recently been published by FEE.

1. Quoted in interview, *Lives of the Laureates*, William Breit and Roger W. Spencer, eds. (Cambridge, Mass.: MIT Press, 1986), p. 91.

2. Arjo Klamer and David Colander, *The Making of an Economist* (Boulder, Colo.: Westview Press, 1990), p. xiv. See also David Colander and Reuven Brenner, *Educating Economists* (Ann Arbor: University of Michigan Press, 1992).

Economics in One Page

by Mark Skousen

1. Self-interest: "The desire of bettering our condition comes with us from the womb and never leaves till we go into the grave" (Adam Smith). No one spends someone else's money as carefully as he spends his own.

2. Economic growth: The key to a higher standard of living is to expand savings, capital formation, education, and technology.

3. Trade: In all voluntary exchanges, where accurate information is known, both the buyer and seller gain; therefore, an increase in trade between individuals, groups, or nations benefits both parties.

4. Competition: Given the universal existence of limited resources and unlimited wants, competition exists in all societies and cannot be abolished by government edict.

5. Cooperation: Since most individuals are not self-sufficient, and almost all natural resources must be transformed in order to become usable, individuals—laborers, landlords, capitalists, and entrepreneurs—must work together to produce valuable goods and services.

6. Division of labor and comparative advantage: Differences in talents, intelligence, knowledge, and property lead to specialization and comparative advantage by each individual, firm, and nation.

7. Dispersion of knowledge: Information about market behavior is so diverse and ubiquitous that it cannot be captured and calculated by a central authority.

8. Profit and loss: Profit and loss are the market mechanisms that guide what should and should not be produced over the long run.

9. Opportunity cost: Given the limitations of time and resources, there are always trade-offs in life. If you want to do something, you must give up other things you may wish to do. The price you pay to engage in one activity is equal to the cost of other activities you have forgone.

10. Price theory: Prices are determined by the subjective valuations of buyers (demand) and sellers (supply), not by any objective cost of production; the higher the price, the smaller the quantity purchasers will be willing to buy and the larger the quantity sellers will be willing to offer for sale.

11. Causality: For every cause there is an effect. Actions taken by individuals, firms, and governments have an impact on other actors in the economy that may be predictable, although the level of predictability depends on the complexity of the actions involved.

12. Uncertainty: There is always a degree of risk and uncertainty about the future because people are often reevaluating, learning from their mistakes, and changing their minds, thus making it difficult to predict their behavior in the future.

13. Labor economics: Higher wages can only be achieved in the long run by greater productivity, i.e., applying more capital investment per worker; chronic unemployment is caused by government fixing wage rates above equilibrium market levels.

14. Government controls: Price-rent-wage controls may benefit some individuals and groups, but not society as a whole; ultimately, they create shortages, black markets, and a deterioration of quality and services. There is no such thing as a free lunch.

15. Money: Deliberate attempts to depreciate the nation's currency, artificially lower interest rates, and engage in "easy money" policies inevitably lead to inflation, boom-bust cycles, and economic crisis. The market, not the state, should determine money and credit.

16. Public finance: In all public enterprises, in order to maintain a high degree of efficiency and good management, market principles should be adopted whenever possible: (1) Government should try to do only what private enterprise cannot do; government should not engage in businesses that private enterprise can do better; (2) government should live within its means; (3) cost-benefit analysis: marginal benefits should exceed marginal costs; and (4) the accountability principle: those who benefit from a service should pay for the service.

BOOKS

The Social Security Fraud

by Abraham Ellis

The Foundation for Economic Education •
second revised edition, 1996 • 209 pages •
\$14.95 paperback

Reviewed by William H. Peterson

U.S. Supreme Court Justice Louis Brandeis stated his opinion in *Olmstead v. United States* in 1928: "The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning but without understanding."

Just six years later, with the New Deal, a zealous, presumably well-meaning President Franklin D. Roosevelt, if also presumably without much understanding, said in a message to Congress calling for a system of "social insurance": "Among our objectives I place the security of men, women, and children of the Nation, first. Fear and worry, based on unknown danger, contribute to social unrest and economic demoralization. If, as our Constitution tells us, our Federal Government was established among other things 'to promote the general welfare,' it is our plain duty to provide for that security upon which welfare depends."

That's a stretch, FDR's citing the General Welfare Clause as authority to launch Social Security. Note his cited phrase specifically says "promote" and not "guarantee," and "general," not "individual," welfare.

Nonetheless, Social Security began in 1935, the same year as Child-Welfare Assistance, now known as Aid to Families with Dependent Children (AFDC). Social engineering was off and running, with both welfare schemes incurring the wrath of the Law of Unintended Consequences. For instance, both Social Security and AFDC, in different ways, have contributed to the breakdown of the American family.

Abraham Ellis, an English-born lawyer practicing in Manhattan, does a solid job in demolishing the shaky case for Social Security—shaky legally, analytically, and empirically. Rightfully, he tags the scheme as a "fraud," as but one more means, through the years, of extracting heavy taxes from the already tax-squeezed American citizen. The fact is that today, for most working Americans, payroll taxes are bigger than income taxes.

Initially, though, the Social Security tax was deceptively and of course politically light—one percent each on employee and employer. You needn't ponder long on why Congress magnanimously suspended payroll tax increases scheduled for 1946 and 1949. Workers, after all, vote. Yet today the combined tax is more than 15 percent, up more than sevenfold.

That's bad enough, but the record of the White House and Congress in further administering Social Security is just as bad or worse, as politics has ever reared its ugly head. For example, in 1956 women, who also happen to vote, were allowed to receive reduced benefits at age 62, unlike their male counterparts whose eligible age held at 65. In 1965 widows had their eligible age reduced to 60. Compassion is never in short supply in Congress.

Abraham Ellis has a fun chapter on "Social Security Semantics." Social Security taxes are still tagged as "contributions"; the system has a fictitious actuarial aura in its official description as "Old-Age, Survivors, and Disability Insurance." Social Security "trust funds" imply actual investment set-asides for future obligations while the funds themselves are virtually sham dummy accounts, with strictly pay-as-you-go intergenerational transfers; fund "trustees"—not going to prison for the deception—simply accept federal IOU's and hand over the cash receipts to the U.S. Treasury for general government expenses; current workers carry ever more retired workers on their aching backs, now in the range of three workers per one retiree. In 2029 the ratio will be two to one. So the Ponzi-pyramid scheme unravels; so the \$350 billion cash cow laden with tens of millions of votes sinks into the muck of Welfare State politics.

In the introduction, FEE president Hans Sennholz wonders about the applicability of the touted privatization of Chilean social security to the American situation. He says reform here has to proceed "from the high ground of goodness and morality; any other ground, no matter how rational and economical, is bound to disappoint."

The note on morality is appropriate. For in the upside-down world of Social Security, Abraham Ellis could have well come up with the crack: "There's a Fraud in Your Future." □

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The Home

by Richard McKenzie

Basic Books • 1995 • 228 pages • \$23.00

Reviewed by Karol Boudreaux

According to statistics, there were 442,000 children in foster care in the United States in 1992, nearly 50 percent more than in 1985. Critics argue that this system is grossly unfair to children, keeping them bound for years in a legal limbo where parental rights are neither terminated nor relinquished, and where social workers have disincentives to move children out of foster care. Despite the criticisms leveled at the current foster-care system, when Newt Gingrich suggested that some children might be better cared for in orphanages his idea was decried as a draconian throwback to a crueler time. Was it really?

In *The Home*, economist Richard McKenzie argues from personal experience that orphanages aren't such bad places after all. This coming-of-age memoir chronicles McKenzie's eight years during the 1950s in a North Carolina Presbyterian orphanage. Although not designed as a public-policy piece, the book nonetheless has a strong public-policy message. For some children, life in a well-run institution may be preferable to foster care or life in a dysfunctional, abusive family. The great virtue of *The Home* is that by telling his own story, and those of fellow orphans at The Home, McKenzie makes a compelling case for the institutional care of some children.

McKenzie's saddest story is of how he got to The Home. Like most other children at the orphanage he was not a full orphan—he did have one living parent, his father. But his father drank heavily and had no steady job. After McKenzie's mother committed suicide in 1952, his maternal aunts fought his father for legal control of him and his older brother. The aunts won the battle but decided they couldn't care for the young boys (then 10 and 12), and so sent them to The Home, where they joined some 200 other children.

Is McKenzie sorry that his aunts made this decision? The answer is an unequivocal "no." Indeed, McKenzie attributes much of his later success in life to his experiences at The Home. (He is an accomplished economist who holds a chaired professorship at the University of California, Irvine.) Far from bemoaning his life as a poor orphan, McKenzie argues that The Home was probably the best thing that could have happened to him—given the alternatives.

McKenzie credits The Home with giving him the "bounds" that he needed, instilling in him discipline and a desire to succeed, and providing support to start down that road to success. (The Home, for example, paid for his undergraduate education.) Of course, The Home was not perfect. McKenzie concedes that it could not provide him with the kind of emotional support offered by a loving family: "[i]f there is one thing we missed at The Home, it was having access to the type of person our mothers could have been." But in his eyes, it was vastly better than life with his father or life on the streets.

Over and over again McKenzie asks readers to consider how children of broken and abusive homes are best cared for. Is a child's experience in the current system really better than life at The Home? Throughout his account, McKenzie is careful to remind his readers that for children in situations like his, life was necessarily a choice between imperfect alternatives. There was no fairy godmother waiting to carry McKenzie and his brother off to a perfect family. Instead, the choice was between a dysfunctional family and institutionalized care. McKenzie convincingly argues that for him and for many of his peers at The Home, the orphanage offered more and better possibilities for a satisfying future than did relatives or foster care.

To his credit, McKenzie does not sugarcoat life at The Home. His days were full of hard work in fields, milking cows, working in orchards, doing school work, playing sports, and going to church. He had little free time and little in the way of material comforts: no shoes in the summer, too few blankets in the winter. When the children's workload increased one fall, McKenzie was forced to sell his favorite pet goat, a combination friend and confidante. Some of the employees at The Home were racist, and some were downright insensitive to the children. But others were wonderful people who became role models for McKenzie and his friends.

McKenzie wants his readers to understand "why an orphanage can be a refuge and a source of inspiration and why the overwhelming majority of those who spent their childhoods there can look back on them with fondness and gratitude." At the end of the book readers do understand just that.

This makes the final episode of McKenzie's book all the more discouraging. He returned to The Home in 1994 for an annual homecoming. No longer a residential orphanage, The Home now caters to "severely troubled children" who stay for weeks, not years. The annual cost of caring for each child now averages over \$45,000, compared with less than \$3,000 (in 1995 dollars) while he was in

residence. The staff-to-student ratio today is 1.5 to one. The students no longer work in the fields, or do other chores, because as one administrator said, "we can't afford to pay them." Are these children better off than McKenzie and his fellow students?

It is impossible to separate the story of McKenzie's personal triumph over adversity from the story of The Home's role as a "refuge and a source of inspiration." This book demonstrates that positive alternatives to the current child-welfare system do exist. How sad that a place that did so much good for so many people was ruined by social theorists. However, it is a blessing that Richard McKenzie has reopened the dialogue about orphanages and children. Let us hope that his positive message will influence the crafting of today's child-welfare policy. □

Ms. Boudreaux is a research associate at Clemson University's Center for Policy & Legal Studies.

Ending Affirmative Action: The Case for Colorblind Justice

by Terry Eastland

Basic Books • 1996 • 219 pages • \$23.00

Reviewed by Steven Yates

This book is a tour de force. Terry Eastland looks at the history of civil rights in America and sees two incompatible visions of what a civil rights movement should accomplish. One favors colorblindness and race-neutrality; the other, color-consciousness and group-based preferences. The first might eventually enable us to solve our racial problems. The second has kept them inflamed now for over a quarter century.

Yet colorblind policy can only remove barriers; it cannot guarantee specific, quantifiable results. So to those who wanted such results, colorblindness was not enough, and the struggle for a colorblind legal system was quickly reversed in favor of color-consciousness which soon spread to include other groups. This meant continuing the practice of differential treatment, i.e., discrimination. The entire focus of affirmative action changed from efforts to remedy discrimination to quite different ones aimed at managing "diversity," i.e., hiring and promoting by group-identity, and ultimately, engineering a new social order. Multiculturalism, radical feminism, and other identity-

ideologies have kept attention focused on the differences between groups, contrary to the intent of the prime movers of the civil rights movement.

Eastland deftly guides us through these changes, focusing on misguided decisions by both the executive and judicial branches of government. The first major turning point was the shift in emphasis from disparate *treatment* to a disparate *impact*. The disparate impact doctrine broadened the definition of *discrimination* to include not merely intentional actions against individuals but any hiring and contracting practices that resulted in politically unacceptable ratios. Quotas had actually been adopted as part of Richard Nixon's Philadelphia Plan. Soon thereafter, whites—especially white men—began to experience reverse discrimination.

The second juncture occurred in the late 1970s when the Supreme Court missed the opportunity to repudiate reverse discrimination and informal quotas. Rather than questioning whether government should be classifying people by race, it sought to define the circumstances when such classifications were warranted and did so very ambiguously. The net result was that preferences soon got out of control, particularly in the universities and in government.

In the late 1980s, we reached another turning point. Set-asides had become the norm in construction, and "cultural diversity" was becoming the official ideology of increasingly thought-controlled colleges and universities. The *Johnson v. Transportation Agency* decision in 1987 had allowed preferences to overcome "underrepresentation" without any necessary tie to past or present discrimination.

New cases started making their way to a somewhat different Supreme Court with Reagan appointees who tended to oppose racial engineering. By letting a lower court's 1989 decision stand in *J. R. Croson Co. v. City of Richmond*, and in *Wards Cove v. Atonio* that same year, the Court made efforts to rein in set-asides. Yet their defenders proved too strong, as these decisions were overturned by the so-called 1991 Civil Rights Act, which held onto the disparate impact doctrine. *Hopwood v. University of Texas School of Law* was another case which let a lower court's decision stand, but threw the legal status of affirmative action programs in higher education into doubt without resolving the issue. *Adarand Construction v. Peña* called for an application of "strict scrutiny" to racial classifications. This was a step in the right direction, if not the outright repudiation that was really needed. These cases have brought us nearer

to what—dare we hope?—is the beginning of the repudiation of preferential treatment.

There are important lessons to be learned from the legal trajectory of affirmative action. First and most obviously, government classification by group identity for *any* purpose is inviting trouble, since it provides a basis for legally acceptable discrimination. Another is that “temporary measures” translate into permanent entitlements. A third is familiar: social engineering is not possible, since most people resent top-down manipulations and will thwart them if they can. Terry Eastland’s wide-ranging account includes more than I have been able to consider here, such as the relationship between affirmative action and immigration and the question of whether recent immigrants who cannot have suffered discrimination in America ought to be eligible for affirmative action as members of “underrepresented” groups.

The themes of this book are not new; what is newest here are up-to-date accounts of cases such as *Hopwood* and *Adarand*, and of actions such as the California Civil Rights Initiative. It is a commentary on our times that the same message needs to be sent out again and again. □

Dr. Yates is Adjunct Research Fellow with the Acton Institute for the Study of Religion and Liberty and the author of Civil Wrongs: What Went Wrong With Affirmative Action (ICS Press, 1994).

This Land Is Our Land: How to End the War on Private Property

by Congressman Richard Pombo and Joseph Farah

St. Martin’s Press • 1996 • 224 pages • \$22.95

Reviewed by Raphael G. Kazmann

This timely book deals with an important subject: property rights. After two short introductory chapters that review the history of property rights and the place of property rights as described in the Constitution, Richard Pombo and Joseph Farah get down to business: How are property rights faring at present?

The authors enumerate the legislation that is already in place and use case histories to describe the deleterious impact on individuals. As a hydrologic engineer with 50 years of experience in the development of water resources, I was particularly

interested in the Corps of Engineers and its connection with “wetlands.” Ever since the virtual demise of the dam-building program in the 1980s, the Corps has been looking for another mission. This turns out to be “protection” of wetlands—even though there is no authoritative definition of what a wetland is. According to the General Accounting Office, changes in wetland definition have significantly expanded the area of land under the jurisdiction of the Corps, possibly doubling it to perhaps as much as 200 million acres, 40 percent of which is privately owned.

The violation of property rights by the Corps (and the EPA) is epitomized by the story of John Pozsgai of Morrisville, Pennsylvania, who bought a dump next to a small streambed. He removed tons of garbage, thousands of old tires and car parts, and replaced this eyesore with clean dirt. He was convicted of filling a wetlands without a permit. His sentence? A prison term of 33 months. There are many more such stories, all taken from the records and involving people who opposed the bureaucracy in the courts and in congressional hearings.

The entire book is devoted to showing how the bureaucracies have increased their areas of operations under the guise of “protecting the environment” from the legitimate operations of the owners of private property. In essence, environmental regulators claim that man is not a part of nature, a fundamentally flawed concept. People have been on the face of the earth for a very long time and have altered the original environment, developing mines, building roads, lakes, houses, and all sorts of buildings. People also plant trees, lawns, and crops, and prevent wild animals from endangering the lives of children. All of these legitimate activities depend on property rights and all are the target of the regulators and their “green” activist helpers.

This Land Is Our Land does a great service in bringing into one focus myriad examples of the attack on property rights—read, “property holders.” We need more books like this one to provide information to people who come under attack by environmentalists, animal-rights advocates (they can discover endangered species faster than biologists can classify them), and assorted government bureaucracies. But most of all we need to demand that before a property owner is condemned for violating a regulation, the regulation itself has been subjected to cost-benefit analysis and that the scientific basis is not the “junk science” that is polluting our courts and legislatures. □

Professor Kazmann lives in Baton Rouge, Louisiana.

Against the Tide: An Intellectual History of Free Trade

by Douglas A. Irwin

Princeton University Press • 1996 • 275 pages • \$30.00

Reviewed by Robert Batemarco

The economics of free trade has virtually nothing to do with professional boxing. Yet this book reminded me of the late heavyweight champ Joe Louis and what some sportswriters referred to as his "Bum-of-the-Month Club": the weak field of challengers Louis fought in his prime years as champion. Who wouldn't be a "bum" by comparison? Analogously, we see in the second half of this scholarly, well-researched book a "fallacy-of-the-decade club." Improving the terms of trade, protecting infant industries and industries which enjoy increasing returns to scale, correcting distortions in domestic labor markets, and creating jobs are among the arguments in favor of protectionism that author Douglas Irwin scrutinizes. He makes it clear that even though one or two of these challengers may lay a glove on the reigning champion, free trade, none emerges from the main event a victor.

Before analyzing protectionist fallacies, Irwin takes the reader through the development of the positive case for free trade. The arguments vary from the quasi-religious "doctrine of universal economy," which "held that Providence deliberately scattered resources and goods around the world unequally to promote commerce between different regions," to the familiar classical analysis of comparative advantage.

While a proponent of free trade himself, the author disappoints somewhat in accepting the idea that the case for free trade is independent of the case for laissez faire in general. This is most evi-

dent in his discussion of the "theory of domestic divergences," which posits that interferences with free trade are not required to correct certain "market failures" because purely domestic interventions can correct them more efficiently. An example of what this means is that we should not use tariffs to reduce unemployment since increased government spending could do so at lower cost. I think most readers of *The Freeman* know what is wrong with this argument. The Austrian insight that the presence of international boundaries does not change the essence of economic activities is sorely needed here. But, alas, no Austrian school economist except for Gottfried Haberler (in a context which reveals none of his "Austrianism") rates so much as a mention.

By the book's final chapter, however, the point is made that even if an argument for protection could pass analytical muster, it would never be implemented in a way to achieve its purported benefits. It seems to me that this argument applies every bit as much to domestic interventions as to restrictions on international trade.

It should be noted that many of the controversies dealt with here are of a somewhat technical nature. Thus, *Against the Tide* is likely to be of much greater interest to professional economists than to the general public. Still, the writing is much livelier than that found in the average economics book. Despite my reservations about some aspects of this book, I found myself in full agreement with the author's concluding statement: "Yet if the historical experiences described here continue, free trade will remain one of the most durable and robust propositions that economic analysis has to offer for the conduct of economic policy." In other words, it's free trade by a knockout. □

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**FEE's new 1997 catalogue was mailed as part of the
November 1996 issue of *The Freeman*.**

Additional copies are available from FEE on request.

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Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$30.00 or more receive a subscription to *The Freeman*. Student subscriptions are \$10.00 for the nine-month academic year; \$5.00 per semester. Additional copies of this issue of *The Freeman* are \$3.00 each. For foreign delivery, a donation of \$45.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

Understanding Property Rights

This issue of *The Freeman* focuses on property rights, but not in a heavy, theoretical way. Think of it as a potpourri of information on the subject.

You'll have a chance to read about how property rights quiet squabbling children, how property rights preserved natural resources for Native Americans, and how property rights are routinely violated by governments, American and foreign.

As Thomas Sowell points out in *Knowledge and Decisions*, both socialist and free-market countries have property rights. The difference is that in socialist countries the government owns and assigns them. In free-market or capitalist countries, individuals have them and—what is especially important—can transfer them voluntarily through mutual agreement.

My goal is to help us recognize that these *private* property rights are the foundation of a cooperative society (a point that modern "communitarians" have yet to discover). But I also want readers to understand that private property rights aren't always formally described in legal documents. They can be "understood" rather than spelled out, as property rights are in community-run fishing territories. Ownership can be shared by families or clans, rather than individuals alone.

Property rights can change over time. F.A. Hayek described property rights as "a modifiable and very complex bundle whose most effective combinations have not yet been discovered in all areas." Sometimes it's difficult to have full private property rights, even though we have them nominally. As Richard Stroup notes below, even though we have rights against pollution of ourselves or our property, these rights may be difficult to defend.

There's much to be said about private property rights. I hope that these stories will enhance your understanding of what they achieve for our society and why they should be respected.

—JANE S. SHAW, *Guest Editor*

"3-D" Property Rights

Property rights must be: (1) *defined* clearly so as to reside with a specific person or entity; (2) *defended* easily against non-owners who might wish to use or "steal" the asset; and (3) *divestible*, or transferable, by the owner to others on whatever terms are mutually satisfactory to buyer and seller.

When property has these "3-D" characteristics, and when trades can be transacted easily, the owner of any asset has the incentive and the authority to use that asset in such a way as to maximize its value to society.

The property rights system, like all other human institutions, is imperfect. Sometimes assets and resources are not controlled by property rights complete in all three dimensions. Property rights can be poorly defined, they can be difficult to enforce, or they may not be transferable.

It may be difficult to defend one's property right to clean ground water, for example. In order to protect such rights, a plaintiff before a court of law needs good information, and good information is not free.

Without reliable information on which to base a damage suit, courts are unable to defend property rights effectively against invasion or takings. The polluter is allowed to harm the property of another, without that person's consent.

This problem has been used to justify a great deal of government intervention in the pollution area. Yet it is critical to realize that *the same information problem hampers any policy* intended to deal with hazardous waste [or other pollution]. Government agencies have no better access than the courts to reliable information about the source and effect of pollutants, which is inherently elusive. Without this information, it is impossible to decide rationally how much control is justified. Since expending resources or stifling productive activity reduces society's wealth, such controls should not be taken lightly.

—RICHARD L. STROUP

(Adapted from "Hazardous Waste Policy: A Property Rights Perspective," in *Environment Reporter*, September 22, 1989.)

Property Rights and Human Rights

Some critics of the free market argue that property rights are in conflict with "human" rights. But the critics fail to realize that in a free-market system, every person has a property right over his own person and his own labor, and that he can make free contracts for those services. Slavery violates the basic property right of the slave over his own body and person, a right that is the groundwork for any person's property rights over nonhuman material objects. What's more, all rights are human rights, whether it is everyone's right to free speech or one individual's property rights in his own home.

A common charge against the free-market society is that it institutes "the law of the jungle," of "dog eat dog," that it spurns human cooperation for competition, and that it exalts material success as opposed to spiritual values, philosophy, or leisure activities. On the contrary, the jungle is precisely a society of coercion, theft, and parasitism, a society that demolishes lives and living standards. The peaceful market competition of producers and suppliers is a profoundly cooperative process in which everyone benefits, and where everyone's living standard flourishes (compared to what it would be in an unfree society). And the undoubted material success of free societies provides the general affluence that permits us to enjoy an enormous amount of leisure as compared to other societies, and to pursue matters of the spirit. It is the coercive countries with little or no market activity, notably under communism, where the grind of daily existence not only impoverishes people materially, but deadens their spirit.

—MURRAY N. ROTHBARD

(From the "Free Market" entry in *The Fortune Encyclopedia of Economics*, ed. by David R. Henderson [New York: Warner Books, Inc., 1993], pp. 638–639.)



Property Rights and Law Among the Ancient Greeks

by Gregory F. Rehmke

Greek art, architecture, literature, philosophy, and politics clearly mark the beginning of Western civilization. But the Greek contribution to the Western world runs far deeper than its intellectual and artistic accomplishments, its stunning architecture, and its masterful works of philosophy and literature. Greek customs and institutions provided protection to private property unique in the ancient world, and by instilling a strong sense of equality before the law, laid the foundations for Western democracy and the rule of law.

I had long assumed the main Greek contributions to Western civilization were the great philosophical works of Plato and Aristotle, the histories of Thucydides and Herodotus, and the surviving plays of Aeschylus, Euripides, and Sophocles. But taking an art history course on ancient Greece stimulated my curiosity about its economics and politics, and since then I have worked my way through a number of thoughtful books on the Greek world. I don't claim to be an expert on the subject, but I have noticed that many classical experts don't show much appreciation for markets or the role of property rights in economic and cultural progress. Yet here the contributions were also enormous.

Central to the rapid progress of Greek civilization was its very lack of a political

center. No great king ruled the Greeks. Instead, dozens and later hundreds of independent *poleis*, or city-states, developed in concert but with full political independence. They flourished, both in Greece and in its colonies around the Mediterranean and Black Seas, from 800 to 300 B.C.

Each city-state became a testing ground for small innovations in laws, economic policies, and political organization. Greeks shared a common heritage, but institutions, customs, and circumstances in each *polis* varied significantly, with totalitarian Sparta and democratic Athens as extremes. City-states whose laws and customs encouraged innovation and wealth creation passed on news of these practices through trade, and exported their laws and institutions by establishing colonies (which competed with the colonies of other Greek cities). Travel and intermingling at the Olympic Games and other athletic and religious festivals cross-pollinated the Greek world, communicating political ideas, economic policies, and business practices between citizens of independent Greek cities.

Cities with relatively high taxes and duties or other barriers to commerce discouraged agricultural and commercial progress and therefore tended to stagnate or decline. The city of Corinth, for example, became the early commercial leader of the Greek world by developing its harbor and port facilities to take advantage of its prime location. By the

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early fifth century B.C., however, Athens had supplanted Corinth as the commercial center of the Greek world. When its policies made it less competitive with Athens, Corinth, which had no political power over other Greek cities, was unable to hold onto its commercial power.

Wars among the early Greeks (before the Persian and Peloponnesian wars) were mostly border disputes between cities, and well-armed farmers mobilized for brief pitched battles. Early Greek cities supported no standing armies, battle strategies were minimal, and casualties in these conflicts were usually light. The citizen infantries or *hoplites* were the key defensive forces for both city and countryside.

The freedom of Greek citizens was based on their membership in a society of equals, unlike hierarchical oriental despotisms where all served their superiors and a king. Freedom meant not that the Greek citizen necessarily enjoyed self-government, but that “however his polity was governed it respected his rights. State affairs were public affairs, not the private concern of a despot.”¹ Of course, not all Greeks were Greek citizens; women and slaves had no political rights and neither, in the beginning, did immigrants and other classes of noncitizens who lived and worked in Greek cities. Still, this was wider representation in civic affairs than existed in other ancient civilizations.

“It has often been said,” writes F. A. Hayek, “that the ancients did not know liberty in the sense of individual liberty. This is true of many places and periods even in ancient Greece, but certainly not of Athens at the time of its greatness . . . ; it may be true of the degenerate democracy of Plato’s time, but surely not of those Athenians to whom Pericles said that ‘the freedom which we enjoy in our government extends also to our ordinary life [where], far from exercising a jealous surveillance over each other, we do not feel called upon to be angry with our neighbour for doing what he likes.’”² According to Hayek, the Athenian view that citizens should have freedom to live as they pleased influenced the development much later of the rule of law in England.

Protecting Family Property

The powers of the early *polis* were limited by the same Greek tradition that served to protect private property: a deep respect—even worship—of the family. Unlike most states founded with the conquest of one people over another, the Greek *polis* had its origin in pacts, probably for defensive reasons, between neighboring clans and tribes. Each clan or tribe had its own traditions of worship, and each family had a sacred enclosure protecting its sacred hearth and flame. Families governed their own affairs. Even the marking of property boundaries was a religious ceremony. “Thus the men of the early ages . . . arrived . . . by virtue of their belief, at the conception of the right of property; this right from which all civilization springs, since by it man improves the soil, and becomes improved himself.”³

Though this religion made it difficult to transfer property between families, it provided powerful barriers to the expansion of government. “Every transfer of property needed to be authorized by religion. If a man could not, or could only with difficulty, dispose of land, for a still stronger reason he could not be deprived of it against his will. The appropriation of land for public utility was unknown among the ancients. Confiscation was resorted to only in case of condemnation to exile.”⁴ Fustel de Coulanges also notes that this strict protection of property rights lasted until the later democratic age of Greek cities.

This higher-law foundation of Greek civilization precluded for centuries active law *making* by tyrants or aristocracies. “Solon, Lycurgus, Minos, Numa, might have reduced the laws of their cities to writing, but they could not have made them. If we understand by legislator a man who creates a code by the power of his genius, and who imposes it upon other men, this legislator never existed among the ancients. Nor did ancient law originate with the votes of the people. The idea that a certain number of votes might make a law did not appear in the cities until very late, and only after two revolutions had transformed them. Up to that time laws had appeared to

man as something ancient, immutable, and venerable."⁵ Aristotle echoes this tradition in the *Politics* when he says that "it is more proper that the law should govern than any of the citizens" and that those appointed to power should be but "guardians and servants of the law." Aristotle condemns governments where "everything is determined by majority vote and not by law" for in such cases "the people govern and not the law."⁶

Sophocles' play *Antigone* turns on the existence of this higher law, which even the king cannot or should not ignore. Antigone, disobeying the direct orders of Creon, the king, buries her brother according to the sacred rituals, and tells the king, "Nor did I think your orders were so strong that you, a mortal man, could over-run the gods' unwritten and unfailing laws. Not now, nor yesterday's, they always live, and no one knows their origin in time. So not through fear of any man's proud spirit would I be likely to neglect these laws. . . ."

Expanding Commerce

The Greeks traded with and drew heavily from civilizations around them, adapting an alphabet from Phoenician traders, for example, and early sculptural styles and skills from Egyptian craftsmen. "So far as we know," F. A. Hayek wrote, "the Mediterranean region was the first to see the acceptance of a person's right to dispose over a recognised private domain, thus allowing individuals to develop a dense network of commercial relations among different communities. Such a network worked independently of the views and desires of local chiefs, for the movements of naval traders could hardly be centrally directed in those days."⁷

But the Greeks were far more dynamic than their ancient neighbors. The Greeks benefited both from a sense of the good life that emphasized the pursuit of individual excellence (*aretê*) and from an entrepreneurial vigor given free rein by political and economic decentralization. Over time and in response to increasing population and changing views, the governments of Greek cities shifted from their ancient clan-based traditions. A series

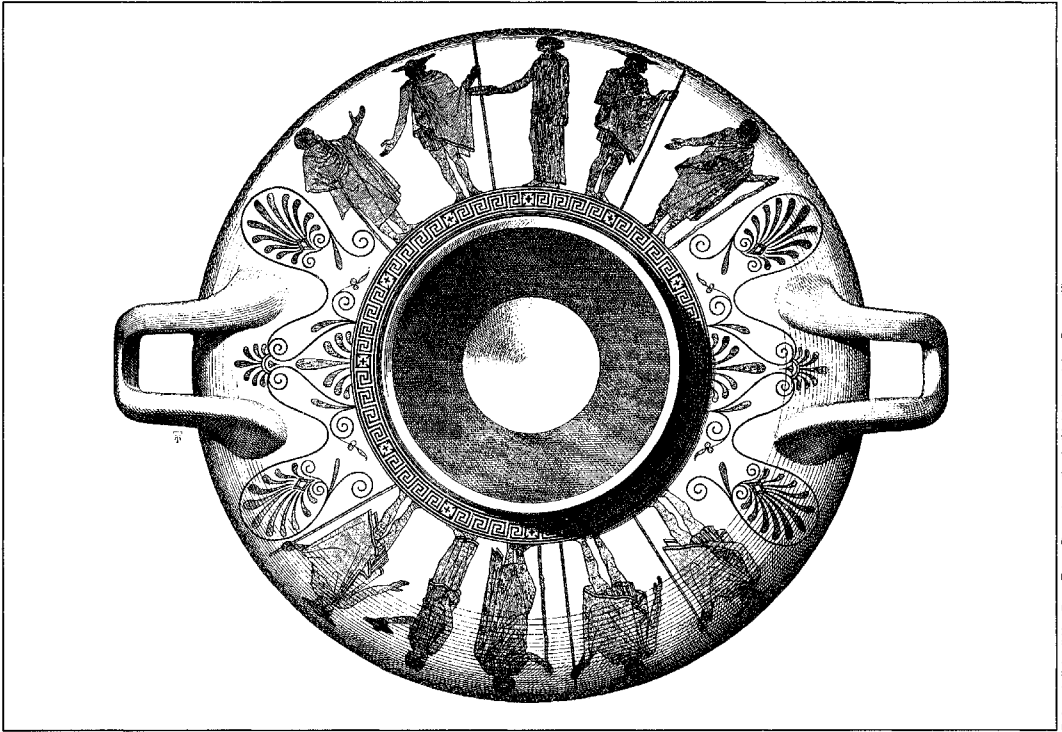
of revolutions swept through the cities, each expanding the protections of Greek law and limiting the power of aristocratic families.

Solon, a successful merchant and accomplished poet, revised Athenian laws in 594 B.C. to grant fuller property rights to a wider range of Greeks. Solon refused to confiscate and redistribute land, but his reforms canceled or reduced debts for small farmers and allowed them to own property—freeing them of their historical clientship to aristocratic families. In addition, Solon encouraged local industry by offering citizenship to craftsmen willing to immigrate to Athens, and encouraged the production and export of olive oil (in part by banning the export of any agricultural products except olive oil). Solon's reforms applied the same law to all citizens and eliminated the privileges of the aristocratic Eupatrids, the network of aristocratic families who had long held political power in Athens.

Across the Greek world, the aristocrats by birth lost their control of public affairs, and were replaced by a new class of citizens who by virtue of independent wealth took over civic responsibilities, including defense. Greek cities prospered during this period. Fustel de Coulanges points out that the "aristocracy of wealth" gave a higher status to labor: "This new government gave the most political importance to the most laborious, the most active, or the most skillful man; it was, therefore, favorable to industry and commerce. It was also favorable to intellectual progress; for the acquisition of this wealth, which was gained or lost, ordinarily, according to each one's merit, made instruction the first need, and intelligence the most powerful spring of human affairs."⁸

The Importance of the Farm

Indeed, as Victor Davis Hanson points out in his recent book *The Other Greeks: The Family Farm and the Agrarian Roots of Western Civilization*, the disciplined life and hard labor on the thousands of small, independent farms developed Greek character, generated Greek wealth, and defended Greek city-states. Our image of the success of ancient Greece, he



Painted dish. (L'Art Pour Tous. Encyclopédie de l'Art Industriel et Decoratif).

argues, is too much shaped by the surviving writings of authors who were members of a later urban elite.

Family-owned and -operated farms provided both the wealth and the *hoplite* defense for early ancient Greek cities. “Their achievement,” argues Hanson, “was the precursor in the West of private ownership, free economic activity, constitutional government, social notions of equality, decisive battle, and civilian control over every facet of the military—practices that affect every one of us right now.”⁹

These independent farmers carved their farms out of the wilderness around cities and developed apart from the estates long operated by the great aristocratic families. The independent farmers slowly and steadily expanded their holdings through decades of experimentation with crops and improvement of farmlands. Rugged hills and the thin-soiled uneven lands between were gradually brought into cultivation. Crops included cereals, fruit trees, olives, and vines, as well as livestock. Secure property rights were essential for encouraging the long-term invest-

ments made by farming families. The year-round cycle of planting, pruning, and harvests both distributed the workload through the year and allowed time for Greek citizen-farmers to participate in the affairs of the *polis*.

The Influence of Homer and Hesiod

The Greeks had no Bible to organize their worship and educate their young. The books that were central to Greek life and education were the *Iliad* and the *Odyssey* by Homer, and Hesiod’s *Works and Days* and *Theogony*. The works of Homer and Hesiod appear at the very beginning of widespread Greek literacy, around 750 B.C. These books, learned in childhood and often memorized, deeply influenced the character and culture of all Greeks. Central to *Works and Days* is the idea of private farms owned by individual farmers and a steady disdain for the large estates of the “bribe-swallowing barons.” “At all times in the poem,” notes Hanson, “private owner-

ship and thus the theoretical ability of the farm to expand or contract are assumed."¹⁰

In *Works and Days* Hesiod "exhorts the farmer to labor for profit, yet at the same time to see his farm as more than a mere livelihood. Crucial to that dual idea is work: Hesiod is obsessed with hard labor, distinguishing his farmers from peasants, who hope for little more than general subsistence."¹¹ Competition between farmers motivates them to work hard and improve their farms: "In a phrase almost reminiscent of Adam Smith, Hesiod sings that the power of competition can 'stir up even the lazy to work, for a man wants work once he sees his neighbor, a rich man, eager to plough, to plant and to put his house in good order.'"¹² Hard work leads to profit and the accumulation of surplus, Hesiod says: "If there is desire for wealth in your heart, then do the following: Work with work on top of work."¹³

The independence of Greek farmers seems to have carried over into the growing manufacturing sectors of Greek cities, for example, the pottery industry in Athens. Athenian potters and painters grew wealthy from their successful workshops, and Athenian pottery was highly prized and often copied around the Greek world.

The success of Western civilization owes much to the unique world-view and institutions passed on to the ancient world and later to the modern world by the Greeks. The sanctity of private property and contract shared by most Greek city-states and by Rome influenced later writers and philosophers who influenced America's founding fathers. Today, when the accomplishments of Western civilization and the institution of private property are under sustained attack in our colleges and universities, the study of ancient Greece and of the classics is in steep decline. What

interest there is concentrates on the status of women in ancient Greece or turns to the ancient world for support of various left-wing ideological causes.

Looking on the bright side, however, since most of us were little exposed to ancient Greece in high school or college, we are less likely to be disposed against it. So as adults we have the whole stunning landscape of the ancient world to discover on our own. We can each chart our own course through this stretch of centuries where people first turned the powers of reason upon the natural world, and first turned to the power of the marketplace to launch the Western world on its unique course.

Recommended readings beyond those cited above are: John Boardman, et al., eds., *The Oxford History of the Classical World: Greece and the Hellenistic World* (Oxford University Press, 1991); William I. Davisson and James E. Harper, *European Economic History: The Ancient World* (Irvington Publishers, 1972); Bruno Snell, *The Discovery of Mind in Greek Philosophy and Literature* (Dover Publications, 1982); and Lord Acton's essay "The History of Freedom in Antiquity," in *Essays in the History of Liberty* (LibertyClassics, 1985). □

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11. Hanson, p. 98.

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13. Cited in Hanson, p. 100.

Property Rights in the Family—and Beyond

by David R. Henderson

In 1991, when I was putting together *The Fortune Encyclopedia of Economics*, an economist friend sent me a story from the *Sesame Street Parent's Guide*. I liked it so much that I had my research assistant, Janet Beales, write a shortened version for the *Encyclopedia*. We titled it "Property Rights for Sesame Street."

Here's the story. Katherine Klemp often brought home games and toys to her family of eight children. "I rarely matched a particular item with a particular child," she says. "Upon reflection, I could see how the fuzziness of ownership easily led to arguments. If everything belonged to everyone, then each child felt he had a right to use anything."

So Mrs. Klemp introduced two rules. First, she decided never to bring anything into her house without assigning clear ownership to one and only one child. Second, ownership meant ownership; the owner was not required to share.

The result? Instead of teaching selfishness, property rights promoted sharing. The children, secure in their right of ownership, felt they could afford to share because they could set the sharing rules and, therefore, could always get their toys back. Says Mrs. Klemp, "[Sharing] raised their self-esteem to see themselves as generous persons."

There's an added benefit. Not only do the

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Klemp children value their own property rights but they also extend that respect to their siblings' possessions. "Rarely do our children use each other's things without asking first, and they respect a 'No' when they get one. Best of all, when someone who has every right to say 'No' to a request says 'Yes,' the borrower sees the gift for what it is and says 'Thanks' more often than not," adds Mrs. Klemp.

The *Encyclopedia* came out in 1993. Last May, one of my students who had bought my book volunteered a story in class. The student, Dale Courtney, has four children, three older children and a newborn. The three children would often fight over who got to use a special bowl or cup. Dale's solution to such fighting was to confiscate the treasured item and throw it away, and to announce that policy in advance.

It wasn't much of a solution, he reported in class. "I was throwing away the family wealth because the fighting and bickering continued."

The Wisdom of . . . Property Rights

That his "Solomon" solution wouldn't work should have been predicted. Each child would figure out that if he or she alone refrained from fighting, the item would still be thrown away, as long as the other two fought. So each child continued to fight, hoping to win early

before their father intervened and destroyed the item. Each child's dominant strategy, as the game theorists put it, was to fight.

Then Dale Courtney read the article about Mrs. Klemp and her eight children. He was skeptical, but he was also desperate. So he tried Mrs. Klemp's solution.

It worked. "The amount of calm at meals is unbelievable," he said. "Disputes over bowls and cups have simply disappeared."

If these stories about Katherine Klemp's and Dale Courtney's families helped only to solve disputes within families, they would be very useful. A large fraction of the disputes in families are between children over who has the right to use what. But the property rights solution works as well—in fact, better—for society at large. Think of all the fights that take place over schools. Some parents pester state governments and school boards to have the schools teach evolution; other parents, feeling just as strongly, push to have the schools teach creationism. Long, heated battles occur at school board meetings over whether scarce resources should be put into music, or science camps, or sports. In which kinds of schools do these pitched battles take place? In one kind only: tax-funded government schools.

Voluntarily funded schools, so-called private schools, cater to diverse parents, but there are no battles. The difference is property rights.

My wife and I send our daughter to a private school. We don't like everything done by those who run the school. But when we feel strongly enough, we go to see the principal. We don't always get satisfaction. But because property rights are well defined, we

know that the decision is ultimately hers. Our main decision is whether to continue sending our daughter there. That suits us fine, since in the aggregate we parents have a fair amount of say over the school. The school must be good enough to earn our tuition payments.

In contrast, no one really owns government schools. Therefore, various groups try to get control of the schools and they succeed in limited and temporary ways. But these groups control it only until other groups get enough strength to take over temporarily. Each group is like one of the eight children in Mrs. Klemp's family before she discovered property rights.

Schools are just one example of how things get messed up when there are no property rights and how property rights solve the problem. Consider another, something that most of us take for granted: traffic jams at rush hour. We fight for space in traffic jams on government-funded roads. One reason is that the government sets the same usage price at 5:00 p.m. as at 3:00 a.m., namely, zero.

We don't typically have to line up to buy the cars that we use at rush hour. Why not? Because we buy those cars from private, for-profit companies that have an incentive to avoid shortages by raising prices (or lowering them, when people aren't buying enough of their products). Would a private, for-profit owner of a freeway price it at zero in rush hour? Unlikely. Just as we don't line up for cars, we would get rid of most severe traffic jams if for-profit or nonprofit firms could have well-defined property rights in roads.

As with families, so with societies. Property rights create harmony where their absence led to chaos. □

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Law, Custom, and the Commons

by Randy T. Simmons

Free and unregulated access to scarce resources has long been recognized as a serious problem. Two thousand years ago Aristotle wrote: “What belongs in common to the most people is accorded the least care: they take thought for their own things above all.”¹ More recently, the biologist and human ecologist Garrett Hardin argued: “Ruin is the destination toward which all men rush, each pursuing his own best interest in a society which believes in the freedom of the commons. Freedom in a commons brings ruin to all.”

Fortunately, however, there are ways to avoid such ruin.

Hardin used an example of a pasture to illustrate how the commons can produce tragedy. As long as grazing on the commonly owned pasture is below carrying capacity, each herdsman may add another cow without harming any cows—they all still have enough to eat. But once carrying capacity is reached, adding the additional cow has negative consequences for all users of the common pasture.

The rational herdsman faced with adding the extra cow calculates his share of the benefits of an additional cow. It is 100 percent. He also calculates his share of the cost. It is $1/n$ herdsmen; that is, it is the cost divided by

the number of herdsmen. So he adds another cow. And another . . . as do all the other herdsmen. Each may care for what is common but can do nothing about it, since one person exercising restraint only assures himself a smaller herd, not a stable, preserved commons.

Thus, the commons is a trap—an individual acting in his self-interest makes himself, along with everyone else, worse off in the long run. Yet acting in the group interest cannot stop the inevitable ruin.

If the commons inevitably leads to tragedy, humans should have killed themselves off thousands of years ago. Instead, people developed ways of making individuals responsible for their own actions.

Responsibility is created by moving people out of a system of open access and creating rights of access and use. Creating such use-rights, therefore, means that a resource is no longer everybody's property. But use-rights are meaningless unless they are protected or enforced with some degree of legal or customary agreement.

The most effective system of responsibility is private property rights because owners are responsible for their own costs and benefits. If you degrade your own property, you suffer the consequences because your wealth is reduced. If, instead, you improve the property, your wealth is increased. You capture the benefits of your actions and pay the costs of them as well. The only exception is when you create

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costs to others by what you do on your own property, such as damming a stream or polluting the air. Legal institutions not only protect people's rights to do what they want with their property but also protect the rights of others ("third parties") to be free from harm caused by others.

Customary Institutions

People have developed other systems of responsibility that, unlike property rights, do not require the legal institutions of the state to make them effective. Customary institutions allow Maine lobstermen, for example, to defend their fishing territories from outsiders and successfully enact informal and formal regulations on the number of traps and the amount of fishing pressure on the lobster resource. Swiss villagers typically own private hayfields and pastures surrounding their village, but high Alpine meadows are owned and used by the whole village. Customs have evolved that determine the intensity and frequency of use. Some African pastoralists hold grazing lands in common when there is plenty of forage, but when forage is scarce village elders allocate grazing rights to individual families.² Each of these systems falls short of pure property rights solutions to the commons but each effectively allocates responsibility.

Another approach has been tried, too: political management of a commons. That means that the users collectively make decisions about management, either democratically or by submitting to authoritarian decision-making. However, this approach is inherently irresponsible.

Political managers do not capture the benefits of decisions that increase the wealth of their society, nor do they pay the costs of decisions that reduce wealth. True, as members of the society they gain their proportional share from good or bad decisions. But their share of loss or gain is so small that it approaches zero.

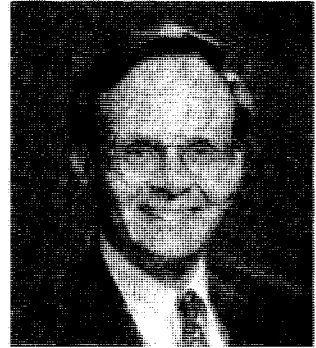
Under political management, users, too, are protected from responsibility. Because the costs of decisions are shared collectively, there is a tendency for individuals to act like the herdsman with cows in the commons—to seek benefits for oneself regardless of the costs to others. Wants can be presented as needs, information about the effects of one's actions can be suppressed, and the preferences of the politically able can substitute for sound management choices.

Rather than overcoming the tragedy of the commons, political management institutionalizes the core problem. In the irresponsible political environment, rules and choices will be structured to benefit the politically powerful, not to benefit the human or natural environment. The formerly communal forests of India, Nepal, Niger, and Thailand are well-known examples. Stable, customary use-rights had prevented the tragedy of the commons. But these were replaced by political controls imposed by national governments. The results were disastrous levels of deforestation and soil erosion, as villagers were released from their culturally and communally enforced use-rights and responsibilities.

If societies are to protect scarce resources, including human liberty, systems of responsibility must be protected, encouraged, and implemented. No one system fits every situation. Cultural, customary, or informal arrangements are often the most appropriate. Sometimes *de facto* as opposed to *de jure* use-rights are best. Other times, pure property rights will be preferred. It is important, however, that governments not impose "solutions" on local people. Local institutions reflect an evolved wisdom that may not be apparent to policymakers who wish to impose political control or privatization. □

1. Aristotle, *The Politics*, translated by Carnes Lord, Book 2, Chapter 3 (Chicago: University of Chicago Press, 1984), p. 57.

2. For more discussion and examples of customary rights, see Terry L. Anderson and Randy T. Simmons, *The Political Economy of Customs and Culture* (Lanham, Md.: Rowman & Littlefield, 1993).



Homeschool Heroes

Of all the ingredients in the recipe for education, which one has the greatest potential to improve student performance?

No doubt the teachers unions would put higher salaries for their members at the top of the list, to which almost every reformer might reply, “Been there, done that.” Teacher compensation has soared in recent decades at the same time every indicator of student performance has plummeted.

Other answers include smaller class size, a longer school year, more money for computers, or simply more money for fill-in-the-blank. The consensus of hundreds of studies over the past several years is that these factors exhibit either no positive correlation with better student performance or show only a weak connection. On this important question, the verdict is in and it is definitive: *The one ingredient that makes the most difference in how well and how much children learn is parental involvement.*

When parents take a personal interest in the education of their children, several things happen. The child gets a strong message that education is important to success in life; it isn’t something that parents dump in someone else’s lap. Caring, involved parents usually instill a love of learning in their children—a love that translates into a sense of pride and achievement as knowledge is accumulated and put to good use. Time spent with books

goes up and time wasted in the streets goes down.

American parents were once responsible for educating their children. Until the late nineteenth century, the home, the church, and a small nearby school were the primary centers of learning for the great majority of Americans.

In more recent times, many American parents have largely abdicated this responsibility, in favor of the “experts” in the compulsory public school system. According to a 1996 report from Temple University in Pennsylvania, “nearly one in three parents is seriously disengaged from their children’s education.” The Temple researchers found that about one-sixth of all students believe their parents don’t care whether they earn good grades and nearly one-third say their parents have no idea how they are doing in school.

Amid the sorry state of American education today are heroes who are rescuing children in a profoundly personal way. They are the homeschoolers—parents who sacrifice time and income to teach their children themselves. Homeschooling is the *ultimate* in parental involvement.

Teaching children at home isn’t for everyone and no one advocates that every parent try it. There are plenty of good schools—many private and some public—that are doing a better job than some parents could do for their own children. But the fact is that homeschooling is working—and working surprisingly well—for the growing number of parents and children who choose it. That fact is all

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the more remarkable when one considers that these dedicated parents must juggle teaching with all the other demands and chores of modern life. Also, they get little or nothing back from what they pay in taxes for a public system they don't patronize.

While about 46 million children attend public schools and more than 5 million attend private schools, estimates of the number of children in homeschools nationwide range from 900,000 to 1.2 million. That's a comparatively small number, but it's up from a mere 15,000 in the early 1980s. In fact, homeschool enrollment has been growing by an astounding 25 percent annually for several years.

Parents who homeschool do so for a variety of reasons. Some want a strong moral or religious emphasis in their children's education. Others are fleeing unsafe public schools or schools where discipline and academics have taken a backseat to fuzzy "feel-good" or politically correct dogma. Many homeschool parents complain about the pervasiveness in public schools of trendy instructional methods that border on pedagogical malpractice.

Homeschool parents are fiercely protective of their constitutional right to educate their children. In early 1994, the House of Representatives voted to mandate that all teachers—including parents in the home—acquire state certification in the subjects they teach. A massive campaign of letters, phone calls, and faxes from homeschoolers produced one of the most stunning turnabouts in legislative history: By a vote of 424 to 1, the House reversed itself and then approved an amendment that affirmed the rights and independence of homeschool parents.

Critics have long harbored a jaundiced view of parents who educate children at home. They argue that children need the guidance of professionals and the social interaction that come from being with a class of others. Homeschooled children, these critics say, will be socially and academically stunted by the confines of the home. But the facts suggest otherwise.

A 1990 report by the National Home Education Research Institute showed that homeschooled children score in the 80th percentile or higher, meaning that they scored

better than 80 percent of other students in math, reading, science, language, and social studies. Reports from state after state show homeschoolers scoring significantly better than the norm on college entrance examinations. Prestigious universities, including Harvard and Yale, accept homeschooled children eagerly and often. And there's simply no evidence that homeschooled children (with a rare exception) make anything but fine, solid citizens who respect others and work hard as adults.

Homeschool parents approach their task in a variety of ways. While some discover texts and methods as they go, others plan their work well before they start, often assisted by other homeschoolers or associations that have sprung up to aid those who choose this option. Common to every homeschool parent is the belief that the education of their children is too important to hand over to someone else.

Writing in the July 1996 issue of *Reason* magazine, Britton Manasco argues that the growth of CD-ROMs, Internet services, and computerized educational networks is likely to make homeschooling even more attractive to parents. For a tiny fraction of what a printed version might cost, one software publisher is offering a classic books program that incorporates more than 3,500 unabridged literary works, complete with hundreds of video clips and illustrations. A support group in Ann Arbor, Michigan, provides inexpensive on-line help, resources, and evaluations for thousands of homeschool children worldwide. Another organization links first-rate instructors and homeschool students from all over the country via computer in a college preparatory program that includes a core curriculum for about \$250 per course.

In every other walk of life, Americans traditionally regard as heroes the men and women who meet challenges head-on, who go against the grain and persevere to bring a dream to fruition. At a time when more troubles and shortcomings plague education and educational heroes are too few in number, recognizing the homeschool heroes in our midst may be both long overdue and highly instructive. □

Property Rights Among Native Americans

by Terry L. Anderson

Chief Seattle, a nineteenth-century Native American leader, is often quoted as saying, “All things are connected like the blood which unites one family. Whatever befalls the earth, befalls the sons of earth.”

Those who invoke these words are usually attempting to convey the impression that Native Americans were guided by a unique environmental ethic. Yet the words in the oft-quoted speech are not actually those of Chief Seattle. And the message of the speech does not ring true, either. For Native Americans, traditions and customs—including property rights—were more important in encouraging careful use of resources than was an environmental ethic, however important that ethic may have been.

It turns out that the words supposedly spoken by Chief Seattle were written by Ted Perry, a scriptwriter. In a movie about pollution, he paraphrased a translation of the speech that had been made by William Arrowsmith (a professor of classics). Perry’s version added a lot.¹ Perry, not Chief Seattle, wrote that “every part of the Earth is sacred to my people.” (Perry, by the way, has tried unsuccessfully to get the truth out.)

The speech reflects what many environmentalists want to hear, not what Chief Seattle said. The romantic image evoked by the

speech obscures the fact that, while there were exceptions that led to the “tragedy of the commons,” generally American Indians understood the importance of incentives. Property rights, supplemented by customs and traditions where appropriate, often produced the incentives that were needed to husband resources in what was frequently a hostile environment.

Personal ethics and spiritual values were important, as they are in any society, but those ethics and values worked along with private and communal property rights, which strictly defined who could use resources and rewarded good stewardship.

Indian land tenure systems were varied. While some ownership was “completely or almost completely communal,” other ownership was more like today’s fee simple.² The degree of private ownership reflected the scarcity of land and the difficulty or ease of defining and enforcing rights.

Because agricultural land required investments and because boundaries could be easily marked, crop land was often privately owned, usually by families or clans rather than individuals. For example, families among the Mahican Indians in the Northeast possessed hereditary rights to use well-defined tracts of garden land along the rivers. Europeans recognized this ownership, and deeds of white settlers indicate that they usually approached lineage leaders to purchase this land. Prior to European contact, other Indian tribes recog-

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nized Mahican ownership of these lands by not trespassing.³

Farther from the rivers, however, where the value of land for crops was low, it was not worth establishing ownership. As one historian put it, "no one would consider laying out a garden in the rocky hinterlands."⁴

In the Southeast, where Indians engaged in settled agriculture, private ownership of land was common. "The Creek town is typical of the economic and social life of the populous tribes of the Southeast," writes historian Angie Debo. "Each family gathered the produce of its own plot and placed it in its own storehouse. Each also contributed voluntarily to a public store which was kept in a large building in the field and was used under the direction of the town chief for public needs."⁵

Hunting, Trapping, and Fishing

Customary rights governed hunting, trapping, and fishing. These rights "were often expressed in terms of religion and spirituality rather than of science as we understand it today," writes Peter Usher. "Nonetheless, the rules conserved the resource base and harmony within the band."⁶

Hunting groups among the Montagnais-Naskapi of Quebec between Hudson Bay and the Gulf of St. Lawrence recognized family and clan hunting areas, particularly for beaver when it became an important trade item.⁷ Similar hunting groups and rules existed in other regions. In New Brunswick, report anthropologists Frank G. Speck and Wendell S. Hadlock,⁸ "some of the men held districts which had been hunted by their fathers, and presumably their grandfathers." They even had a colloquial term that translates to "my hunting ground."

The Algonkian Indians from the Atlantic to the Great Lakes "carried on their hunting in restricted, family hunting territories descending from generation to generation in the male line," says Speck.⁹ "It was in these family tracts that the supply of game animals was maintained by deliberate systems of rotation in hunting and gathering, and defended by the family groups as a heritage from some remote

time when the country had been given to their ancestors by the Creator."

Among Plains Indians, who depended on the buffalo, property rights and rules about who had precedence provided the incentives for successful hunts. The successful hunter was "entitled to keep the skin and some choice portion of the meat for his family," writes one historian.¹⁰ The hunters marked their arrows distinctively, so after the hunt, the arrows in the dead buffalo indicated which hunters had been successful.¹¹ Disputes over whose arrow killed the buffalo were settled by the hunt leader. Poorer families followed the hunt and depended on the charity of the hunters for meat.¹²

It took strong, well-disciplined horses to run into a stampeding buffalo herd and keep up with the stronger buffalo. If an owner decided to lend his horse for a chase, payment was expected. The chase was dangerous and a loaned horse might be injured. Generally, the responsible borrower who had taken reasonable precautions to prevent injury did not have to pay damages, but the irresponsible borrower was forced to replace the lost horse.

As with hunting, Native Americans often specified fishing territories. In the Pacific Northwest, Indians had well-defined salmon fishing rights. To capture salmon returning from the ocean to spawn in freshwater streams, Indians placed fish wheels, weirs, and other fixed appliances at falls or shoals where the fish were naturally channeled.¹³ Their technology was so efficient that they could have depleted salmon stocks, but they realized the importance of allowing some of the spawning fish to escape upstream. Economist Robert Higgs quotes a Quileute Indian born about 1852: "When the Indians had obtained enough fish they would remove the weirs from the river in order that the fish they did not need could go upstream and lay their eggs so that there would be a supply of fish for future years."¹⁴ In many cases the fishing sites were bequeathed from father to son.

Personal items were nearly always privately owned. Clothes, weapons, utensils, and housing were often owned by women, for whom they provided a way to accumulate personal wealth. For the Plains Indians, the tepee

offers an example of private ownership. Women collected enough hides (usually between eight and 20), tanned and scraped them, and prepared a great feast where the hides were sewn together by the participants.

These are just a few examples showing that Indians, like people everywhere, often relied on property rights to encourage the efficient and careful use of resources. An environmental ethic, however strong, was not enough. □

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2. John M. Copper, "Indian Land Tenure Systems," in *Indians of the United States*, 1949 (Contributions by Members of the Delegation, and by Advisers to the Policy Board of the National Indian Institute, for the Second Inter-American Conference on Indian Life, Cuzco, Peru.)

3. Ted J. Brasser, "Riding on the Frontier's Crest: Mahican Indian Culture and Culture Change," Paper No. 13

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5. Angie Debo, *A History of the Indians of the United States* (Norman, Okla.: University of Oklahoma Press, 1970), pp. 13-14.

6. Peter J. Usher, "Property as the Basis of Inuit Hunting Rights," in *Property Rights and Indian Economies*, ed. by Terry L. Anderson (Lanham, Md.: Rowman & Littlefield, 1992), p. 50.

7. Edward S. Rogers and J. Garth Taylor, "Northern Ojibwa," in *Handbook of North American Indians-Subarctic*, Vol. 6 (Washington, D.C.: Smithsonian Institution, 1981), p. 181.

8. Frank G. Speck and Wendell S. Hadlock, "A Report on Tribal Boundaries and Hunting Areas of the Malecite Indians of New Brunswick," *American Anthropologist*, Vol. 48, No. 3 (1946), p. 362.

9. Frank G. Speck, "Aboriginal Conservators," *Bird Lore*, Vol. 40 (1939), pp. 258-259.

10. Julian H. Steward, *Basin-Plateau Aboriginal Sociopolitical Groups*, Smithsonian Institution, Bureau of American Ethnology, Bulletin 120 (Washington, D.C.: GPO, 1938), p. 253.

11. John C. Ewers, *The Horse in Blackfoot Indian Culture* (Washington, D.C.: Smithsonian Institution Press, 1969), p. 160.

12. Ewers, p. 162.

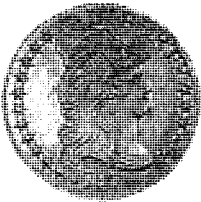
13. Anthony Netboy, *Salmon of the Pacific Northwest: Fish vs. Dams* (Portland, Ore.: Binford & Mort, 1958), p. 11.

14. Robert Higgs, "Legally Induced Technical Regress in the Washington Salmon Fishery," *Research in Economic History*, Vol. 7 (1982), pp. 55-86, at 59.

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How Fishing Communities Protect Their Future

by Donald R. Leal

At the beginning of this century, violence periodically erupted among the community of fishers of Valensa, Brazil. They fought over access to prime fishing spots on the adjacent estuary, and they fought when one type of gear became entangled in another. Fishers were spending more time fighting and untangling gear and “fishing” became a costly endeavor with little return. To solve this predicament, local fishers got together and worked out their own set of rules.

They assigned fishing spots and drew lots to determine the order in which each one could use a particular spot. And they divided the estuary into different fishing zones, with only one type of gear allowed in each zone. Fishing became a productive activity for local fishers.

The local fishery remained productive for decades. But in the middle of the century, the Brazilian government decided to modernize the fishery. The government made new nylon nets available to anyone who qualified for a bank loan arranged by the government through the Bank of Brazil.

Local fishers did not qualify for the loans and did not have enough capital to purchase the nets on their own. A few wealthy individuals around Valensa did qualify for the loans,

and purchased the nylon nets. They hired men who had never fished the estuary before to use the new nets. The local fishers’ management system crumbled. Old and new fishers fought over fishing spots. Eventually, the fishery was overharvested and abandoned.¹

The Valensa fishery illustrates what is missing in fishing policies around the world. Fishing communities can often establish rules and customs that avoid the “tragedy of the commons.” All too often, governments fail to support these arrangements and sometimes destroy them irrevocably.

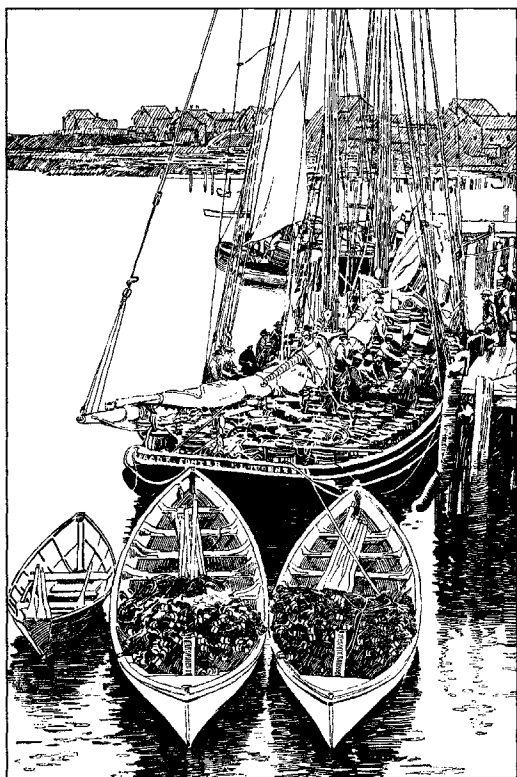
In many coastal waters today, the tragedy of the commons is taking its toll. Severe overfishing is leading to economic ruin, in spite of years of governmental restrictions on gear, catch, and seasons.

Yet the experience of other communities shows that it is possible to avoid this situation through self-regulation that relies on common traditions and rules. Research by Elinor Ostrom has shown that self-regulation can occur where communities have strong local traditions, where boundaries are well defined, where rules are appropriate, and where sanctions are imposed when rules are violated.²

The Lobstermen of Matinicus, Maine

Indeed, there is a rich history of community-run fisheries that avoid the tragedy of the commons. Take, for example, lobster

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fishing off Matinicus Island, Maine, which has been studied by anthropologists Francis P. and Margaret C. Bowles. Fishers claim a well-defined area of approximately 77 square miles around the island.

The island's lobster fishery has operated successfully for over a century despite many changes—including expansion into regional markets and dramatic improvements in boat style, fishing technology, and navigational equipment. While the number of fishers has deviated little from the original number of 36, fishers move in and out of the fishery. Over the 1970–1982 period, the Bowleses observed that 21 men entered or left the fishery.³

Island fishers strictly control who will be accepted into their fishery. One must either live on the island and have island kinship ties or purchase property from a local fisher, who then becomes an informal sponsor. In addition, one must demonstrate a willingness to cooperate with other fishermen and respect their fishing rights and equipment. An individual must also make the necessary invest-

ment of wharf access, boat, and traps, an investment that totaled roughly \$125,000 in the 1980s.⁴

Fishers actively defend this territory through extralegal means. The Bowleses write that fishers will “signal a territory violation by opening the door and tying a half hitch around the buoy of an outsider’s trap. If this signal is ignored, an island lobsterman may haul up the outsider’s traps and dump them together so that the buoys and warps become tangled.”⁵ If these don’t work, the fishers may cut traps.

James Acheson, who also studied lobster fisheries off Maine’s coast, points out that these arrangements lead to conservation as fishers limit the number of traps they use.⁶ Acheson found that local incomes of fishers in the area are almost 40 percent higher than incomes of lobster fishers in the more open areas off Maine’s coast. And fishing is twice as productive.⁷

Self-imposed restrictions in lobstering have existed for over a century. Still, Acheson points out that the Maine government could stop the arrangement at any time by vigorous enforcement of laws affecting trap-cutting. The system exists only because of “the benign neglect of the state,” he writes.⁸

Scottish Salmon Fisheries

While the state of Maine has simply looked the other way, in a few instances governments actively support community-run management. One example is the management of salmon fisheries in Scotland.

Scotland has had private, transferable rights to salmon fishing for centuries, both in coastal and inland waters. The right to fish for salmon carries with it the right to exclude other fishers from a well-defined area of water.

In addition, Parliament has created 101 salmon fishery districts. Owners of fishing rights in each district form a District Salmon Fishery Board, which taxes its members and uses funds to protect and develop the fishery. Although the government sets some bounds, such as setting fishing dates, each owner is free to determine the level of fishing effort.

There is no licensing of fishers or fishing gear and no restriction on the amount of fishing gear or the amount of fish that can be taken.

Despite the absence of extensive government controls, Scottish salmon stocks have not been overfished by commercial fishers. Indeed, the fisheries support a lucrative inland salmon sport fishery on famous rivers such as the lower Tay, Tweed, and the Spey. Recently, the Atlantic Salmon Conservation Trust (Scotland) Ltd. purchased commercial rights and retired them. The goal: to increase salmon returns for the upstream sport fishery.⁹

Scotland's salmon fishery, based on private fishing rights, is a success story. However, it is not alone. Where communities can apply and enforce customary rights, they, too, can avoid the "tragedy of the commons." Legal recognition of their informal rights would go a long

way toward ensuring a productive future for community-run fisheries. □

1. John Cordell, "The Developmental Ecology of an Estuarine Canoe Fishing System in Northeastern Brazil," Ph.D. dissertation, Stanford University, Stanford, Calif., 1972.

2. Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (Cambridge: Cambridge University Press, 1990), pp. 90–101.

3. Francis P. Bowles and Margaret C. Bowles, "Holding the Line: Property Rights in the Lobster and Herring Fisheries of Matinicus Island, Maine," in *A Sea of Small Boats*, John Cordell, ed. (Cambridge, Mass.: Cultural Survival, Inc., 1989), pp. 228–257, at 239.

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7. Acheson, p. 74.

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9. Robert Williamson, "Scottish Salmon Fishing Rights: A Transferable Property: The Consequences for Administration and Regulation." Paper presented at ICRI Colloquium, Paris, January 18, 1993, p. 6.

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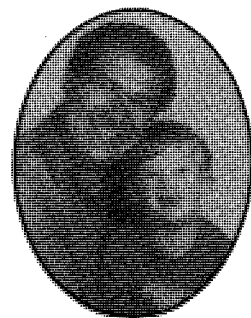
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How Property Rights Can Spur Artificial Reefs

by Michael De Alessi

Small fishing communities knew what they were doing when they created the first artificial reefs out of rocks and logs hundreds of years ago. When large, heavy objects are dropped into the sea, they attract and propagate large numbers of fish. In Japan, traditional fishing communities have evolved into cooperatives that own the reefs outright, and this secure ownership is the reason why their reefs are well protected, productive resources.

Unfortunately, private rights to the seabed are virtually nonexistent in the United States.¹ Artificial reef creation has generally been the province of state conservation departments since the 1950s. These departments have made artificial reefs offshore out of everything from old tires, coal ash blocks, and automobiles to decommissioned ships and oil rigs. Often, this is at the behest of private sports fishing or diving interests.

But in one state, Alabama, artificial reefs can be privately owned—sort of. Private citizens are allowed to create artificial reefs. The state provides no defense of this ownership, however. If others learn about the reef, they can use it, too, so the property right is marginal at best. Even so, the most tenuous private property right related to reefs—simply having proprietary information on the exact location of a reef—results in a tremendous private initiative to create such reefs.

Mr. De Alessi is coordinator of the Center for Private Conservation, a project of the Competitive Enterprise Institute in Washington, D.C.

Artificial reefs are popular with local recreationists and environmentalists because they enhance the marine environment. Within days of a hard substrate appearing on the seafloor, small encrusting animals begin to attach themselves, in the process creating more surface area for other organisms to either attach to or hide behind. Thus artificial reefs create habitat for many species of both fish and invertebrates, which in turn attract many larger fish, some of which might not survive otherwise. There is some debate over the extent to which reefs attract sea life that is already present and the extent to which they encourage propagation of more fish and other animals. Clearly, they do both.

The Gulf of Mexico is particularly well suited to artificial reef creation because its seafloor lacks the rocky bottom and outcroppings that can support a rich variety of life (although even California, which has such features, has a strong contingent clamoring for artificial reef production). “Dropping one of these [artificial reefs] in the middle of this vast expanse of mud bottom is like putting an oasis in the desert,”² says an official with the Texas Parks and Wildlife Department.

Sunk Assets

Many of the privately created reefs off the coast of Alabama were formed by sinking old autos. While this may not initially seem prudent, the cars are well cleaned of any noxious chemicals before they are carried out to sea.

Even without stringent regulations, many of the people who fish around these reefs eat what they catch, so it is also in their best interests to keep fish free from toxic chemicals. The main problem with cars is that they do not last very long, but without secure private property rights, there is little interest in finding more durable materials.

Legal, private reef creation began in Alabama in 1987 when the Department of Conservation and Natural Resources created the first of two large areas where people are allowed to sink acceptable objects (those passing a state inspection to ensure that no toxic materials remain). The measure came in response to the artificial reef creation that was already going on illegally. Recreational fishers had figured out the benefits of small artificial reefs and had been sinking objects on their own for many years. Eventually the commercial fishing industry grew tired of stray shopping carts damaging their nets, so they convinced the state to take action.

Because the jurisdiction over artificial reef creation rested with the U.S. Army Corps of Engineers, Alabama arranged for a large permit from the Corps, then issued its own permits to the public. As part of this arrangement, the state assumed all of the liability resulting from these reefs, which encouraged their creation but discouraged any private interest in the long-term effects of the reefs. Strengthening ownership rights to artificial reefs and returning liability to their owners would encourage long-term care and stewardship.

Once reef creation was sanctioned by the state, the numbers of reefs took off, and so did entrepreneurial activity. One company has specialized in preparing old cars to meet state standards, then delivering them to a specified and confidential location. Since 1987 it is estimated to have placed over 5,000 cars and 300 school buses underwater.³ As a result of this kind of activity, in 1992, with only a fraction of the Gulf Coast shoreline, the recreational catch of red snapper in Alabama was two to five times higher than those of the other Gulf states.⁴

The value of proprietary information encouraged reef creation, but the fleeting nature

of the property right and lack of liability encouraged people to consider only the short-term benefits of their actions. Thus most of the reefs were formed from old washing machines, toilets, and all sorts of other junk that corroded quickly or was otherwise rapidly destroyed. Auto bodies lasted longer, usually five years or more, but when Hurricane Opal passed by Alabama in 1995, many reefs were washed out of the area or destroyed, and auto hoods started winding up in fishing nets. This led the state to institute a moratorium on most junk and scrap by early 1997. With this move, Alabama may see some of its sport fishing moving to Florida.

Strengthening Property Rights

Setting restrictions to solve this problem ignores the very reason why care was not taken to avoid storm damages in the first place. Cars made popular reefs because they lasted longer than one could hope to keep a good fishing spot secret. For only slightly more than a car,⁵ a firm called Reef Ball Ltd. offers prefabricated artificial reefs, specifically designed to enhance the marine environment and to be durable. By strengthening private property rights to artificial reefs, owners would naturally take an interest in their protection, and would probably be more interested in Reef Balls than old Chryslers. Increased liability would also encourage owners to account for the long-term effects of reef placement and construction.

In Japan, where the rights to subtidal lands are clearly defined, the level of investment in artificial reefs is huge. Custom reefs are designed for specific habitats and species production. Many fishing cooperatives even place guards to watch over productive areas day and night.⁶ Japan is hardly a perfect example,⁷ yet the vigilance with which private reefs are protected, and the research efforts that goes into fishing reefs demonstrate the vast potential for the positive benefits of private ownership.

The success of Alabama's artificial reef program is having an effect outside the state—Florida recently started creating large permit areas, and other Gulf states may follow suit.

Limited ownership schemes already exist in offshore waters for aquaculture and oil and gas exploration. Extending those leases to artificial reefs would be a simple step toward encouraging the kind of private stewardship of artificial reefs that has been so successful in Japan. □

1. Oyster beds (a form of artificial reef) have been one exception. For a description of the positive effects of oyster bed ownership in Washington state, see Michael De Alessi, "Oysters and Willapa Bay," Center for Private Conservation Case Study (Washington, D.C.: Center for Private Conservation), March 1996.

2. Hal Osburn, director, Texas Parks and Wildlife Depart-

ment, quoted on "Oil Rigs to Reefs," *CNN's Future Watch*, September 11, 1993.

3. William Lindberg, University of Florida Department of Fisheries and Aquatic Sciences, personal communication, September 25, 1996.

4. Eric S. Cisar, "Artificial Reefs: Making Something from Nothing," *Tide*, November/December 1993, p. 44.

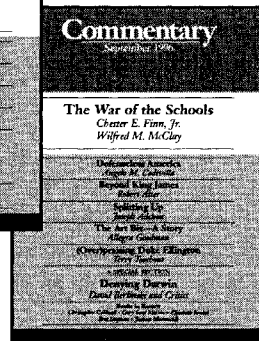
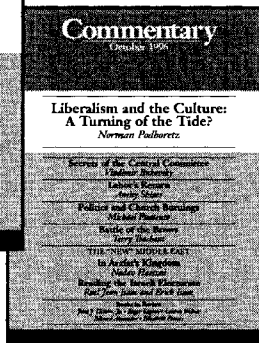
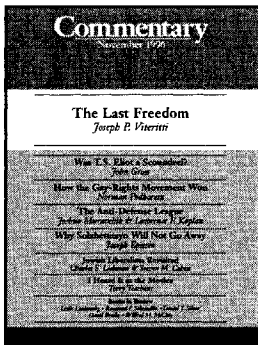
5. A car body placed out in the Gulf ran about \$275, while a delivered Reef Ball costs about \$300. Todd Barber, president, Reef Ball Ltd., personal communication, September 1996.

6. Shingo Ota, First Secretary (Fisheries), Embassy of Japan, Washington, D.C., personal communication, July 1996.

7. Fishing cooperatives in Japan are heavily subsidized by the government, which also dictates that artificial reefs must be prefabricated. Thus one of the most important organizations involved in reef creation in Japan is the industry group of cement manufacturers, construction firms, steelmakers, and manufacturers of plastic materials. See Robert S. Grove and Choule J. Sonu, "Fishing Reef Planning in Japan," in *Artificial Reefs: Marine and Freshwater Applications*, Frank M. D'Itri, ed. (Chelsea, Mich.: Lewis Publishers, Inc., 1985), p. 192.

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An Environment Without Property Rights

by Richard L. Stroup and Jane S. Shaw

When Eastern Europe began to open up in the late 1980s, one of the great shocks was the severity of its environmental problems. Journalists reported on skies full of smoke from lignite and soft coal, children kept inside for much of the winter because of unsafe air, and horses that had to be moved away from the worst areas after a few years or they would die.

Many of the environmental ills reflected an abysmally low level of technology. Old, polluting factories of the kinds that are dim memories in the United States were the mainstay of socialist industry. Smelly, sluggish automobiles polluted the roads.

Energy waste was tremendous. Their own statistics showed that socialist economies were using more than three times as much steel and nearly three times as much energy per unit of output than market economies.¹ "One cannot look about in Warsaw or Moscow, Budapest or Zagreb, Krakow or Sarajevo," wrote economist W. W. Rostow in 1991, "without knowing that this part of the world is caught up in a technological time warp."²

Not everyone realized it at the time, but the state of the environment was directly connected to the absence of property rights in the Soviet system. The authorities had refused to allow most resources to be privately owned.

Dr. Stroup is a professor of economics at Montana State University. He and Jane S. Shaw are senior associates of PERC.

Most market exchanges were criminal acts, and entrepreneurship of most kinds was declared to be criminal behavior. Production was centrally planned, with land and other resources owned by the state, not individuals.

Although there were many repressive acts in the former Soviet Union and the Eastern European nations, the absence of property rights, along with the absence of the markets that result from the exchange of property rights, was enough to devastate the environment.

To understand why, it is helpful to look at the reasons why private property rights protect the environment. There are several:³

1. Owners have incentives to use resources productively and to conserve where possible. Owners can obtain financial rewards from using resources productively and they have a strong incentive to reduce costs by conserving on their use of each resource. In the pursuit of profits, business firms have a strong incentive to implement new resource-saving technologies.

Such incentives were absent in the Eastern bloc under socialism. Consider the Trabant, the "people's car" produced in East Germany between 1959 and 1989.⁴ (Production stopped shortly after the Berlin Wall came down.)

The Trabant provided basic transportation and was easy to fix. But it was slow (top speed 66 mph), noisy, it had "no discernible handling," it spewed "a plume of oil and gray exhaust smoke," and it didn't have a gas

gauge. The exhaust was so noxious that West Germans were not allowed to own Trabants. When the magazine *Car and Driver* brought one to the United States, the EPA refused to let it be driven on public streets.

The Trabant was so bad partly because its design was basically the same as it had been when the car was first manufactured in 1959. The latest model, the 601, had been introduced in 1964, and was essentially unchanged 25 years later.

Manufacturers could not reap a profit from making a better car, so they had no incentive to adopt new, cleaner technology that would give better performance. Indeed, because factories were government-owned, there was little incentive to produce any cars at all in East Germany. So few automobiles were available that people waited an average of 13 years to get their Trabant.

2. Private ownership of property provides an incentive for good care that is lacking under government control. If a resource is well cared for, it will be more valuable and add more to the personal wealth of its owner. If the owner allows the resource to deteriorate or be harmed by pollution, he or she personally bears the cost of that negligence in the form of a decline in the value of the resource.

Throughout the Soviet Union under Communism, resources were routinely wasted. In fact, the emphasis was on using up resources, not on producing them—for a good reason. Central planners often measured the use of inputs to determine whether a factory or other entity was carrying out the central plan. For example, Ann-Mari Sätre Åhlander reports that despite the low per capita production of agricultural crops, the use of fertilizers and herbicides was high.⁵ That is because using them was a sign that work was being done, even though excessive use of these chemicals could have harmful effects.

A story is told about a part of Estonia where the underground water is flammable because vast quantities of aviation fuel were dumped into the ground and they seeped into the water. The fuel was assigned to a nearby Soviet military station to be used for flying practice missions. To make sure that the pilots had flown the required number of hours, the

military superiors monitored the amount of fuel the pilots used. When the pilots did not want to fly the required hours, they falsified their reports. To evade detection, they got rid of the fuel by dumping it onto the ground.⁶

3. A resource owner has legal rights against anyone who would harm the resource. The private owner of a resource has more than just the incentive to preserve the value of that resource. Private property rights also provide the owner with legal rights against anyone (usually including a government agency) who invades—physically or by pollution—and harms the resource. The private owner of a forest or a farm will not sit idly by if someone is cutting down trees without permission or invading the property with hazardous pollutants, and lawsuits can be used to protect those rights. A private owner could probably have stopped the dumping of aviation fuel on the Estonian farmland mentioned above.

But in the Eastern bloc, such protection was absent. Peter J. Hill reports that in Bulgaria heavy metals in irrigation water lowered crop yields on Bulgarian farms. The industrial sources of the metals were known, but the farmers had no recourse. Without a system of redress through the courts, says Hill, “the farmers had no actionable claim against those causing the problems.”⁷

4. Property rights provide long-term incentives for maximizing the value of a resource, even for owners whose personal outlook is short-term. If using a tract of land for the construction of a toxic waste dump reduces its future productivity, its value falls today, reducing the owner’s wealth. That happens because land’s current worth reflects the net present value of its future services—the revenue from production or services received directly from the land, minus the costs required to generate the revenues (and both discounted to present value terms).

Lake Baikal is the largest and deepest freshwater lake on Earth. Once known for its purity, it is now heavily polluted because Soviet planners decided to build paper mills at its edge and failed to reduce the emission of pollutants into the water. According to one source, the effluent is discharged directly into the lake and has created a polluted area 23

miles wide.⁸ Clearly, the value of the lake and its surrounding land has been seriously diminished by pollution.

In a society of private ownership, the owner of lake property would envision a place that would attract tourists and homebuyers. Such an owner would have a strong incentive to maintain the value of this property by preventing its deterioration. But government planners had no incentive to protect it.

Now that the Soviet system has broken down, the environmental destruction in the Eastern bloc should be nearing its end. Simply closing down the polluting factories, many of which were wasting resources, anyway, will reduce the pollution. But how fast and how well the environment will recover crucially

depends on the restoration of private property rights. □

1. Mikhail Bernstam, *The Wealth of Nations and the Environment* (London: Institute of Economic Affairs, 1991), p. 24.

2. W. W. Rostow, "Eastern Europe and the Soviet Union: A Technological Time Warp," in *The Crisis of Leninism and the Decline of the Left*, Daniel Chirot, ed. (Seattle: University of Washington Press, 1991), p. 60-73, at 61.

3. For a more detailed discussion, see James D. Gwartney and Richard L. Stroup, *Economics: Private and Public Choice*, 8th edition (Fort Worth: Dryden Press, 1997), Chapter 28.

4. Information about the Trabant comes from articles in *Car and Driver* in April and December 1990.

5. Ann-Mari Sätre Åhländer, *Environmental Problems in the Shortage Economy* (Aldershot, England: Edward Elgar, 1994), p. 19.

6. A story told to the authors by an Estonian official.

7. Peter J. Hill, "Environmental Problems under Socialism," *The Cato Journal*, Volume 12, no. 2 (Fall 1992), pp. 321-335, at 328.

8. Hill, p. 322, citing information from *Time* magazine, January 2, 1989.

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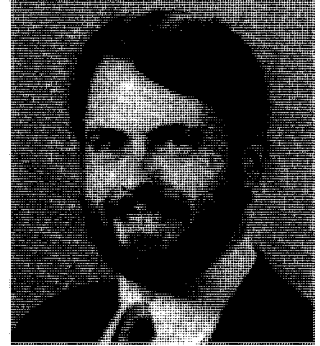
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The Failure of Politics

As my Cato Institute colleague Ted Galen Carpenter has pointed out, people once thought that the President's primary duty was to represent America in foreign affairs. Today many people think he is supposed to be national nursemaid. Instead of expecting their pastor to feel their pain, many Americans want the President to empathize with them when they experience hardship, help them cope with tragedy, and give meaning to their lives.

Almost as bad is the belief that every problem, no matter how inconsequential, is a matter for Washington—Congress as well as the President—to decide. Should children wear school uniforms? How can we best ensure people's access to child care? Should companies offer family leave to their employees? What is the appropriate level of mental health benefits to include in health insurance policies? Many Americans seem to believe that these are political issues upon which campaigns should be fought. And upon such issues they are fought.

Yet however dreary this makes elections for the believer in liberty, it should give us hope as well. For the American people seem to be growing ever more frustrated with the failures of politics. Which means that average citizens are likely to become more skeptical of Uncle Sam acting as Earth Mother.

Mr. Bandow is a senior fellow at the Cato Institute and a nationally syndicated columnist. He is the author of several books, most recently, Tripwire: Korea and U.S. Foreign Policy in a Changed World.

There is perhaps no better evidence of public dissatisfaction than people's increasing tendency to ignore elections. Only one-quarter of the electorate admitted to paying close attention to the 1996 campaign in the final week, 40 percent less than four years before. Voter turnout was the lowest in a presidential election since 1924. Many citizens expressed their desperate yearning for a real alternative to the Washington conventional wisdom. In short, ever more people seem to realize that politics, as the means to raise their children, ensure their futures, and provide meaning to their lives, is a deadend. Citizens increasingly see that political society is dominated by empty vessels interested in little more than acquiring power, politicians who run from problems, offer pabulum instead of solutions, and cheapen political debate by focusing on trivia instead of ideas.

In short, public dissatisfaction with politics is a heaven-sent opportunity. Indeed, what could be better from the standpoint of liberty?

True, some pundits consider falling political interest to be a bad thing. Curtis Gans of the Committee for the Study of the American Electorate fusses over declining voting rates at a time when the electorate is older, better educated, and less mobile. He blames a number of factors, including "anti-government demagoguery."

Yet there is nothing demagogic in noting that public authorities take far too much of people's incomes—over 40 percent. Nor in pointing out that major government programs, particularly Medicare and Social Se-

curity, are heading toward fiscal disaster. There is nothing demagogic in showing how a host of unnecessary and burdensome regulations slow economic growth and keep people out of jobs. Nor in observing that U.S. intervention overseas often causes more harm than good. There is nothing demagogic in criticizing abuse of power by law enforcement agencies. Nor in demonstrating how misguided government programs like welfare destroy family and community. Rather, doing so is merely speaking the truth.

Government Fails

There are many reasons, as readers of *The Freeman* know, that government fails, and fails so persistently. One factor is the role of incentives. In many ways, government's goal is to fail, or at least not to succeed so much as to eliminate the problem, thereby eliminating the perceived need for a government program.

Further, politics is concerned about intentions rather than results. If you want to raise people's incomes, the minimum wage sounds like a good policy. You have to understand economics to realize that artificially hiking wages prices labor out of the market and thereby throws people out of work. But then, understanding economics was never a requirement for holding public office.

Even politicians who care about results are at a disadvantage, since the political system can never accumulate the same amount of information reflected in market processes, nor flexibly meet people's needs. The international price of a barrel of oil alone incorporates more information than is contained in every file and on every computer disk at the Department of Energy in Washington. And even the largest oil company can change its policy more quickly than can the federal government.

Finally, in the end, cooperation rather than coercion, the hallmark of government, is the best means of solving most problems. Threatening people with jail can gain compliance with a rule, but not assistance in meeting a goal. Yet, as business realizes, a shared commitment to a particular end is far more likely

to yield beneficial results for everyone involved.

There's another reason that government fails so abjectly today, however. And that is because the cause of many of our worst problems is moral rather than political. Drug abuse is fundamentally an issue of the human spirit. Rising illegitimacy rates and family disintegration result from poor values, not inadequate programs. Crime grows out of immorality, not poverty. The ubiquitous refusal to take responsibility for one's actions—instead suing anyone in sight, demanding government aid irrespective of cause, and blaming everyone else for individual failure—is a moral issue.

Looking Beyond Politics

While there have been some bizarre discussions in Washington about the "politics of meaning," few people really believe that government can offer a substitute for morality. Rather, most people understand that we need to look beyond politics to civil society for answers.

That means, first, a commitment to do right in one's dealings with family, friends, neighbors, and business associates. The best place to model family values is within one's own family. Public officials can help lead, but only if they walk the walk. That is, criticism of, say, family breakup needs to grow out of a genuine concern for children rather than reflect a desire for political advantage.

A commitment to civil society also means teaching values to the young. But not the values that emanate from a political process characterized by dishonesty and demagoguery. In education, in particular, the best government can do is get out of the way. Indeed, many urban schools can neither protect students' physical safety nor teach them to read, let alone impart moral values. Only by empowering parents to control their children's education can we prepare future generations to be good citizens.

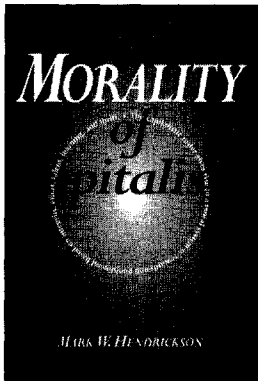
Moreover, our society will flourish only so long as people organize to solve problems around them. Churches, for instance, have proved to be a powerful tool not only for

transforming people's lives, but also providing those in need with practical tools to escape poverty and despair. Yet the growth of government has encouraged many churches to lobby for more public programs before working to alleviate problems directly. As religious charities have become hooked on the government dole, many have lost the spiritual focus that made them successful in the first place.

Unfortunately, we can never do away with politics, since some problems require collective action through the one social institu-

tion that can coerce. But growing public frustration with politicians suggests that people may be finally recognizing that the inherent flaws in political society are so great that we should limit what we ask government to do. If government can't keep the streets safe, how can it mold souls and brighten our futures? We must take responsibility for such tasks ourselves, in cooperation with those around us through the marvelously complex matrix of human association that naturally arises outside of politics. □

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THE MORALITY OF CAPITALISM

Edited by Mark W. Hendrickson

Introduction by Hans F. Sennholz

"Ethical considerations give essential justification to private property in the means of production, to market competition, and the profit system. They grant the capitalistic economic order an important place within a moral order, a place with one system of ethics for rulers and subjects alike—to be honest and peaceful, refraining from any action that would do harm to a fellow man. In fact, the capitalistic order gives rise to a moral system of rewards and punishment based on integrity, effort, talent, learning, and thrift. By lending protection to economic freedom it also becomes the ultimate guarantor of the noneconomic elements of freedom such as the freedom of speech, of religion, the press, and personal behavior."

—HANS F. SENNHOLZ (from the Introduction)

Despite Communism's recent setbacks, the moral arguments of Marxist thought—the reality of class struggle and the need for collective government action due to capitalism's exploitation of the masses—still persist in the Western mind. This collection of essays by powerful writers attacks that "moral" foundation of Marxism. Capitalism, with its emphasis on personal responsibility, respect for an individual's rights, and protection of the fruits of one's labors, makes moral as well as economic sense.

Contributors include: Edmund A. Opitz, John K. Williams, Leonard E. Read, F.A. Hayek, Perry E. Gresham, Garet Garrett, Norman S. Ream, Robert A. Sirico, Paul L. Poirot, Peter J. Hill, Bill Anderson, Hans F. Sennholz, Allan Levite, Ludwig von Mises, Israel M. Kirzner, Steven Yates, and John Attarian.



Published by **The Foundation for Economic Education, Inc.**
Irvington-on-Hudson, NY 10533

ISBN 1-57246-055-5 216 pages (indexed) paperback \$14.95

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It Takes a Market

by Bettina Bien Greaves

To drink coffee I do not need to own a coffee plantation in Brazil, an ocean steamer, and a coffee roasting plant, though all these means of production must be used to bring a cup of coffee to my table. Sufficient that others own these means of production and employ them for me.¹

—LUDWIG VON MISES

None of us has the means or the technological know-how to do all that is necessary to place a cup of coffee on the breakfast table. Nor, for that matter, to provide us with all the many other things we use and consume every day. For this, we need a market. We need exchanges and property owners—savers, investors, entrepreneurs—who are willing to devote their resources to production.

In today's global market economy, countless interrelated exchanges must take place to provide us with our morning coffee. The many persons involved in these exchanges are widely scattered and do not necessarily know one another. Most of the participants are probably unaware of how they contribute to the larger scheme of things. (Some who have contributed their expertise to the process may not even be alive today.) Yet each of them, by carrying out relatively minor specialized tasks, helps to bring coffee to our breakfast table. At every step in the complicated production process from plantation to coffee cup, entrepreneurs coordinate the activities of the many participants. For this it takes a market.

Mrs. Greaves is resident scholar at The Foundation for Economic Education.

Private Property in a Contract Society

Today we live in a contract society. Property is controlled by neither king nor dictator. For the most part, it is privately owned and has been acquired through voluntary exchange.² The law defines and—theoretically at least—protects to the best of its ability the rights of private property owners. The most important right of a property owner is the right of disposal, the right to control the use of his or her property. Once property owners gain the right of disposal, they may exchange property with one another, by contract, purchase, sale, deed, or bequest. Thus, there are exchanges and markets, and people are relatively well supplied with food, clothing, and shelter.

In a market society, the owner of *consumption* goods is free to decide how they will be used. Owners may consume them, give them away, bequeath them, or even willfully destroy them, so long as there is no interference with the equal rights of others.

However, the owners of *production* goods are not as free as the owners of consumption goods to use them precisely as they wish. The owners may be entitled to dispose of their factors of production *legally*, but they are not completely free to do so *economically*, that is, through the market, without considering the wishes of others. In this sense, the legal owners are not the exclusive owners of their factors of production, including their own personal labor. As legal owners they may retain economic control only if they are

willing to devote their factors to the production of goods consumers want. If they produce goods consumers don't want, they will suffer financial losses and lose their production goods—through bankruptcy, or by transfer to competitors who buy them out. The legal owners of production goods hold them only at the sufferance of consumers.

Thus in the market, there is a “*twofold having*” of the factors of production. On the one hand there is the owner's direct, physical, legal *having*. And on the other hand there is the indirect, social, economic *having* of those who consume the goods and services produced. This forces owners to share the control of their factors of production with consumers, whose *natural* or *economic having* guides production.³

Production in the Contract Society

The process of producing almost any single consumer good—even fairly simple items like coffee or a loaf of bread, a suit, a dress, a house—is so complicated that no single person could possibly know enough to assemble all the raw materials needed, transport them from wherever they are found, manufacture the tools and machines required, and do everything else that is necessary to channel them into the service of consumers.⁴ Yet millions of consumer goods are offered on the market every day, many of them very complex—automobiles, planes, textiles, computers, electric and electronic household appliances, and so on. How are the factors of production—the land, labor, and capital—needed for the production of any one of these consumer goods, let alone all of them, assembled from all over the world and channeled into their production without the dictates of an overall planner? Just how in the world, for instance, does our morning coffee really reach our breakfast tables? For that it takes a market.

In a market society with the division of labor, coffee is grown and transported to

breakfast tables in response to consumer wishes. Though consumers do not legally or directly own coffee plantations, coffee bean roasting plants, and oceangoing steamers, their purchases and refusals to purchase tell property owners how to use these various factors of production. Many factors must be brought into play and a complex network of market transactions developed. Some plantation owners are induced to grow coffee, some investors to construct coffee bean roasting plants, and others to build oceangoing steamers to carry the roasted coffee beans to market. Entrepreneurs are the arrangers, the expeditors. Thus, in a market society, the *legal* owners of the factors of production do not have the final say. Rather it is the consumers who actually buy and drink coffee who determine through their *natural* or *economic having* how the factors of production will be used.

The ownership of property is in a continual state of flux, as a result of what Adam Smith called the “propensity in human nature . . . to truck, barter, and exchange.”⁵ The configuration of property ownership worldwide is changing from day to day, minute to minute. The owners of production goods are always adjusting and readjusting production in the attempt to better serve consumers. And because of their sensitivity to the control of production by consumers, through their *natural* or *economic having* of the factors, a trend prevails in a contract society for consumers to be increasingly well provided for. Not only will they have more food, clothing, and shelter, but also countless other wanted goods and services. And for this it takes a market. □

1. Ludwig von Mises, *Socialism* (Indianapolis: Liberty Fund, 1981 edition), p. 31.

2. Property acquired by force or fraud is not considered legally owned; in the eyes of the law, the thief can never acquire ownership.

3. Mises, *Socialism*, pp. 30–31.

4. See Leonard E. Read's “I, Pencil,” *The Freeman*, December 1958, for an illustration of the fact that “it takes a market” to cope with the complexity of producing such a simple thing as a pencil.

5. Adam Smith, *The Wealth of Nations*, Edwin Cannan, ed. (New York: Modern Library, 1977), p. 130.

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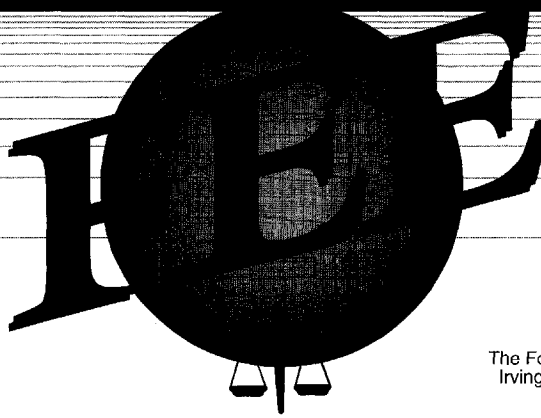
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February 1997

European Malaise

An American who looks upon the world perceives many forms of misery. Many are worse than his own. Looking upon Europe he may be surprised and dismayed about the economic difficulties some countries are experiencing and the political turmoil that is tearing them apart.

The countries of Eastern Europe continue to suffer the pains of transformation from communist tyranny to Western-style democracy and the private property order. They are straining to reshape their political and economic structures. With their public sectors dismally unproductive and in utter disarray, the governments are incurring huge budget deficits which cause them not only to inflate and depreciate their currencies but also to bleed the fledgling private sector. If it were not for the "informal sector," that is, the underground economy in which people labor without license, permit, taxation, and political approbation, many would suffer grievously.

In Central and Western Europe the old welfare states are choking on their own "social progress." They are transferring more income and wealth than ever before, bestowing costly favors and privileges on labor and extracting the means from entrepreneurs and capitalists. Business is forced to invest heavily in labor-saving machines and equipment, or seek economic survival abroad, or simply evade the social burdens by going underground. Many employers are refugees in their own country, dismayed and frightened, and dreaming about escaping to the U.S.A.

According to a Morgan Stanley analysis, the hourly labor costs in manufacturing are

calculated at \$31.88 in Germany, \$19.34 in France, \$16.48 in Italy, \$13.77 in Britain, and \$12.70 in Spain. These rates compare with \$17.20 in the United States. Yet, no matter how high the labor costs may be, they do not cause unemployment provided they do not exceed labor productivity. **The soaring rates of unemployment in Germany, France, Italy, Spain, and other European countries clearly indicate that labor costs are excessive and taking their tolls.** European unemployment rates are more than double the U.S. rate.

The root cause of Europe's economic predicament is the oppressive burden of fringe benefit costs imposed on business during the 1970s and 80s. Social Security benefits were increased significantly, which is hailed as "social progress," and employer extractions were raised accordingly, which is acclaimed as "social justice." The new levies lifted marginal labor right out of employment; new regulations rigidified the labor markets and rendered adjustments painful and difficult. They caused the national economies to stagnate, which in turn aggravated the budget deficits and the capital consumption, which in turn aggravated the stagnation, etc.

Hope ever tells us that tomorrow will be better. But unless hope turns into delusion, it must be based on rational expectation, building on sound public opinion which after all shapes social policy. What the multitude says is so, soon will be so.

European public opinion fills us with deep pessimism. The Europeans we know proudly and defiantly cling to their notions of "social

progress" no matter how many millions of workers they cast out. Guided by social compassion for the unemployed, they favor ever more "progress" which actually crushes the very people it is supposed to help.

A few European economists are vaguely aware that the labor mandates of the last two decades are the prime cause of the mass unemployment. They nevertheless are quick to defend the social policies as the greatest virtue of modern democracy well worth the social costs. They wax eloquent about democratic virtue while millions of working people walk the streets in idleness and despair. And they turn politicians vying for popularity when they oppose reforms for being tantamount to "political suicide."

Most disturbing yet are a few old discredited economic notions which becloud the minds of many Europeans. These notions are akin to the ideas which guided the gangs of English workingmen who, early in the 19th century, destroyed knitting machines and power looms which they blamed for unemployment and low wages. Their intellectual descendants now condemn the computer technology for devouring millions of jobs. They would like to return to the old technology or at least compensate the workers for the loss of their jobs. The costs of compensation hopefully would discourage the modernization.

Other Europeans fall back on **new versions of old protectionism**. They blame cheap foreign labor for devouring domestic jobs. They never tire denouncing countries which, in their judgment, do not protect the environment, or worse yet, which exploit women and children. There is mass unemployment in France and Germany, they are convinced, because Chinese women and children earn low wages.

Radical youth is quick to blame poor immigrants for the loss of jobs. It's the fault of immigrants who in more prosperous times were invited by the millions. While young people are demonstrating and rioting, the governments are enacting laws and regulations discriminating against immigrants or even expelling them under various pretexts. Yet, the rate of native unemployment contin-

ues to rise. It now exceeds 12 percent in France and Germany and 21 percent in Spain, the most socially progressive country of Europe.

Desperate politicians and labor leaders would declare "war on unemployment." They are demanding fair and square "job sharing." To make room for the unemployed they would force employers to allow their employees to work shorter hours, take longer vacations, take more sick-leave, and seek earlier retirement. In Germany, they already succeeded in reducing the industrial work week to 35 hours; in France they managed to advance the retirement age to 55. All over Europe the workers are told: "Slow down, don't work yourself out of a job. Leave some to the unemployed." And middle-age workers are urged to retire: "Make room for the young!" They all are to live by a new theory according to which the demand for labor increases as labor output decreases.

Weary of the economic stagnation and fearful of the declines expected for 1997, many European commentators, finally, blame their "strong currencies" for the faltering economies. The expensive Swiss franc, French franc, German mark are said to price domestic products out of the world market. Tight monetary policies are blamed for shrinking exports and rising imports although the central banks are expanding their currencies at rapid rates. Switzerland and Germany, the two leading hard-currency countries, already reduced their discount rates to 1 percent and 2.5 percent respectively. They are inflating as fast as they can without raising apprehensions.

Many Americans who do not learn by inference and deduction have an opportunity to learn from European experience. Unfortunately, most people learn only from their own experience.



Hans F. Sennholz

You cannot correct all the evils of the world, nor relieve all the poverty in the world.
You cannot comfort all in distress, nor support all the underprivileged.
But you can stand by FEE which brings the light of freedom to the world.

"I believe...that a right to property is founded in our natural wants, in the name of which we are endowed to satisfy these wants, and the right to what we acquire by those means without violating the similar rights of other sensible beings; that no one has a right to obstruct another exercising his faculties innocently for the relief of sensibilities made a part of his nature...."

—Thomas Jefferson

Private Property and Political Control

The articles in this collection have been selected from the wealth of *Freeman* articles published throughout the years. They point out the most crucial issue of our time, one which reaches into all other affairs of man: his economic, social, and political organization. In every age and every country, two distinct forces do battle over this issue: the lovers of freedom and the private-property order and the devoted advocates of political power and the economic command system.

Contributors include: Leonard E. Read, Paul L. Poirot, Henry Hazlitt, Gary North, Hans F. Sennholz, Clarence B. Carson, Tibor R. Machan, and many more.



Published by

The Foundation for Economic Education, Inc.

Irvington-on-Hudson, NY 10533 Tel.: (800) 452-3518

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The True Takings Reform Imperative

by Donald J. Kochan

In recent years, a “takings” revolution has been occurring, with hundreds of reform bills introduced in state legislatures and with historic legislation pending in Congress. The most protective of these efforts aim to require payment of compensation when governmental actions diminish the value of a property owner’s land. One piece of Congressional legislation, for instance, would require the state to compensate an owner any time a federal action diminishes the value of an individual’s property by more than 33 percent.

These reforms, while admirable in the effort to ease the harm done to property owners by governmental regulation, should not divert us from the true imperative of the constitutional protection of property. Under the Constitution, the state is obligated to avoid adversely affecting property rights whenever possible.

The reform bills re-enforce the letter of the Fifth Amendment’s Takings Clause¹ as a liability rule. They allow the government almost unlimited power to affect a citizen’s property, as long as it pays for its actions. Reparation payments for harms done to property, however, are seldom perfect compensation for an owner’s loss. So, while reforms that focus on increasing the compensatory obligations of the government should be embraced,

the spirit of the Takings Clause is that the government should employ its power of eminent domain only in situations of necessity—that is, when addressing concerns not susceptible to private solutions.

In the Lockean tradition, the Framers of the Constitution created a government of limited powers, with the protection of property constituting its essential purpose. “The great and chief end therefore, of men’s uniting into commonwealths, and putting themselves under government, *is the preservation of property*,” wrote John Locke, adding, “To which in the state of nature there are many things wanting.”²

James Madison observed the essential correlation between property and the state when he wrote, “Government is instituted to protect property of every sort. . . . This being the end of government, that alone is a *just* government, which *impartially* secures to every man, whatever is his *own*.”³

In this light, it is clear that “protection” and “preservation,” not merely “compensation,” must be the focus of just governance.

In an era of burgeoning governmental regulations, we are moving toward a society in which there are “many things wanting” in the preservation of property. Countless government programs, including historic preservation, zoning, and environmental regulations, drastically affect the uses and values of private property. Though work can be done to create a statutory, constitutional, and juris-

Mr. Kochan is an adjunct scholar with the Mackinac Center for Public Policy in Midland, Michigan, and author of the Center’s recently published report Reforming the Law of Takings in Michigan.

prudential structure that provides a more just system of compensation for property owners aggrieved by governmental actions, no system of compensation can perfectly replace the value owners attach to their property.

Subjective value is impossible to validate when determining damages, so compensation awards are forced to use the "market value" standard. When the government takes land and is only required to pay the amount of market value diminished, however, the current owner may not be fully compensated. The owner may attach personal value to the property or may be able to sell his or her property rights to another who values the property more than the average person in the market.

Coerced transfers of property rights fail to guarantee a mutually beneficial exchange. Only when the state is forced to bargain with a property owner for acquiring his or her land, a use of land, or a restraint on use, can a more balanced scheme of compensation occur. In a compensation system based on market value, the harm done property owners by government actions may be diminished, but it will never be eliminated.

For this reason, among others, responsible policymakers must not just work to correct our definitions of takings and liberalize the system of compensation, but must also work to minimize the amount of takings that actually occur. Following the intent of the Framers, property rights should be a primary concern, not a secondary concern receiving importance only after fulfilling some other perceived objective of the state.

Moreover, a sound protection of property rights is fundamental to all other liberties.⁴ As James Madison warned, "Where an excess of power prevails, property of no sort is duly respected. No man is safe in his opinions, his person, his faculties, or his possessions."⁵

The government does not have the unlimited power to silence an individual so long as it compensates that person for the infringement on his right to free speech. Similarly, despite the Takings Clause's more expansive grant of power, the clause should not be considered a *carte blanche* license to infringe real property rights. The excessive growth of the state's power to control real property has vital implications for the general liberty of the citizenry, and this growth must be brought in check if our property in liberty is to be preserved.

Limiting the size and scope of the regulatory state is the most important takings reform. The power of eminent domain is, and was always meant to be, only a power of last resort. □

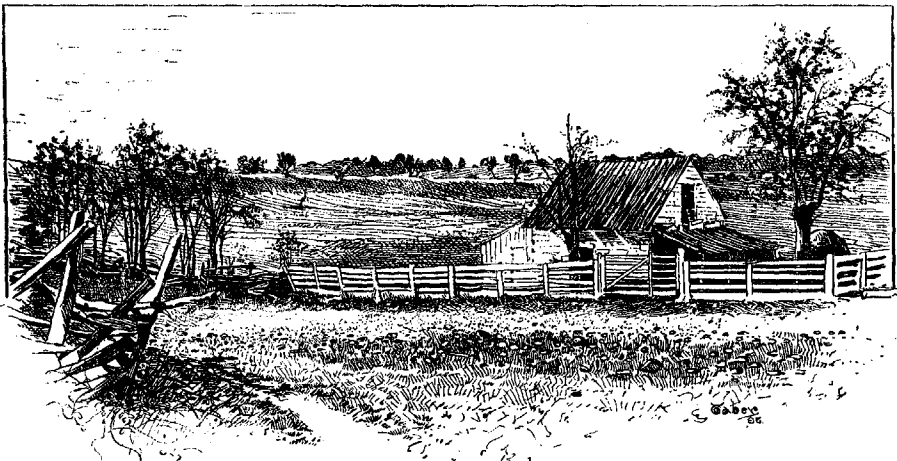
1. U. S. Constitution, Amendment V: "[N]or shall private property be taken for public use without just compensation."

2. John Locke, *Second Treatise of Government*, Richard H. Cox, ed. (Arlington Hts., Ill.: Harlan Davidson, 1982), p. 75.

3. From an essay entitled "Property," published March 27, 1792, *National Gazette*; reprinted in James Madison, *The Papers of James Madison*, Vol. 14, Robert Rutland et al., eds. (Charlottesville, Va.: University of Virginia Press, 1983), p. 266.

4. The Supreme Court has even stated: "Property does not have rights. People have rights. The right to enjoy property without lawful deprivation . . . is in truth a 'personal' right. . . . In fact, a fundamental interdependence exists between the personal right to liberty and the personal right in property. Neither could have meaning without the other. That rights in property are basic civil rights has long been recognized." *Lynch v. Household Fin. Corp.*, 405 U. S. 538, 552 (1972).

5. Madison, *supra* at 266.



Economic Freedom: Its Measurement and Importance

by James D. Gwartney

Since the time of Adam Smith, economists have generally argued that individuals will be more productive when they are economically free. Thus one would expect market economies to grow more rapidly and be more prosperous than those that are politically organized and centrally planned. Without a reasonable measure of economic freedom, however, how can one tell if this is true?

Beginning more than a decade ago, the Fraser Institute of Vancouver, British Columbia, spearheaded a drive to develop a sound measurement of economic freedom. They organized a series of conferences that focused on this topic. Input was solicited from several of the world's leading economists, including Nobel laureates Milton Friedman, Gary Becker, and Douglass North. As the result of our participation in these conferences, Robert Lawson, Walter Block, and I developed an index of economic freedom.¹

The central elements of economic freedom are personal choice, freedom of exchange,

and protection of private property. Our index contains 17 variables designed to measure the degree that these elements are present in various countries. The index is subdivided into four major areas: money and inflation, government operations, takings, and international trade. The components of the index are objective variables derived from regularly published data. For example, the components in the money and inflation area are: (a) the variability of the inflation rate during the last five years, (b) expansion in the money supply (adjusted for long-term growth of output), and (c) the freedom of citizens to maintain and use alternative currencies. In essence, the components of our index identify the degree to which the policies and institutions of a country are consistent with sound money, reliance on markets, protection of private property, and freedom of international exchange.

We compiled the data for each of the components and used it to derive a summary index rating for 102 countries in 1975, 1980, 1985, 1990, and 1993–1995. The economy of Hong Kong was the highest rated in the world in 1993–1995, a spot that it also achieved during each of the earlier rating years. The rest of the “top ten” during 1993–1995 were, in order, New Zealand, Singapore, the United

Dr. Gwartney is professor of economics at Florida State University. More information about the index can be found in Economic Freedom of the World: 1975–1995 (Washington, D.C.: Cato Institute, 1996).

States, Switzerland, United Kingdom, Canada, Ireland, Australia, and Japan. The countries with the least economic freedom during 1993–1995 were Zaire, Iran, Algeria, Syria, Nicaragua, Brazil, Burundi, Romania, Uganda, and Zambia.

In many ways, the *change* in a country's rating is more interesting than the rating at a point in time. Economic theory indicates that economic freedom will enhance the gains from trade, specialization, and entrepreneurship. Therefore, countries with large increases in the index should achieve above-average growth rates.

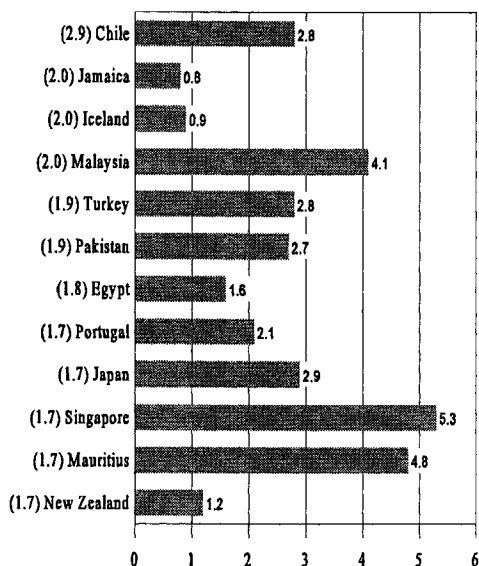
The accompanying chart presents data on the growth rates of the ten countries with the largest increases in economic freedom between 1975 and 1990.² The identical data are also presented for the ten countries with the largest declines.³ The per capita GDP of the ten countries that registered the most improvement grew at an average annual rate of 2.7 percent between 1980 and 1994. All of the countries that moved toward economic freedom achieved positive growth rates of per capita GDP. In contrast, the countries with the largest reductions in freedom experienced an average decline in per capita GDP of one percent per year. Only two of these countries were able to achieve positive rates of economic growth.

The components of the economic freedom index are all indicators of institutional structure and economic policy. None of them is a proxy for either growth or level of income. Thus, there is nothing inherent in the organization of the data that would explain the strong positive relationship between increases in economic freedom and growth. The relationship could just as well have been negative or random. The fact that it was positive is strong evidence that Adam Smith was right—free economies are more prosperous. □

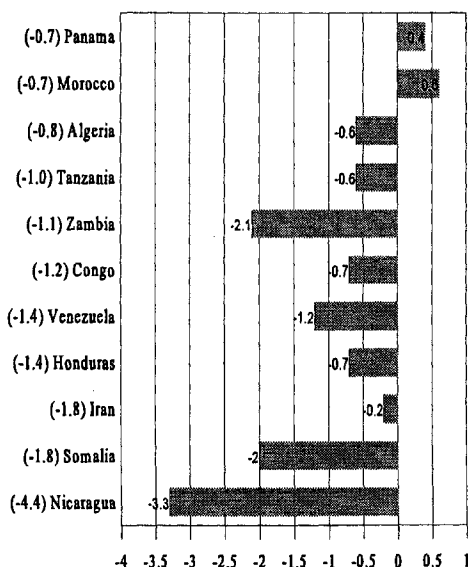
Growth Rates and Economic Freedom

Change in Per Capita GDP Between 1980 and 1994

(Change in economic freedom
rating in parentheses)



Ten Countries with Largest Increase in
Economic Freedom Ratings: 1975-1990



Ten Countries with Largest Decline in
Economic Freedom Ratings: 1975-1990

1. James Gwartney, Robert Lawson, and Walter Block, *Economic Freedom of the World: 1975-1995* (Washington, D.C.: Cato Institute, 1996). The book was co-published by the Fraser Institute in Canada and nine other institutes around the world.

2. Because of a tie, there were 12 countries in the "top ten."

3. There were 11 countries in this group because of a tie.

SOURCE: James Gwartney, Robert Lawson, and Walter Block, *Economic Freedom of the World: 1975-1995* (Vancouver, B.C.: Fraser Institute, 1996), p. xxviii.

Today's War on Property

by R. W. Bradford

What is the status of property rights in the United States today? Consider the following true story.

When Hurricane Hugo devastated the Carolina coast in 1992, it wasn't long before local lumberyards began to run out of building supplies. So Selena Washington decided to drive to Florida to buy the construction materials she needed to repair her home. She took cash with her, since she believed the lumberyards in Florida would not accept her South Carolina check. In Volusia County, Florida, a sheriff's deputy stopped Mrs. Washington's car and searched her handbag, in which he found her money. He took the cash and drove away without taking down her name, refusing to give her a receipt or an explanation.

The indignant Mrs. Washington followed the officer to the police station, where she protested what had happened. The police refused to give her back any of her money, so she hired an attorney. He negotiated an agreement: the sheriff could keep \$4,000, the attorney would get \$1,200, and Mrs. Washington could have the remainder of her money back. She took the deal. What else could she do? In 1990s America, this trampling of private property rights is perfectly legal.¹

Private property is the foundation of a free society. The collectivist left, intent on destroying free-market economies, has long recognized this fact. A century and a half ago, Karl Marx and Friedrich Engels announced, "The

theory of the communists may be summed up in a single sentence: Abolition of private property," and counseled that "the first step in the revolution . . . cannot be effected except by means of despotic inroads on the rights of property." Under relentless attack from the left, property rights have been in retreat ever since.

But it is a measure of property's precarious status that in recent years property rights have been assailed as much by political conservatives as by leftists. Selena Washington's property rights were taken by laws proposed by conservative Republican presidents, enacted by conservatives in Congress, and validated by conservatives on the Supreme Court.

Of course, those on the political right do not proclaim themselves opposed to private property. Instead, they subvert property rights by means of their war on drugs.

The war on drugs was declared by Richard Nixon in 1969, and expanded during the Ford, Reagan, and Bush administrations. By virtually any measurement but one, it is a failure. Since it began, the number of people who use drugs has risen dramatically, as has the number of people killed in drug-related violence. The war on drugs is a success only for its soldiers, who are allowed to take the property of those it suspects of violating drug laws. Consider the following cases:

- In 1987, when Frances Lopes of Maui, Hawaii, discovered that her adult son, who had a history of mental illness, was growing marijuana in her backyard, she asked him to stop. He responded by threatening to commit

R. W. Bradford is editor and publisher of Liberty.

suicide. So when police arrested her son and removed the plants, she was relieved: as a first offender, her son was sentenced to probation and given psychiatric help.

Four years later, when a detective in Maui was reviewing old files, he noted that Mrs. Lopes had admitted she had known about the marijuana plants. Mrs. Lopes was in her carport when the police arrived. "We're taking the house," they said. And they did.²

- On April 9, 1989, Customs officials searched a new boat, just purchased by Craig Klein, a university professor. The 17-hour search, conducted with axes, power drills, and crowbars, involved dismantling the engine, rupturing the fuel tank, and drilling over 30 holes in the boat's hull. The effort turned up no evidence of illegal drugs. It did, however, destroy the boat. When Mr. Klein asked for compensation, Customs refused.³

- On February 2, 1991, 40 police officers gathered outside Randy Brown's metal shop in Sacramento. Not bothering to knock, they shattered the locks on his front door with a hail of bullets, then rushed in, handcuffed the bewildered Brown, and began tagging items of his personal property for their own use. They found a coffee can with \$4,600 in cash, which they claimed as evidence, along with \$313 that Brown had in his wallet.

The police had obtained a search warrant on the grounds that Brown had legally purchased chemicals that could be employed in manufacturing amphetamines. But they found no evidence that Brown possessed any of the other chemicals needed for the process, or that he had ever engaged in the manufacture of illegal drugs.

Indeed, Brown had no criminal record. Prosecutors dropped the case. But they refused to return his money, insisting that Brown prove it was legitimately acquired. When Brown produced records accounting for the cash, they agreed to return \$2,000, provided he would sign an agreement that their seizure had been justified.⁴

- In 1984, Rosa Montoya was grabbed by Customs as she attempted to enter the United States. When a thorough search failed to turn up any evidence of smuggling, Customs locked her in a room with instructions to

defecate into a wastebasket. When she had failed to do so after nearly 24 hours, Customs handcuffed her and took her to a hospital, where she was forcibly given a rectal examination.⁵

- In 1990, a 12-member police SWAT team broke into the home of Robert Brewer of Irwin, Idaho, and discovered a half-pound of marijuana, and eight marijuana plants growing in his basement. Brewer was dying of prostate cancer, he explained, and used the marijuana to relieve the pain and nausea. The police seized Brewer's home and van, which he used for transport to his cancer treatment center, some 270 miles away.⁶

While I chose these cases for their dramatic effect, they are not entirely atypical: in four out of five cases of civil forfeiture (summary government confiscation of property without legal process) the person whose property is taken is not charged with any crime.

And all these actions were legal.

The law authorizing civil forfeiture was sponsored by Senator Strom Thurmond of South Carolina and enacted by Congress without debate. The law that authorizes Customs officials to search individuals and vehicles on waterways that connect to international bodies of water (i.e., all lakes, rivers, and coastal waters of the United States except a few bodies of water in the basins of the West) was drafted by the Reagan White House.

The Sixth Amendment to the Constitution guarantees an individual accused of offenses punishable by fine or imprisonment the right "to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed, which district shall have been previously ascertained by law, and to be informed of the nature and cause of the accusation; to be confronted with the witnesses against him; to have compulsory process for obtaining witnesses in his favour, and to have the assistance of counsel for his defense."

Each and every one of these guarantees is routinely and legally violated by police engaged in the war on drugs. People are routinely fined and imprisoned with no trial at all, with no jury except an arresting policeman

(who sometimes is allowed to keep a portion of the fine he imposes on the spot), without being informed of the charges against them, without being allowed to obtain witnesses, without being allowed the assistance of counsel. In order to justify the absolute destruction of these property rights, conservative legal scholars came up with a legal theory hoary with age and bereft of logic.

Deodands

The legal doctrine on which these laws are based is the ancient concept of "deodands," derived from the Latin phrase *deo dandum*, meaning "given to God." In ancient and medieval times, when a piece of property caused an accidental death, it was deemed to be possessed by demons and was forfeited to the state for destruction. Not surprisingly, deodand theory fell into disuse as belief in demonic possession declined, and as people began to realize that it was absurd to hold an object guilty of a crime and manifestly unjust to punish the object's owner for an accidental death.

Britain abolished deodands in 1846, but they lived on in America to form the basis of the legal theory of civil forfeiture. Robert Brewer was not being punished when police confiscated his house—his house was punished, and his house, unlike his person, has no legal rights and thus is not entitled to a jury trial or any other constitutional protection. It can simply be confiscated. Nor was Selena Washington punished when a sheriff's deputy took all her money; it was her money that was punished.

This rationale, I believe, is as specious as the legal theories propounded by the left when it advances confiscatory taxes, land use control, and other restrictions on economic

freedom. And it is just as subversive of the institution of private property.

When proponents of the drug wars argue that entire businesses should be forfeited after a single legal infraction, they not only endorse the socialist view of capital goods, but extend their willingness to subvert property into areas unimagined by the most ardent socialist.

In Rosa Montoya's case, Justice William Rehnquist, a conservative appointed to the Supreme Court by Nixon and elevated to chief justice by Reagan, argued that her treatment was justified because of "the veritable national crisis in law enforcement caused by the smuggling of illegal narcotics."⁷ This is as clear a restatement of the argument that "the ends justify the means" as any collectivist ever made in defense of any communist dictatorship.

Sadly, only a few prominent conservatives, notably William F. Buckley and Henry Hyde, have spoken out against these violations of property rights. Most politicians who call themselves conservative appear willing to subvert private property on a grand scale to pursue their notion of protecting people from the harm they may cause themselves. It's time for defenders of private property to stand up and be counted. □

1. Henry J. Hyde, *Forfeiting Our Property Rights: Is Your Property Safe from Seizure?* (Washington, D.C.: Cato Institute, 1995), pp. 39–40. Also, Leonard W. Levy, *A License to Steal: The Forfeiture of Property* (University of North Carolina Press, 1996), pp. 2–3. Hyde says the attorney received \$1,000; Levy says \$1,200.

2. Dan Baum, *Smoke and Mirrors* (Little, Brown and Co., 1996), pp. 313–314. Also Hyde, pp. 34–35.

3. Hyde, pp. 11–12.

4. Baum, pp. 311–312.

5. Baum, p. 215.

6. Levy, pp. 5–6.

7. *U.S. v. Montoya de Hernandez*, 473 U.S. 531, 105 S.Ct. 3304, 87 L.Ed.2d 381 (1985).

Privatize Public Highways

by Michelle S. Cadin and Walter Block

Across the United States, more than four million roads, streets, and highways tie cities and states together and enable citizens to work, travel, and shop. Americans enjoy unprecedented freedom and convenience, as our whole economy is directly dependent upon this mobility. This makes the entire nation, in effect, one gigantic assembly line for the production and transport of goods.

Because of the importance of the U.S. transportation system, many believe that only the government can own and manage it. This is not the case. Privatization of the public highway system would provide economic efficiencies and other benefits.

Private ownership, which would include competitive roads owned by people and corporations that can charge tolls, would allow the incentive for profit to benefit consumers, as it does in other areas of our lives. We would see the results in increased safety, reduced traffic congestion, and, of course, tax savings.

The public highway system is a prime example of a public firm that is large in size, lax in management, and a costly burden to taxpayers. Public highways are suffering from problems of urban traffic congestion, poor maintenance, and high fatalities. The demands on road systems are continually changing in a society where in months a new shopping center, office complex, or residential area can appear.

According to the American Public Works Association, Americans spend more than

Michelle S. Cadin is a student, and Dr. Block a professor of economics, at the College of the Holy Cross in Worcester, Massachusetts.

two billion hours tied up in traffic on urban highways each year. The Federal Highway Administration (FHA) estimates that over the next 20 years travel on public highways will rise by two-thirds, adding even more strains to an already overburdened system. The FHA also estimates that over 234,500 miles of U.S. roads are in either poor or mediocre condition.

Every year, thousands of people lose their lives in highway accidents. Fatal crashes are variously attributed to vehicle speed, intoxication of the driver, lack of safety regulations, or mechanical failures. These are proximate causes, but government management and control are major factors as well. While there will always be some accidents, as long as customers wanted safety, private owners would compete to provide it. If a good safety record on a road attracted customers, it would be in the interest of owners to provide it.

Owners of airlines know the importance of safety and regular maintenance of their aircraft, for they face the consequences when safety fails. If the cause is believed to be the airline's, customers choose another carrier. As a result, air transportation is extremely safe.

But today's highway monopoly means that there is no monetary incentive for government to improve its safety record. People have to drive regardless of the safety of the road.

Traffic Congestion

Another major concern about the public highway system is the massive congestion in

and around many of the urban areas during rush-hour periods. This not only leads to aggravation and waste of gas while idling in traffic but also constitutes an immense loss of time and productivity. According to Representative Thomas Petri, chairman in the 104th Congress of the House Surface Transportation Subcommittee, if each Federal Express and United Parcel Service driver encounters traffic delays for five minutes in a day, the cost mounts to \$40 million over the course of a year. Multiplying this by all U.S. drivers gives some rough indicator of the cost to society.

The government has come up with ways to address the traffic problem, but none has worked. For example, the federal government has called for employers to stagger work hours for their employees so that the traffic coming into urban areas would be spread out more. In some states, special lanes for "high-occupancy vehicles" have been constructed at great expense. For many drivers, the inconvenience or impracticality of carpooling overrides the benefit of such a contrivance.

Owners of private highways would undoubtedly offer cheaper rates at off-peak times, thus providing a monetary incentive for staggered work hours. With today's highways, governments, too, could employ such a procedure. But instead of charging more for peak road travelers, the state usually charges less. It is common to reduce the price for regular commuters who purchase tokens for 40 or more trips a month. These are precisely the peak-load users who add to the congestion.

Other "solutions" the government has come up with are one-way streets and limited turns in busy areas. While these are intended to cut down on traffic, the secondary effects are often the opposite. The restrictions may necessitate circuitous routes and drivers may end up driving more. This increases the amount of miles driven in certain areas within a constrained time period.

Under private ownership, the builder of a road would want to secure the highest profits with the least cost. The builder would con-

sider the businesses and residents located near the highway. A system where the transportation owners worked cooperatively with industry and residents would encourage efficiency as well as profits for the road owner.

The owner of a private highway would need to satisfy the customer in order to make profits. The governmental public "owner" of the highway, the politician, is usually able to give the customer poor service and does not need to satisfy the voter in order to receive money. If the public enterprise is sued for negligence, the person in charge does not directly pay; all monies come out of general tax revenues. In the case of private ownership, the owner must pay. Thus there are much higher incentives for the private owner to provide good service.

Today it is difficult to imagine a private highway system because the government has owned almost all roads for most of the twentieth century. But in Anaheim, California, over 30,000 drivers are using the new "91 Express Lanes," a ten-mile automated toll road.

The 91 Express Lanes was developed, financed, and operated by the California Private Transportation Company (CPTC) in response to motorists' frustration with the amount of traffic on the Riverside Freeway (route 91). The toll road was built without a dollar of state or federal funds. It is the world's first fully automated toll road, it is the first example of congestion pricing in America, and is the first toll road to be privately financed in the United States in more than 50 years. "We're seeing a steady, upward trend both in the use of the Express Lanes and in growth of our customer base," says CPTC General Manager Greg Husizer.

Yes, private owners should be able to manage the highway system and provide the same level of efficiency as they are able to do in other aspects of our lives. With Express Lanes 91, we may see in microcosm the improvement that could be achieved with private ownership of highways. □

Frederick Douglass— Heroic Orator for Liberty

by Jim Powell

Frederick Douglass made himself the most compelling witness to the evils of slavery and prejudice.

He suffered as his master broke up his family. He endured whippings and beatings. In the antebellum South, it was illegal to teach slaves how to read and write, but Douglass learned anyway, and he secretly educated other slaves. After he escaped to freedom, he tirelessly addressed antislavery meetings throughout the North and the British Isles for more than two decades. When it became clear that the Civil War was only a bloody benchmark in the struggle, he spearheaded the protest against Northern prejudice and Southern states that subverted the newly won civil liberties of blacks.

Douglass embraced the ideal of equal freedom. He supported women's suffrage, saying "we hold woman to be justly entitled to all we claim for man." He urged toleration for persecuted immigrants—"I know of no rights of race superior to the rights of humanity." Overseas, he joined the great Daniel O'Connell in demanding Irish freedom, and he shared lecture platforms with Richard Cobden and John Bright, speaking out for free trade.

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Douglass believed that private property, competitive enterprise, and self-help are essential for human progress. "Property," he wrote, "will produce for us the only condition upon which any people can rise to the dignity of genuine manhood. . . . Knowledge, wisdom, culture, refinement, manners, are all founded on work and the wealth which work brings. . . . Without money, there's no leisure, without leisure no thought, without thought no progress."

Critics considered Douglass stubborn, arrogant, and overly sensitive to slights, but he earned respect from friends of freedom. For years he appeared on lecture platforms with William Lloyd Garrison and Wendell Phillips, leading lights of the antislavery movement. *Uncle Tom's Cabin* author Harriet Beecher Stowe praised Douglass. He impressed essayist Ralph Waldo Emerson, who declared: "Here is Man; and if you have man, black or white is an insignificance." Mark Twain was proud to count Douglass as a friend. John Bright contributed money to help buy his freedom. "He saw it all, lived it all, and overcame it all," exulted black self-help pioneer Booker T. Washington.

An American observer recalled Douglass's presence as a speaker: "He was more than six feet in height, and his majestic form, as he rose to speak, straight as an arrow, muscular, yet lithe and graceful, his flashing eye, and more than all, his voice, that rivaled Webster's in its richness, and in the depth and sono-

rousness of its cadences, made up such an ideal of an orator as the listeners never forgot."

Individualist feminist Elizabeth Cady Stanton saw how, at a Boston antislavery meeting, "with wit, satire, and indignation [Douglass] graphically described the bitterness of slavery and the humiliation of subjection to those who, in all human virtues and powers, were inferior to himself. . . . Around him sat the great antislavery orators of the day, earnestly watching the effect of his eloquence on that immense audience, that laughed and wept by turns, completely carried away by the wondrous gifts of his pathos and humor . . . all the other speakers seemed tame after Frederick Douglass . . . [he] stood there like an African prince, majestic in his wrath."

Born into Slavery

Frederick Douglass was born Frederick Augustus Washington Bailey sometime in February 1818—slave births weren't recorded—on a plantation along Maryland's eastern shore, near Easton. He didn't know who his father was, though he became convinced his father must have been a white man. His mother, Harriet Bailey, was a slave, and consequently all her children were condemned to be slaves. Frederick was soon separated from her. "I never saw my mother, to know her as such, more than four or five times in my life," Frederick recalled, "and each of these times was very short in duration, and at night."

His mother died when he was seven. "I was not allowed to be present during her illness, at her death, or burial," he noted. "She was long gone before I knew any thing about it." He added: "I never think of this terrible interference of slavery with my infantile affections without feelings to which I can give no adequate expression."

Frederick was taken to the mansion of Edward Lloyd, who was former Maryland governor and U.S. senator and among the richest men in the South. Lloyd owned a number of farms, each managed by an overseer. Frederick remembered how one overseer, Austin Gore, was whipping a slave

named Denby. When Denby tried to escape into a stream, Gore shot him dead—and got away with it. "Killing a slave, or any colored person, in Talbot County, Maryland," Frederick explained, "is not treated as a crime." On another occasion, Frederick saw his aunt Hester mercilessly beaten.

In November 1826, young Frederick was assigned to Thomas Auld, who sent him to his brother Hugh in Baltimore. Hugh and his wife, Sophia, didn't own any other slaves. She read to the child from the Bible, and he noticed the connection between marks on the page and the words she spoke. She began teaching him the alphabet. When her husband learned about this he was outraged. As Frederick later recalled, Hugh Auld snarled that "If you learn him how to read, he'll want to know how to write; and this accomplished, he'll be running away with himself."

Young Frederick learned more on the streets of Baltimore: "when I met with any boy who I knew could write, I would tell him I could write as well as he. The next word would be, 'I don't believe you. Let me see you try it.' I would then make the letters which I had been so fortunate as to learn, and ask him to beat that. In this way I got a good many lessons in writing, which it is quite possible I should never have gotten in any other way. During this time, my copy-book was the board fence, brick wall, and pavement; my pen and ink was a lump of chalk. With these, I learned mainly how to write."

When Frederick was 12, he heard his friends read from a collection of great speeches, assigned in school. He took 50 cents that he had hoarded, went to Knight's Bookstore, and bought his own copy of *The Columbian Orator*. Compiled by Caleb Bingham, it first appeared in 1797 and went through many editions. It offered great speeches by Marcus Tullius Cicero, William Pitt the Elder, Richard Brinsley Sheridan, and Charles James Fox, among others. "Alone, behind the shipyard wall," reported biographer William McFeely, "Frederick Bailey read aloud. Laboriously, studiously, at first, then fluently, melodically, he recited great speeches. With *The Columbian Orator* in his hand, with the words of great speakers coming from his

mouth, he was rehearsing. He was readying the sounds—and meanings—of words of his own that he would one day write. He had the whole world before him. He was Cato before the Roman senate, Pitt before Parliament defending American liberty, Sheridan arguing for Catholic emancipation, Washington bidding his officers farewell.” The book included a “Dialogue between Master and Slave,” in which the slave tells the master he wants not kindness but liberty. There was also a short play, “Slave in Barbary,” where the ruler Hamet declares: “Let it be remembered, there is no luxury so exquisite as the exercise of humanity, and no post so honourable as his, who defends the rights of man.”

“The silver trump of freedom had roused my soul to eternal wakefulness,” Frederick recounted. “Freedom now appeared, to disappear no more forever. It was heard in every sound, and seen in every thing. It was ever present to torment me with a sense of my wretched condition. I saw nothing without seeing it, I heard nothing without hearing it, and felt nothing without feeling it. It looked from every star, it smiled in every calm, breathed in every wind, and moved in every storm.”

In March 1832, Thomas Auld decided he needed Frederick, and had him returned to Auld’s place in St. Michaels, Maryland. Auld discovered that the taste of freedom in Baltimore had a pernicious effect on the young man and that harsh discipline was called for. Accordingly, in January 1833, Frederick was hired out as a field hand to Edward Covey, a small tenant farmer nearby. Covey was an intensely religious man known to be ruthlessly cruel to slaves. For instance, after Frederick lost control of some draft animals, Covey “went to a large gum-tree, and with his axe cut three large switches, and, after trimming them up neatly with his pocket-knife, he ordered me to take off my clothes. I made him no answer, but stood with my clothes on. He repeated the order. I still made him no answer, nor did I move to strip myself. Upon this he rushed at me with the fierceness of a tiger, tore off my clothes, and lashed me till he had worn out his switches. . . .”

Covey attacked him on another occasion, but this time Frederick fought back. He kicked Covey’s cousin, who tried to intervene. Covey ordered other slaves to subdue Frederick but they affected ignorance. The young slave prevailed with his powerful arms and indomitable spirit. During the six months that he remained with Covey, he wasn’t whipped again.

Education for Freedom

He resolved to be free, and he did what he could to nourish the spirit of freedom in others. At the house of a free black man, he educated some 40 slaves with his *Columbian Orator* and a copy of *Webster’s Spelling Book*, which he apparently had acquired from a friend. “These dear souls came not to Sabbath school because it was popular to do so, nor did I teach them because it was reputable to be thus engaged,” he wrote. “Every moment they spent in that school, they were liable to be taken up, and given thirty-nine lashes. They came because they wished to learn. Their minds had been starved by their cruel masters. They had been shut up in mental darkness. . . . The work of instructing my dear fellow-slaves was the sweetest engagement with which I was ever blessed.”

In April 1836, Frederick Bailey and four other slaves plotted their escape, but the men were betrayed. They were dragged behind horses some 15 miles to the Easton jail. Frederick was considered a dangerous influence on a plantation, and Thomas Auld decided that he should be turned back over to his brother Hugh in Baltimore.

Frederick got a job in Gardiner’s shipyard as an apprentice caulker, but white workers resented the presence of a black man. Four attacked him, bashing him with fists, a brick, and a heavy metal bar. Somehow he stumbled home. Hugh Auld went to the local magistrate’s office, outraged at this assault on his personal property, but the magistrate insisted it was impossible to press charges against the assailants: “I cannot move in this matter except upon the oath of white witnesses.”

In the spring of 1838, Thomas Auld came to Baltimore on business, and 20-year-old

Frederick boldly proposed a deal: let him be free to hire himself out, he would buy his own tools, he would pay his own room and board, and he would remit some of his pay—\$3 per week. The answer was no. Two months later, Frederick proposed the same deal to Hugh Auld who—unaware his brother had nixed it—concluded that approval might help keep the restless young man from running away. “This arrangement,” Frederick acknowledged, “was decidedly in my master’s favor. . . . I found it a hard bargain. But, hard as it was, I thought it better than the old mode of getting along. It was a step towards freedom to be allowed to bear the responsibilities of a freeman, and I was determined to hold on upon it.”

Frederick Bailey focused single-mindedly on making money. Buying his freedom, were Thomas Auld willing to sell, might cost \$1,000. If he ran away, he had to get black-market “free papers,” which every free black was required to carry to prove the bearer wasn’t a slave.

During his spare time, he joined the East Baltimore Mental Improvement Society, an association of free black caulkers. They gathered to sharpen their intellects by conducting debates. Perhaps more important, he learned much about living on one’s own—and escaping to freedom.

Meanwhile, he met Anna Murray, a free black woman whose parents reportedly had been freed before her birth. She was about five years older than he and worked as a domestic servant in Baltimore. Although she was illiterate, she was probably the one who encouraged him to play the violin. This became a cherished pastime throughout his life, and he especially loved Handel, Haydn, and Mozart.

In August 1838, Hugh Auld demanded that Frederick move back where he could be watched and that he remit all his earnings. Anna reportedly raised money for her companion’s escape by selling a featherbed. Since he had worked around the Baltimore docks, he could talk like a sailor, and he decided to escape dressed like a sailor—a red shirt, a flat-topped sailor’s hat, and a handkerchief around his neck.

Escape

On September 3, 1838, he boarded a crowded northbound train, and when the conductor asked for his free papers, he replied: “No sir, I never carry my free papers to sea with me.” He presented seaman’s papers (used by American sailors when traveling overseas), borrowed from a retired free black sailor. Apparently impressed by the American eagle at the top, the conductor didn’t notice that the papers described someone else. At Havre de Grace, Frederick boarded a ferry that crossed the Susquehanna River. He encountered a Baltimore acquaintance who wanted to know what he was doing, but got out of that conversation quickly. On the other side of the river, while boarding another northbound train, he saw two more acquaintances who would have recognized him as a slave, but luckily nothing happened. A steamship took him to Philadelphia.

He didn’t linger. He boarded a ferry, a night train, and another ferry for New York, where he would be more likely to elude slave-hunters. As an extra precaution, he adopted the name “Johnson.” He exulted: “A free state around me, and a free earth under my feet! What a moment was this to me! A whole year was pressed into a single day. A new world burst upon my agitated vision.”

Anna joined him in New York, and they were married. He met with an abolitionist named David Ruggles, who advised him that it wasn’t safe to remain in New York because of all the slave-hunters. Ruggles recommended that Frederick, as a skilled caulker, should be able to quickly find a job in New Bedford, Massachusetts, where a lot of ships were being built for the whaling industry. New Bedford had some 12,000 people, a black community, and a significant contingent of antislavery Quakers.

Frederick marveled at the prosperity in New Bedford. “I had very strangely supposed, while in slavery, that few of the comforts, and scarcely any of the luxuries, of life were enjoyed at the north, compared with what were enjoyed by slaveholders of the south. I probably came to this conclusion from the fact that northern people owned no slaves. I

supposed that they were about upon a level with the non-slaveholding population of the south. I knew *they* were exceedingly poor, and I had been accustomed to regard their poverty as the necessary consequence of their being non-slaveholders. I had somehow imbibed the opinion that, in the absence of slaves, there could be no wealth, and very little refinement. . . .”

“In the afternoon of the day when I reached New Bedford, I visited the wharves to take a view of the shipping. Here I found myself surrounded with the strongest proofs of wealth. Lying at the wharves, and riding in the stream, I saw many ships of the finest model, in the best order, and of the largest size. Upon the right and left, I was walled in by granite warehouses of the widest dimensions, stowed to their utmost capacity with the necessities and comforts of life. Added to this, almost every body seemed to be at work, but noiselessly so, compared with what I had been accustomed to in Baltimore. . . . I heard no deep oaths or horrid curses on the laborer. I saw no whipping of men; but all seemed to go smoothly on. Every man appeared to understand his work, and went at it with a sober yet cheerful earnestness, which betokened the deep interest which he felt in what he was doing, as well as a sense of his own dignity as a man. To me this looked exceedingly strange. From the wharves I strolled around and over the town, gazing with wonder and admiration at the splendid churches, beautiful dwellings, and finely-cultivated gardens; evincing an amount of wealth, comfort, taste, and refinement, such as I had never seen in any part of slaveholding Maryland.”

A New Life

Until the couple found their own lodgings, they stayed with black caterers Mary and Nathan Johnson. Frederick reported that Nathan read “more newspapers, better understood the moral, religious, and political character of the nation,—than nine tenths of the slaveholders in Talbot county, Maryland. Yet Mr. Johnson was a working man. His hands were hardened by toil, and not his alone, but those also of Mrs. Johnson. I found

the colored people much more spirited than I had supposed they would be. I found among them a determination to protect each other from the blood-thirsty kidnapper, at all hazards.” Nathan suggested that since so many blacks were named Johnson, Frederick Bailey ought to adopt something different—like Douglas, the name of a Scottish lord in Walter Scott’s poem *The Lady of the Lake*. He did, adding an extra “s” for more individuality.

Douglass tried to earn a living as skilled caulker at \$2 per day, but white shipyard workers announced they would leave the job site if he were hired. He had to settle for \$1-per-day jobs like shoveling coal, sawing wood, hauling garbage, and cleaning ships. Eventually he landed a steady job at a Quaker-owned whale-oil refinery.

He and Anna attended the African Methodist Episcopal Zion Church. The minister, Thomas James, was active in the antislavery movement and editor of a twice-monthly publication called *The Rights of Man*. James was impressed with his new parishioner and the articulate Douglass became a lay preacher. On March 12, 1839, he rose at a church meeting and delivered a speech denouncing proposals that blacks be shipped back to Africa. He insisted blacks should be free here in America. His remarks were stirring enough to be mentioned in *The Liberator*, the radical antislavery newspaper that William Lloyd Garrison had published weekly since January 1831. At an antislavery meeting attended mostly by whites, James encouraged Douglass to tell his personal story.

In April, Garrison himself appeared at New Bedford’s Mechanics Hall, addressing blacks as well as whites. The son of an impecunious Massachusetts sea captain who disappeared when he was three, Garrison had started his career as a printer, and in 1828 pioneering abolitionist Benjamin Lundy won him over to the antislavery movement. Garrison helped launch the Massachusetts Anti-Slavery Society (1831) and the New England Anti-Slavery Society (1831), and he joined with antislavery crusaders in New York and Philadelphia to establish the American Anti-Slavery Society (1833). His goal: immediate abolition. He opposed political action since he considered

the Constitution to be hopelessly compromised by slavery. He was committed to a nonviolent strategy of moral suasion. He favored expelling slave states from the Union. Although he became unpopular for hammering clergymen who defended slavery, he was an intensely religious man. He insisted that slavery was an abomination which violated the “higher law” of morality. That April night, he thundered, “NO COMPROMISE WITH SLAVERY! NO UNION WITH SLAVE-HOLDERS!” Douglass decided he, too, must be an orator against slavery.

Speaking Out Against Slavery

Later that year, Douglass appeared before the Bristol County Anti-Slavery Society to talk about his experiences as a slave. Among those attending was William C. Coffin, a bank bookkeeper and member of the Coffin clan from Nantucket—a hotbed of the abolitionist movement. Coffin invited Douglass to speak at a big Nantucket gathering of the Massachusetts Anti-Slavery Society, starting the next day. Garrison and his compatriot Wendell Phillips would be there.

Phillips, tall, slim, and Harvard-trained, had been a Boston lawyer. In 1837, a pro-slavery mob murdered an abolitionist printer, and Phillips committed his life to abolition. He soon emerged as the most powerful anti-slavery orator. He used plain language and spoke with quiet intensity. He was a skilled debater who, without taking any notes, could reply point by point to a complex presentation. John Bright exclaimed that “there was no orator superior to him who spoke the English language.” A Boston journalist called Phillips the “anti-slavery Cicero.”

When it was Douglass’s turn to speak, recalled Garrison, “He came forward to the platform with a hesitancy and embarrassment. After apologizing for his ignorance, and reminding the audience that slavery was a poor school for the human intellect and heart, he proceeded to narrate some of the facts in his own history as a slave, and in the course of his speech gave utterance to many noble thoughts and thrilling reflections. As soon as he had taken his seat, filled with hope and admira-

tion, I rose, and declared that Patrick Henry, of revolutionary fame, never made a speech more eloquent in the cause of liberty. . . .”

Douglass was asked to become a salaried speaker for the Massachusetts Anti-Slavery Society on a three-month trial basis. It was tough going because most Northerners were either uninterested in slavery or considered abolitionists as troublemakers. In many Northern towns, a black speaker wasn’t welcome. But Douglass inspired people with his oratory. He entertained by mimicking Northern hypocrites and Southern slaveholders. He engaged hecklers.

He joined Garrison, Phillips, Stephen S. Foster, and Charles Lenox Remond, speaking wherever a couple dozen people could be gathered. The most controversial speaking combination mixed races and sexes: Douglass, radical Abby Kelley, and white orthopedic surgeon Erasmus Hudson. Altogether, Douglass appeared in some 60 towns throughout Massachusetts, New Hampshire, and Rhode Island. Train travel with other antislavery speakers was difficult, because conductors often ordered him to the “Negro car”—and when he refused, he was thrown off the train.

Many times, there was violence. In Indiana, hecklers threw eggs and stones at the speakers. A mob went after Douglass, shouting vile epithets. One assailant broke Douglass’s right hand with a club. Douglass might have been killed had it not been for the intervention of his white compatriot William White. Later Douglas wrote White: “I shall never forget how like two very brothers we were ready to dare, do, and even die for each other.”

Increasingly, he spoke out on racial prejudice as well as slavery. “Prejudice against color is stronger north than south,” he observed, “it hangs around my neck like a heavy weight.” Douglass was such a hit that in 1842 the Massachusetts Anti-Slavery Society retained him as a regular agent. He delivered over 100 speeches a year, and he became a valued contributor to *The Liberator*.

His first autobiography, *Narrative of the Life of Frederick Douglass* (June 1845), helped secure his fame. It was written as an anti-slavery tract, with details of his escape left out to protect others. Published by the Anti-

Slavery Office, Boston, the book included a letter by Phillips and a preface by Garrison. Douglass, wrote Garrison, offers a "union of head and heart, which is indispensable to an enlightenment of the heads and a winning of the hearts of others." Soon there were three European editions, and total sales reportedly reached 30,000 within five years.

Time Abroad

Douglass seemed like a natural to help turn Europeans against the South, thus isolating it in the international community. On August 16, 1845, he left Boston aboard the Cunard steamer *Cambria*. Denied a cabin, however, he went steerage—the most humble accommodations. The speaking tour began in Ireland, and Douglass was horrified at Irish poverty, which was worse than anything he had experienced. At a gathering of some 20,000 people, he shared the lecture platform with Daniel O'Connell, the legendary orator for Irish emancipation. He was moved when Irishmen dubbed him the "Black O'Connell of the United States." Douglass realized that blacks weren't the only ones struggling to be free.

One million Irish died of starvation following the failure of the potato crop that year, and Douglass joined cool-headed free trade agitator Richard Cobden and his compatriot John Bright, a passionate speaker. The threesome traveled from town to town, demanding immediate repeal of the corn laws (grain tariffs), so desperate people could buy cheap food. Douglass was welcomed at London's Free-Trade Club, and he cherished his times as "a welcome guest at the house of Mr. Bright in Rochdale . . . treated as a friend and brother among his brothers and sisters."

Garrison arrived, and he and Douglass resumed the antislavery crusade, addressing audiences in Scotland, England, and Wales. They dramatized the evils of American slavery, attacked clergymen who supported slavery, called on people to cut off ties with the slaveholding South, and asked for contributions.

Meanwhile, Douglass learned that Thomas Auld had sold him to Hugh Auld, and that

Hugh was determined to have him captured when he returned to the United States. Since Douglass had become a key player in the abolitionist movement, his friends thought it best to purchase his freedom. The agreed-on price was £150. John Bright kicked off the fund-raising with a £50 check. The rest came quickly, and Hugh Auld received \$711.60. Douglass was legally free on December 12, 1845. Most abolitionists criticized the move for seeming to sanction the buying and selling of human beings, but Garrison thought it made sense. Douglass sailed for the United States on April 4, 1847. He returned with considerable prestige, having enlarged his vision, proven himself in a strange land, and won acclaim from famous freedom fighters.

The Compromise of 1850

Unfortunately, all the speaking out seemed to have little impact on government policy. Proslavery forces controlled the federal government. James K. Polk had been elected president in 1844, and he launched the Mexican War, which was viewed by Douglass and other abolitionists as a scheme for expanding slavery. In 1848, Polk was succeeded by Zachary Taylor, the slave-owning hero of the Mexican War. Kentucky Senator Henry Clay forged the notorious Compromise of 1850, which specified that the federal government would enforce slavery where it was already established, that California would join the Union as a free state, and that Utah and New Mexico could become slave states later.

The Compromise included a tougher Fugitive Slave Act, requiring federal law enforcement officials to help return runaway slaves. During the next decade, there were 81 fugitive slave cases under this law. It inflamed northern opinion as nothing before, and Garrison, Phillips, Douglass, and other anti-slavery speakers made the most of the situation. The American Anti-Slavery Society grew to some 2,000 local societies with over 200,000 members. As William McFeely noted, "Those who wanted to hear no more of the slavery question slowly came to realize that nothing would ever silence these antislavery people."

They would keep up their agitation, against all odds, until—finally—slavery was ended.”

Increasing numbers of people helped the Underground Railroad. Eleven northern states—all except Ohio and Indiana—made it illegal to return a runaway slave. Disobeying the Fugitive Slave Law became a patriotic thing to do. Reportedly, a slave could go from a border state to Canada within 48 hours. Many a runaway slave showed up at Douglass’s three-story Rochester, New York, home, and his family took care of them until they could go the seven miles to Charlotte and catch a steamer across Lake Ontario to Canada. Douglass knew Harriet Tubman, the black woman who became famous for making 19 trips down South and escorting some 300 slaves to freedom. Most escapes occurred during the winter when there was less supervision on plantations, and Douglass tirelessly raised money to provide the destitute runaways with warm clothing and food.

Douglass and Garrison, however, began to move apart because Douglass was determined to be his own man, while Garrison believed his organization should lead the antislavery movement. Douglass continued to refine his speaking technique, despite Garrison’s concern that audiences would doubt “you were ever a slave.” He came to believe in all peaceful means against slavery, including political action. After all, the number of antislavery Congressmen increased during the 1840s.

Douglass talked about starting his own antislavery newspaper, an idea bitterly opposed by Garrison’s people. On December 3, 1847, with \$4,000 raised from his speaking tour in the British Isles, Douglass published the first issue of *North Star*. He was to keep it going for 17 years. He traveled constantly, speaking against slavery and urging people to subscribe.

On July 19–20, 1848, he spoke at the Seneca Falls convention that Elizabeth Cady Stanton had organized to promote women’s rights. Douglass was the only male present who supported women’s suffrage—32 men and 68 women attended. He agreed that wives should, if they wished, be able to earn their own money; that widows, like widowers,

should be able to serve as legal guardians of their children; that women, like men, should be able to own property, inherit property, and administer estates.

More and more, Douglass became convinced he must plunge into political action. In a speech delivered July 5, 1852—considered by some to be the greatest antislavery oration—he defended the Constitution: “interpreted as it *ought* to be interpreted, the Constitution is a GLORIOUS LIBERTY DOCUMENT.”

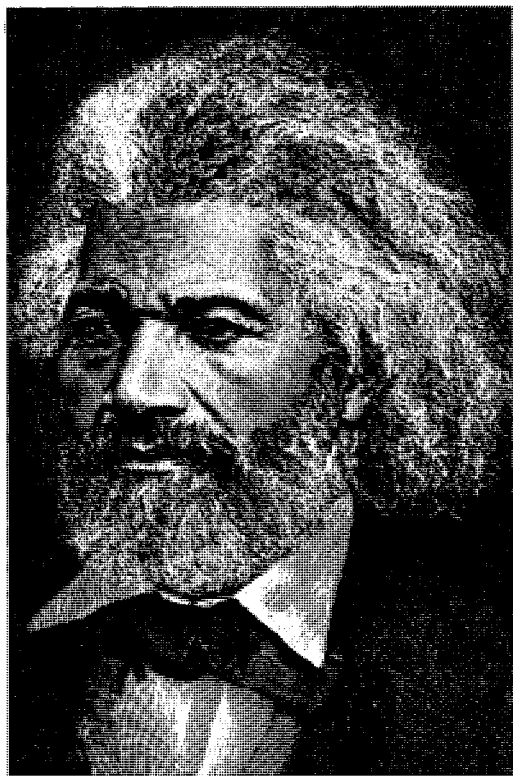
By this time, Douglass and Garrison had split for good, although Douglass never publicly mentioned the break. Garrison’s people carped about how Douglass was selfish and temperamental. Douglass’s friend Harriet Beecher Stowe, who had electrified the antislavery movement with her 1852 bestseller *Uncle Tom’s Cabin*, wrote Garrison in an unsuccessful effort at reconciliation: “Why is he any more to be called an apostate for having spoken ill-tempered things of former friends than they for having spoken severely and cruelly as they have of him . . . where is this work of excommunication to end? Is there but one true anti-slavery church and all others infidels?”

Douglass’s second autobiography, *My Bondage and My Freedom*, was published in 1855. He expanded his story about slavery, offered his firsthand view of the antislavery movement, and affirmed his confidence that it would triumph.

The Fight Continues

The personal costs of Douglass’s antislavery campaign were high. He spent hardly any time at home. He missed seeing his five children growing up. Douglass’s wife, Anna, resented being left alone to tend the children and earn extra money.

But Douglass was in the thick of fast-moving events. In the notorious *Dred Scott* decision, March 6, 1857, Supreme Court Chief Justice Roger B. Taney ruled that neither a slave, nor a former slave, nor a descendant of slaves could become a U.S. citizen. He further ruled that Congress couldn’t outlaw slavery in new U.S. territories.



Frederick Douglass

The political situation seemed desperate enough that Douglass was willing to hear any ideas that might help the fight against slavery. In 1858, the former Massachusetts tanner John Brown was at Douglass's Rochester home, working on his idea for stirring a slave insurrection and forming a black state in the Appalachian mountains. Douglass reportedly provided financial support. He respected Brown as a man who had courageously led dozens of Missouri slaves to freedom and fought to keep Kansas free.

But Brown abandoned the idea of a black state as he planned a raid on a federal arsenal at Harpers Ferry, Virginia. The idea was to capture arms and distribute them to slaves. Douglass warned this was suicidal—there were only about 5,000 blacks versus 100,000 whites in the region. On October 16, 1859, Brown and 22 followers seized the arsenal, but they were captured by Robert E. Lee's marines.

Douglass became implicated after investigators found his correspondence among

Brown's papers, and the order went out to arrest him. He fled to Canada and then to England and Scotland where, conveniently, he was already booked for a lecture tour. Brown was hanged on December 2, 1859. Three months later, when Douglass was in Glasgow, he got word that his 10-year-old daughter Annie had died, and he resolved to go home. He cautiously took an indirect route, to Maine, Montreal, and then Rochester. About this time, he got lucky. There was a backlash of public outrage against slavery, and Congress feared that further hangings would make more martyrs. Accordingly, it closed the John Brown affair. Within just a few months, Douglass's association with John Brown had gone from a big liability to a badge of honor.

Douglass spoke forcefully for Republican presidential candidate Abraham Lincoln, but he was shocked to discover that large numbers of Northerners blamed abolitionists for the crisis of the Union. At a December 3, 1860, Boston rally, Douglass found himself in a riot as Unionists fought abolitionists. Then after the April 1861 firing on Fort Sumter, which marked the beginning of the Civil War, President Lincoln made clear this was a struggle to preserve the Union, not to abolish slavery. Lincoln's policy was that runaway slaves must be returned to their masters. Lincoln overruled General John C. Frémont, who had emancipated slaves in Missouri.

Douglass demanded "the unrestricted and complete Emancipation of every slave in the United States whether claimed by loyal or disloyal masters. This is the lesson of the Hour." On January 1, 1863, Lincoln issued an Emancipation Proclamation saying that slaves were liberated in rebellious states—which he obviously didn't control. The Proclamation didn't free slaves in the North. But Douglass hailed it because it made the abolition of slavery a war aim.

Alas, Douglass was swept away by war fever like almost everybody else. Although he didn't enlist himself, he delivered speeches encouraging black men to join the Union army. Douglass's aim was to help win the war and gain respect for blacks. But Douglass's efforts backfired to some extent when, during

riots against military conscription, angry whites blamed blacks for starting the Civil War. While the North welcomed black volunteers into segregated fighting units like the Fifty-Fourth Massachusetts Volunteers, blacks were paid less than whites and weren't promoted into the ranks of noncommissioned officers.

Especially after his cordial White House meeting with President Lincoln, Douglass became a Republican booster, but war casualties soared with no end in sight, generating pressures to compromise. As another presidential election year approached, there was talk about a negotiated peace that would let the South maintain slavery. Lincoln's likely Democratic opponent, General George McClellan, promised he wouldn't end slavery in rebel states. Douglass countered: "no war but an Abolition war; no peace but an Abolition peace; liberty for all, chains for none; the black man a soldier in war; a laborer in peace; a voter at the South as well as at the North; America his permanent home, and all Americans his fellow-countrymen."

War's End

The Civil War ended on April 9, 1865, and five days later Lincoln was assassinated. Douglass certainly admired Lincoln but acknowledged: "He was ready to execute all the supposed constitutional guaranties of the United States Constitution in favor of the slave system anywhere inside the slave States. He was willing to pursue, recapture, and send back the fugitive slave to his master, and to suppress a slave rising for liberty, though his guilty master were already in arms against the Government. The race to which we belong were not the special objects of his consideration."

With slavery abolished, Garrison as well as many others in the antislavery movement considered their work done. But Douglass focused on what had always been his long-term goal: to help blacks achieve their human potential and live in harmony with whites.

How to achieve these things? There weren't any good choices. War-weary Northerners didn't want to hear about the problems of

blacks. Embittered Southerners were determined to get their revenge. Douglass hoped for federal action, but Andrew Johnson, who had succeeded Lincoln as president, did nothing while white Southerners reasserted their power over blacks. They enacted "Black Codes" that effectively denied blacks their civil rights. For example: Mississippi specified that blacks could not live in a particular place or hold a job unless they got a (white-controlled) government license which could be revoked at any time. Johnson told blacks they should prove they had the right to be free.

Douglass set his sights on getting blacks the vote, so they could establish a political presence—blacks were denied the vote in Connecticut, New Jersey, Pennsylvania, and several western states. He took leave of his family once more and crisscrossed the country. His rallying cry: "They gave us the bullet to save themselves; they will yet give the ballot to save themselves."

But it became politically impossible to push for giving both blacks and women the vote at the same time, and feminists refused to support black suffrage if women weren't part of the deal. Things got nasty with Susan B. Anthony, among others, taking swipes at the intelligence of black men. Douglass's view: "While the negro is mobbed, beaten, shot, stabbed, hanged, burnt and is the target of all that is malignant in the North and all that is murderous in the South, his claims may be preferred by me without exposing in any wise myself to the imputation of narrowness or meanness toward the cause of woman." Immediately after the March 30, 1870, adoption of the Fifteenth Amendment, granting blacks the right to vote, Douglass urged a new campaign for female suffrage.

Douglass hitched himself to the Republican Party during the long sunset of his career, because the Democratic Party was committed to undoing black gains. He campaigned for Republican presidential candidates, and for his trouble he was named to inconsequential posts—Marshal in the District of Columbia, Recorder of Deeds and Consul-General to Haiti. He hoped to influence government

policy but didn't. His posts provided some cover for Republican presidents who sold out blacks in the South. On October 15, 1883, eight out of nine Republican Supreme Court justices ruled that state legislatures had jurisdiction over civil rights, affirming the triumph of white supremacy in the South.

There was an open season on blacks. They were excluded from white labor unions. Terrorist groups like the Pale Faces, Knights of the White Camelia and, of course, the Ku Klux Klan, burned black homes, schools, and churches. Blacks were lynched, and neither state nor federal governments did much, if anything.

It was through his private efforts, not any political connections, that Douglass fought these evils. "A white man has but to blacken his face and commit a crime, to have some negro lynched in his stead," he protested. "An abandoned woman has only to start the cry that she has been insulted by a black man, to have him arrested and summarily murdered by the mob. Frightened and tortured by his captors, confused into telling crooked stories about his whereabouts at the time when the alleged crime was committed and the death penalty is at once inflicted, though his story may be but the incoherency of ignorance or distraction caused by terror."

"The problem," he insisted, "is whether the American people have loyalty enough, honor enough, patriotism enough, to live up to their Constitution. . . . We Negroes love our country. We fought for it. We ask only that we be treated as well as those who fought against it." Douglass rejected the thought that "one class must rule over another." He pleaded: "Let the nation try justice and the problem will be solved."

Douglass returned to his theme of self-help. "The question now is, will the black man do as much now for his master (himself) as he used to do for his old master?" He encouraged black parents: "Educate your sons and daughters, send them to school . . . into mechanical trades; press them into blacksmith-shops, the wheelwright-shops, the cooper-shops, and the tailor-shops. . . . Trades are important. Wherever a man may be thrown

by misfortune, if he have in his hands a useful trade, he is useful to his fellow-men, and will be esteemed accordingly. . . ."

In 1881, he published *The Life and Times of Frederick Douglass*. He provided more details about his experience as a slave, revealed (for the first time) how he escaped and offered his comments on the Civil War and subsequent events. His concern was that Americans should never forget the evils of slavery. Douglass issued an expanded edition of the book in 1892.

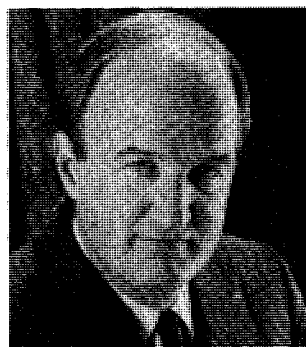
Douglass's last years brought much sadness. He had launched a newspaper, the *New National Era*, but it failed and cost him \$10,000. His grown children were all dependent on him for financial support. His wife, Anna, died on August 4, 1882. Two years later, he married a white abolitionist, Helen Pitts, antagonizing both blacks and whites.

After arsonists torched his beloved Rochester home, Douglass moved to a 20-room white frame house on 23 acres across the Anacostia River from Washington, D.C. The place had once been owned by Robert E. Lee. Called Cedar Hill, it included a library and a music room where Douglass could play his violin.

On February 20, 1895, he attended a Washington, D.C., rally for women's rights. When he finished dinner that night, he rose from his chair, then collapsed and died. There was a private funeral service at his home, and the casket was moved to the Metropolitan African Methodist Episcopal Church where tremendous crowds, including thousands of children, paid their respects. After another service at Rochester's Central Church, he was buried in Mount Home Cemetery near his daughter and his first wife.

More than anyone else, Douglass put a human face on the horrors of American slavery. He helped convince millions that it must be abolished. He courageously spoke out against the subversion of civil rights. He expressed generous sympathy for all who were oppressed. He urged people to help themselves and fulfill their destiny. He longed for the day when men and women, blacks, whites, and everyone else could live in peace. □

Which Is the Best Inflation Indicator: Gold, Oil, or the Commodity Spot Index?



"The editors don't agree with your claim that gold is a best indicator of inflationary expectations and economic stability."

—Dan Hinson, Managing Editor,
The *Wall Street Journal*¹

This column developed out of a running debate I've had with the editors of the *Wall Street Journal* and the *New York Times*. In the financial news, the *Times* highlights the price of oil as the best indicator of commodity prices and inflationary expectations. The front page of the *Wall Street Journal* publishes nine prices and indices, including oil and the Dow Jones Commodity Spot Index, to reflect activity in the financial markets. But neither the *Times* nor the *Journal* highlights the price of gold as an important barometer of inflation or monetary stability. Apparently they believe that oil and the commodity spot index are better indicators.

Gold Is Watched Carefully

Despite these misgivings by the establishment media, gold is not ignored. It is well known that members of the Federal Reserve Board and other central banks monitor the price of gold carefully and consider it a good estimate of inflationary expectations. More-

over, some financial observers and economists are convinced that central banks may intervene from time to time to maintain a steady gold price. According to this view, a rising gold price is undesirable because it suggests increased inflationary expectations and a potential monetary crisis (such as a run on the dollar). Thus, when the price of gold moves up "too much," central banks sell gold. At the same time, a falling gold price is undesirable because it may imply deflation and recession. When gold falls below a certain price, central banks buy or simply stop selling.

How long central bank interventionism can last is anyone's guess. But eventually the market will reassert itself, just as it does whenever a form of price-fixing occurs, and gold prices will start rising again.

A Test to Find the Best Indicator

Are the *Times* and the *Journal* right in highlighting oil and commodities in general rather than gold as a barometer of inflationary expectations? Are they justified in their anti-gold bias?

To test this theory, I constructed a simple econometric model to test how well gold, oil, and the Dow Jones Commodity Spot Index have anticipated changes in the Consumer Price Index (CPI) since 1970. In each case, I developed a least-squares regression analysis, testing the CPI against gold, oil, and the Dow Jones Commodity Spot Index for each year with a one-year time lag. (I thank Professor

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John List, economist at the University of Central Florida, for helping me develop this econometric model.) Even though the CPI has come under criticism as a measure of price inflation, I have selected it as a simple, consistent measure of price inflation.

The question to answer: Do changes in either of these commodity prices anticipate a rise or fall in the Consumer Price Index?

At first I tested to see if any of these three commodity prices predicted changes in the CPI on a monthly basis since 1970. For example, did the change in the price of oil in January anticipate the change in the CPI in February?

No Commodity a Good Short-Term Indicator

The results were discouraging. It is clear that none of the commodity prices—oil, gold, or the commodity spot index—were able to anticipate changes in the CPI from one month to the next. R-squared was 0.02 or less for each test, indicating no correlation at all. As a short-term indicator, gold, oil, and the commodity spot index are all lousy predictors of next month's CPI.

Gold Turns Out to Be the Best

However, the results were much better when we tested average annual commodity prices as a predictor of the following year's CPI since 1970. All three commodity prices showed predictable power over the long term (one year). However, it is clear from the regressions that gold was the best indicator of inflationary expectations (R-squared, 0.42), followed closely by the Dow Jones Commodity Spot Index (R-squared, 0.37), and oil was a distant third (R-squared, 0.18). In fact, it could be determined that oil was a *poor* indicator of inflationary expectations as measured by the CPI. This view falls in line with the work of energy economist Douglas Bohi, whose historical work concludes that oil has far less impact on the world economies than most economists believe.²

Gold as a Measure of Price Inflation

Historically, we can see how gold has significantly anticipated the rise and fall in purchasing power. When the world went off the gold exchange standard in 1971, the price of gold rose sharply from \$35 an ounce to \$200 an ounce, reflecting the sharp rise in commodity and consumer prices in 1973–74. Then gold suddenly topped out in 1975, about the same time the CPI rate started dropping. When consumer price inflation started moving up again, reaching 14 percent in 1979–80, gold moved in sympathy, rising from \$100 an ounce in 1976 to \$850 an ounce in January 1980. The long disinflationary era of the 1980s and 1990s saw a declining trend in both consumer price inflation and the gold price, although that trend may be changing again soon.

In short, it appears that the price of gold does a good job of reflecting the inflationary environment as measured by the Consumer Price Index. It is certainly a better indicator than the crude oil price.

Research by the late Professor Roy Jastram (University of California at Berkeley) suggests that gold maintains its purchasing power over the centuries. After investigating the purchasing power of gold over the past 300 years, Jastram concluded that, despite major inflations and deflations, "Nevertheless, gold maintains its purchasing power over long periods of time, for example, half-century intervals."³

Based on the above new evidence, wouldn't it be appropriate for the *New York Times* and the *Wall Street Journal* to add gold to their summaries of the financial markets? □

1. Private correspondence, April 14, 1995. I first raised this issue in my column, "What's Missing from This Picture?" (*The Freeman*, August 1994). This column was reprinted in *The Lustre of Gold* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1995).

2. Douglas R. Bohi, "On the macroeconomic effects of energy price shocks," *Resources and Energy* 13 (1991), pp. 146–162. See also my column, *The Freeman* (August 1994), pp. 457–458.

3. Roy Jastram, *The Golden Constant* (New York: John Wiley & Sons, 1977), p. 132.

BOOKS

Hidden Order: The Economics of Everyday Life

by David Friedman

Harper Business • 340 pages + xi pages • 1996 • \$25.00

Reviewed by Douglas E. French

Anyone who has met David Friedman knows he is a man looking to pick an argument. Only the naive or foolish will attempt to joust with him. Careful study of Friedman's new book, *Hidden Order: The Economics of Everyday Life*, will make the reader a better thinker and a more skilled debater, whether the topic is economics, politics, crime, or love and happiness.

Economics is not just the study of "satisfying insatiable wants with limited resources," as so many Econ 101 textbooks contend. Economic science encompasses all human behavior: people acting rationally to reach objectives. Those objectives include such everyday dilemmas as deciding which checkout lane at the supermarket will be fastest, dating and finding the right person to marry, voting, and protecting one's property.

Friedman is at his best in the book's second half, analyzing everyday situations. For instance, the public is outraged, believing that criminals are getting off lightly because of plea bargaining. But Friedman points out that punishment is more severe because of plea bargaining. How?

Defendants must decide whether they wish to roll the dice by going to trial with only a 10 percent chance of acquittal, or take the sure bet of some jail time. Rational criminals will accept the plea bargain if it makes them better off. The district attorney's limited budget can then be spent convicting those who won't take a deal. As Friedman points out, "[a]ll criminals would be better off if none of them accepted the DA's offer, but each is better off accepting."

Ever notice how many religious radio stations there are? A bunch. By comparison, the number of religious magazines, books, and newspapers is a small percentage of all print media. Why the difference? Radio broadcasts are a public good. And because people who listen to religious programs are religious, believing that donating money is virtuous, "the religious broadcaster is better able

to get the listener to pay for them. The religious publisher has no corresponding advantage over the secular publisher."

Friedman also explores whether stricter enforcement of drug laws increases or decreases violence. He concludes that no matter what, "[a]ll [possibilities] imply that legalizing drugs would eliminate drug-related crime."

What's behind the decline in American marriage? A decline in family values? Hardly. It used to be that a man would marry his baker or brewer, someone who could cook and clean while he toiled in the fields. Moreover, a high infant mortality rate required that a woman produce children continually, so that the couple might see two or three survive to adulthood. Today's conveniences and low infant mortality rate make being a housewife a part-time job. Thus, as Friedman points out, "[w]ith fewer children and less spouse-specific capital, the costs of divorce are much lower than they were a few generations ago."

Unfortunately, before Friedman gets to the fun stuff, he spends a third of the book getting bogged down with David Ricardo's debunked labor theory of value, which Karl Marx embraced. Friedman writes: "price equals both cost of production and value to the user, both of which must therefore be equal to each other." Subjective value, the insight of the Austrian school, is never mentioned. If value exactly equals price, why would anyone ever make the trade? Besides, what I pay for an item or service, does not depend on how much it cost to be produced, but the value I place on the item at that particular moment.

Despite those shortcomings, *Hidden Order* is a book spiced with jokes, anecdotes, and riddles that will keep the reader laughing, learning, and (especially) thinking. □

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Government: Servant or Master?

Edited by Gerard Radnitzky and Hardy Bouillon

Rodopi • 1993 • 322 pages • \$50.00

Reviewed by David L. Prychitko

Years ago James Buchanan wrote *The Limits of Liberty: Between Anarchy and Leviathan* in which he argued that the constitutional and coercive authority of the state is necessary to maximize

our liberty, but the state has broken its contractually sanctioned bounds. Once broken of its chains, the modern nation-state tends, willy-nilly, toward the monstrous leviathan that threatens, rather than enforces, people's basic liberties. That book's weaknesses lay in providing an overly abstract neoclassical model of constitutional choice that is difficult for those untrained in economics or political science to follow, and in failing to provide sustained empirical or historical examples that clearly shed light on the substantive growth of the state.

Although they aren't intentionally following Buchanan's lead, Gerard Radnitzky and Hardy Bouillon offer a solid set of philosophical, economic, and empirical arguments which, taken together, make for a fine complement to Buchanan's earlier study. *Government: Servant or Master?* draws primarily upon European classical liberal scholars, and focuses on the present expansion (and chaos) of European nation-states. Of particular concern are the goals of the European Community. As Radnitzky states in his introduction, "Their aim will be the *expansion of Leviathan from [the] national to European level, to an Euro-Leviathan* (the Maastricht Monster), among other things conceived as an institutional taxing cartel that enables the member states to maximize the spoliation of citizens" (p. XLI). Can Leviathan (let alone a burgeoning Euro-Leviathan) be tamed?

Part I of the book consists of five theoretical chapters: Arthur Seldon's "Politicians for and Against the People" is a study of the dire, politically alienating effects of the professionalization of politics. Gerard Radnitzky's "Private Rights Against Public Power" explores the classical liberal claims that political freedom can only be a consequence of fundamental economic freedom. Anthony de Jasay's "Is Limited Government Possible?" argues yes, limited government is possible, but only if constitutional commitments override the narrow interests of utility-maximizing individuals and special interest groups. Hardy Bouillon's "Mastering the Growth of Government" is quite pessimistic, building upon de Jasay's arguments that James Buchanan's earlier analysis really doesn't show how people, in forming a binding constitutional contract, will be able to overcome their own selfish interests and foster "impartial" agreements over rules. Finally, this section ends with another de Jasay chapter, "Ownership, Agency, and Socialism," which employs principal-agent problems to state or social ownership.

Part II focuses upon several illuminating case studies: Peter Bernholz discusses the problems of hyperinflation and the need for credible institu-

tional reforms—specifically rules that restrict the discretionary power of the state—to fundamentally curtail inflationary potential, while Gerhard Schwarz and Hans Otto Lenel discuss Switzerland's current economic floundering and the interventionist "social" market economy of post-World War II Germany, respectively. Antony Flew criticizes the state-monopoly system of education in the United Kingdom, while Jacob Sundberg turns the book's attention to the crippling Swedish tax system and its present crisis. Steve Pejovich focuses on the economic, political, and ethnic crisis of the former Yugoslavia, supplying his classic property rights analysis to explain its explosive rates of inflation and problems of merely reforming socialist categories of ownership, rather than fundamentally attempting to generate private, marketable ownership claims.

The book is rounded off, in Part III, by Peter Bernholz's keen discussion of totalitarianism as the "limiting case" of the state, the "institutional antipode to a free society."

This book is mixed reading. The authors' styles range from the philosophically analytical (if not overly italicized) of Radnitzky to the clearly written (but overly romantic) of Arthur Seldon; in one sense the collection as a whole seems a bit unwieldy to be read seriatim: readers will probably tend to read two or three chapters that fit their interests or academic backgrounds rather than devour the entire book. In light of this, and the publisher's series, most will find *Government: Servant or Master?* suitable to add to college or research libraries rather than their own personal collections.

The topics in this book suggest that Buchanan's pessimism of the 1970s is shared by many classical liberals of the 1990s, even though this age has produced, in the name of greater freedom, tremendous constitutional upheaval in the former Yugoslavia, Soviet Union, and other socialist countries in Eastern Europe. And when we witness the rise of individual nation-states agglomerating into a larger inter-nation constitutional matrix, such as the European Community, one wonders whether Buchanan's public-choice model of rational *individuals* agreeing to general rules, as if under a veil of ignorance, can help thwart the coming of a possible Euro-Leviathan. After reading this book, I myself have become a bit more skeptical. □

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Austrian Economics: An Anthology

edited by Bettina Bien Greaves

The Foundation for Economic Education • 1996
• 176 pages • \$14.95 paperback

Reviewed by Robert Batemarco

In my years in academia, I've attended many seminars in Austrian economics and even taught a few. Indeed, *Austrian Economics: An Anthology* reminds me of nothing so much as one of those scholarly assemblies—a seminar between covers, if you will. Led by Dr. von Mises, assisted by Dr. Böhm-Bawerk, and graced with the presence of “visiting professors” Bonar and Seager, this seminar delves into the origins and first principles of Austrian economics. All of these proceedings take place under the watchful eye of “Dean” Bettina Greaves, who went to great lengths to assemble the essays that make up this volume and wrote an enlightening introduction to it.

In any discussion of the origins of Austrian economics, the rivalry between Vienna and Berlin looms large. H. R. Seager's discussion of the contrasts between the Austrian School and the German Historical School is enlivened by details of the actual participants available only to an eyewitness. While showing utmost respect for the scholars of both schools, Seager does not shrink from the conclusion that, contrary to the assertions of the German Historical School, all the historical data in the world can teach us nothing without being sifted through a filter of theory. The inadequacy of that approach comes through clearly in his description of chief German Historical School proponent Gustav Schmoller's attempt to explain value and price. “In this part of his lectures, the student meets only confusion, loose definitions, description instead of careful analysis, and conclusions arrived at, no one knows exactly how. His elucidation of the action of demand and supply in fixing price seemed to me especially unhappy.”

While Seager describes the products of this approach, Mises, in his previously published contributions here (including “The Historical Setting of the Austrian School” and “The Epistemological Problems” from *Human Action*) analyzes its essence. While Seager accords Schmoller and his colleagues the status of “economist,” Mises correctly sees their approach as the nullification of economics. To Mises, economists exposed the dispensation of privileges by governments to their sustainers for the injustice that it is. The German Historical School, however, glorified government and its prerogatives and sought, with undeserved

success, to brand *laissez faire* a parochial and outmoded doctrine. Mises' penetrating mind cut through their muddled methodological arguments to unearth the method in their madness: “The only way to refute economists' critique of interventionism is to deny the very existence of economics as a science.”

Where the Austrians' method of making logical inferences from the irrefutable axiom of human action (i.e., that people seek to achieve goals) was attacked by the Germans as yielding nothing but tautologies, Mises correctly insists that tautologies do indeed add to our substantive knowledge. This is especially true when the adherents of the Historical School were busy denying these tautologies—with the predictable tragic consequences.

In “The Austrian Economists,” Böhm-Bawerk steers the “seminar” away from the methodological battles, which he sees as distractions, however necessary they may be, to the crux of the matter, namely, the reform of positive economic theory. He does not dwell here on his own monumental contribution to our understanding of capital and interest, but rather on how Austrian economics stands the labor theory of value on its head by showing that value determines cost.

Make no mistake about it. It was their value theory which made it possible for Austrian economists to elucidate such issues as the role of money in economic activity and the inability of socialism to engage in rational economic calculation. Thus, it is appropriate that the first essay in this collection is James Bonar's lengthy appreciation of Austrian value theory. While he errs in one particular, claiming that Austrian economic ideas are, “substantially identical with those of Jevons,” a fellow discoverer of the marginalist principle who stressed the use of mathematics to advance economic theory, elsewhere he captures a truth which only Austrians have taken to its ultimate conclusion: “Objective value in exchange is the resultant of subjective valuations of the competing individuals in a commercial society.”

As any good seminar does, this book provides a “reading list” (References for Further Study), not to mention an index. To the serious student seeking real intellectual stimulation and a thorough grounding in Austrian first principles, I would say to sign up for this course before it fills up. □

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The Heroic Enterprise: Business and the Common Good

by John M. Hood

Free Press • 1996 • 266 pages • \$25.00

Reviewed by William H. Peterson

In his introduction John Hood, president of the John Locke Foundation in Raleigh, North Carolina, and a former Bradley fellow at the Heritage Foundation, notes that among free-market thinkers from Adam Smith to Milton Friedman, he has been especially inspired by Henry Grady Weaver. A devotee of Rose Wilder Lane and her *The Discovery of Freedom*, Weaver published his own interpretation and amplification of her work as *The Mainspring of Human Progress*.

Weaver, a General Motors corporate manager and number-cruncher, observed man's long, arduous, and often bitter struggle to overcome scarcity. Famine struck Ireland in the 1840s, for example, and has ravaged Africa and Asia in this century. Weaver's sharp eye saw scarcity as exacerbated by government intervention and overcome by private property rights.

Yet private property and American business continue to be savaged by the intelligentsia and the mainline media. Why this downgrading of American business? Hood suggests as one reason the dominance of negative business characters in Hollywood movies like *Norma Rae* and *Wall Street*. He cites analogous TV-series research by the team of Linda Lichter, Robert Lichter, and Stanley Rothman in which they find 58 percent of big-business characters since 1965 portrayed as villains.

In like manner, liberal politicians and media mavens fume as AT&T and other big businesses resort to downsizing, re-engineering, outsourcing, cost-cutting, consolidating, merging, and other vicious commercial practices. Critics too quickly forget their own innate cost-cutting and outsourcing in their own housekeeping and personal business. They still manage to wax indignant and rant: Is there no sense of business decency left? Is not American business guilty of putting property rights over human rights? Where, o where, has fled the social responsibility of American business?

Hood answers by discussing Milton Friedman's provocative view that "only people have responsibilities"; businesses have no responsibilities as such. As Friedman explains, "There is 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 stays within the

rules of the game, which is to say, engages in open and free competition without deception or fraud."

So three cheers for *The Heroic Enterprise*. It makes waves and should be read by all those in high places who view market solutions as inferior to government solutions.

Modern liberals should see that capitalism and private property, not "social responsibility," release the energies of inventors and entrepreneurs. Enterprise induces savers and investors to serve and be served; it brings income and jobs into being, simultaneously conserves and expands natural resources, advances occupational health and safety, and improves wages and hours. Most importantly, under the sovereign direction of the consumers equipped with their life-and-death power of the purse, enterprise democratically causes producers to run scared and ever try to put out more for less. And it does all this on a strictly voluntary basis as opposed to the baldly coercive power of the state.

So who is the more apt to serve the public and serve it well—the businessman or the politician? Taking a page from philosophers George Santayana and Michael Novak, John Hood pleads with businessmen to think highly of their calling—capitalism. What a remarkable system, what a godsend to man! Yet so unappreciated and ill-understood, so hated and despised. Shakespeare's Puck had it right: "Lord, what fools these mortals be!" □

Dr. Peterson is an adjunct scholar at the Heritage Foundation and distinguished Lundy professor emeritus of business philosophy at Campbell University, Buies Creek, North Carolina.

Generation X Goes to College: An Eye-Opening Account of Teaching in Postmodern America

by Peter Sacks

Open Court • 1996 • 201 pages + index • \$16.95 paperback

Reviewed by Steven Yates

This is a disturbing book—all the more since the pseudonymous author is no friend of the free market. *Generation X Goes to College* is quite unlike the recent academic whistle-blowing efforts of Dinesh D'Souza, George Roche, and Christina Sommers. "Peter Sacks" divides his narrative into two parts. He starts with an autobiographical account of leaving journalism to teach at a school

he does not identify by name. In the second part, he tries to explain what he encountered there.

Sacks found students—popularly labeled “Generation X”—whose indifference to learning was exceeded only by their brazen rudeness and sense of entitlement. His attempts to motivate them met with resistance; some simply walked out on him. They complained to his superiors about low grades and demands for serious work. One even threatened litigation.

He found himself at the mercy of these students via teaching evaluations, used by tenured faculty to assess their juniors. One of his colleagues quietly advised him, “teach to the evaluations.” Still a journalist at heart, who taught from love of his subject, he decided to “go undercover” and find out what it takes to succeed as a professor in the 1990s.

To conduct research for his “Sandbox Experiment,” Sacks designed a survey to find out what students want from professors. The results are illuminating. Forty-one percent cited *entertaining* as the most important quality in a professor. Thirty-seven percent cited *friendliness and warmth*. Just 52 percent thought grades should be based on performance. As for studying, 35 percent studied less than one hour per day.

The second half of *Generation X Goes to College* searches for reasons. Sacks argues that what has happened to education cannot be understood apart from the cultural shift that set the stage for Generation X, the shift from *modernism* to *postmodernism*. Modernism respected science, progress, objectivity, reason; it valued hard work, self-discipline, and respect for authority. Postmodernism is skeptical and relativistic; it replaces the intellectual quest for truth with the subjectivity of feeling, and distrusts all authority. Postmodernism is, in other words, profoundly anti-intellectual. In the cultural ambience of postmodernism, the classroom is just one more “text” to be deconstructed.

Now to be sure, few GenXers have heard of, much less read, postmodernist writers such as Lyotard, Foucault, and Derrida. But Sacks makes a compelling case that the postmodernist *ethos* is all around us—from the spectacle of mass-produced images and the dominance of entertainment values; the influence of television, MTV, and other manifestations of pop culture; movies, such as *Forrest Gump*, which implicitly reject the intellect; to the repudiation of traditional institutions and distinctions based on merit and ability.

What is to be done? Here, *Generation X Goes to College* falls short. One reason is Sacks’s own left-of-center politics. The ethic of entitlement is not new, after all; as he notes himself, it started with

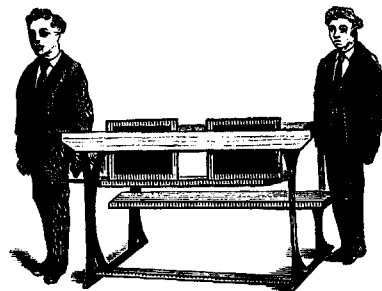
the New Deal and has been spreading ever since. After World War II, we saw more and more consequences of the idea that government owes citizens an education. Public universities burgeoned and standards dropped until students were admitted regardless of their level of preparation. Populist egalitarianism did the rest. No longer content to lower standards until all students are equal, colleges have proceeded to the absurd point where students *and their teachers* are equals!

Sacks offers three options: (1) capitulate; (2) resist with “rear-guard action”; or (3) compromise. He chooses compromise. This is not good enough. To be sure, Sacks criticizes grade inflation, open admissions, and the entitlement ethic. But he basically accepts postmodernism. To my mind he hasn’t attacked the problem deeply enough. His real targets should be entitlements and egalitarianism generally, not merely as they apply to GenXers. These, after all, are not *products* of the postmodernist ethos, they *propelled* it.

As Sacks admits, the people hurt most by the present situation are the good students, those who set out to *earn* high marks. Dismissed as “geeks” and “nerds” by their peers, and unnoticed by a cynical class of tenured professors, achievers are all but invisible in a system aimed at the lowest common denominator. The same holds for the would-be professor who loves his subject and has high potential as a scholar, but is not a classroom Seinfeld or glorified motivational speaker.

Entertainment, of course, is not bad in itself, but when it becomes life’s (or a culture’s) dominant, all-consuming passion, it spells trouble. When academic culture capitulates, the situation becomes worse. For behind the glitzy facade GenXers accept is—quite literally—*nothing*, meaning that the logic of postmodernism is personal, educational, and cultural self-destruction. □

Dr. Yates, a former philosophy professor, is currently adjunct research fellow with the Acton Institute for the Study of Religion and Liberty. He is the author of Civil Wrongs: What Went Wrong With Affirmative Action (San Francisco: ICS Press, 1994).



Faith & Credit: The World Bank's Secular Empire

by Susan George and Fabrizio Sabelli

Westview Press • 1994 • 282 pages • \$63.50 cloth; \$16.95 paperback

Reviewed by Ken S. Ewert

Someone once put forth the aphorism: “the enemy of my enemy is my friend.” Presumably if you’re against something and I’m against that same thing, we are allies in a common cause. Believers in limited government and free markets have long criticized the World Bank. It props up corrupt Third World governments and subsidizes the statist policies that keep poor people poor, and plays a “reverse Robin-Hood” role in transferring resources from middle-class taxpayers in the West to politically connected elites in the Third World. The authors of *Faith & Credit: The World Bank's Secular Empire*, Greenpeace board member Susan George and University of Geneva professor Fabrizio Sabelli, are also against the World Bank. In their view, the World Bank funds projects that disrupt the environment, restrict the social programs and inflationary schemes of Third World governments, and promotes downsizing of public employment and bureaucracy. Clearly in this case, the opponent of our opponent is neither our ally nor a friend to freedom.

The authors believe that “the market” cannot help the poor because it cannot hear their voices. George and Sabelli more or less ignore the amazing cases of market-oriented countries such as Taiwan or South Korea that have moved from poverty to relative wealth in a very short time. Their comment on the free-market success of such countries is: “150 countries cannot become Asian dragons (if only because the planet would collapse).” Their answer to Third World poverty is stronger and more interventionist Third World governments. Currency restrictions and artificial exchange rates, heavy state involvement in the economy, and protectionism (the early use of which they believe explains the later economic success of Korea and Taiwan!) are all good. Apparently what the Third World needs is more government control.

Forgive my impatience, but after laboring through many, many tiresome pages of this book I have to ask: Where have these people been for the past 50 years? After failure upon failure of these policies, in country after country, what hope is there that these interventions might still be made

to work? Has it not been adequately demonstrated for all to see that there are things called economic laws that operate regardless of one’s desire otherwise? Is reality optional?

This book is another (not particularly interesting) example of the close link between statism’s old guard and its new: Reds (socialists) and Greens (radical environmentalists). Both groups share a hatred of economic freedom. Only the Left’s rationale has changed with time: the Reds argued that capitalism couldn’t lift the poor out of their condition, the Greens believe that capitalism is in fact too efficacious—what we need is not *that* kind of development, but rather “sustainable development.”

In the chapter on the World Bank and the environment the authors warn us that the Bank’s future depends on whether or not it recognizes “the environment as the inescapable partner in all its development endeavours.” This is noble-sounding rhetoric, but what does it mean? Should the environment carry as much, or perhaps more, weight than the needs of the world’s poor? It is clear that the authors see a fundamental clash between people acting to improve their economic condition and the environment.

Is the authors’ critique of the World Bank on behalf of the World’s poor, or on behalf of the environment? This query gets to the schizophrenic heart of the new Left. One has the sneaking suspicion that while much lip service is devoted to “helping poor people,” it is the latter rationale, an antidevelopment and antihuman philosophy of exalting nature over man, that motivates the New Left.

Free-market advocates unashamedly assert that people have priority over creatures. (I believe the only adequate basis for this premise is that God has created man in His image, and has given him dominion over all other created things.) However, unlike the Left, we see no contradiction between economic freedom and environmental protection. Recognizing and consistently upholding private property rights will both lift the poor from their poverty and protect the environment by making each individual responsible for his “piece” of the environment (his property) and by protecting him from invasion by others who may seek to pollute or abuse his property.

The World Bank must be abolished. Not because it promotes economic freedom and property rights, but because it is inherently opposed to them. □

Mr. Ewert is the editor of U-Turn, a quarterly publication addressing theological, political, economic, and social issues from a biblical perspective.

Oil, Gas, & Government, 2 Volumes

by Robert L. Bradley, Jr.

Rowman & Littlefield • 1996 • 1,997 pages • \$195.00

Reviewed by Richard W. Fulmer

Untold damage has been done by governments that restrict human action in attempts to correct perceived "market failures." Like a pebble dropped in a pond, each government action ripples through the economy in ever-widening circles, yielding unforeseen consequences that create demands for additional government intrusion. Ironically, when the "market failure" that provided the excuse for the initial intervention is closely examined, it usually either vanishes or turns out to have been a failure of government instead. Robert Bradley's new book, *Oil, Gas, & Government*, takes a critical look at the supposed "market failures" of the petroleum industry, and at the confusing swirl of regulations that our government spewed out to deal with them.

Many such regulations stemmed from attempts to deal with problems created by the rule of capture, by which oil is owned by whoever pumps it out of the ground—regardless of under whose land the oil was originally located. This rule created an incentive for oil producers owning or leasing adjacent pieces of land lying atop the same reservoir to pump out the oil as fast as possible despite any reservoir damage that such rapid production might entail. In addition to the loss of recoverable oil, economic losses were considerable, as producers drilled more wells than would have been needed simply to recover the oil. Bradley points out how a "homestead" approach to the ownership of oil would have avoided the destructive competition to be the first to drain the reservoir. Under Bradley's scheme, ownership of an entire reservoir would go to the individual or company that first discovered or "homesteaded" it, and not necessarily to the owner of the surface rights.

Even with the court-imposed rule of capture, however, oil producers could still have solved the problem of overdrilling and too-rapid production on their own, had government left them free to act. Free companies would almost certainly have sought to reduce drilling costs by "unitizing" their fields, i.e., letting one of their number control production, while all shared in costs and profits according to a negotiated formula. Antitrust laws, however, prevented such cooperation for decades.

During both World Wars, federal government

attempts to control oil production to ensure a steady and affordable fuel supply for the military backfired. First, the government inflated the money supply to help finance the wars, then responded to the resulting rise in oil prices with price freezes. By keeping the price of fuel below its market-clearing price, regulators encouraged consumption and discouraged production—the precise opposite of what was desired. After each war, these emergency controls were dropped. In both cases, decontrol was followed by a boom in production and a drop in prices—clearly revealing the counterproductive nature of the government's intervention.

To finance the war in Vietnam and the "War on Poverty," President Lyndon Johnson again inflated America's currency. Johnson's successor, Richard Nixon, attempted to treat the inevitable symptoms by "freezing" wages and prices. These controls, coming during the driving season and before winter, locked in seasonally high gasoline prices and low fuel-oil prices. Refiners were thereby encouraged to substitute gasoline production for fuel-oil yields. With the coming of cold weather, oil supplies became tight and the government had to loosen its policies. The "Energy Crisis," along with mandatory allocation and conservation, was already well under way before OPEC announced production cutbacks on October 17, 1973, to protest U.S. policy in the Middle East. Clearly, the real cause of the oil shortage in the seventies was U.S. government policy, and not the Arab oil embargo.

Oil, Gas, & Government fills an important niche. It documents every federal oil and gas regulation since 1861, their rationales, and their results. Extensive footnotes, three indexes (by name, subject, and legal case), and a good appendix provide easy access to the information contained in the book's two volumes and nearly 2,000 pages. By filling this niche with a work solidly based in free-market economics, Dr. Bradley's book is well positioned to have a far-reaching impact. His lead is one that other free-market economists would do well to follow. Industries, such as shipping and railroading, also offer both compelling histories, and heavy legacies of destructive government meddling. Similar works documenting these areas would provide powerful support in the drive toward economic freedom. □

Mr. Fulmer is a systems analyst in Houston, Texas.



A Moment on the Earth: The Coming Age of Environmental Optimism

by Gregg Easterbrook

Viking • 1995 • 745 pages • \$27.95

Reviewed by Doug Badow

Environmentalists have long enjoyed the political high ground. After all, who could be against clean water? As a result, over the last two decades the environmental movement has swept most everything before it. The result has been draconian legislative enactments, massive regulatory bureaucracies, and inexplicably complex rules.

But as compliance costs have risen, so has political resistance. Common people have grown less willing to see their interests sacrificed willy-nilly for measures with only marginal environmental benefits. Thus, many environmental activists have moved beyond shrill denunciations of opponents to apocalyptic threats. Their refrain has increasingly become: if you don't do as we say, the world is doomed.

Not so fast, argues Gregg Easterbrook. In his mammoth *A Moment on the Earth*, he contends that "the Western world today is on the verge of the greatest ecological renewal that humankind has known; perhaps the greatest that the Earth has known." The book has it all, or almost. It is comprehensive, well researched, and well written. Equally important, its author is credible to those sympathetic to the environmental movement, a liberal who has written for such publications as *Newsweek* and the *New Republic*.

His liberal credentials account for the book's main flaw: a failure to fully appreciate the value of freedom and the way free markets operate. This occasionally leads to nonsensical asides, like when Easterbrook blames capitalism for homelessness and drug shootouts.

Easterbrook begins by describing a predatory falcon swooping down upon a hapless pigeon. There is nothing unusual about the eternal struggle between prey and predator, which he terms "the dance of ages"—except that this particular skirmish is occurring in Manhattan. Although man may view himself as omnipotent, Easterbrook shows man's impact to be, in fact, quite limited.

Easterbrook backs up his argument with facts. Only two percent of America and eight percent of the world are "built-up." Forests are expanding in the United States and Europe. Farmland, no longer needed for agricultural production, is returning to forest or prairie. And most of what man

has done could be undone by nature which, Easterbrook notes, "rearranges entire continents, a task people cannot imagine, even in the abstract."

A Moment on the Earth goes on to debunk romantic rhapsodies about nature and defend mankind. "Humanity's vogue for culpability regarding its own existence must be exceptionally difficult for nature to fathom," writes Easterbrook, since man's activities are "in strict accord with the behavior patterns of other species, most of which attempt to expand to fill the maximum area available to them." Nor is there anything wrong in transforming nature.

Easterbrook even includes a wonderful chapter titled "The Case Against Nature." Nature, he writes, is dangerous, generates pollution, kills humans and animals alike, fosters disease, and is self-destructive. And this is never going to change, absent human intervention, since "nature lacks morals, which are artificial systems requiring forethought."

These philosophical musings behind him, Easterbrook moves to the specific issues that dominate environmental debates today. He proceeds issue by issue, largely dismissing warnings of imminent ecological disaster. For instance, he concludes that the problem of acid rain is "genuine but exaggerated, subject to correction surprisingly quickly at reasonable cost." Similarly positive are his assessments of a variety of other problems: air pollution (overall air quality has been rising), the spotted owl (it is neither endangered nor a separate species), chemicals (they are far less dangerous than charged), global warming (warnings about the planet heating up appear to be as overstated as those about the imminence of a new Ice Age), energy (supplies are plentiful), and many, many more.

In the main, Easterbrook draws sensible policy conclusions from these facts. But his liberal soul occasionally reasserts itself, to bizarre effect. For instance, he acknowledges that the costs of recent regulatory initiatives, like the 1990 Clean Air Act, exceed their benefits. No matter. Opines Easterbrook: "in the main environmental initiatives ought to be considered worth the price unless proven otherwise, with the burden of disproof upon opponents."

Nevertheless, the book is truly a work that deserves wide attention. Its importance comes not only from the fact that it makes a powerful case for environmental optimism, but that it specifically addresses those people who have been most concerned about the future.

Calls for ecorealism are not new, but Easterbrook has issued a particularly compelling one.

Paradise may not beckon, but, as he concludes: "The arrow of the human prospect points upward." □

Mr. Bandow is a senior fellow at the Cato Institute and the author and editor of several books, including The Politics of Envy: Statism as Theology.

The Good Life and Its Discontents: The American Dream in the Age of Entitlement

by Robert J. Samuelson

Times Books • 1995 • 293 pages • \$25.00

Reviewed by Thomas J. DiLorenzo

The *Good Life and Its Discontents*, by journalist Robert J. Samuelson (no relation to the economist Paul Samuelson), is a well-written exposition of some of the failures of interventionist economic policy over the past 50 years. He roundly condemns this "age of entitlement," defined not just in terms of the taxpayers' incomes that special interest groups believe they are "entitled" to, but as "the conviction that we could completely control our economic, social, and political surroundings" with interventionist economic policies.

His thesis, in other words, is similar to F.A. Hayek's "fatal conceit," the idea that "planners" could somehow plan an economy better than the free market. As interesting as Samuelson's book is, it does not come close to matching the depth of Hayek or of many other writers familiar to *Freeman* readers who have analyzed these same topics for the past several decades. Samuelson's book is important not so much for its content, but for the fact that the author is a respected "mainstream" journalist (who writes for the *Washington Post*!) who has concluded that the welfare state has indeed been a monstrous debacle.

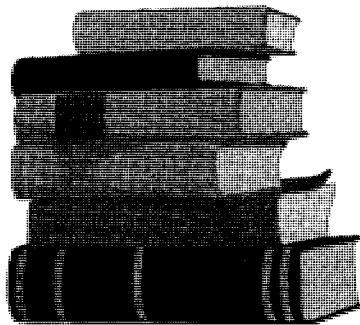
Samuelson asserts that Americans are an extremely unhappy lot not because their lives haven't materially improved over the past several decades—he shows that they have—but because they have been misled, mostly by government propagandists and their intellectual supporters, into believing that they can achieve a more or less "perfect" world—if only government is given sufficient power. We supposedly suffer from what economists call the "Nirvana Fallacy"—comparing the real world with a utopian ideal will always make the world appear to have "failed."

Samuelson smashes the "huge conceit" of the

Keynesian economists of the 1960s (especially James Tobin and Paul Samuelson), who arrogantly believed that under their expert guidance "the economy could be manipulated for the larger social good." The biggest disappointment of the book, however, is that Samuelson then endorses the misguided Keynesian view that the sole cause of the Great Depression was the desire by governments to stay on the gold standard. He ignores the Fed's 30 percent drop in the money supply from 1929 to 1932; the fact that President Hoover increased government spending by 65 percent in just four years and raised the top marginal tax rate from 24 percent to 63 percent; Roosevelt's massive 1933 tax increase and his economic planning program known as the "New Deal"; and the Smoot-Hawley tariff, which precipitated a worldwide trade war that reduced the volume of world trade by a third in just three years (1929-32). Samuelson is also unaware of the Austrian School's "boom and bust" theory of the business cycle, which provides the best explanation of the Great Depression as an inevitable consequence of the Fed's monetary expansion during the 1920s.

Samuelson makes a strong case that Americans need to return to an ethic of individual responsibility. "People ought to do more for themselves and expect government to do less." Amen. But then he soft pedals on this, his strongest point, by noting the shortcomings of individual responsibility (i.e., some people can't or won't be more responsible). This is an odd feature of Samuelson's writing: He seems to believe that economic truth can be gleaned by consensus. The free market has its virtues, but so does government intervention, so that "the truth" must lie somewhere in between. This might be a good strategy for selling books—appealing to virtually everyone's biases—but is an annoying distraction in an otherwise useful and welcomed critique of the failures of social engineering schemes over the past half century. □

Dr. DiLorenzo is professor of economics at Loyola College in Maryland.



Travels with a Hungry Bear: A Journey to the Russian Heartland

by Mark Kramer

Houghton Mifflin Company • 1996 • xii + 320 pages • \$24.95

Reviewed by E. C. Pasour, Jr.

Mark Kramer, on assignment for the *New York Times Magazine*, visited the Soviet Union several times, beginning in 1987, to explore its well-known agricultural problems. This account of Kramer's journeys shows why neither *perestroika* nor privatization efforts following the breakup of the Soviet Union have worked.

Agricultural productivity in the former Soviet Union was (and continues to be) stymied by the political and economic system—not by lack of fertilizer, modern machinery, or other technology. Managers of collective farms could not even make key decisions like when to plant or which crops and livestock to produce—these decisions were made in Moscow. Central planners, however, do not have and cannot obtain much of the highly specialized information relating to time and place conveyed through price and profit signals in a market economy. This book is a case study of the problems that arise when this lesson is ignored.

Gorbachev's *perestroika* reforms were fundamentally flawed—the missing ingredient was private property. Meaningful reforms were precluded because he had stipulated that all reforms were to be “fully based on the principle of more socialism”!

Perhaps just as importantly, use of economic incentives that led to increased output and wages for some workers inspired fierce envy in many people. Two generations of communist doctrine emphasizing “fair ownership” of wealth had elevated envy to a patriotic motive. Kramer found that “keeping down the Ivanovs” in that collectivist

regime was what “keeping up with the Joneses” is in the West.

The output of peasants' private gardens on the collective farms, however, shows the power of economic incentives. A third of the nation's milk, meat, eggs, and vegetables, and sixty percent of potatoes and fruit came from the two percent of farmland in private plots. Despite the popularity and productivity of private plots, innovative but basic market activity, such as hiring labor to work in the private gardens, inspired envy and vandalism.

Moreover, envy continued to stymie economic reform following the breakup of the Soviet Union. Traders obtaining goods from corrupt clerks at controlled state prices increased the already pervasive antipathy toward “middlemen.” In this climate, Yeltsin's privatization decrees in agriculture proved to be unenforceable. Aspiring independent farmers were unable to obtain land, equipment, and supplies except through the state distribution system still largely controlled by the chairmen of the collective farms.

The trials of converting the Soviet collectivist system to a market economy are far from over. Kramer, in an afterword written in 1995, points out that farm output is down by one-fourth since the demise of the Soviet Union and that large state-owned collectives still control more than 90 percent of Russian farmland.

Travels with a Hungry Bear is a highly readable account of the pernicious economic and cultural effects of collectivism in the former Soviet Union and the destructive nature of its legacy. Widespread adherence to collectivist dogma, instilled and nurtured by the state over several generations, makes the always difficult transition to a market economy even more problematic. □

Dr. Pasour is professor of agricultural and resource economics at North Carolina State University, Raleigh.

**FEE's new 1997 catalogue was mailed as part of the
November 1996 issue of *The Freeman*.**

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Published by

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Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com
FEE Home Page: <http://www.fee.org>

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$30.00 or more receive a subscription to *The Freeman*. For foreign delivery, a donation of \$45.00 a year is suggested to cover mailing costs. Additional copies of this issue of *The Freeman* are \$3.00 each.

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PERSPECTIVE

The Role of Government in Society

Some time ago the Intercollegiate Studies Institute (ISI), now headquartered in Wilmington, Delaware, ran a series of student seminars around the country on the Role of Business in Society (ROBIS). I know, for I ran one at Campbell University in 1978 that featured free-market stalwarts like Walter Williams and the late Arthur Shenfield.

Surely the role of business deserves depiction and discussion. But so does, and I think more so, ROGIS—standing for Role of Government in Society, an acronym coined by Edward A. Prentice of the Mount Hood Society of Portland, Oregon, and Professor Fred Decker of Oregon State University. There are at least three key questions relating to that role:

Precisely what role should the state play in society, including the economy? How should that role tie into America's concern over individual rights so magnificently framed in 1787 and ratified in 1791 as the Bill of Rights? And what of the principle of federalism embodied in the Tenth Amendment as:

"The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people"?

Overarching these questions is, I think, the nature of man and the admonishment of an angry Lord Jehovah who, on banishing sinful Adam and Eve, thundered down on them: "By the sweat of thy face shalt thou eat bread." For suddenly the Garden of Eden and its boundless plenty were no more. Instead, productive resources, including time, were limited, sharply. The law of scarcity was in, starkly. Adam and Eve and their issue down to this hour faced—face—a life that Thomas Hobbes baldly said in his *Leviathan* (1651) was "solitary, poor, nasty, brutish, and short."

So man, then and now, is in a fix, caught in a law of trade-offs. He can't have his bread and eat it too. He must weigh unlimited ends against limited means. So Nature forces him to make hard choices on the correct

construct of the state—as society’s protector or provider or both.

Life is about choices. In making economic decisions, individuals must choose among scarce resources that have alternative uses. They must try to conquer or, more accurately, lessen scarcity. But how?

How, indeed, when everyone is choosing from among the same scarce resources? Is this not a recipe for chaos if not bloodshed, the law of the jungle? Particularly in light of the condition of man, which Hobbes, for his part, saw as “a condition of war of everyone against everyone”?

But man’s lot is not war but peace—if with a proviso of a proper role for government: a system of private property rights, limited government, a state not as a coercive provider of goods and services but as a peaceful protector of life, liberty, and property.

From this construct, based on the original U.S. Constitution and Bill of Rights, emerged a system of free markets: a price system, capital investment, international trade, positive entrepreneurship. So the Founders unleashed Adam Smith’s mighty Invisible Hand—personal incentives under the rule of law driving this remarkable system of freedom and free enterprise, of social cooperation and international harmony, called capitalism.

Despite capitalism’s success, people often ask: Why is poverty so widespread within the nation and across the world? That’s the wrong question. For, as noted, man is born into scarcity; poverty is his natural condition. Adam Smith raised the right inquiry: Why wealth? Thus, *An Inquiry into the Nature and Causes of the Wealth of Nations*.

This “inquiry”—Smith’s much-overlooked title word—needs economic education, a widespread understanding of ROGIS, of how capitalism and the world work—an understanding, by the way, sought by Leonard E. Read, in a stroke of brilliant entrepreneurship, when he began The Foundation for Economic Education in 1946.

Ludwig von Mises, FEE’s academic adviser for more than 25 years, warned of boomeranging state intervention in *Human Action*:

“All varieties of [state] interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters, but bring about a state of affairs which—from the view of their authors’ and advocates’ valuations—is less desirable than the previous state of affairs which they were designed to alter.”

The idea of ROGIS then is pivotal. Government is necessary, yes. But, as noted by George Washington: While government can be a helpful servant when limited, it becomes a fearsome master when unlimited.

Overextended government that reaches beyond the rule of law—fostering interventionism and the Welfare State—is an idea whose time never should have come. This issue of *The Freeman* explores, retrospectively and more so prospectively, government’s proper role.

—WILLIAM H. PETERSON

Dr. Peterson, a Heritage Foundation adjunct scholar and Distinguished Lundy Professor of Business Philosophy Emeritus at Campbell University in North Carolina, is this issue’s Guest Editor.



Signing the Declaration of Independence.

An Optimist's View of the Entrepreneurship Explosion

by Raymond J. Keating

Advocates of economic freedom, rejoice. Despite some setbacks of late, the future is promising. True, the 1990s thus far have been plagued by a federal government run amok, including massive tax increases, heavier regulatory burdens, and rising government expenditures. Indeed, recent U.S. public-policy developments leave little to cheer about for proponents of smaller government and free markets.

For example, the top income tax rate on individuals has been increased from 28 percent to 39.6 percent. Factor in the Medicare income tax and the top rate exceeds 42 percent. The corporate tax rate rose by a percentage point, and back in 1987 the capital gains tax rate leaped by 40 percent, from 20 percent to 28 percent. Also, as noted in the chart on the next page, the estimated costs of federal regulations have been on the rise since 1988, according to economist Thomas Hopkins. And lastly, from 1989 to 1997, federal government spending growth will outpace inflation.

Indeed, things look rather grim—at least recently and probably for the short term going forward. However, the long term reveals a more heartening story. In my view, the long run promises enhanced economic opportunities for all. We are moving toward a society whose key features will be greater emphasis

on individual liberty, higher levels of entrepreneurship, and less reliance upon and less tolerance of government action. The resulting economic dynamism and growth promise to astound.

Major long-term trends support the thesis that the entrepreneur-liberty society is coming upon us.

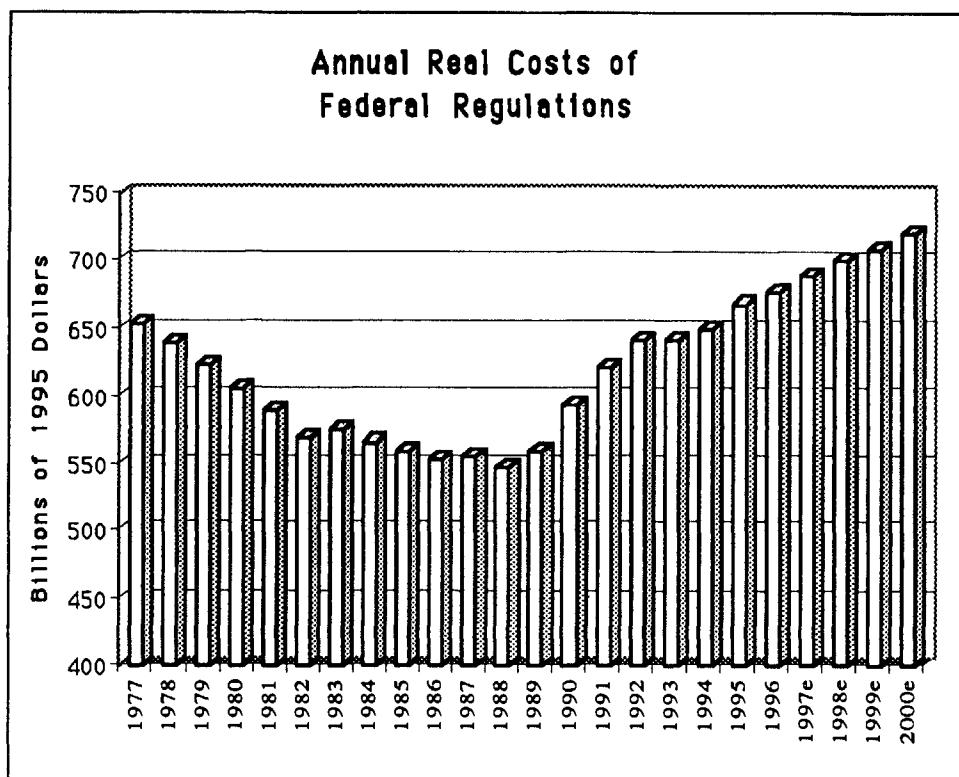
Increasing Entrepreneurship

Through a combination of economic survival and the enhancement of sound economic incentives, the level of entrepreneurship in this nation will rise considerably.

An entrepreneurial explosion, if you will, actually has been underway since the late 1960s. The charts on page 126 show a nation of growing entrepreneurship. And considering the many government obstacles and disincentives, this is a resilient and determined bunch of risk-takers. The “one-man” or “one-woman” business may best capture the economy’s level of entrepreneurship. Between 1970 and 1995, the number of sole proprietorships filing tax returns jumped by 184 percent. Home-based businesses—full- or part-time—have exploded from almost 6 million in 1984 to nearly 40 million in 1995. Factor in the underground economy and entrepreneurship has expanded even further.

This entrepreneurial trend was given some help in the early 1980s by a few diminishing governmental costs—such as reductions in

Mr. Keating serves as chief economist for the Small Business Survival Foundation and is a principal with Capital Hill Research.



Source: Thomas Hopkins, "Regulatory Costs in Profile," Center for the Study of American Business, August 1996

marginal income and capital gains tax rates, as well as falling real federal regulatory costs. Fighting off high levels of inflation helped as well.

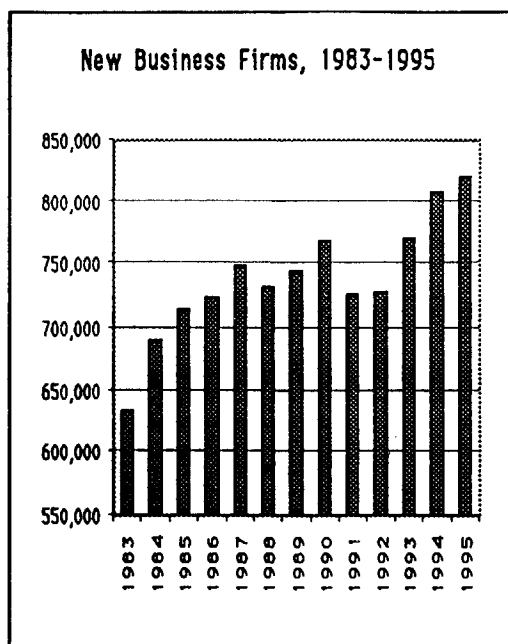
The relative level of entrepreneurship stagnated a bit, however, in the latter part of the 1980s and into the 1990s, due to the above-mentioned and other increases in governmental costs. Consider how more robust these entrepreneurial indicators would have been without the tax and regulatory hikes of recent years.

Government-imposed obstacles to entrepreneurship, though, will diminish in coming years, with pro-growth incentives being enhanced. Government will be forced to formulate policies that recognize the changing nature of the workforce—marked by increased mobility, diversity, and entrepreneurship. Indeed, rather than focusing on targeted big-business tax incentives or corporate welfare programs, for example, broad-based tax and regulatory cuts will be offered that unleash a torrent of entrepreneurial activity.

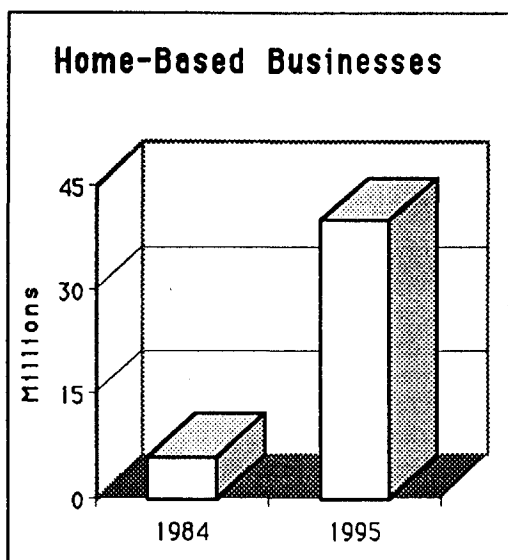
In addition, increased competition will continue to exert pressures on large companies to downsize and get leaner and meaner. To use economist Joseph Schumpeter's phrase, "creative destruction" will see that entire firms and industries are annihilated due to greater efficiencies and new products. This trend requires formerly reluctant entrepreneurs to take the plunge into the waters of economic risk-taking. In essence, the economy is becoming more and more decentralized.

Leaps in Technology

Great strides in technology help to drive this decentralizing economic trend—from the collapsing costs and expanding powers of the computer to leaps in telecommunications. These monumental changes place us firmly in an era of change and upheaval more tumultuous than the Industrial Revolution. Innovation, invention, and entrepreneurship in computers and telecommunications obviously



Data Source: U.S. Small Business Administration



Data Source: Small Business Survival Committee

translate into opportunities in other industries, generating new products, services, and efficiencies.

Technological advancements—as they always have done in the past—give another push to the formerly timid entrepreneur, as

larger businesses take advantage of new technologies and shed employees. In turn, these down-scaled individuals move to create their own economic security through self-employment with the help of technological improvements as well.

Internationalization

As has often occurred throughout history, protectionism has recently reared its ugly head. Modern-day protectionists have tried to paint the protectionism-vs.-free trade encounter as a big-business-vs.-small-business standoff. The problem with such assertions is that over 95 percent of firms exporting from the United States have fewer than 500 employees; i.e., they are small or mid-size businesses.

In this case, the conventional wisdom is absolutely correct. In economic terms, the globe is getting smaller every day. International competition is at hand, as are countless international opportunities.

The Limits of Government Action

Government does not work very well. What free-market advocates have been saying for decades is beginning to resonate with the general populace.

Increasing levels of entrepreneurship undoubtedly have accelerated this learning curve. Wrestling with government regulations, paperwork, taxes, and bureaucrats, on a firsthand basis, crystallizes the woes and costs of government action—a shift from theory to the real world. Combine that with the visible harm caused by the welfare state in terms of destroyed lives and government dependency, and the education process regarding the limits of government action is moved along even further. This enhanced knowledge about the woes of government will be the major impetus for the transformation to the entrepreneur-liberty society.

Interestingly, the employees of small businesses already possess a strong understanding of the costs of government. One recent poll by the Small Business Survival Committee

showed that 63 percent of small business employees saw the federal government as an "opponent" rather than a "partner," and 70 percent said that government regulations were too numerous and too costly.

Economic Dynamism

All of these trends point to increased economic dynamism. Entrepreneurs are creating new demands at a rapid pace. Current and future leaps in technology only quicken the entrepreneurial pace and allow for global dissemination.

In such an environment, the plodding hand of government will have to be lifted. Tax reduction, deregulation, privatization, and the demise of the welfare state will have to occur in order to compete in a high-tech, decentralized, mobile (in terms of both capital and labor), and global economy. And this trend will not only be required of the federal government, but of states and cities as well. New York, for example, must worry about

much more than being competitive with New Jersey and Connecticut, but with Florida, Nevada, Mexico, Japan, China, Hong Kong, and Singapore.

Nations, states, and cities adopting policies that raise costs on the private sector have always been punished by the marketplace. However, such justice will be dispensed more swiftly and with greater severity in coming years and decades due to increasing mobility of labor and capital.

While big-government policies in recent years can understandably depress those of us trying to advance liberty and free markets, I remain an optimist about the future. Indeed, when I shake off the short-term doldrums and look at the big picture, I get downright jubilant over the economic opportunities and possibilities that will materialize in the twenty-first century. While government will always create mischief, keeping market forces on guard, state activism and tolerance for such action will diminish in the coming entrepreneur-liberty society. □

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The Case for Economic Freedom

by Benjamin A. Rogge

My economic philosophy is here offered with full knowledge that it is *not* generally accepted as the right one. On the contrary, my brand of economics has now become *Brand X*, the one that is never selected as the best by the housewife, the one that is said to be slow acting, the one that contains *no* miracle ingredient. It loses nine times out of ten in the popularity polls run on Election Day, and, in most elections, it doesn't even present a candidate.

I shall identify my brand of economics as that of economic freedom, and I shall define economic freedom as that set of economic arrangements that would exist in a society in which the government's only function would be to prevent one man from using force or fraud against another—including within this, of course, the task of national defense. So that there can be no misunderstanding here, let me say that this is pure, uncompromising laissez-faire economics. It is not the mixed economy; it is the unmixed economy.

I readily admit that I do not expect to see such an economy in my lifetime or in anyone's

lifetime in the infinity of years ahead of us. I present it rather as the ideal we should strive for and should be disappointed in never fully attaining.

Where do we find the most powerful and persuasive case for economic freedom? I don't know; probably it hasn't been prepared as yet. Certainly it is unlikely that the case I present is the definitive one. However, it is the one that is persuasive with me, that leads me to my own deep commitment to the free market. I present it as grist for your own mill and not as the divinely inspired last word on the subject.

The Moral Case

You will note as I develop my case that I attach relatively little importance to the demonstrated efficiency of the free-market system in promoting economic growth, in raising levels of living. In fact, my central thesis is that *the most important part of the case for economic freedom is not its vaunted efficiency as a system for organizing resources, not its dramatic success in promoting economic growth, but rather its consistency with certain fundamental moral principles of life itself.*

I say, "the most important part of the case" for two reasons. First, the significance I attach to those moral principles would lead me to prefer the free enterprise system even if it

Dr. Benjamin A. Rogge (1920–1980) was dean and professor of economics at Wabash College in Indiana and long a trustee of FEE. This lecture, printed in The Freeman in 1963, was delivered at several FEE seminars and on other occasions. It sets forth the Rogge ideal of the "unmixed" free economy.

were demonstrably less efficient than alternative systems, even if it were to produce a *slower* rate of economic growth than systems of central direction and control. Second, the great mass of the people of any country is never really going to understand the purely economic workings of *any* economic system, be it free enterprise or socialism. Hence, most people are going to judge an economic system by its consistency with their moral principles rather than by its purely scientific operating characteristics. If economic freedom survives in the years ahead, it will be only because a majority of the people accept its basic morality. The success of the system in bringing ever higher levels of living will be no more persuasive in the future than it has been in the past. Let me illustrate.

The doctrine of man held in general in nineteenth-century America argued that each man was ultimately responsible for what happened to him, for his own salvation, both in the here and now and in the hereafter. Thus, whether a man prospered or failed in economic life was each man's individual responsibility: Each man had a right to the rewards for success and, in the same sense, deserved the punishment that came with failure. It followed as well that it is explicitly immoral to use the power of government to take from one man to give to another, to legalize Robin Hood. This doctrine of man found its economic counterpart in the system of free enterprise and, hence, the system of free enterprise was accepted and respected by many who had no real understanding of its subtleties as a technique for organizing resource use.

As this doctrine of man was replaced by one which made of man a helpless victim of his subconscious and his environment—responsible for neither his successes nor his failures—the free enterprise system came to be rejected by many who still had no real understanding of its actual operating characteristics.

Basic Values Considered

Inasmuch as my own value systems and my own assumptions about human beings are so

important to the case, I want to sketch them for you.

To begin with, the central value in my choice system is individual freedom. By freedom I mean exactly and only freedom from coercion by others. I do not mean the four freedoms of President Roosevelt, which are not freedoms at all, but only rhetorical devices to persuade people to give up some of their true freedom. In the Rogge system, each man must be free to do what is his duty as he defines it, so long as he does not use force against another.

Next, I believe each man to be ultimately responsible for what happens to him. True, he is influenced by his heredity, his environment, his subconscious, and by pure chance. But I insist that precisely what makes man man is his ability to rise above these influences, to change and determine his own destiny. If this be true, then it follows that each of us is terribly and inevitably and forever responsible for everything he does. The answer to the question, "Who's to blame?" is always, "*Mea culpa*, I am."

I believe as well that man is imperfect, now and forever. He is imperfect in his knowledge of the ultimate purpose of his life, imperfect in his choice of means to serve those purposes he does select, imperfect in the integrity with which he deals with himself and those around him, imperfect in his capacity to love his fellow man. If man is imperfect, then all of his constructs must be imperfect, and the choice is always among degrees and kinds of imperfection. The New Jerusalem is never going to be realized here on earth, and the man who insists that it is, is always lost unto freedom.

Moreover, man's imperfections are intensified as he acquires the power to coerce others; "power tends to corrupt and absolute power corrupts absolutely."

This completes the listing of my assumptions, and it should be clear that the list does not constitute a total philosophy of life. Most importantly, it does not define what I believe the free man's *duty* to be, or more specifically, what I believe my own duty to be and the source of the charge to me. However important these questions, I do not consider them relevant to the choice of an economic system.

Here, then, are two sections of the case for economic freedom as I would construct it. The first section presents economic freedom as an ultimate end in itself and the second presents it as a means to the preservation of the noneconomic elements in total freedom.

Individual Freedom of Choice

The first section of the case is made in the stating of it, if one accepts the fundamental premise.

Major premise: Each man should be free to take whatever action he wishes, so long as he does not use force or fraud against another.

Minor premise: All economic behavior is "action" as identified above.

Conclusion: Each man should be free to take whatever action he wishes in his economic behavior, so long as he does not use force or fraud against another.

In other words, economic freedom is a part of total freedom; *if freedom is an end in itself, as our society has traditionally asserted it to be, then economic freedom is an end in itself, to be valued for itself alone and not just for its instrumental value in serving other goals.*

If this thesis is accepted, then there must always exist a tremendous presumption against each and every proposal for governmental limitation of economic freedom. What is wrong with a state system of compulsory social security? It denies to the individual his *freedom*, his right to choose what he will do with his own money resources. What is wrong with a governmentally enforced minimum wage? It denies to the employer and the employee their individual freedoms, their individual rights to enter into voluntary relationships not involving force or fraud. What is wrong with a tariff or an import quota? It denies to the individual consumer his right to buy what he wishes, wherever he wishes.

It is breathtaking to think what this simple approach would do to the apparatus of state control at all levels of government. Strike from the books all legislation that denies economic freedom to any individual, and three-fourths of all the activities now undertaken by government would be eliminated.

I am no dreamer of empty dreams, and I do

not expect that the day will ever come when this principle of economic freedom as a part of total freedom will be fully accepted and applied. Yet I am convinced that unless this principle is given some standing, unless those who examine proposals for new regulation of the individual by government look on this loss of freedom as a "cost" of the proposed legislation, the chances of free enterprise surviving are small indeed. The would-be controller can always find reasons why it might seem expedient to control the individual; unless slowed down by some general feeling that it is immoral to do so, he will usually have his way.

Noneconomic Freedoms

So much for the first section of the case. Now for the second. The major premise here is the same, that is, the premise of the rightness of freedom. Here, though, the concern is with the noneconomic elements in total freedom—with freedom of speech, of religion, of the press, of personal behavior. My thesis is that these freedoms are not likely to be long preserved in a society that has denied economic freedom to its individual members.

Before developing this thesis, I wish to comment briefly on the importance of these noneconomic freedoms. I do so because we who are known as conservatives have often given too little attention to these freedoms or have even played a significant role in reducing them. The modern liberal is usually inconsistent in that he defends man's noneconomic freedoms, but is often quite indifferent to his economic freedom. The modern conservative is often inconsistent in that he defends man's economic freedom but is indifferent to his noneconomic freedoms. Why are there so few conservatives in the struggles over censorship, over denials of equality before the law for people of all races, over blue laws, and so on? Why do we let the modern liberals dominate an organization such as the American Civil Liberties Union? The general purposes of this organization are completely consistent with, even necessary to, the truly free society.

Particularly in times of stress such as these, we must fight against the general pressure to curb the rights of individual human beings, even those whose ideas and actions we detest. Now is the time to remember the example of men such as David Ricardo, the London banker and economist of the classical free-market school in the first part of the last century. Born a Jew, married to a Quaker, he devoted some part of his energy and his fortune to eliminating the legal discrimination against Catholics in the England of his day.

It is precisely because I believe these non-economic freedoms to be so important that I believe economic freedom to be so important. The argument here could be drawn from the wisdom of the Bible and the statement that "where a man's treasure is, there will his heart be also." Give me control over a man's economic actions, and hence over his means of survival, and except for a few occasional heroes, I'll promise to deliver to you men who think and write and behave as I want them to.

The case is not difficult to make for the fully controlled economy, the true socialistic state. Milton Friedman, in his book *Capitalism and Freedom*, takes the case of a socialist society that has a sincere desire to preserve the freedom of the press. The first problem would be that there would be no private capital, no private fortunes that could be used to subsidize an antisocialist, procapitalist press. Hence, the socialist state would have to do it. However, the men and women undertaking the task would have to be released from the socialist labor pool and would have to be assured that they would never be discriminated against in employment opportunities in the socialist apparatus if they were to wish to change occupations later. Then these procapitalist members of the socialist society would have to go to other functionaries of the state to secure the buildings, the presses, the paper, the skilled and unskilled workmen, and all the other components of a working newspaper. Then they would face the problem of finding distribution outlets, either creating their own (a frightening task) or using the same ones used by the official socialist propaganda organs. Finally, where would they



Ben Rogge

find readers? How many men and women would risk showing up at their state-controlled jobs carrying copies of the *Daily Capitalist*?

There are so many unlikely steps in this process that the assumption that true freedom of the press could be maintained in a socialist society is so unrealistic as to be ludicrous.

Partly Socialized

Of course, we are not facing as yet a fully socialized America, but only one in which there is significant government intervention in a still predominantly private enterprise economy. Do these interventions pose any threat to the noneconomic freedoms? I believe they do.

First of all, the total of coercive devices now available to any administration of either party at the national level is so great that true freedom to work actively against the current administration (whatever it might be) is seriously reduced. For example, farmers have become captives of the government in such a way that they are forced into political alignments that seriously reduce their ability to protest actions they do not approve.

Second, the form of these interventions is such as to threaten seriously one of the real cornerstones of all freedoms—equality before the law. For example, farmers and trade union members are now encouraged and assisted in doing precisely that for which businessmen are sent to jail (i.e., acting collusively to manipulate prices). The blindfolded Goddess of Justice has been encouraged to peek, and she now says, with the jurists of the ancient regime, “First tell me who you are and then I’ll tell you what your rights are.” A society in which such gross inequalities before the law are encouraged in economic life is not likely to be one which preserves the principle of equality before the law generally.

We could go on to many specific illustrations. For example, the government uses its legislated monopoly to carry the mails as a means for imposing a censorship on what people send to each other in a completely voluntary relationship. A man and a woman who exchange obscene letters may not be making productive use of their time, but their correspondence is certainly no business of the government. Or to take an example from another country, Winston Churchill, as a critic of the Chamberlain government, was not permitted one minute of radio time on the government-owned and monopolized broadcasting system in the period from 1936 to the outbreak in 1939 of the war he was predicting. . . .

Solving the Problem of Economic Allocation

The “vulgar calculus of the marketplace,” as its critics have described it, is still the most humane way man has yet found for solving those questions of economic allocation and division which are ubiquitous in human society. By what must seem fortunate coincidence, it is also the system most likely to produce the affluent society, to move mankind

above an existence in which life is mean, nasty, brutish, and short. But, of course, this is *not* just coincidence. Under economic freedom, only man’s destructive instincts are curbed by law. All of his creative instincts are released and freed to work those wonders of which free men are capable. In the controlled society only the creativity of the few at the top can be utilized, and much of this creativity must be expended in maintaining control and in fending off rivals. In the free society, the creativity of every man can be expressed—and surely by now we know that we cannot predict who will prove to be the most creative.

You may be puzzled, then, that I do not rest my case for economic freedom on its productive achievements; on its buildings, its houses, its automobiles, its bathtubs, its wonder drugs, its television sets, its sirloin steaks and green salads with Roquefort dressings. I neither feel within myself nor do I hear in the testimony of others any evidence that man’s search for purpose, his longing for fulfillment, is in any significant way relieved by these accomplishments. I do not scorn these accomplishments nor do I worship them. Nor do I find in the lives of those who do worship them any evidence that they find ultimate peace and justification in their idols.

I rest my case rather on the consistency of the free market with man’s essential nature, on the basic morality of its system of rewards and punishments, on the protection it gives to the integrity of the individual.

The free market cannot produce the perfect world, but it can create an environment in which each imperfect man may conduct his lifelong search for purpose in his own way, in which each day he may order his life according to his own imperfect vision of his destiny, suffering both the agonies of his errors and the sweet pleasure of his successes. This freedom is what it means to be a man; this is the Godhead, if you wish.

I give you, then, the free market, the expression of man’s economic freedom and the guarantor of all his other freedoms. □

A History Lesson for Free-Market Pessimists



Sometimes free-market advocates despair at the prospects for fundamental change. The pessimists ask, “Where are the examples of a people who have learned enough from the follies of socialism to completely reverse course and pursue freedom?”

Actually, there are more historical instances of such a turnaround than even most optimists know. One comes from the early days of my state of Michigan. It’s a story replete with important principles, and one well worth retelling today.

To many Americans who looked at a map in 1837—the year Michigan became a state—the “land between the lakes” seemed destined for obscurity. Why should settlers heading west make a right turn to the north and put down roots in a territory known for long winters and nasty swamps?

To many Michiganians today, the fact that the state became an economic powerhouse is taken for granted. Few citizens even know that Michigan’s early history produced a disastrous experiment in state government, followed by a new constitution that opened the door to a thriving free marketplace and the birth of world-class, private industries.

At age 26, Michigan’s first governor and “Boy Wonder,” Stevens T. Mason, was de-

termined to get the state off to a fast start. To him that meant an activist government, which would build and own railroads and canals to promote economic growth. With his encouragement, Michigan’s first constitution required the state to get into the highly controversial business of what was then commonly called “internal improvements.”

“The spirit and enterprise which has arisen among our citizens, if fostered and encouraged by the State,” said Mason, “cannot fail to lead to lasting prosperity.” Mason denounced one bill in the legislature that would permit a private railroad as “extortion from the public.” In that sentiment, he was joined by the influential *Detroit Daily Advertiser*, which denigrated the very thought of a “policy of surrendering that great work [of constructing canals and railroads] to the control of a private corporation.” Michigan would indeed have a shot at proving that socialized economic development could be made to work. Mason and his allies were so confident state projects would flourish that they risked millions and put the state deeply into debt to make it all happen.

Among the first state projects was a canal that was to begin in Clinton Township near Detroit and move 216 miles west to Kalamazoo. This Clinton-Kalamazoo Canal began with high hopes and much fanfare. Governor Mason broke ground in Mt. Clemens in 1838 to celebrate the digging of the canal. Bands, parades, speeches, and a 13-gun salute commemorated the occasion. Then came one of the worst engineering fiascos in Michigan

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Mr. Reed would like to acknowledge the invaluable assistance of his colleague, economic historian Burton W. Folsom, in the preparation of this column.

history: The canal was built only 20 feet wide and four feet deep—too shallow for heavy freight and too narrow for easy passing.

After five years, and only 16 miles of digging, the unfinished canal had cost the state over \$350,000 and earned only \$90.32 in tolls. State officials then abandoned the canal and focused on the railroads, but ended up losing even more money.

The Michigan Central was to go from Detroit west through Ann Arbor, Jackson, and Kalamazoo and on to St. Joseph on Lake Michigan. Poor construction and management drained most of its revenues each year. The Central's thin strap-iron rails were too fragile to carry heavy loads. Rather than switch to a better quality rail, the state chose to run regular heavy shipments over the inferior tracks and repair them frequently. Not only was this practice dangerous, it was more costly in the long run. Under state ownership, the Central didn't make it past Kalamazoo and did not earn enough to pay for needed repairs and new rails to go farther west.

A second railroad, the Michigan Southern, was also a stunning failure. In eight years of state management, tracks were laid only from Monroe to Hillsdale (halfway to its intended destination), at a cost of more than \$1.2 million, with few customers to generate more than a trickle of revenue.

The state spent almost \$4 million on the Clinton-Kalamazoo Canal, the Michigan Central, and the Michigan Southern. It spent another \$70,000 surveying the Michigan Northern Railroad, from Port Huron to Lake Michigan, before abandoning it. It also spent \$47,000 clearing the route for a canal and turnpike near Saginaw, but quit the project and left the materials to rot or be stolen by local residents. Legislators lobbied for these projects to go through their towns, resulting in circuitous routes that often made political but not economic sense.

In his final address as governor, Mason seemed to have learned an important lesson in government enterprise. Referring to the maze of failed projects, he spoke of "that fatal policy" for which "a corrective should be

applied." A corrective measure eventually did come, but Mason never saw it. He died of scarlet fever at the age of 31 in January 1843.

Thomas Cooley, Michigan's most prominent lawyer in the 1800s, observed firsthand the way the state ran its canals and railroads: "[D]oubts soon matured into a settled conviction that the management of railroads was in its nature essentially a private business, and ought to be in the hands of individuals. By common consent it came to be considered that the State in entering upon these works had made a serious mistake."

Mason's successor, Governor William Woodbridge, favored a complete retreat of state government from economic development projects but the legislature balked. The next governor, John Barry, was of the same view but also fell short of gaining sufficient legislative support. Said Governor Barry, "Seeing now the errors of our policy and the evils resulting from a departure from correct principle, let us with the least possible delay correct the one by a return to the other." Meanwhile, the state's blunders multiplied.

It was left to Governor Alpheus Felch, in 1846, to shed the state of its failed experiments. During his administration, all of the state's railroads, canals, and other "internal improvements" were either abandoned entirely or sold to private enterprise, reaping the treasury about 55 cents on the dollar. The people of Michigan had learned important lessons about the nature and proper role of government.

By an overwhelming vote of the citizens, a new Michigan Constitution took effect in 1851. It emphatically took the state out of economic development and gave wide berth to free markets and entrepreneurship. Industries then arose in lumber, copper, and furniture, which would open the door to a thriving trade in carriages. Later, Michigan—where government had failed so miserably in the transportation business—would ironically become the world's leader in the private ownership and production of automobiles.

Yes, indeed, people can learn from their socialist mistakes. That should make optimists of all of us. □

The Role of Government: Promoting Development or Getting Out of the Way

by Doug Bandow

Of all the tasks assumed by government, none is more inappropriate than that of promoting economic development. It is rare to find an American politician who doesn't act as if the state were duty-bound to generate businesses, jobs, wages, and profits. This mistake is common enough in the industrialized West. It has proved to be even more pervasive—and harmful—throughout the Third World.

For decades development economists and foreign aid officials acted as though growth came from government. Indeed, some believed that promoting development was government's most important role in society. Thus, poor countries were to undertake *dirigiste* economic programs. And rich ones were to offer foreign aid programs.

Alas, the result has been a dismal failure: Many underdeveloped states have actually been growing poorer. Economic growth will come only when governments realize that their proper role is to stay out of the way, to stop impeding the development that would naturally occur but for state intervention.

Mr. Bandow, a monthly columnist for The Freeman, is a Senior Fellow at the Cato Institute and the author and editor of several books, including Perpetuating Poverty: The World Bank, the IMF, and the Developing World.

History of Development Theory

Extensive state economic intervention has long existed around the world, including the West, for political as well as philosophical reasons. Such policies have been especially evident throughout the twentieth century. In particular, the vast majority of Third World states traveled the socialist path as decolonization proceeded after World War II. Their decision was in part nationalistic; many new countries believed that true independence required indigenous control of economic resources. Statism also tended to benefit, both economically and politically, the elites that gained power after independence.

But there was also a genuine belief that the government had to guide the development process. Said Ghana's Kwame Nkrumah: "Only a socialist form of society can assure Ghana of a rapid rate of economic progress without destroying that social justice, that freedom and equality, which are a central feature of our traditional way of life."

A Western Import

This *dirigiste* philosophy was not, however, based on local tradition. Indeed, the very concept of development was an alien idea

introduced by the West. Having helped ordain the goal of rapid industrialization, Western politicians and economists also played a major role in developing the statist strategies that many Third World nationalists were to call their own. Many Westerners have acted as the sirens in Homer's *Odyssey*, luring Third World economies, instead of wandering seafarers, upon the rocks. Perhaps the most important of these was Lenin. While Marx, ironically, viewed the colonial experience as a progressive force in the undeveloped world (in *The Communist Manifesto*, he lauded the potential of capitalism to transform such societies), it was Lenin, in *Imperialism: The Highest Stage of Capitalism*, who specifically applied socialist principles to underdeveloped states.

The British Fabian socialists argued for a more gradual collectivist transformation. According to Indian economist Jagdish Bhagwati, this approach exercised "a powerful impact through the large numbers of the Indian elite that were processed through the English educational institutions prior to Indian independence in 1947." Other developing countries—especially other former British colonies—looked to Fabian principles as they structured their economies.

Along with the philosophy came practical economic controls. The policies promoted by the London School of Economics eventually suffused the British Colonial Office. Many officials in London as well as colonial governors, writes P.T. Bauer, "took for granted the case for the most diverse forms of state economic intervention." Business licensing, trade restraints, agricultural marketing boards, and more were part of the administrative apparatus handed over to many new governments when countries gained independence.

Western development economists, who advised both underdeveloped states and Western aid agencies, generally leaned toward the so-called "structuralist school," which treated developing economies as inflexible and unresponsive to market forces. Leading proponents of this view included Gunnar Myrdal, Albert Hirschman, Hans Singer, Ragnar Nurkse, and Paul Rosenstein-Rodan.

Anti-Capitalist Bias

So pervasive was the anti-capitalist bias in terms of Third World development that even economists who recognized an important role for the private sector in advanced economies viewed developing states differently. Wrote Robert Heilbroner, "in the great transformation of the underdeveloped areas, the market mechanism is apt to play a much smaller role than in the comparable transformation of the West during the industrial revolution." Heilbroner saw the need for more than just active public-sector management: "Powerful, even ruthless, government may be needed."

The most fundamental principle of collectivist development dogma was the need for central planning. Development specialists like Myrdal advocated a ubiquitous public sector: "One of the most serious shortcomings of policy in the countries in which comprehensive planning has been undertaken is the failure to plan more ambitiously and on a larger scale."

Finally, even some Western economists who did not advocate full government economic planning nevertheless endorsed the sort of micromanagement that has been increasingly recognized as a failure in the industrialized nations. Expansive fiscal and monetary policies, for instance, were a Keynesian norm. Equally persistent was pressure on developing countries to increase taxes.

Revisionist Economic Thinking

These theories dominated international economic policy for about four decades following World War II. But reality finally intruded as it became evident that the different statist economic theories had been put to the test and found wanting. By 1989 history had clearly rendered its judgment on collectivism. The obvious lesson of this experience has received increasing acceptance: Without relatively open markets, little development will occur, irrespective of the efforts of governments in poor or rich nations.

What Causes Development?

The West's dramatic escape from poverty has always been a good place to start in attempting to understand development. The rapid economic and social progress of Europe, during which people first rose out of the dismal poverty that characterized most of human history, was largely limited to a specific kind of regime—classical liberalism. The resulting systems generally allowed markets to operate, respected the rule of law, protected private property, and permitted competition. Historian Ralph Raico explains that the "European Miracle" developed because of greater market autonomy, which was possible only through "the inhibition of the predator-state." Obviously, individual national experiences varied, but the grand sweep of history presents powerful evidence that the West's development was not accidental. Observed economist David Osterfeld in his well-documented book *Prosperity Versus Planning*: "The likely relationship between the West's economic institutions and its economic growth and development cannot be ignored."

This experience has been repeated rather more quickly and notably in East Asia, where it has taken but a generation or two for desperately poor nations to develop among the world's most successful economies. (This is not to say that all these were exemplars of *laissez faire*. Rather, all broadly relied on market forces, despite varying degrees of government economic involvement.) What makes the East Asian experience so important is that it is more recent and reflected a conscious break with the reigning collectivist consensus, and succeeded so spectacularly.

Lessons for Developing Nations

What was true of Great Britain, the United States, Japan, and South Korea is also true of today's successful developing states. Perhaps the best broad-based study of economic policies over the last two decades is *Economic Freedom of the World: 1975-1995*, by economists James Gwartney, Robert Lawson, and Walter Block. They created an index of 17

component parts to measure economic freedom, as well as three alternative summary indexes. Ranked highest were Hong Kong, Singapore, the United States, and New Zealand. At the bottom came numerous Latin American and African countries. Most improved between 1975 and 1990 were Chile, Iceland, Jamaica, Malaysia, and Pakistan.

Although, as noted earlier, international comparisons are fraught with difficulty, two particularly important lessons emerge. First, economic policies matter. Report Gwartney, Lawson, and Block:

The 14 countries that earned a summary rating grade of either A or B in 1993–1995, achieved an average annual growth rate in per capita real GDP of 2.4 percent during 1980–1994 and 2.6 percent during 1985–1994. In contrast, the average annual growth of per capita real GDP for the 27 countries with a summary rating of F— in 1993–1995 was *minus* 1.3 percent during 1980–1994 and *minus* 1.6 percent for the 1985–1994 period. Twenty-one of the 27 experienced *declines* in real per capita GDP during 1980–1994.

Obviously, the results for individual countries may be affected by many factors. But the overall result is compelling. Explain the authors: "No country with a persistently high economic freedom rating during the two decades failed to achieve a high level of income. In contrast, no country with a persistently low rating was able to achieve even middle income status."

Second, changes in economic policy affect national growth rates. According to the study, the 17 nations with the greatest increases in economic freedom enjoyed an average annual growth rate of 2.7 percent in per capita GDP from 1980 to 1990, and 3.1 percent from 1985 to 1994. All 17 grew, while 11 of the 16 nations with the largest drops in economic freedom suffered a decline in per capita GDP.

Similar are the results of the *1996 Index of Economic Freedom*, written by Heritage Foundation analysts Bryan Johnson and Thomas Sheehy. They explain that their analysis "demonstrates that economic freedom is the single most important factor in creating

the conditions for economic growth and prosperity." Their data also demonstrate that countries which place the greatest reliance on open markets consistently have the highest growth rates.

Studies by other analysts and organizations yield the same general conclusion. Researchers at Cornell University and the Organization for Economic Cooperation and Development (OECD) have used a computable general equilibrium (CGE) economic model in an attempt to measure the impact of different policy measures. Market-oriented reforms in exchange-rate, fiscal, and monetary policies all improve economic growth rates.

A decade ago economists E. Dwight Phaup and Bradley Lewis surveyed a dozen "winners" (with average annual growth rates exceeding six percent) and a score of "losers" (average growth rates below 2.2 percent a year). The average annual growth rates were 7.7 percent and one percent, respectively. Phaup and Lewis concluded: "It would appear that whether LDCs are winners or losers is determined mainly by their domestic economic policies. Resource endowment, lucky circumstances, former colonial status, and other similar factors make little difference in the speed with which countries grow economically. The results of domestic policy choices pervade every economic area."

Phaup and Lewis found that growth rates correlated well with an index for overall economic distortion, such as price controls. Similar was the role of trade. Countries that relied on exports grew far faster than those which practiced import substitution. The two economists stated: "From this experience it can be concluded that exports cause GDP growth, rather than the reverse, even though exports are normally considered exogenous."

They found that rough indexes regarding "investment climate" yielded similar results. Government spending, in contrast, was adversely correlated with economic growth. Also apparently related to economic growth, though the data did not yield a statistically significant result, were tax revenues. Explained Phaup and Lewis: "There was a difference in the ratio of income taxes to

GDP; the average for the slow growing nations was higher. Such a result is consistent with the hypothesis that high and progressive income tax rates muffle incentives and slow productivity growth."

Policy Differences

In 1996 Mancur Olson, Jr., of the Center for Institutional Reform and the Informal Sector at the University of Maryland (College Park), came to much the same conclusion. He reported that such factors as access to knowledge and capital cannot explain the relative income differences between nations. "The only remaining plausible explanation is that the great differences in the wealth of nations are mainly due to differences in the quality of their institutions and economic policies," he explained. He found that poorer nations with the best economic policies consistently grow the fastest.

Phaup and Lewis relied in part on a detailed World Bank study, published as part of the 1983 *World Development Report*. The Bank assessed the relative economic distortions in 31 primarily developing nations and found that countries with the least interference with the marketplace had annual growth rates twice as fast as those of nations with the most inefficient policies. The more market-oriented countries also enjoyed far greater domestic savings, additional output per unit of investment, and increases in both agricultural and manufacturing output. The Bank estimated that inefficient intervention—such as inflationary exchange-rate, fiscal, and monetary policies; price distortions; bad investments; and expansive regulation—could cut annual GDP growth by as much as two percent.

The Bank has focused particular attention on protectionism. In 1987 the institution devoted much of its annual *World Development Report* to trade. It concluded: "The economic performance of the outward-oriented economies has been broadly superior to that of the inward-oriented economies in almost all respects." The World Bank has similarly reported on the impact of agricultural policies. Here, too, it found that ineffi-

cient government actions, macroeconomic as well as sectoral, tended to discourage food output, while market-oriented reforms increased agricultural production.

America's Agency for International Development (U.S. AID) has reached similar conclusions. According to U.S. AID: "Recent academic and policy experience has shown a linkage between international trade policy and overall economic progress." Particularly important, in its view, were open trade policies—more outwardly oriented countries grew by upwards of four times as fast as more protectionist states. U.S. AID also pointed to the friendliness of the investment climate to domestic and foreign business alike.

Specific Experiences

These sort of general assessments are reinforced by the results of narrower studies of different regions and nations. For example, David Osterfeld reviewed the economic impact of a range of variables: corruption, food, foreign aid, migration, multinationals, population, and resources. His conclusion was that development occurred most quickly in an "enabling environment" in which the rule of law was stable, property was protected, political power was decentralized, and most of the economy was private. The primary obstacle to sustained economic development, he explained, "is an environment that penalizes individual initiative, is hostile to private ownership, discourages saving and investment, and severely restricts the operation of the free market."

Numerous international examples support this thesis. The East Asian economic powerhouses of today—Hong Kong, Japan, Singapore, South Korea, Taiwan—were much poorer than such Latin American countries as Argentina after World War II. Of the many differences between them, the most important is the economic road taken. Latin America firmly embraced the *dirigiste* model. East Asia chose various forms of capitalism. The nations of Africa, the poorest on the globe, followed Latin America over the abyss of collectivist development strategies.

The city-states of Hong Kong and Singa-

pore possess little other than open economic markets. They have developed nonetheless. Resource-rich countries like Mexico and Zaire have, in contrast, struggled economically for decades. States as varied as Argentina, Brazil, India, and Tanzania failed to prosper so long as they emphasized state-led development plans; all four have since adjusted their policies, leading to greater economic progress.

Lessons from Africa

The World Bank has devoted particular attention to Africa. As far back as its 1981 report, *Accelerated Development in Sub-Saharan Africa: An Agenda for ACTION*, the Bank concluded that other "factors impeding African economic growth have been exacerbated by domestic policy inadequacies." Thirteen years later, in its *Adjustment in Africa: Reforms, Results, and the Road Ahead*, the Bank went much further. Far from being merely an additional problem, "the public sector lies at the core of the stagnation and decline in growth in Africa." In short, governments were attempting to do far too much, and were doing it badly. Similar have been the results of other research by several Bank economists.

Studies of Brazil, Chile, Pakistan, Philippines, and Turkey in the 1960s concluded that trade restrictions alone were costing these countries between four and ten percent of their GDP. Countries that improved their policies—Brazil, Colombia, and South Korea—significantly improved their employment and output. Sri Lanka changed governments, and economic policies, in 1977; the resulting liberalization had dramatic economic results. A 1993 Bank review of the adjustment experience of 18 developing countries, *Boom, Crisis, and Adjustment*, found that good policies, especially freer trade and macroeconomic stability, were important for economic success. Obviously, every country is the beneficiary or victim of unique circumstances, which makes any one pairing suspect, but the overall picture—South Korea versus North Korea, China versus Taiwan, Asia versus Africa—presents a consistent picture, and is

particularly telling when it involves divided cultural groups like Germany, Korea, and China.

Conclusion

Every nation's economic environment is made up of a complex aggregation of individual laws and regulations. All governments, including those in the industrialized West, do dumb things—sometimes out of ignorance, sometimes in response to interest group pressure, and sometimes in an attempt to achieve noneconomic ends. The basic question is whether economic stupidity is the exception or the rule—whether, in essence, the government acts as if its role is to manipulate the economy.

What is needed in America and around the world is not more efficient government—reinvented by “progressive” politicians with slightly greater respect than their predecessors for markets. The real answer is less government. That is, when it comes to development, the state's role in society is to provide the legal framework and physical security for private economic activity, not to act as an agent of economic change itself.

Foreign governments that want to help poorer nations should step out of the way of private development rather than subsidize public enterprises. The history of foreign

aid is one of failure—Western assistance for regimes that were simultaneously authoritarian and collectivist ended up making their people poorer rather than richer. In fact, abundant outside aid long inhibited the commitment to reform of even more responsible governments. By masking the pain of economic failure, development assistance allows borrowers to delay market reforms, worsening the underlying problem. The point is, it is necessity, brought on by collectivist and populist economics, that almost always drives the reform process.

Instead of offering new aid programs, industrialized states should reform their own economies, encouraging faster global growth, and open their markets to Third World products. The latter step is particularly important, since poor nations need to participate in the international economy to grow. The benefit of free access to Western markets would vastly exceed the value of foreign aid now or likely to be offered.

The crisis of international poverty well illustrates the fact that restricting government to its proper role is a matter of economic as well as philosophical necessity. The people of poor nations have learned through painful experience that government cannot create growth. Perhaps U.S. politicians will eventually comprehend that lesson too. □

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The Source of Rights

by Frank Chodorov

The basic axiom of socialism, in all its forms, is that might is right. And that means that power is all there is to morality. If I am bigger and stronger than you and you have no way of defending yourself, then it is right if I thrash you; the fact that I did thrash you is proof that I had the right to do so. On the other hand, if you can intimidate me with a gun, then right returns to your side. All of which comes to mere nonsense. And a social order based on the socialistic axiom—which makes the government the final judge of all morality—is a nonsensical society. It is a society in which the highest value is the acquisition of power—as exemplified in a Hitler or a Stalin—and the fate of those who cannot acquire it is subservience as a condition of existence.

The senselessness of the socialistic axiom is shown by the fact that there would be no society, and therefore no government, if there were no individuals. The human being is the unit of all social institutions; without a man there cannot be a crowd. Hence, we are compelled to look to the individual to find an axiom on which to build a nonsocialistic moral code. What does he tell us about himself?

The late Frank Chodorov edited The Freeman for a time, was associate editor of Human Events, and the author of several books, including The Income Tax (New York: Devin Adair, 1954), from which this selection has been reprinted by permission.

This essay shows why a socialistic society must decline because it fails to respect private property.

Desire to Live

In the first place, he tells us that above all things he wants to live. He tells us this even when he first comes into the world and lets out a yell. Because of that primordial desire, he maintains, he has a right to live. Certainly, nobody else can establish a valid claim to his life, and for that reason he traces his own title to an authority that transcends all men, to God. That title makes sense.

When the individual says he has a valid title to life, he means that all that is he, is his own: his body, his mind, his faculties. Maybe there is something else in life, such as a soul, but without going into that realm, he is willing to settle on what he knows about himself—his consciousness. All that is “I” is “mine.” That implies, of course, that all that is “you” is “yours”—for, every “you” is an “I.” Rights work both ways.

But, while just wanting to live gives the individual a title to life, it is an empty title unless he can acquire the things that make life liveable, beginning with food, raiment, and shelter. These things do not come to you because you want them; they come as the result of putting labor to raw materials. You have to give something of yourself—your brawn or your brain—to make the necessary things available. Even wild berries have to be picked before they can be eaten. But the energy you put out to make the necessary things is part of you; it is you. Therefore, when you cause these things to exist, your title to

yourself, your labor, is extended to the things. You have a right to them simply because you have a right to life.

Source of Government

That is the moral basis of the right of property. "I own it because I made it" is a title that proves itself. The recognition of that title is implied in the statement that "I *make* so many dollars a week." That is literally true.

But what do you mean when you say you own the thing you produced? Say it is a bushel of wheat. You produced it to satisfy your desire for bread. You can grind the wheat into flour, bake the loaf of bread, eat it, or share it with your family or a friend. Or you can give part of the wheat to the miller in payment for his labor; the part you give him, in the form of wages, is his because he gave you labor in exchange. Or you sell half the bushel of wheat for money, which you exchange for butter to go with the bread. Or you put the money in the bank so that you can have something else later on, when you want it.

In other words, your ownership entitles you to use your judgment as to what you will do with the product of your labor—consume it, give it away, sell it, save it. Freedom of disposition is the substance of property rights.

Freedom of Disposition

Interference with this freedom of disposition is, in the final analysis, interference with your right to life. At least, that is your reaction to such interference, for you describe such interference with a word that expresses a deep emotion: You call it "robbery." What's more, if you find that this robbery persists, if you are regularly deprived of the fruits of your labor, you lose interest in laboring. The only reason you work is to satisfy your desires; and if experience shows that despite your efforts your desires go unsatisfied, you become stingy about laboring. You become a "poor" producer.

Suppose the freedom of disposition is taken away from you entirely. That is, you become a slave; you have no right of property. Whatever you produce is taken by somebody else;

and though a good part of it is returned to you, in the way of sustenance, medical care, housing, you cannot under the law dispose of your output; if you try to, you become the legal "robber." Your concern in production wanes and you develop an attitude toward laboring that is called a "slave" psychology. Your interest in yourself also drops because you sense that without the right of property you are not much different from the other living things in the barn. The clergyman may tell you you are a man, with a soul; but you sense that without the right of property you are somewhat less of a man than the one who can dispose of your production as he wills. If you are a human, how human are you?

It is silly, then, to prate of human rights being superior to property rights, because the right of ownership is traceable to the right to life, which is certainly inherent in the human being. Property rights are in fact human rights.

A society built around the denial of this fact is, or must become, a slave society—although the socialists describe it differently. It is a society in which some produce and others dispose of their output. The laborer is not stimulated by the prospect of satisfying his desires but by fear of punishment. When his ownership is not interfered with, when he works for himself, he is inclined to develop his faculties of production because he has unlimited desires. He works for food, as a matter of necessity; but when he has a sufficiency of food, he begins to think of fancy dishes, a tablecloth, and music with his meals. There is no end of desires the human being can conjure up, and will work for, provided he feels reasonably sure that his labor will not be in vain. Contrariwise, when the law deprives him of the incentive of enjoyment, he will work only as necessity compels him. What use is there in putting out more effort?

Therefore, the general production of a socialistic society must decline to the point of mere subsistence.

Decline of Society

The economic decline of a society without property rights is followed by the loss of

other values. It is only when we have a sufficiency of necessities that we give thought to nonmaterial things, to what is called culture. On the other hand, we find we can do without books, or even moving pictures, when existence is at stake. Even more than that, we who have no right to own certainly have no right to give, and charity becomes an empty word; in a socialistic order, no one need give thought to an unfortunate neighbor because it is the duty of the government, the only property owner, to take care of him; it might even become a crime to give a "bum" a dime. When the denial of the right of the individual is negated through the denial of ownership,

the sense of personal pride, which distinguishes man from beast, must decay from disuse. . . .

Whatever else socialism is, or is claimed to be, its first tenet is the denial of private property. All brands of socialism, and there are many, are agreed that property rights must be vested in the political establishment. None of the schemes identified with this ideology, such as the nationalization of industry, or socialized medicine, or the abolition of free choice, or the planned economy, can become operative if the individual's claim to his property is recognized by the government. □

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Published by
The Foundation for Economic Education, Inc.
 30 South Broadway, Irvington-on-Hudson, NY 10533

ISBN 1-57246-057-1 • Paperback \$14.95
Available in bookstores nationally, or call FEE: 1-800-452-3518

Confession of a Compliant Taxpayer

by Dwight R. Lee

I'm afraid of the IRS, so I always pay at least as much, and probably more, than I owe in federal taxes. I confess this with apologies to my fellow taxpayers, particularly those who don't do as I do.

You have all heard, and most of you believe, that honest taxpayers are victimized by tax evaders. In an April 1995 *Money* magazine article, for example, Teresa Tritch tells us, "All told, individuals and corporations are expected to shortchange their fellow taxpayers by an estimated \$150 billion this filing season. That adds \$1,932 to the average tax bill of every honest taxpaying U.S. household." This sounds plausible enough at first glance, but it is based on two naive assumptions about how government operates: first, that the government needs some fixed amount of money and so if it receives less from one taxpayer it compensates by taking more from another; second, that we are better off when the government spends more of our money. Neither assumption is supported by our experience with government, or by the logic of the political process.

If the government required only a fixed amount of money each year, we could hope to reduce the federal deficit by increasing tax revenues. Unfortunately, the federal government spends more than a dollar for every

dollar it gets. The budget deficit fluctuates from year to year, but over recent decades it has tended to increase as federal revenues increase. So if some of my fellow taxpayers pay more taxes than required, my taxes are not reduced. Quite the opposite. The government would respond to the additional money by committing to new spending that will grow faster than anticipated, with yet more money and larger deficits being required, and I end up with a larger tax burden. Conversely, if some taxpayers underpay, my taxes will be lower, not higher, than they otherwise would be. And government spending will also be less.

But if I benefit from additional government spending, I might be worse off even if my taxes are lower because others underpay. What I gain in lower taxes might be more than offset in lost government benefits. But do I, or does anyone else, benefit from additional government spending?

This may seem like a silly question. Someone always benefits from a transfer, a subsidy, or a service when the government spends more money. But those benefits always have to be paid for by someone. So the important question is, are the benefits from additional government spending worth the costs? When the government spends more money, are the additional benefits I receive from expansions in my favorite programs worth as much as I have to pay for expansions in the programs

Dr. Lee is Ramsey Professor of Economics at the University of Georgia.

of others? For most Americans the answer is no.

Up to a point, federal spending for defense, law and order, and other necessities is worth more than it costs. But the logic of the political process suggests that we are well beyond that point. Consider that political decisions are far more responsive to relatively small groups, each organized around a common concern, than to the general public. For example, a water diversion project concentrates large benefits on relatively few farmers who are strongly motivated to form a coalition supporting the project. The cost of the project is spread so widely over the general public that few taxpayers know the cost, and almost no taxpayer sees any advantage in organizing opposition to the project. Politicians know that a vote favoring the project will be deeply appreciated by the few getting the benefits and ignored by the many paying the bill. Thus, government projects are funded beyond the point where they are worth what they cost. For example, in California water that costs taxpayers over \$200 per acre-foot to provide is sold to farmers for \$3.50 per acre-foot so they can grow rice in the desert.

Wasteful Government Spending

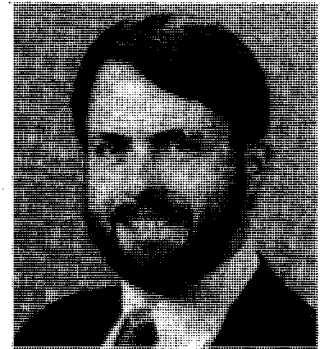
Farmers are not alone in using the political process to capture benefits worth less than they cost taxpayers. Indeed, the fiscal relationship between local governments and the federal government causes everyone to support wasteful government spending. About 66 percent of our tax dollars now go to the federal government (up from about 33 percent in 1929), with most of these dollars being returned to states and localities through federal spending on a variety of programs, projects, and transfers. Taxpayers everywhere want their political representatives to retrieve

as many of their federal tax dollars as possible, and they are not particular about how those dollars are spent. They will accept almost any project, no matter how little it is worth relative to cost, since the benefits accrue primarily to them and the cost is paid primarily by others. Their tax burden will not be increased noticeably if more federal spending is secured locally, nor will their tax burden be reduced noticeably if it is not. No matter how much the public may oppose wasting tax dollars in general, each local constituency prefers that more be wasted in their district rather than in others.

In essence, taxpayers are caught in a perverse fiscal game in which it is individually beneficial to demand federal spending that is collectively harmful. The only possible winners are federal functionaries to whom taxpayers must pay tribute for the privilege of plundering one another. The government has become, in the words of the nineteenth-century French philosopher Frederic Bastiat, "that great fictitious entity by which everyone seeks to live at the expense of everyone else."

The only way to reduce the waste in this game of fiscal folly is by reducing the tax money pouring into the federal coffers. Except for a few who receive more benefits from their favorite government programs than they pay to support the programs of others, we are better off when the federal government has fewer dollars to spend. So most of us benefit when others don't pay their "fair share."

I want to emphasize that I am not advocating tax evasion. But we would be well served if law-enforcement resources were shifted away from the IRS and directed against those whose criminal behavior victimizes law-abiding citizens. Let's do more to punish those who rob, assault, and murder, and less to punish those who want to keep more of the fruits of their labor. □



An Agenda for Limited Government

After an election that confirmed the Washington status quo, the nation's capital has been filled with professions of warmth and promises to cooperate. One is entitled to be skeptical of the politicians' protestations of goodwill toward each other. But assuming they are sincere, I'd like to modestly suggest a new nonpartisan theme: The era of big government is over.

A majority of those who voted last November told pollsters that they wanted the federal government to do less. Which means that our elected leaders, in contrast, have a lot to do.

- Cut taxes across the board. People say that they want general rate reductions, not targeted cuts that allow the government to engage in social engineering. Obviously, the usual demagogues would oppose any measure which offered any benefit to anyone who was not poor. But these class warriors must be confronted, and the way to do so is to make the moral case for tax reduction. Yes, lowering rates would stimulate economic growth, but that is merely a side-benefit. The more fundamental point is that people are paying far too much in taxes.

This argument needs to be repeated again and again. It is not right, morally right, to deprive people of over 40 percent of their incomes. They are entitled to keep more of

their earnings. The best and fairest cut would be across the board. How to respond to the charge that the rich would get more back? People would save more *only if they are paying more in the first place*. Anyway, it is time that public officials laud people who become successful rather than demonize the successful. Washington needs to hold a serious public debate on today's outrageous levels of taxation.

- Really cut spending. Americans who live outside of Washington may believe that every year Congress and the President seriously debate the budget. Voters read about programs being cut, spending being reduced, and safety nets being slashed. Yet, in reality, the politicians are usually arguing about whether government should grow by 3.5 percent or 4.5 percent during the coming year. Outlays increase even as legislators proclaim that they are making cuts, since reductions are measured against a mythical "baseline budget" that is always rising. And individual programs virtually never disappear.

So in this new era of good feelings, let's actually eliminate programs, making it difficult for them to grow back. And when politicians talk about making cuts, let them really make cuts.

Of course, some legislators are skittish about a budget confrontation out of fear of another government shutdown. But federal appropriations are traditionally divided among 13 bills that, when approved on time, allow Congress to make tough decisions without creating a public relations fiasco. If both

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parties are genuinely committed to balancing the budget, then surely they can agree to kill such nonessential programs as foreign aid (which, runs the old saw, takes money from poor people in rich countries and gives it to rich people in poor countries), the National Endowment for the Arts (which pays people to slather their bodies in chocolate and stuff vegetables into various body orifices), business subsidy programs (if anyone in America doesn't need welfare, it is big business), and so on.

- Slaughter sacred cows. There has always been an element of truth to left-wing attacks on proposals to “balance the budget on the backs of the poor.” Politicians from both parties are more likely to cut traditional welfare than subsidies for groups with greater political clout. Thus, the budget overflows with transfers to the well-to-do. The Coast Guard inspects yachts for free. The National Park System is frequented almost entirely by middle- and upper-class Americans. Whether the National Endowment for the Arts funds opera or pornography, it benefits primarily the rich. A plethora of grant, loan, insurance, and guarantee programs enhance corporate profits.

- Unplug the third rail of American politics. By the year 2013, at the latest, Social Security will be running in the red. With its faux trust fund filled with Treasury IOUs (the money has been borrowed to fund today's deficit), the system will be ready for Chapter 11.

All of the proposals so far advanced by bipartisan panels—changing the cost-of-living adjustment, fiddling with benefit formulas and retirement ages, hiking taxes (of course!), and allowing the government to invest tax revenues in the stock market—are inadequate to “save” Social Security. Leaders committed to really leading would press for full privatization, as quickly as possible. Only when people have control over their own retirement futures will both the federal budget and individual liberty be safe.

- Defund partisan lobbies. If there is anything that people pledged to bipartisanship should be able to agree on, it is that the government should not underwrite political

organizations. Over the years some conservative groups have collected grants, many for foreign junkets in the name of promoting democracy abroad. But Uncle Sam has been especially generous to labor unions, pro-abortion groups, left-wing organizers, and liberal senior citizen activists. Such groups have a perfect right to be politically involved, but they are not entitled to collect taxpayer dollars. Although such funds are theoretically provided for independent social services, money is fungible and federal grants strengthen such organizations immeasurably.

Congress should also cut cash collected with the de facto assistance of government. The Supreme Court has ruled that labor unions may not use mandatory dues for political purposes, but neither the administration nor Congress has enforced the Beck decision. It is, however, the law of the land. Enforcement is also a matter of basic morality. Organized labor has no right to loot members for campaign contributions, especially those used on behalf of candidates that many workers oppose.

- Move from welfare reform to welfare repeal. Officials are talking about revisiting the changes approved only last year, but the basic problem is government assistance programs themselves. Only private charity can meet each recipient's particular needs and speak to the whole person. Unfortunately, however, the always aggressive and imperialistic public sector continues to squeeze out private efforts.

Thus, we need not only to promote charity, but to shrink welfare. Many different kinds of private programs already exist. Their number would explode if government no longer sopped up private funds, assuaged people's natural desire to help those in need, and relieved beneficiaries of responsibility for their own actions.

- Educate voters. For years, big government congressional majorities held hearings to make the case for ever new and ever more expensive federal programs. In this new co-operative age, Congress should use the process for the opposite purpose. It is time, for instance, to confront attacks on supposed “cuts” in education funding. Congress should

hold hearings on the limited impact of spending on quality; the factors that make schools successful; why private and parochial schools do so much better than public ones; and how centralization of education has reduced parental involvement and student achievement.

Similar efforts could be undertaken on the environment, crime, and the like. One hearing is not enough; it should be an ongoing process to publicize arguments, credential scholars,

and highlight relevant research. In short, it is an important part of the war of ideas, which continues, despite the widespread belief that classical liberalism has triumphed.

Bipartisanship has a nice ring to it, but those of us living outside of the Beltway will benefit only if elected officials work together to shrink government and protect liberty. It's time that they showed us they really believe the era of big government is over. □

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Dying for a Pizza

by Ralph R. Reiland

It started as more than 50 people were being killed in Los Angeles by rioters who didn't agree with the verdict in the Rodney King case. That same night, while the rest of us were watching the mayhem on television, Carl Truss of Schenley Farms in Pittsburgh's Hill District called Pizza Hut for a pie.

The store said it was too dangerous that night to deliver to Truss's neighborhood, a predominantly African-American area. Now, after investigating the case for over four years, Charles Morrison, Director of the Human Relations Commission of Pittsburgh, says it's a case of illegal redlining: "We've determined there is probable cause to believe that it is more likely than not that a discriminatory act occurred here. We found that they did deliver to areas that had greater incidence of crime yet were not perceived to be 'black areas.'"

Morrison is referring to the Oakland section of the city—home to the University of Pittsburgh, Chatham College, Carlow College, and Carnegie-Mellon University—where Pizza Hut takes its risks to deliver to a large student market. That's a judgment call by a store manager, but most Pittsburghers, I'd guess, would see Oakland as safer than the Hill District on the night of the Rodney King riots.

"We don't want any business to be exposed to putting their drivers in harm's way," says Morrison, "but there has to be a basis for

denying service. You can't just say, 'We hear it's bad there.'"

With the way the Human Relations Commission operates, the burden of proof is on the store, a case of being guilty until proven innocent. The Commission is saying that pizza managers, on top of juggling teenage workers and other workplace headaches, must also be proficient in crime statistics by street and neighborhood in order to stay out of court. "There could be a loss history," explains Morrison, "such as, 'When we go to ABC street, we get robbed.'"

The year after Truss didn't get his pizza, Jay Weiss, a 34-year-old man who worked for Chubby's Pizza in Pittsburgh's North Side, was killed by two teenagers while delivering a pizza. As the driver was dying, the boys sat on a curb and ate the pizza.

A few minutes after Morrison was interviewed on the Jim Quinn radio talk show in Pittsburgh, "Dan," a former Pizza Hut driver, called the show to explain how it looked from the inside. "We had drivers robbed every day," he said. "In East Liberty, we had the same driver robbed three times in one day. They usually robbed us with a gun—they know we're not allowed to carry a gun, or more than \$20. They'd rob us just for the pizza. If we'd drive to Schenley Farms, they hid in the bushes across Herron Avenue to rob us. Drivers would quit after a couple days."

Morrison explained to Quinn's listeners that the Human Relations Commission in this case was going after "a large company, not a

Mr. Reiland is associate professor of economics at Robert Morris College in Pittsburgh.

mom-and-pop store," as if it makes any difference if someone's son or daughter is shot while delivering pizza for a rich multinational corporation or Chubby's.

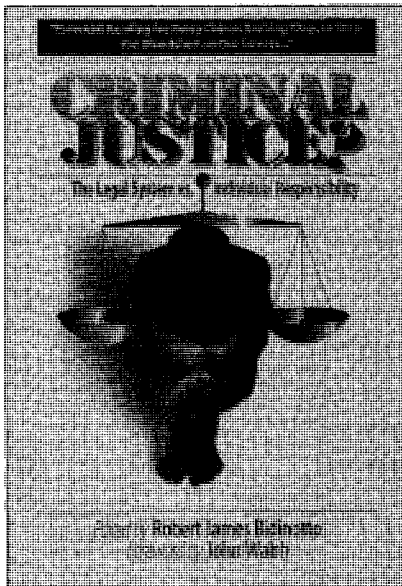
As it now stands, one government agency can fine a restaurant owner for not being careful enough if a young kitchen worker simply picks up a grinder part and places it in an automatic dishwasher, while on the same day another government agency can fine the same owner if he's overly careful about sending the same employee out on an unsafe delivery.

When cases like Pizza Hut's wind up in court, the business can be fined for discrimination for not sending drivers to certain areas or, conversely, fined for sending drivers to unsafe areas. At the Blue Coat Inn in Dover, Delaware, a waitress sued her employer for "inadequate security" after she was abducted from her car in the restaurant's parking lot, then raped and robbed. The Inn routinely provided escorts for waitresses to their cars, and on this night a busboy accom-

panied the waitress to her car. After the busboy returned to the restaurant, the criminal gained entry to the car through the waitress' open window as she sat in the car counting her tips. The Delaware Supreme Court upheld the \$600,000 verdict against the restaurant.

As I'm writing this, the local news is reporting that a bus passenger was shot behind the ear in Homewood, a poor African-American neighborhood. During the morning rush hour, in broad daylight, the bus was caught in a crossfire from two pistols and a shotgun.

What's needed here is an attack on crime, not an attack on businesses that are fed up with dodging bullets. Rather than telling pizza shops how to run their businesses, the first task of Pittsburgh's public officials should be to worry about their own job performance. That begins with making the streets safe enough so that people—black or white—aren't afraid to ride a bus or deliver a pizza. □



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Cause and Effect: Crime and Poverty

by Roger M. Clites

It is often asserted that poverty causes crime. I suggest that crime causes poverty.

Obviously crime victims are made worse off when they are burglarized or mugged. But there are many other people who are made worse off indirectly by crime.

A high crime rate will drive businesses out of a neighborhood. This eliminates both availability of products and services and a source of jobs. Further, those who do stay find it necessary to charge higher prices to offset losses due to thievery and higher costs of both security measures and insurance premiums—if insurance is available at all.

Property values are driven down by a smaller demand because of the greater difficulty potential purchasers have in obtaining mortgage loans.

The loss of productive activity by those who live by preying on others reduces the output

Professor Clites teaches at Tusculum College in Tennessee.

of the area in which they live. Thus, crime injures economically both direct victims and others in the crime-ridden neighborhood.

Just as all people are better off in a society where a large portion of people are more educated and more productive, all people in a crime-infested area become worse off than they otherwise would be.

It is not just others who are adversely affected by criminals. Perpetrators themselves lose ground economically. A large portion of people charged with criminal activity are relatively young. Their criminal behavior harms them in several ways. They may spend time incarcerated when they could have been gaining employment experience. Their criminal record may hamper them in obtaining future employment. They develop attitudes and habits that are detrimental to participation in the workplace. For these reasons many criminals condemn themselves to poverty.

Crime is a major cause of poverty. □

We Have Yet to Learn

by Gregg MacDonald

The ideas of man, expressed in one way or another, have come down to us over and over again for the past 50 centuries. As we approach the twenty-first century, it is almost impossible to come up with an original thought. “What a great thing Adam had,” quipped Mark Twain. “When he said something good, he knew nobody else had said it before.” One would think we would have learned something after 5,000 years, but it just hasn’t happened. As the nineteenth-century philosopher Georg Hegel observed, “What experience and history teach us is that people and governments never have learned anything from history, or acted on principles deduced from it.”

Hegel was right. People and governments never learn from history, and go on repeating the same mistakes.

If we had learned anything at all from the past, we would know that every economy must sooner or later rely upon some sort of profit-and-loss system to spur groups or individuals to productivity. Slavery, police supervision, or ideological enthusiasm have always turned out to be too unproductive, or too expensive—not to mention too immoral.

Prosperity depends on the incentive of profit, but more than that, it depends on freedom. Those who failed to learn this from the past should certainly learn it from the present by looking at the collapse of commu-

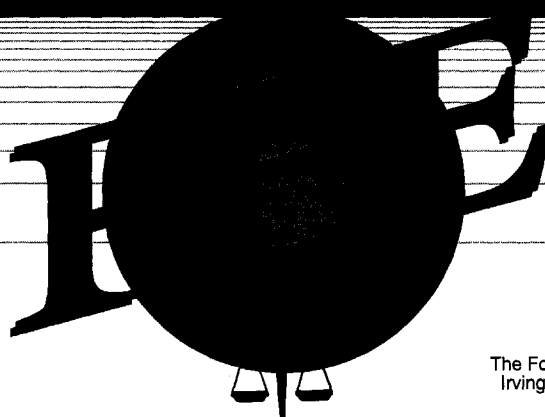
nism in Russia, the failure of communism 90 miles off our coast in Cuba, or the tragic legacy of communism in China.

What We Can Learn from Rome

When we think of the Roman Empire (and it seems that everybody today tries to draw an analogy between the decline of America and the fall of the Roman Empire), we think of Roman citizens as being free, even though there were a great many slaves in the Empire. Roman politicians lusted after citizens’ votes and support just as politicians do today. Commerce and business thrived in this “free” economy. Farmers, shoemakers, estate agents, bakers, manufacturers, builders, innkeepers, and a host of other tradesmen and professionals flourished. In the early centuries of the Empire, just as in the early days of the United States, the farmers were the backbone of the nation, providing stability and food as well as strong, free men to defend Rome and fight its battles.

Under the Emperor Diocletian, however, Rome succumbed to outright socialism. Government spending led to inflation and increasing poverty. In A.D. 301, Diocletian issued an Edictum *de pretiis*, which set maximum prices and wages for all important goods and services. (In today’s world such measures are simply called wage and price controls.) The results were disastrous and set the stage for the fall of the Empire and the beginning of serfdom in the Middle Ages.

Mr. MacDonald, a trustee of The Foundation for Economic Education, resides in Issaquah, Washington.



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March 1997

Balancing the Budget

It is difficult to deceive other people without their finding out. It is well nigh impossible for politicians to deceive the people who have been beguiled and disappointed innumerable times. Yet, some federal politicians do not easily break the habit. They want us to believe that the annual budget deficits are declining although the national debt continues to soar. According to today's financial press (January 13, 1997), the federal deficit for this fiscal year is given at \$107 billion, and the federal debt at \$5.31 trillion, \$324 billion higher than last year.

Such deceptions when practiced by bankers and businessmen undoubtedly would be felonious and punishable with fines and imprisonment. In politics, deceit and hypocrisy often are the royal road to success on which political statistics are assembled and propagated.

The politicians who practice this deception are using trust funds, in particular, Social Security revenue, to finance some of the deficits. The small budget deficits they are gloating about merely are the deficits which are not fully covered by trust fund surpluses. The federal government spends more than ever before, but uses trust funds that are set aside for certain purposes. In fiscal year 1997, the Social Security Trust Fund is expected to have surpluses of about \$70 billion which the government will spend, leaving only more IOUs. Altogether the federal government has spent some \$550 billion of Social Security money. The spenders use

these funds to help subsidize agriculture, health and human services, housing and urban development, labor, and numerous other federal activities. But can Social Security be expected to help finance these outlays indefinitely?

The growing federal indebtedness to trust funds is tantamount to growing trust fund surpluses which the intended beneficiaries are itching to spend. Pointing at the surpluses, they are clamoring for ever greater outlays on their behalf which tends to increase federal spending and deficits. The years of trust fund surpluses are followed by years of deficits, which in time raise the specter of trust fund bankruptcy and call for more tax boosts. The chronic fears of Social Security bankruptcy call for ever higher Social Security taxes.

The new angle in federal financing should not surprise us; all administrations since the Great Society of the 1960s readily turned against future generations in order to bolster their own image and popularity. The Balanced Budget Amendment, introduced as S.J.Res.1, which is a big issue of the new Congress, even would sanction the use of trust fund revenue for any spending purpose. Section 7 reads: "Total receipts shall include all receipts of the United States government except those derived from borrowing. Total outlays shall include all outlays of the United States government except for those for repayment of debt principal." In short, the amendment would permit the spenders to incur trillion-dollar

debts to the trust funds, call their budgets "balanced," and ignore the soaring national debt.

This observation of growing federal indebtedness to trust funds must not be interpreted as a defense of the Social Security system in any form. It constitutes the very cornerstone of the American welfare system on which all other programs rest. It also reveals the poisonous handicraft of politics which seizes income and wealth by majority vote. The Social Security surplus consists of payments by workers recently and presently employed and taxed for the benefit of retirees, most of whom did not contribute a penny to the surplus. Having received many multiples of what they paid in, some aged never tire of demanding their cost-of-living adjustments. In the halls of politics, their voices drown out all calls for reform and warnings of ultimate disaster. Social Security and Medicare always are "off the cutting table."

You can judge the craftiness of a politician by his or her behavior at the cutting table. You can judge the moral fiber of a political party by the way it vies with others for the votes of the elderly. If Social Security as the oldest, most expensive, and most inequitable transfer system is untouchable, all others following in its footsteps can be expected to stubbornly resist attempts to place them on the table. They merely need to repeat the Social Security rationale and join the transfer coalition to repel the would-be reformers.


To restore a commonplace truth and realism to the transfer system and enhance the prospects for balanced budgets, we must reject all transfer schemes. They breed social conflict and gnaw at the root of democratic institutions. They have made youth the primary beast of burden and victim of transfer; the most monstrous burdens, Social Security and Medicare, have been placed squarely on the shoulders of young people.

Genuine budget control necessitates an early abolition of all political transfer programs. There are several roads that lead back to a free society. One would first lead to genuine privatization of all welfare functions; all social services would be transferred from politicians and bureaucrats to private producers. The privatization of federal health and human services alone would balance the budget.

Another road would lead to a temporary freeze of all transfer expenditures at the present level. Economic expansion together with price inflation would raise tax revenues which, in just a few years, would catch up with the frozen expenditures. The temporary freeze would have to be followed by a permanent freeze of both revenues and expenditures which would shrink the transfer system at the annual rates of inflation. In just a decade or two the inflation would rescind all but a few traces of the welfare state.

On yet another road to fiscal responsibility and stability the welfare system would be made to respect the religious and moral principles of conscientious objectors and allow them to withdraw. It also would grant relief to the primary victims of the system, to young people, and permit them to choose between joining the system or remaining free, independent, and self-reliant. A system which allows its victims to go free is no longer a transfer system.

Despite all the noise about the federal deficits and the Balanced Budget Amendment, there is no indication that the American public and the Congress are serious about the importance of balancing the budget. Public pressures for ever more transfer benefits signal the coming of ever larger deficits.

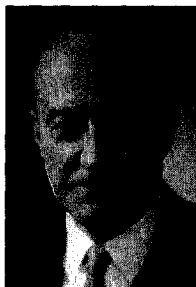


Hans F. Sennholz

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UP FROM POVERTY

Reflections on the Ills of Public Assistance

Edited by Hans F. Sennholz

From the beginning of history sincere reformers as well as demagogues have sought to abolish or at least to alleviate poverty through state action. In most cases their proposed remedies have only served to make the problem worse. The most frequent and popular of these proposed remedies has been the simple one of seizing from the rich to give to the poor. This remedy has taken a thousand different forms, but they all come down to this. The wealth is to be "shared," to be "redistributed," to be "equalized." In fact, in the minds of many reformers it is not poverty that is the chief evil but inequality.

In the last generation there has been enacted in almost every major country of the world a whole sackful of "social" measures, most of them having the ostensible purpose of "helping the poor" in one respect or another. These include not only direct relief, but unemployment benefits, old-age benefits, sickness benefits, food subsidies, rent subsidies, farm subsidies, veterans' subsidies—in seemingly endless profusion. Many people receive not only one but many of these subsidies. The programs often overlap and duplicate each other.

What is their net effect? All of them must be paid for by that chronically Forgotten Man, the taxpayer. The mounting burden of taxation not only undermines individual incentives to increased work and earnings, but in a score of ways discourages capital accumulation and distorts, unbalances, and shrinks production. Total real wealth and income is made smaller than it would otherwise be. On net balance there is more poverty rather than less.

Up From Poverty includes a compelling introduction by Hans F. Sennholz and powerful essays by Henry Hazlitt, Leonard E. Read, Clarence B. Carson, Lawrence W. Reed, Bertel M. Sparks, and others.



Published by
The Foundation for Economic Education, Inc.
30 South Broadway, Irvington-on-Hudson, NY 10533

ISBN 1-57246-060-1 • 208 pages • paperback \$14.95
Available in bookstores nationally, or call (800) 452-3518

Diocletian put extensive public works into operation to boost employment, and food was given to the poor at little or no cost. The government brought nearly all major industries and guilds—unions—under explicit control. Paul-Louis, in his *Ancient Rome at Work*, tells us that in “every large city, the state became a powerful employer . . . standing head and shoulders above the private industrialists, who were in any case crushed by taxation.” Will Durant noted that businessmen “predicted ruin, but Diocletian explained that the barbarians were at the gate, and that individual liberty had to be shelved until collective liberty could be made secure.”

Diocletian’s expanding, expensive, and corrupt bureaucracy proved to be too much to handle. To support all this government—the army, courts, public works, and welfare—taxes rose so high that men lost the incentive to work or earn. Lawyers kept finding ways to evade taxes, but other lawyers formulated laws to prevent evasion. To escape the tax men, thousands of Romans fled over the frontiers to find refuge with the barbarians Diocletian said were at the walls of Rome. (It makes one wonder why the barbarians wanted to get in.)

In an effort to stem the tide of fleeing citizens, and to facilitate regulations and taxation, the government issued decrees binding the farmers to their fields and the workers to their shops until all their debts and taxes had been paid in full. And, as mentioned, serfdom entered its initial stage.

The Modern Welfare State

Technologically, the modern world, and the Western world especially, are no more like ancient Rome than the moon is like the sun. But, technology and science aside, the civilization of Rome in the time of Diocletian vividly reminds us how much our own government parallels the Roman government that existed then. The welfare state, the huge bureaucracy to run it, stifling government

regulations, and exorbitant taxes to pay for it all—is there that much difference between our present-day American government and the regime that prevailed in Diocletian’s Rome? And, again, technology and science aside, ideas and thoughts seem to have changed little.

There can be no lasting, healthy economy without freedom. When we are told by government bureaucrats just what we are allowed to do on our property, told whom we must employ, and where we must send our children for an education—can we honestly say we are free?

The average American worker pays government forty-seven percent out of each dollar he or she earns. This money is taken by the IRS, FICA, local and state taxes, property taxes, sales taxes, and on and on. Many people don’t realize this. How can you say you are free if half of everything you earn is taken away from you by government?

A healthy economy, in order to grow and spread and benefit the most people without taking away from others, needs freedom to expand. What we have in the United States today is an economy that has evolved through government control to satisfy self-indulgence and greed. Nor is it an economy embedded in freedom. Somerset Maugham warned us that “If any nation values anything more than freedom, it will lose its freedom; and the irony of it is that if it is comfort or money that it values more, it will lose that too.”

The people of the United States at the end of the twentieth century have certainly placed a high value on comfort and money. Entitlements, golden parachutes, and rich government pensions are just a few of the programs and schemes that are relentlessly driving our economy onto dangerously thin ice. If enormous bureaucracies on the local, state, and federal levels are the price we are willing to pay for government contracts, welfare, and entitlements in order to retain comfort, then can a sick economy be far behind? And is the loss of freedom even closer? □

On Trial Again

by Meredith Kapushion

For the last three years, beginning at age fifteen, I have taught myself philosophy straight from the great works of Western thought, and have formally and informally studied economics. Fortunately, my background shielded me from some highly volatile rhetoric being espoused at the state university where I took a philosophy course last year.

The course, entitled “Classics in Ethics,” was taught by a professor who made no attempt to disguise his liberal views from the class. Normally, I dismissed his personal opinions as secondary and inconsequential to the course, but one particular claim he repeatedly made prompted me to respond. The professor took it upon himself to add yet another accusation to Michael Milken’s list of indictments. He accused Milken of being, at best, a simple hedonist, greed-driven to seek only short-term, selfish pleasures. I could not let this charge go unquestioned. I resolved to create a moral defense of Milken using the professor’s own tools of the ethical systems of Aristotle, Thomas Hobbes, Immanuel Kant, and John Stuart Mill. I chose these four philosophers because each is unique in his perception of mankind. This diversity of opinion and viewpoint creates the most challenging and complete rubric of testing morality.

Milken revitalized Wall Street by introducing new methods of investment through high-yield (junk) bonds. In his own words, he and colleagues were “matching capital to

entrepreneurs who could use it effectively. We were creating investments that money managers needed in volatile markets.”¹ Milken and his associates at Drexel Burnham Lambert succeeded in raising over ten billion dollars in capital for various companies. Yet for all of Milken’s successes, he is still thought of as an immoral cutthroat. His actions have been subject to much debate and speculation, but one interesting test has yet to be applied.

The Pleas

Michael Milken pled guilty to five counts of equity technicalities and one count of tax fraud, but to many people he was also guilty of insider trading, fraud, and generally cheating people out of money. These allegations, however, do not even begin to correlate with the six crimes for which he pled guilty. The charges, which at best are technicalities, include ugly words like “fraud,” “conspiracy,” and “aiding and abetting.” The first charge is a general conspiracy charge that Milken planned or thought “to engage in a series of unlawful security transactions.” (It was my understanding that only Big Brother ever prosecuted someone for their thoughts.) The next charge involves tax fraud, but the most obvious thing to note is that the taxes are not Milken’s. The charge relates to Ivan Boesky’s false 13-d statement. The next two charges are also based upon Boesky’s testimony. Milken’s transgressions were to suggest that Boesky buy MCA stock to hide that Golden Nugget was selling and to assure him no loss in a sale to Drexel. Both of these actions are common

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in business and attention was only called to them long after the fact. These first four charges are all based on the charge that the ownership of stock was not properly documented in a stock-parking agreement. However, none of these charges created any injury to MCA, Boesky, the federal government, or anyone else involved in the transactions. The fifth charge is equally harmless. Milken pled guilty for failing to disclose in written form an agreed-upon adjustment in transaction prices between Drexel and a client. The final "crime" is that Milken helped a client reduce his income tax liability by selling him two investments and then buying them back at a lower price.² Yet even here, the real economic loss that the client incurred was picked up as a gain by Drexel, and all profits were certainly taxed by Uncle Sam, somewhere along the line.

Now that his six "crimes" have been examined, his everyday actions must be considered. The four philosophers provide an excellent opportunity to evaluate the actions of an entrepreneur and businessman. Aristotle, Thomas Hobbes, Immanuel Kant, and John Stuart Mill take very different approaches to morality. They differ in their perceptions of man, concepts of virtue, and ideas of how to apply ethics. These three characteristics define how each philosopher might well judge and weigh Milken's actions. From their teachings and perceptions, Milken will receive a new trial.

Aristotle

Aristotle deemed that actions were moral if they promoted actualization, or, to be more specific, the total actualization of potentiality in all being. He defined virtues as either intellectual, maintaining prudence and wisdom; or moral, the control of emotions and desires in obedience to reason.³ In this way, man could achieve his fullest potential and be considered moral. Did Milken's actions fulfill the ideal of total actualization, yet still remain virtuous? Milken's job at Drexel Burnham Lambert was to provide financial advice to clients and to find profitable investment opportunities. His investment strategies bailed

out companies in need of capital and provided enormous profits for investors. Ultimately, his work helped to better the economy as a whole, thus fulfilling Aristotle's need for total actualization. Milken fulfilled Aristotle's two requirements for virtue, by engaging in intellectually challenging activities and succeeding in opening an entirely new arena of opportunity and investment in his field. The proof of his ability in prudence and wisdom is quite evident in the numbers he generated in profits. Milken's wealth was the result of a job well done.

Proponents of Aristotle will be quick to point out that Aristotle was very specific concerning wealth and its use only as an intermediate end, useful merely as a means to something else. Though it could be argued, let us assume for argument's sake that Aristotle was correct in his assessment of money. Then we must look to how Milken has used his money. Milken has always lived relatively modestly, refraining from ostentatious spending and extreme indulgence in luxuries.⁴ Milken obviously did not use his wealth for simple hedonistic pleasures, but he did use his wealth to achieve other ends. Milken used his income to establish the Milken Family Foundation, which contributes millions of dollars every year to fund education and charities, to underwrite cancer research, and to invest in promising companies. It appears that any allegations of pure greed are groundless from the evidence of Milken's lifestyle. Milken has satisfied Aristotle's criteria and has passed this test.

Thomas Hobbes

Milken's actions fall nicely into Thomas Hobbes's conceptions of morality. Hobbes believed the ethical man acted in enlightened self-interest. None would disagree that Milken acted out of self-interest, but some might disagree as to whether his actions were "enlightened." This enlightenment demands that Milken's actions not have been centered in pure selfishness, but also consist of a desire to seek higher goals. Economically, it is simple to prove that Milken's actions benefited everyone else either directly or indirectly, but

to prove his case morally we must look elsewhere.

Milken sees himself as a "social scientist," one who looks at "what is happening in society, what society needs."⁵ Milken's investments in telecommunications, Latin America, and education certainly demonstrate his ability to anticipate what society needs. Companies such as Time Warner, MCI, and Turner Broadcasting were able to become highly successful businesses thanks to over \$5 billion in financing from Milken. He believes that talented and trained people are the key to the future, and the best investment for the future lies in education. Milken fulfills the role of Hobbes's enlightened, self-interested man perfectly. Milken invested both for himself and for the world in which he lived.

Immanuel Kant

Immanuel Kant developed one of the strictest forms of determining moral actions. Moral maxims or rules, Kant claimed, must fit within the categorical imperative. One should "act only on that maxim through which you can at the same time will that it should become universal law."⁶ In other words, you should act in a way that you would want everyone else to act. For example, theft would be immoral because you would not want everyone else to steal as well. After the maxim or rule of behavior is determined, it must then be put to the tests of universality and consistency. Only Milken himself truly knows which moral maxims he employed; however, from his actions a maxim can be hypothesized.

This maxim is that one should have a strong work ethic and pursue profit through fair means. None can disagree that Michael Milken had a strong work ethic; it is clearly evidenced in his high profits. And his lack of harm, intentional or otherwise, meets the demand for fairness. It would be logical to apply this maxim universally, because there is nothing inherently wrong with it. Profit is the result of payments exceeding costs in a legal transaction. It is the successful by-product of free trade, and through market transactions makes people better off. One could also consistently "will" or desire that

everyone have a strong work ethic, as the end result would create no internal logical flaws, nor would it create undesirable ends. Ultimately this maxim would only benefit all, by improving efficiency, allocation of resources, and the quality of life, even for those not earning high profits.

J. S. Mill

John Stuart Mill's theory of utilitarianism is the final challenge that Milken faces. Utilitarianism defines the moral rightness or wrongness of an act in terms of the balance of good or bad consequences. Mill held that actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness. Milken's actions must be evaluated both in terms of consequences and in happiness created, as the results prove to be different.

There is a common myth that wealth is generated only at the expense of others. Wealth actually creates more wealth through voluntary trade. It provides an incentive that encourages new ideas and economic growth. Economic expansion only occurs when entrepreneurs like Milken take chances in order to gain profits. From a purely economic standpoint, Milken's actions had no net negative results. He managed to forge an entirely new way of thinking about investment. Leveraging helped to free up badly needed capital that allowed companies to expand and improve faster and more efficiently.

If Milken never actually harmed anyone coercively or fraudulently, what made him the object of so many negative emotions from the public? Many claimed he was greedy and undeserving of his wealth. In a literal definition of utility, Milken fails miserably in the eyes of the masses. However, a closer look at Mill's theories will prove that in this case, the majority truly had no right to be unhappy with Milken.

The public was guilty of misjudging Milken for many reasons. In addition to being ignorant of Milken's overall contributions to the economy, people were misled by crusaders against the "decade of greed." The government assaulted Milken and others in order to

displace public anger over the savings and loan failures, and in the case of at least one special prosecutor, to gain political advantage. Likewise, the corporate establishment and old-liners at Wall Street wanted Milken out of the picture in order to seize his profits for their own companies and eliminate "the outsider."⁷ Media hype only increased the animosity toward Milken, and so out of unjustifiable emotions, Milken inadvertently created unhappiness.

Misplaced emotion can hardly be a justification for Milken to be considered immoral. Mill believed that in some cases majority opinion does not constitute utilitarianism. "Society . . . practices a social tyranny more formidable than many kinds of political oppression. There needs protection against the tyranny of the prevailing opinion and feeling; against the tendency of society to impose, by other means than civil penalties, its own ideas and practices as rules of conduct on those who dissent from them."⁸ How unfortunate that there was no protection for Michael Milken, because by objective utilitarian standards he certainly provided for the greater good of society.

Michael Milken may have pled guilty to six charges, but those so-called crimes hardly account for the enormous amount of success

he has had. Milken could not escape the clutches of politics, but higher judges would have found him innocent. Aristotle, Thomas Hobbes, Immanuel Kant, and John Stuart Mill represent the bastions of Western thought, and their philosophies support Milken's morality.

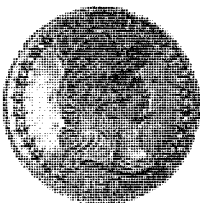
It seems that my professor was too quick to judge, and wrong in his assessment. Milken should not be thought of as a hedonist or criminal, but rather regarded as a hero. His ideas and innovations created an entirely new direction for investment to grow. Michael Milken may have made enormous profits during the years he worked for Drexel Burnham Lambert, but those numbers pale in comparison to the amount of wealth he generated for everyone else. The only crime Michael Milken is truly guilty of is doing his job and doing it well. □

1. Michael Milken, "My Story," *Forbes*, March 16, 1992, p. 4.
2. Daniel Fischel, *Payback* (New York: HarperCollins, 1995), pp. 163-164.
3. Aristotle, *On Man in the Universe* (New York: Random House, 1971), p. 87.
4. Fischel, p. 159.
5. Milken, p. 20.
6. Immanuel Kant, *Groundwork of the Metaphysics of Morals*, p. 6.
7. Fischel, p. 300.
8. John Stuart Mill, *On Liberty*, p. 3.

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The End of the World as We Know It?

by William V. Bandoch, Jr. and Walter Block

In today's world there exists a widespread belief that new technology is creating massive unemployment and rendering human labor obsolete. This is not true.

Ideally, having machines and computers do all our "dirty work" would make our lives much better. After all, isn't this why our primitive ancestors created the wheel? Some genius said one day, "Hey, why should I carry this heavy burden on my back, when it can be pushed in a wheeled cart?" Then his friend hit him over the head with a club and berated him for wanting to create unemployment.

According to Henry Hazlitt, the belief that new machines on net balance create unemployment is one of the biggest fallacies in economic thought. To illustrate his point, Hazlitt cites the effects of cotton-spinning machinery on cotton spinners and weavers in eighteenth-century England. When Arkwright invented his cotton-spinning machinery in 1760, it was estimated that there were 5,200 spinners using spinning wheels, and 2,700 weavers, for a total of 7,900 persons working in the production of cotton textiles. There was strong opposition to the invention on the grounds that it would bring massive unemployment to the cotton textile industry. Yet in 1787, the number of persons working

as spinners and weavers of cotton had risen from 7,900 to 320,000, an increase of 4,400 percent.¹

Ever since man discovered fire, the purpose of technological advancement has been to make life easier for everyone. If we accepted the assessment of technophobes, we'd be in quite a predicament. Why contact someone via the telephone when we could hire somebody to hand-deliver our message? Why send cargo from Philadelphia to Boston by railroad when we could hire an enormous number of men to carry it on their backs? The anti-technology argument seems ridiculous when you look at it this way. It is in the nature of those who take pride in their work to try to increase the results they can achieve in a given number of hours. If those who fear technology accepted their own rhetoric, they would have to dismiss all progress and ingenuity not only as useless, but also vicious.²

What really happens when technological improvements and labor-saving machinery are introduced? Hazlitt provides an interesting scenario. A clothing manufacturer buys a machine that makes men's and women's overcoats for half as much labor as was previously used. Thus, half his labor force is dropped. While this may look like a clear loss of employment, one must remember that the machine itself required labor to make it. Here, as one offset, are jobs that would not otherwise have existed. In the long run, the manufacturer will have increased his profits

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with the use of the machine. Hazlitt then states,

The manufacturer must use these extra profits in at least one of three ways, and possibly he will use part of them in all three: (1) he will use the extra profits to expand his operations by buying more machines to make his coats; or (2) he will invest the extra profits in some other industry; or (3) he will spend the extra profits on increasing his own consumption. Whichever of these three courses he takes, he will increase employment.³

The consumers who buy the coats also save money. The machine has reduced the price of the coat, allowing the consumer to spend that saved money on other goods, thus providing increased employment in other areas. The bottom line is that machines bring an increase in production and an increase in the standard of living.

George Terborgh claims that there is one indisputable fact about technology: It creates new products, including services, and new methods of production. But will these great technological advances that help make our lives easier create massive unemployment? Terborgh doesn't believe so. Instead, the impact technological progress has on employment is twofold: It creates jobs, but it also destroys them. For example,

... the thousands of new products that pour forth annually from research and development laboratories, and the hundreds of new industries they create, obviously generate a large demand for labor. On the other hand, older products and industries are displaced by their competition, with a consequent loss of jobs.⁴

The same is true with new methods of production. The technophobes are only looking at one side of the coin. They see only the people who are being unemployed with each technological advance. They fail to see the new jobs created in other areas.

Does the gain in employment from technological advances exceed the loss? In some

cases, there is no doubt that it does. But we must look at the long-run picture and the opportunities that arise from new technology. New product technology is a net creator of jobs. These innovations do not merely replace the old products they dislodge from the market, but instead develop new and expanded markets of their own. The most successful product innovations, like the telephone, automobile, and television leave their predecessor products or services so far behind in terms of both output and employment that the comparison is almost impossible.⁵

Technology does have its supporters—sometimes unexpected ones. Testifying before Congress many years ago, labor union leader Walter Reuther spoke of how technological advances can put many desirable goals within our reach: greatly improved standards of living (including increased leisure for every family), the relative elimination of poverty in our land, rapid progress in providing the fullest educational opportunity to every child, and providing the means to make the best health care available to all.

Unfortunately, technophobes fail to see this potential. What worries them the most is the one thing that should make them the happiest. Technology will continue to reduce our sweat and toil, much as the wheel enabled our ancestors to save time and energy.

There will always be those who insist on looking only at the short-term effects, while ignoring the long-run rewards. New and better ways of doing things have the potential to render hard, tiresome labor obsolete. If this happens, we will all be able to engage in meaningful work and play that enable us to make the best use of our natural abilities. Of course, none of this discussion would be necessary if someone had just kicked the wheels off that caveman's cart!

1. Henry Hazlitt, *Economics in One Lesson* (New York: Crown Publishers, Inc., 1979), p. 50.

2. *Ibid.*, p. 54.

3. *Ibid.*, pp. 55–56.

4. George Terborgh, "Automation Hysteria and Employment Effects of Technological Progress," in *Automation, Alienation, and Anomie*, ed. Simon Marcson (New York: Harper and Row Publishers, 1970), p. 362.

5. *Ibid.*, pp. 363, 364.

Albert Jay Nock: A Gifted Pen for Radical Individualism

by Jim Powell

American individualism had virtually died out by the time Mark Twain was buried in 1910. "Progressive" intellectuals promoted collectivism. "Progressive" jurists like Oliver Wendell Holmes hammered constitutional restraints as an inconvenient obstacle to expanding government power, supposedly the cure for every social problem. "Progressive" education theorist John Dewey belittled "mere learning" and claimed that "social reconstruction" was the mission of schooling. "Progressive" hero Theodore Roosevelt glorified imperial conquest. "Progressive" President Woodrow Wilson maneuvered America into a European war, jailed dissidents, and pushed through the income tax which persists to this day. Great individualists such as Thomas Paine and Thomas Jefferson were ridiculed, if they were remembered at all.

Yet author Albert Jay Nock dared declare that collectivism was evil. He denounced the use of force to impose one's will on others. He opposed military intervention in the affairs of other nations. He believed America should stay out of foreign wars that inevitably sub-

vert liberty. He insisted individuals have the unalienable right to pursue happiness as long as they don't hurt anybody. Murray N. Rothbard called Nock "an authentic American radical."

Even though Nock didn't contribute to mass-circulation magazines and his books had a limited sale, he quietly affirmed individualism as a living creed. He became a name to reckon with as editor and writer for *The Freeman* (1920–1924). The great antiwar journalist Oswald Garrison Villard called it "the best-written weekly yet to appear in the United States, a publication which thoroughly merited a permanent place in American journalism." The influential editor and author H. L. Mencken declared: "What publicist among us, indeed, writes better than Nock? His [*Freeman*] editorials . . . set a mark that no other man of his trade has ever quite managed to reach. They were well informed and sometimes even learned, but there was never the slightest trace of pedantry in them. In even the least of them there were sound writing and solid structure. Nock has an excellent ear . . . he thinks in charming rhythms."

Nock won respect, too, because he was a highly cultured man. As literary critic Van Wyck Brooks explained: "He was a formidable scholar and an amateur of music who remembered all the great singers of his day and could trace them through this part or that from Naples to St. Petersburg, London, Brussels, and Vienna. He had known all the great

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Thanks to Edmund A. Opitz, Jack Schwartzman, and Robert M. Thornton for helping to secure scarce materials on Nock.

orchestras from Turin to Chicago . . . and he had visited half the universities of Europe from Bonn to Bordeaux, Montpellier, Liege and Ghent. He could pick up at random, with a casual air, almost any point and trace it from Plato through Scaliger to Montaigne or Erasmus, and I can cite chapter and verse for saying that whether in Latin or Greek he could quote any author in reply to any question. I believe he knew as well the Old Testament in Hebrew." American historian Merrill D. Peterson added: "He was a finished scholar, a brilliant editor, and a connoisseur of taste and intellect."

Nock's friend Ruth Robinson recalled, "He was a finely constructed man, with small bones, hands, and feet. He was five feet ten inches tall, slight and quick in movement; he kept his excellent figure and carriage throughout life. The salient expressions of his strong face were conveyed through his brilliant blue eyes, which could change instantly, be impenetrable, mischievous, or express great kindness and sympathy. He had fair skin and high color and during all the years I knew him wore a mustache. . . . Long before his hair turned white, an iron-grey band at the edge of his brown hair was an outstanding characteristic of his appearance."

Nock was an intensely private man. People who worked with him for years had no idea that he had been a clergyman. "No one knew even where he lived," noted Van Wyck Brooks, "and a pleantry in the office was that one could reach him by placing a letter under a certain rock in Central Park." Frank Chodorov, a friend during Nock's last decade, said, "It was only after I was appointed administrator of his estate that I learned of the existence of two full-grown and well-educated sons."

Social philosopher Lewis Mumford, who knew Nock early in his career, remembered that: "He was the very model of the old-fashioned gentleman, American style: quiet spoken, fond of good food, punctilious in little matters of courtesy, with a fund of good stories, many of them western; never speaking about himself, never revealing anything directly about himself." Added Chodorov, "Nock was an individualist."

Beginnings

Albert Jay Nock was born October 13, 1870, in Scranton, Pennsylvania. He was the only child of Emma Sheldon Jay, who descended from French Protestants. His father, Joseph Albert Nock, was a hot-tempered steelworker and Episcopal clergyman.

Nock grew up in a semirural Brooklyn, New York, neighborhood, and the family had a large garden and fruit trees. According to his account, he learned the alphabet by puzzling over a newspaper and asking questions. He didn't attend school until he was a teenager, but at home he was surrounded by books, which he explored randomly. He recalled that the first book he focused on was Webster's Dictionary, probably because it was a fat book on a lower shelf. "The dictionary became quite literally my bosom friend, for I lugged it about, clasped it to my breast with both hands, from one place to another where I should not be underfoot, and there I would lay it open on the floor and read it."

When Nock was ten, his father got a job on the upper shore of Lake Huron. There he observed "independence, self-respect, self-reliance, dignity, diligence . . . the virtues that once spoke out in the Declaration of Independence. . . . Our life was singularly free; we were so little conscious of arbitrary restraint that we hardly knew government existed. . . . On the whole our society might have served pretty well as a standing advertisement for Mr. Jefferson's notion that the virtues which he regarded as distinctively American thrive best in the absence of government."

After attending a private preparatory school, Nock entered St. Stephen's College (later to become Bard College) in 1887. It had fewer than one hundred students. Both institutions stressed a classical curriculum, and Nock relished Greek and Latin literature. He graduated third in his ten-student class. Nock reportedly went on to attend Berkeley Divinity School, Middletown, Connecticut, and although he left after about a year, he was ordained in the Episcopal Church in 1897. The following year, he began serving as assistant rector at St. James Church, Titusville,

Pennsylvania. He succeeded the rector, who died on New Year's Day 1899.

It was in Titusville that Nock met Agnes Grumbine, and they were married April 25, 1900. They had two sons: Samuel, born in 1901, and Francis, born in 1905. Nock left his wife soon thereafter, and never remarried. His sons grew up to become college teachers. Meanwhile, Nock was called to Christ Episcopal Church, Blacksburg, Virginia, and then to St. Joseph's Church in Detroit. In 1909, he seems to have experienced a crisis of faith. "My life was detached, untouched and colorless," he later told Ruth Robinson.

Nock embraced ideas of crusading economic reformer Henry George. "As a social philosopher, George interested me profoundly," Nock recalled, "as a reformer and publicist, he did not interest me. . . . George's philosophy was the philosophy of human freedom . . . he believed that all mankind are indefinitely improvable, and that the freer they are, the more they will improve. He saw also that they can never become politically or socially free until they have become economically free."

Nock quit the clergy to become an editor of *American Magazine*, launched by editors and writers who had a falling out with S.S. McClure, the pioneering muckraking publisher. Nock worked at *American Magazine* for four years. He wrote articles advocating a single tax on land and—it must be confessed—he approved Canada's policy of having government own vast acreage. He befriended the former Toledo mayor and aspiring scholar Brand Whitlock, who later wrote a biography of the Marquis de Lafayette. He spent time with the likes of muckraking journalists Lincoln Steffens and John Reed. He honed his writing. "My stuff is good enough, perhaps," he wrote Ruth Robinson, "and surely better than five or six years ago, but it still sounds as though it was written from a seat in the grand stand."

The Players Club

Nock frequented the Players Club, fabled gathering place for people in the arts since it was established by actor Edwin Booth and

author Mark Twain. Located at 16 Gramercy Park South, Manhattan, it is a Gothic Revival style five-story house that architect Stanford White transformed into the club in 1888. Out front are a wrought-iron balcony and Renaissance-style gaslights. The Players Club has one of America's largest libraries on the theatre and portrait paintings by Gilbert Stuart, John Singer Sargent, and Norman Rockwell. Besides Nock, illustrious members have included caricaturist Thomas Nast, theatrical actors John Barrymore and Helen Hayes, screen actors James Cagney and Douglas Fairbanks, Jr. Nock liked to take mail, eat, and play pool at the Players Club—a portrait of Mark Twain hangs over a fireplace, and one of Twain's pool cues is on display. Nock's business card simply said: "Albert Jay Nock, Players Club, New York."

Nock absorbed the ideas of German sociologist Franz Oppenheimer, whose radical book *Der Staat* was published in 1908. An English translation, *The State*, appeared in 1915. Oppenheimer had noted that there were only two fundamental ways of acquiring wealth—work and robbery. He declared that government was based on robbery.

In 1914, cash-short *American Magazine* was about to be acquired by a publisher intent on avoiding controversy. Nock joined the staff of *The Nation*, which was owned and edited by Oswald Garrison Villard, grandson of antislavery crusader William Lloyd Garrison. Nock came to admire Villard, who courageously opposed President Woodrow Wilson's scheming to get America into the First World War. One of Nock's articles, on labor union agitator Samuel Gompers, provoked Wilson's censors to suppress *The Nation*.

The Freeman

Nock, however, decided he couldn't abide Villard's approval of nationalizing railroads. He resigned from *The Nation* and, backed by Helen Swift Neilson, daughter of Gustavus Swift and heir to a meatpacking fortune, he became editor of a new magazine of opinion: *The Freeman*. The first weekly issue appeared March 17, 1920. The magazine measured 8½ inches by 12½ inches and contained 24 pages

of articles and letters about politics, literature, music, and other topics.

Nock's principal collaborator was Neilson's English husband, Francis, a former stage director at the London Royal Opera and radical Liberal Member of Parliament who became a leading pacifist. Disgusted by England's entry in the First World War, Neilson came to the United States and became an American citizen. He provoked controversy with his book *How Diplomats Make War*, published in 1915 by Benjamin W. Huebsch, who subsequently served as president of *The Freeman*.

Practically from the beginning, there was rivalry between the collaborators. Will Lissner, a former *New York Times* writer who knew both Nock and Neilson, recalled that "Nock rewrote many of Neilson's articles in Nock's own distinctive style, causing the readers to assume that 'Nock was *The Freeman*.' Neilson bitterly resented this assumption." Lewis Mumford reported that "Nock couldn't bear Neilson's somewhat inflated parliamentary style; and he would quietly put Neilson's contributions in the drawer of his desk, letting them gather dust. . . ." In his memoirs, published after Nock's death, Neilson claimed Nock had stolen his stuff. Nock was more graceful. "I had far less to do with forming or maintaining [*The Freeman*] than people think I had. My chief associate was . . . one of the ablest men I ever knew, far abler than I, and more experienced."

The editorial staff included Suzanne La Follette. In her mid-twenties, she was the daughter of "progressive" U.S. Senator Robert M. La Follette and a rigorous opponent of government intervention. "She was a very beautiful woman, with a hilarious sense of humor, a grammatical stickler . . . a feminist . . . generous and warm-hearted," recalled William F. Buckley Jr., who knew her in later years.

There was an eclectic assortment of contributors, including economic historian Charles Beard, book reviewer Van Wyck Brooks, Soviet critic William Henry Chamberlin, technology critic Lewis Mumford, philosopher Bertrand Russell, muckraker Lincoln Steffens, poet Louis Untermeyer, and economist Thorstein Veblen—*The Freeman*



Albert Jay Nock

decidedly wasn't a hard-core libertarian magazine.

Oswald Garrison Villard hailed *The Freeman* for, he assumed, joining the "ranks of liberal journalism," but Nock replied in the March 31 issue: "*The Freeman* is a radical paper; its place is in the virgin field, or better, the long-neglected and fallow field, of American radicalism.

"The liberal believes that the State is essentially social and is all for improving it by political methods so that it may function accordingly to what he believes to be its original intention. Hence, he is interested in politics, takes them seriously, goes at them hopefully, and believes in them as an instrument of social welfare and progress. . . . The radical, on the other hand, believes that the State is fundamentally anti-social and is all for improving it off the face of the earth; not by blowing up office-holders . . . but by the historical process of strengthening, consolidating and enlightening economic organization."

To better understand the roots of freedom,

Nock urged Americans to “resolutely close their eyes to diplomatic exchanges and official pronouncements, and read Thomas Paine, Thomas Jefferson, Thoreau, Wendell Phillips, Henry George.” Nock added that “without economic freedom no other freedom is significant or lasting, and that if economic freedom can be attained, no other freedom can be withheld.”

Of the consequences of the First World War, Nock wrote: “The war immensely fortified a universal faith in violence; it set in motion endless adventures in imperialism, endless nationalist ambitions. Every war does this to a degree roughly corresponding to its magnitude.”

Nock wrote more about diplomacy than any other subject for *The Freeman*, and although he didn’t pore through all the diplomatic documents, he did gain perspective by traveling through Europe. For instance, he witnessed the 1923 German runaway inflation: “I crossed from Amsterdam to Berlin with German money in my bill-fold amounting nearly to \$1,250,000, pre-war value. Ten years earlier I could have bought out half a German town, lock, stock and barrel, with that much money, but when I left Amsterdam my best hope was that it might cover a decent dinner and a night’s lodging.”

Nock turned some of his *Freeman* articles into his first book: *The Myth of a Guilty Nation*, which, based on the work of Francis Neilson, debunked the idea that Germany was solely responsible for World War I. Nock insisted all the participants deserved blame for the catastrophe that resulted in some 10 million deaths. Historian Harry Elmer Barnes wrote that “*The Myth of a Guilty Nation* was a brilliant piece of journalistic Revisionism. . . . It took some courage in those days.”

Unfortunately, *The Freeman* never attracted more than about 7,000 subscribers—far from enough to become self-sustaining. Annual losses reportedly exceeded \$80,000. The magazine ceased publication after the March 5, 1924, issue. There had been 208 issues, and Nock seems to have contributed 259 pieces. *Atlantic Monthly* editor Ellery Sedgwick remembered Nock’s *Freeman* as “admirably written, diverting, original, and

full of unpredictable quirks.” Oswald Garrison Villard expressed “grateful thanks that it has existed, and our belief that it would be a misfortune if some other medium were not found to avail itself of Mr. Albert Jay Nock’s exceptional equipment for editorial service.”

Nock sailed for Brussels, where he had many fond memories: “Her ways and manners, her unpretending grace and charm, her feel of stability and soundness, are all just as you have been impatiently expecting to find them, and her face wears a jolly Flemish smile.”

Back in New York, Nock became a good friend of H.L. Mencken, the maverick who edited *American Mercury*. “There is no better companion in the world than Henry,” Nock exulted after one Manhattan dinner. “I admire him, and have the warmest affection for him. I was impressed afresh by his superb character—immensely able, unselfconscious, sincere, erudite, simple-hearted, kindly, generous, really a noble fellow if ever there was one in the world.”

Soon Nock was writing for intellectual magazines like *American Mercury*, *Atlantic Monthly*, *Harper’s*, *Saturday Review of Literature*, and *Scribner’s*. *American Mercury*, for instance, published “On Doing the Right Thing.” He wrote: “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. Everything else has been tried, world without end. Going dead against reason and experience, we have tried law, compulsion and authoritarianism of various kinds, and the result is nothing to be proud of.”

Three admirers from Philadelphia, Ellen Winsor, Rebecca Winsor Evans, and Edmund C. Evans, provided funds which enabled Nock to pursue his projects—their assistance continued for the rest of his life. In 1924, he gathered together writings of the American humorist and social critic Artemus Ward (1834-1867), who had inspired Mark Twain. Ward had fallen out of fashion, and Nock thought his social criticism could be appreciated by just a small number of unusually civilized and perceptive people whom he called the “Remnant”—a term that would

blossom into one of his better-known ideas a dozen years later.

Mr. Jefferson

Then Nock focused on book-length biographical essays. The first was *Mr. Jefferson* (1926), which skipped the most famous events of the Founder's life to focus on the development of his mind. Nock drew extensively on Charles Beard's *The Economic Origins of Jeffersonian Democracy*. Claude Bowers's *Jefferson and Hamilton*, published the same year, sold more copies at the time and did more to revive the reputation of Jefferson, who had been a forgotten man since the Civil War. But it is Nock's book that remains in print. H.L. Mencken wrote that Nock's book "is accurate, it is shrewd, it is well ordered, and above all it is charming. I know of no other book on Jefferson that penetrates so persuasively to the essential substance of the man." Harvard University's great narrative historian Samuel Eliot Morison hailed the "brilliance" of Nock's *Jefferson*. Historian Merrill Peterson calls it "The most captivating single volume in the Jefferson literature."

Nock loved the sixteenth-century French humanist scholar, extravagant satirist, and maverick individualist François Rabelais, and in 1929 he wrote a book about him, collaborating with Oxford-educated researcher Catherine Rose Wilson. "Rabelais is one of the world's great libertarians . . . he has been a stay and support to my spirit for thirty years, and I could not possibly have got through without him. . . . The chief purpose of reading a classic like Rabelais is to prop and stay the spirit, especially in its moments of weakness and enervation, against the stress of life, to elevate it above the reach of commonplace annoyances and degradations, and to purge it of despondency and cynicism. He is to be read as Homer, Sophocles, and the English Bible, are to be read." Five years later, Nock wrote *A Journey into Rabelais's France*, a travelogue illustrated by his friend Ruth Robinson (1934).

Nock did a book-length essay on Henry George (1939), drawing substantially on the two-volume biography by Henry George Jr.

Nock's contribution was as an interpreter, downplaying the importance of George's famous policy proposal—a single tax on land—regretting George's foray into New York City politics, and emphasizing his contributions as a philosopher of freedom. "He was one of the greatest of philosophers," Nock wrote, "and the spontaneous concurring voice of all his contemporaries acclaimed him as one of the best of men."

Meanwhile, in March 1930, backed by one Dr. Peter Fireman, Suzanne La Follette and Sheila Hibben had launched the *New Freeman*, but losses became too big, and it was discontinued after the March 1931 issue. Nock contributed 54 mostly short articles about art, literature, and education. There was little political commentary other than a call for ending Prohibition. His articles were reprinted in *The Book of Journeyman* (1930).

In *The Theory of Education in the United States* (1932) and other writings, Nock challenged the American dream of educating everybody. He believed that while most people could be trained to do useful things, only a few could truly cultivate their minds and contribute to civilization.

Nock provided an early warning of collectivist catastrophe. In July 1932, before Hitler came to power, Nock observed: "Things in Germany look bad at this distance. The new government, which is making use of Hitler, seems bent on a Napoleonic absolutism."

Nock was decades ahead of most intellectuals in condemning all tyranny. "Refrain from using the word Bolshevism, or Fascism, Hitlerism, Marxism, Communism," he noted in November 1933, "and you have no trouble getting acceptance for the principle that underlies them all alike—the principle that the State is everything, and the individual nothing."

Nock became an implacable foe of Franklin D. Roosevelt's New Deal. In May 1934, he wrote: "Probably not many realize how the rapid centralization of government in America has fostered a kind of organized pauperism. The big industrial states contribute most of the Federal revenue, and the bureaucracy distributes it in the pauper states wherever it will do the most good in a political way.

The same thing takes place within the states themselves. In fostering pauperism it also by necessary consequence fosters corruption. . . . All this is due to the iniquitous theory of taxation with which this country has been so thoroughly indoctrinated—that a man should be taxed according to his ability to pay, instead of according to the value of the privileges he obtains from the government.”

Nock embraced the pessimism of the architect Ralph Adams Cram, whose September 1932 *American Mercury* article “Why We Do Not Behave Like Human Beings” declared that most people are barbarians, there are limited prospects for improvement, and the future depends on a few civilized souls. “I held to my Jeffersonian doctrine for a long time, meanwhile trying my best to pick holes in Mr. Cram’s theory,” Nock recalled, “but with no success.”

Nock’s friend Bernard Iddings Bell persuaded him to accept a visiting professorship in American history at Bard College, part of Columbia University, and he served there between 1931 and 1933. He delivered a series of lectures which focused on the struggle for liberty. He subsequently massaged the lecture texts into his great radical polemic *Our Enemy, the State*. He drew from ideas of Franz Oppenheimer, who had written about the violent origins of the state. Nock championed the natural rights vision of Thomas Paine and Thomas Jefferson, the case for equal freedom articulated by Herbert Spencer. Nock ignored a taboo and spoke kindly of the American Articles of Confederation (1781–1789), the association of states without a central government. He shared American historian Charles Beard’s view that the Constitution reflected a struggle among interest groups.

Our Enemy, the State

Our Enemy, the State appeared in 1935. Nock wrote: “There are two methods, or means, and only two, whereby man’s needs and desires can be satisfied. One is the production and exchange of wealth; this is the *economic means*. The other is the uncompensated appropriation of wealth produced by others; this is the *political means* . . . the State

invariably had its origin in conquest and confiscation.”

“The State,” he continued, “both in its genesis and by its primary intention, is purely anti-social. It is not based on the idea of natural rights, but on the idea that the individual has no rights except those that the State may provisionally grant him. It has always made justice costly and difficult of access, and has invariably held itself above justice and common morality whenever it could advantage itself by so doing.”

Still far ahead of other intellectuals, Nock observed: “The superficial distinctions of Fascism, Bolshevism, Hitlerism, are the concern of journalists and publicists; the serious student sees in them only the one root-idea of a complete conversion of social power into State power. . . . In Russia and Germany, for example, we have lately seen the State moving with great alacrity against infringement of its monopoly by private persons, while at the same time exercising that monopoly with unconscionable ruthlessness.”

Nock despaired about individuals who become willing tools of state power: “Instead of looking upon the State’s progressive absorption of social power with the repugnance and resentment that he would naturally feel towards the activities of a professional-criminal organization, he tends rather to encourage and glorify it, in the belief that he is somehow identified with the State, and that therefore, in consenting to its indefinite aggrandizement, he consents to something in which he has a share.”

Most reviewers ignored *Our Enemy, the State*, but it won surprising praise from the pro-New Deal *New Republic*. Editor George Soule ranked Nock among “the best essayists and soundest commentators on political history.”

“Isaiah’s Job”

In his June 1936 *Atlantic Monthly* article “Isaiah’s Job,” Nock explained his view that the future of civilization depended on what he called the “Remnant.” He told the story of the Biblical prophet Isaiah, called by the Lord to warn people about terrible times coming.

"Tell them," Nock quoted the Lord, "what is going to happen unless they have a change of heart and straighten up." But the Lord acknowledged missionary work wouldn't yield quick results: "The official class and their intelligentsia will turn up their noses at you, and the masses will not even listen. They will keep on their own ways until they carry everything down to destruction, and you will probably be lucky if you get out with your life."

Why bother? According to Nock, the Lord replied: "There is a Remnant. . . . They are obscure, unorganized, inarticulate, each one rubbing along as best he can. They need to be encouraged and braced up, because when everything has gone completely to the dogs, they are the ones who will come back and build up a new society; and meanwhile, your preaching will reassure them and keep them hanging on. Your job is to take care of the Remnant, so be off now and set about it."

Speaking to prospective prophets, Nock wrote that "Two things you know, and no more: first, that they exist; second, that they will find you. Except for these two certainties, working for the Remnant means working in impenetrable darkness; and this, I should say, is just the condition calculated most effectively to pique the interest of any prophet who is properly gifted with the imagination, insight, and intellectual curiosity necessary to a successful pursuit of his trade."

There was yet another revival of *The Freeman* in 1937. The creative spark was Frank Chodorov, who had met Nock the year before at the Players Club. The eleventh son of Russian immigrants, Chodorov had become director of the recently chartered Henry George School, and *The Freeman* served as its flagship publication. It was an 18- to 24-page monthly that defended capitalism and opposed American entry in the coming European war. Chodorov published at least eight articles by Nock.

More than ever, Nock rejected claims that government could deal with the monumental problems of the age. In his introduction to Henry Haskins's 1940 book *Meditations in Wall Street*, he insisted that "the State is the poorest instrument imaginable for improving human society, and that confidence in polit-

ical institutions and political nostrums is ludicrously misplaced. Social philosophers in every age have been strenuously insisting that all this sort of fatuity is simply putting the cart before the horse; that society cannot be moralized and improved unless and until the individual is moralized and improved."

Nock recognized the futility of violent revolution. For instance, these remarks from his introduction to the 1940 edition of Herbert Spencer's *Man Versus the State*: "The people would be as thoroughly indoctrinated with Statism after the revolution as they were before, and therefore the revolution would be no revolution, but a *coup d'état*, by which the citizen would gain nothing but a mere change of oppressors. There have been many revolutions in the last twenty-five years, and thus has been the sum of their history."

Nock was considered a conservative for opposing Franklin Delano Roosevelt, who touted big government and schemed to get America into another European war. Yet Nock was among the few thinkers to maintain antiwar views during both world wars. Moreover, having abandoned his early "progressive" ideas for government intervention, he had actually become more radical. He affirmed his authentic radicalism in many of the 48 articles he wrote between 1932 and 1939 for *American Mercury*, hotbed of opposition to FDR. "The German State is persecuting great masses of its people," he wrote in March 1939, "the Russian State is holding a purge, the Italian State is grabbing territory, the Japanese State is buccaneering all along the Asiatic Coast. . . . The weaker the State is, the less power it has to commit crime. Where in Europe today does the State have the best criminal record? Where it is weakest: in Switzerland, Holland, Denmark, Norway, Luxemburg, Sweden, Monaco, Andorra. . . .

"Many now believe that with the rise of the 'totalitarian' State the world has entered upon a new era of barbarism. It has not. The totalitarian State is only the State; the kind of thing it does is only what the State has always done with unfailing regularity, if it had the power to do it, wherever and whenever its own aggrandizement made that kind of thing expedient. . . .

"So it strikes me that instead of sweating blood over the inequity of foreign states, my fellow-citizens would do a great deal better by themselves to make sure that the American State is not strong enough to carry out the like inequities here. The stronger the American State is allowed to grow, the higher its record of criminality will grow, according to its opportunities and temptations."

Memoirs of a Superfluous Man

In the early 1940s Nock turned to writing his last and best-known book—*Memoirs of a Superfluous Man*. He worked at a house in Canaan, Connecticut. He gracefully chronicled the development of his ideas. He provided insightful commentary about his heroes—like Thomas Jefferson, Herbert Spencer, and Henry George. But he omitted most personal details about his life, and he was steeped in pessimism. "The American people," he lamented, "once had their liberties; they had them all; but apparently they could not rest o' nights until they had turned them over to a prehensile crew of professional politicians."

Nock assailed one of his favorite targets, compulsory government schooling, which promoted "superstitious servile reverence for a sacrosanct State. In another view one saw [government schooling] functioning as a sort of sanhedrin, a leveling agency, prescribing uniform modes of thought, belief, conduct, social deportment, diet, recreation, hygiene; and as an inquisitorial body for the enforcement of these prescriptions, for nosing out heresies and irregularities and suppressing them. In still another view one saw it functioning as a trade-unionist body, intent on maintaining and augmenting a set of vested interests . . . an extremely well-disciplined and powerful political pressure group."

Harper's published *Memoirs of a Superfluous Man* in 1943. Adversaries, predictably, heaped criticism on the book—the *New York Times's* Orville Prescott, for instance, blasted Nock for "a corrosive, contemptuous cynicism and a profound despair." But some reviewers, like intellectual compatriot Isabel Paterson,

who wrote for the *New York Herald Tribune*, were charmed by the book.

Nock seems to have had few friends during his last years. He corresponded with his sons Francis and Samuel, with *Discovery of Freedom* author Rose Wilder Lane, and former *American Mercury* editor Paul Palmer. He often lunched with Frank Chodorov, who had been forced out of the Henry George School because he opposed American entry in World War II; after 1943, *The Freeman* became the *Henry George News* and has continued up to the present. Chodorov recalled his times with Nock: "Over a meal—I was usually ready for coffee before he finished his soup—he would regale you with bits of history that threw light on a headline, or quote from the classics a passage currently applicable, or take all the glory out of a 'name' character with a pithy statement of fact. He was a library of knowledge and a fount of wisdom, and if you were a kindred spirit you could have your pick of both."

Independent oilman William F. Buckley, Texas-born son of Irish immigrants, saw himself as part of "the Remnant" Nock cherished. Periodically he invited Nock to lunch at his family's Great Elm mansion in Sharon, Connecticut—despite Nock's radical ways. Buckley enjoyed Nock's individualism and his scholarship, and *Memoirs of a Superfluous Man* helped spur his son William F. Buckley Jr. to defy the collectivist trends of the time.

Nock's Last Years

Since no magazine would take Nock's writing, several friends set up the National Economic Council. Starting on May 15, 1943, it published the *Economic Council Review of Books*, which he edited. He continued almost two years until failing health led him to bow out. This work was picked up by Rose Wilder Lane.

In 1945, Nock developed lymphatic leukemia, and he gradually ran out of steam. He told his son Francis: "If sometimes you begin to think the old man is pretty good, and you feel that maybe you ought to be a bit proud of him . . . realize that he ain't so much after all." He moved in with his friend Ruth

Robinson, who lived in Wakefield, Rhode Island. There he died August 19, 1945. He was 74 and left an estate of about \$1,300. Since Nock had wanted to be buried "without any fuss," a local Episcopal priest conducted a simple funeral service at Robinson's house, and he was buried nearby in Riverside Cemetery.

In his quiet way, Nock had remarkable influence. Frank Chodorov championed Nock's brand of individualism through his books, his monthly newsletter *analysis* (he didn't capitalize the first "a"), and in the weekly newsletter *Human Events*, where he became an editor. He founded the Intercollegiate Society of Individualists.

According to Henry Regnery, who published two volumes of Nock's material after his death, *The Freeman* was an inspiration for *Human Events*, launched by newspaperman Frank Hanighen on February 2, 1944. Hanighen and his principal collaborator, former Haverford College president Felix Morley, were principled opponents of American intervention in foreign wars. Not long before his death, Nock had expressed his admiration for the enterprise and agreed to write some articles. Among the early contributors were William Henry Chamberlin, who had written for *The Freeman*, and Nock's antiwar comrade Oswald Garrison Villard.

In 1950, Nock's former editorial associate Suzanne La Follette joined with *Life* editor John Chamberlain and *Newsweek* columnist Henry Hazlitt to launch another *Freeman*—this time, as a biweekly. They were backed by businessman Alfred Kohlberg, Du Pont executive Jasper Crane, and Sun Oil heir Joseph N. Pew, Jr., among others. The distinguished contributors included William F. Buckley Jr.,

Frank Chodorov, John T. Flynn, F.A. Hayek, Ludwig von Mises, and Wilhelm Röpke. But by 1954, the editors were split between those (like Henry Hazlitt) who wanted to focus on economic freedom and those (like La Follette and volatile Willi Schlamm) who wanted to make anticommunism the key issue. The latter resigned and joined William F. Buckley Jr.'s new fortnightly, *National Review*—which, ironically, offered new subscribers a bonus collection of Nock's essays under the title *Snoring as a Fine Art* (1958).

Leonard E. Read's Foundation for Economic Education acquired *The Freeman*, pumped money into it, went to a monthly schedule, retained Chodorov as its first editor, and has issued it ever since. *Freeman* articles have been excerpted in the *Chicago Tribune*, *San Francisco Chronicle*, *Wall Street Journal*, *Reader's Digest*, and dozens of other publications, and *The Freeman* reaches readers in Argentina, Australia, Brazil, Britain, Canada, China, France, Germany, Greece, India, Indonesia, Italy, Japan, Lithuania, Malaysia, Poland, Russia, Switzerland, and 50 other countries, as well as the United States.

Despite the onslaught of wars and the relentless expansion of government power, individualism endures as a living creed, and Albert Jay Nock deserves considerable credit. He expressed fundamental issues of liberty with blazing clarity. He withstood withering criticism. He defied censors. He helped revive glorious names like Thomas Jefferson, Thomas Paine, and Herbert Spencer. His moral conviction, cosmopolitan scholarship, elegant prose, and steadfast devotion inspired others to join the epic struggle for liberty. □

Isaiah's Job

by Albert Jay Nock

One evening last autumn, I sat long hours with a European acquaintance while he expounded a politico-economic doctrine which seemed sound as a nut and in which I could find no defect. At the end, he said with great earnestness: "I have a mission to the masses. I feel that I am called to get the ear of the people. I shall devote the rest of my life to spreading my doctrine far and wide among the populace. What do you think?"

An embarrassing question in any case, and doubly so under the circumstances, because my acquaintance is a very learned man, one of the three or four really first-class minds that Europe produced in his generation; and naturally I, as one of the unlearned, was inclined to regard his lightest work with reverence amounting to awe. . . .

I referred him to the story of the prophet Isaiah. . . . I shall paraphrase the story in our common speech since it has to be pieced out from various sources. . . .

The prophet Isaiah's career began at the end of King Uzziah's reign, say about 740 B.C. This reign was uncommonly long, almost half a century, and apparently prosperous. It was one of those prosperous reigns, however—like the reign of Marcus Aurelius at Rome, or the administration of Eubulus at Athens, or of Mr. Coolidge at Washington—where at the end the prosperity suddenly peters out and things go by the board with a resounding crash.

In the year of Uzziah's death, the Lord

commissioned the prophet to go out and warn the people of the wrath to come. "Tell them what a worthless lot they are," He said. "Tell them what is wrong, and why, and what is going to happen unless they have a change of heart and straighten up. Don't mince matters. Make it clear that they are positively down to their last chance. Give it to them good and strong and keep on giving it to them. I suppose perhaps I ought to tell you," He added, "that it won't do any good. The official class and their intelligentsia will turn up their noses at you, and the masses will not even listen. They will all keep on in their own ways until they carry everything down to destruction, and you will probably be lucky if you get out with your life."

Isaiah had been very willing to take on the job—in fact, he had asked for it—but the prospect put a new face on the situation. It raised the obvious question: Why, if all that were so—if the enterprise were to be a failure from the start—was there any sense in starting it?

"Ah," the Lord said, "you do not get the point. There is a Remnant there that you know nothing about. They are obscure, unorganized, inarticulate, each one rubbing along as best he can. They need to be encouraged and braced up, because when everything has gone completely to the dogs, they are the ones who will come back and build up a new society; and meanwhile, your preaching will reassure them and keep them hanging on. Your job is to take care of the Remnant, so be off now and set about it." . . .

What do we mean by the masses, and what by the Remnant?

"Isaiah's Job" is extracted from Chapter 13 of Nock's book Free Speech and Plain Language, copyright 1937 by Albert Jay Nock, published by William Morrow & Company, New York. This extract has been reprinted with permission.

As the word *masses* is commonly used, it suggests agglomerations of poor and underprivileged people, laboring people, proletarians. But it means nothing like that; it means simply the majority. The mass-man is one who has neither the force of intellect to apprehend the principles issuing in what we know as the humane life, nor the force of character to adhere to those principles steadily and strictly as laws of conduct; and because such people make up the great, the overwhelming majority of mankind, they are called collectively *the masses*. The line of differentiation between the masses and the Remnant is set invariably by quality, not by circumstance. The Remnant are those who by force of intellect are able to apprehend these principles, and by force of character are able, at least measurably, to cleave to them. The masses are those who are unable to do either.

The picture which Isaiah presents of the Judean masses is most unfavorable. In his view, the mass-man—be he high or be he lowly, rich or poor, prince or pauper—gets off very badly. He appears as not only weak-minded and weak-willed, but as by consequence knavish, arrogant, grasping, dissipated, unprincipled, unscrupulous. . . .

As things now stand, Isaiah's job seems rather to go begging. Everyone with a message nowadays is eager to take it to the masses. His first, last, and only thought is of mass-acceptance and mass-approval. His great care is to put his doctrine in such shape as will capture the masses' attention and interest. . . .

The main trouble with this [mass-man approach] is its reaction upon the mission itself. It necessitates an opportunist sophistication of one's doctrine, which profoundly alters its character and reduces it to a mere placebo. If, say, you are a preacher, you wish to attract as large a congregation as you can, which means an appeal to the masses; and this, in turn, means adapting the terms of your message to the order of intellect and character that the masses exhibit. If you are an educator, say with a college on your hands, you wish to get as many students as possible, and you whittle down your requirements accordingly. If a writer, you aim at getting many readers; if a publisher, many purchasers; if a philosopher,

many disciples; if a reformer, many converts; if a musician, many auditors; and so on. But as we see on all sides, in the realization of these several desires the prophetic message is so heavily adulterated with trivialities, in every instance, that its effect on the masses is merely to harden them in their sins. Meanwhile, the Remnant, aware of this adulteration and of the desires that prompt it, turn their backs on the prophet and will have nothing to do with him or his message.

The Remnant

Isaiah, on the other hand, worked under no such disabilities. He preached to the masses only in the sense that he preached publicly. Anyone who liked might listen; anyone who liked might pass by. He knew that the Remnant would listen. . . .

The Remnant want only the best you have, whatever that may be. Give them that, and they are satisfied; you have nothing more to worry about. . . .

In a sense, nevertheless, as I have said, it is not a rewarding job. A prophet of the Remnant will not grow purse-proud on the financial returns from his work, nor is it likely that he will get any great renown out of it. Isaiah's case was exceptional to this second rule, and there are others—but not many.

It may be thought, then, that while taking care of the Remnant is no doubt a good job, it is not an especially interesting job because it is as a rule so poorly paid. I have my doubts about this. There are other compensations to be got out of a job besides money and notoriety, and some of them seem substantial enough to be attractive. Many jobs which do not pay well are yet profoundly interesting, as, for instance, the job of the research student in the sciences is said to be; and the job of looking after the Remnant seems to me, as I have surveyed it for many years from my seat in the grandstand, to be as interesting as any that can be found in the world.

The fascination—as well as the despair—of the historian, as he looks back upon Isaiah's Jewry, upon Plato's Athens, or upon Rome of the Antonines, is the hope of discovering and laying bare the "substratum of right-thinking

and well-doing" which he knows must have existed somewhere in those societies because no kind of collective life can possibly go on without it. He finds tantalizing intimations of it here and there in many places, as in the Greek Anthology, in the scrapbook of Aulus Gellius, in the poems of Ausonius, and in the brief and touching tribute, *Bene merenti*, bestowed upon the unknown occupants of Roman tombs. But these are vague and fragmentary; they lead him nowhere in his search for some kind of measure of this substratum, but merely testify to what he already knew *a priori*—that the substratum did somewhere exist. Where it was, how substantial it was, what its power of self-assertion and resistance was—of all this they tell him nothing.

Similarly, when the historian of two thousand years hence, or two hundred years, looks over the available testimony to the quality of our civilization and tries to get any kind of clear, competent evidence concerning the substratum of right-thinking and well-doing which he knows must have been here, he will have a devil of a time finding it. When he has assembled all he can get and has made even a minimum allowance for speciousness, vagueness, and confusion of motive, he will sadly acknowledge that his net result is simply nothing. A Remnant were here, building a substratum like coral insects; so much he knows, but he will find nothing to put him on the track of who and where and how many they were and what their work was like.

Concerning all this, too, the prophet of the present knows precisely as much and as little as the historian of the future; and that, I repeat, is what makes his job seem to me so profoundly interesting. One of the most suggestive episodes recounted in the Bible is that of a prophet's attempt—the only attempt of the kind on record, I believe—to count up the Remnant. Elijah had fled from persecution into the desert, where the Lord presently overhauled him and asked what he was doing so far away from his job. He said that he was running away, not because he was a coward, but because all the Remnant had been killed off except himself. He had got away only by

the skin of his teeth, and, he being now all the Remnant there was, if he were killed the True Faith would go flat. The Lord replied that he need not worry about that, for even without him the True Faith could probably manage to squeeze along somehow if it had to; "and as for your figures on the Remnant," He said, "I don't mind telling you that there are seven thousand of them back there in Israel whom it seems you have not heard of, but you may take My word for it that there they are." . . .

The other certainty which the prophet of the Remnant may always have is that the Remnant will find him. He may rely on that with absolute assurance. . . .

He may be quite sure that the Remnant will make their own way to him without any adventitious aids; and not only so, but if they find him employing such aids, as I said, it is ten to one that they will smell a rat in them and will sheer off.

Such instances as these are probably not infrequent, for, without presuming to enroll ourselves among the Remnant, we can all no doubt remember having found ourselves suddenly under the influence of an idea, the source of which we cannot possibly identify. "It came to us afterward," as we say; that is, we are aware of it only after it has shot up full-grown in our minds, leaving us quite ignorant of how and when and by what agency it was planted there and left to germinate. It seems highly probable that the prophet's message often takes some such course with the Remnant.

If, for example, you are a writer or a speaker or a preacher, you put forth an idea which lodges in the *Unbewusstsein* of a casual member of the Remnant and sticks fast there. For some time it is inert; then it begins to fret and fester until presently it invades the man's conscious mind and, as one might say, corrupts it. Meanwhile, he has quite forgotten how he came by the idea in the first instance, and even perhaps thinks he has invented it; and in those circumstances, the most interesting thing of all is that you never know what the pressure of that idea will make him do. □

Russell D. Shannon, In Memoriam

by Donald J. Boudreaux

The ranks of those dedicated to the principles of a free society are too few to permit the loss of any champion of freedom to go unfelt. Sadly, Thanksgiving Day 1996 brought the untimely death of Russell Shannon—a man committed to his core to liberty and to human decency. He was quickly felled, at the too-young age of 58, by spinal cancer. This is a tragic loss to his family, friends, colleagues, and students.

After graduating from Duke University, Russell earned his doctorate from Tulane in 1965. That same year he began his career teaching economics at Clemson University. He never left. During his 31 years of teaching he inspired countless students, adeptly sharing the power of sound economic thinking. More importantly, Russell conveyed a sophisticated appreciation of the creative and coordinating might of a free society. He was, truly, a gifted and dedicated teacher.

Russell was also a talented expositor in print of economic ideas. Since January 1978, he contributed 29 articles and reviews to *The Freeman*. Indeed, his final contribution to *The Freeman*—a fine piece recounting the benefits of telephone deregulation—appeared in the December 1996 issue. This issue was printed only days before Russell died.

I met Russell when I joined the Clemson

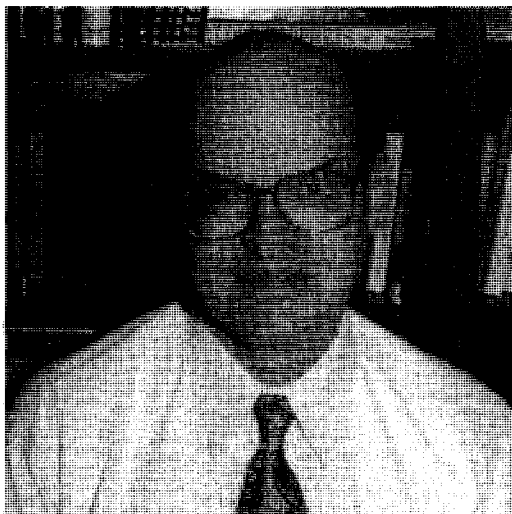
Dr. Boudreaux is associate professor of law and economics at Clemson University, Clemson, South Carolina.

faculty in 1992, although I'd long before known of him through his contributions to *The Freeman*. Russell, several faculty colleagues, and I immediately began a monthly reading group. We started with several of Hayek's essays, and moved on to Hayek's *Fatal Conceit*. During the past few years, we also read and discussed articles by Ronald Coase, John Locke's *Second Treatise on Government*, Henry Hazlitt's *Foundations of Morality*, Richard Epstein's *Simple Rules for a Complex World*, and Alexis de Tocqueville's *Democracy in America*. We were in the midst of Tocqueville's masterpiece when Russell's illness struck.

It was Russell who suggested that we read Tocqueville. If, during our dinner meetings, the conversation strayed too far from the substance of the book, Russell skillfully brought our conversation back to germane issues in the text. He rightly insisted that Tocqueville's insights are too numerous and too deep to be treated summarily. Reading—no, *studying*—Tocqueville was for Russell a labor of love. He generously spent a good deal of time finding enlightening articles on Tocqueville and passing copies of these to each member of our group.¹

Our reading group has a few chapters of Tocqueville remaining to be read and discussed. Whatever insights we glean will be fewer and duller than they would have been if Russell were still alive to lead and inspire our discussions.

More regrettably, Clemson's students will



Russell Shannon

be poorer without Russell. In September, Russell walked into my office wearing as big a smile as I'd ever seen him wear. He announced that he'd been given permission to teach a semester-long course on Adam Smith's *Wealth of Nations*. He planned to teach it as a great-books course. He and his students would read and discuss Smith's great book from cover to cover. I'm sure that he would have taught the students in the class enormous amounts about Smith's famous work.

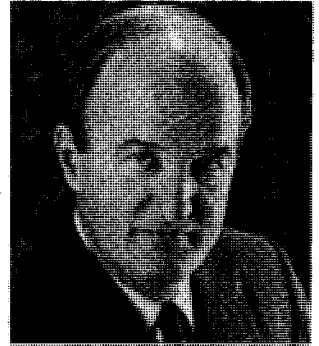
My wife, Karol, and I visited Russell less than 36 hours before he died. His spirits were remarkably upbeat. And, as always, his mind was on economics. He told us of how he planned to write an essay on the economics of the modern hospital. His several days in the hospital reinforced for him the power of Adam Smith's insights about wealth springing forth from the division of labor. The modern hospital, Russell realized, is an urban microcosm. He was impressed with its smooth operation, and with the large number of physicians, technicians, nurses, and other staff members who each play an important role. Russell pointed out that the modern hospital features public transportation (moving vertically rather than horizontally!), common areas, a police force, a mayor (called "administrator"), churches, shops, thruways, and, most importantly, a welter of people each highly specialized in performing tasks that redound to the benefit of multitudes.

Russell will not now write that essay. How unfortunate for those of us who stood to learn from the insights he would have conveyed.

Before closing, I want to relate one final anecdote involving Russell. A few months before Russell took ill, Bill Dougan, the chairman of Clemson's economics department, recollected some of the fine graduate students that this department has trained over the years. Among the best of these students is Todd Zywicki, who, after receiving his master's degree in economics from Clemson in 1990, earned a law degree from the University of Virginia. Todd now teaches law at the Mississippi College School of Law, and is compiling an impressive record of scholarly research. Bill recalled that when Todd first arrived at Clemson, Todd (a former FEE intern) was familiar with only one name on the faculty. That name was Russell Shannon. Todd knew Russell's name through Russell's essays in *The Freeman*.

Russell was first and foremost a dedicated and masterful teacher. He valued nothing more highly than success in inspiring the likes of Todd and myriad other students to appreciate both scholarship and the free society. He will be missed. □

1. Among the articles on Tocqueville that Russell recommended we read was Jim Powell's "Alexis de Tocqueville: How People Gain Liberty and Lose It," *The Freeman*, July 1996, pp. 520-526.



The Rich Get Richer, and the Poor Get ...

"The modern market economy accords wealth and distribution income in a highly unequal, socially adverse and also functionally damaging fashion."

—John Kenneth Galbraith

The allegation is appearing everywhere: Real average wages are stagnating and the distribution of wealth and income in the United States is becoming more unequal. In his latest book, Galbraith cites recent Federal Reserve statistics: "By 1992, the top 5 percent were getting an estimated 18 percent, a share that in more recent years has become substantially larger, as that of those in the poorest brackets has been diminishing. This, the good society cannot accept."¹ According to the Bureau of Labor Statistics, average real wages have been declining since the mid-1970s. If benefits are included, total real compensation has been rising, but only modestly. Finally, *Business Week* (February 25, 1996) declared, "Is America Becoming More of a Class Society?" The magazine cites several academic studies indicating less upward mobility for less-educated Americans. The *Wall Street Journal* (December 23, 1996) adds, "Inequality may grow for lifetime earnings."

Critics of market capitalism are often misled by conventional measures of economic well-being, in particular the Lorenz curve, which measures income distribution.

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The Lorenz curve measures the percentage of a nation's total income as earned by various income classes. Typically, it is divided into five income groups. In the United States, the highest fifth (the highest income earners) usually receive 40 percent of the nation's income, while the lowest fifth (the lowest income earners) receive around 5 percent. Using the Lorenz curve, U.S. income appears to be seriously maldistributed, "now the extreme case among the major industrial countries," says Galbraith.

However, the Lorenz curve establishes an unfair and misleading guide for measuring social welfare. Suppose, for example, that an "ideal" line of "perfect" equality is achieved on the Lorenz curve, i.e., the highest fifth (top 20 percent of income earners) only receive 20 percent of the nation's income, while the bottom fifth (lower 20 percent) increase their share to 20 percent. What does this ideal mean? Everyone—the teacher, the lawyer, the plumber, the actor—earns the same amount of income!²

Since few economists think equal wages for everyone is an ideal situation, why do they think moving toward "perfect equality" on the Lorenz curve is appropriate? Moreover, the Lorenz curve is unable to show an increase in a country's standard of living over time. It merely measures distribution of income.

To measure changes in social welfare, economists often rely on a second measure—average real income. This, too, has its shortcomings. A single statistic may mask improvements in an individual's standard of living over time.

For example, average real income shows hardly any change since the mid-1970s. Yet other measures of well-being, such as consumer expenditures and the quantity, quality, and variety of goods and services, show remarkable advancement over the past 20 years. Consumer spending rose a dramatic 40 percent per person in real terms during this period. As Professor Richard Vedder says, "How many Americans in 1975 had VCRs, microwaves, CD players, and home computers?"

The Work of Stanley Lebergott

Stanley Lebergott, professor of economics at Wesleyan University, has probably done more work in this area than anyone else. Instead of relying on general measures such as average real income, he uses a more commonsense approach—looking at individual consumer markets in food, clothing, housing, fuel, housework, transportation, health, recreation, and religion. His work is fascinating.

For example, he developed the following table to measure improvements in living standards from 1900 to 1970:

Living Standards, 1900–1970

Percentage with . . .	Among All Families in 1900	Among Poor Families in 1970
Flush toilets	15	99
Running water	24	92
Central heating	1	58
One (or fewer) occupants per room	48	96
Electricity	3	99
Refrigeration	18	99
Automobiles	1	41

Source: Stanley Lebergott, *The American Economy* (Princeton University Press, 1976), p. 8.

In *Pursuing Happiness*, Lebergott demonstrates repeatedly how American consumers have sought to make an uncertain and often cruel world into a pleasanter and more convenient place. Medicines and medical facilities, artificial lighting, refrigeration, transportation, communication, entertainment,

finished clothing—all have advanced living conditions.

Regarding women's work, Lebergott notes that weekly hours for household and family chores fell from 70 in 1900 to 30 by 1981. The 1900 housewife had to load her stove with tons of wood or coal each year and fill her lamps with coal oil or kerosene. "Central heating also reduced the housewife's tasks. She no longer had to wash the carbonized kerosene, oil, coal, or wood from clothes, curtains, and walls, nor sweep floors and vacuum rugs as persistently. Automated and mechanical equipment reduced her labor further. . . . By 1950, over 95 percent of U.S. families had the facilities [of] central heating, hot water, gas, electric light, baths, and vacuum cleaners."³

Regarding water, Lebergott comments, "The average urban resident consumed about 20 gallons of water per day in 1900. Rural families had virtually no piped water; 55 percent did not even have privies. . . . By 1990, American families devoted two days' worth of their annual income to get about 100 sanitary gallons every day, piped into the home."⁴

Benefits to the Poor, Too

This kind of historical perspective is refreshing and eye-opening. The increase in the standard of living as measured by the quantity, quality, and variety of goods and services has increased dramatically and profoundly in the twentieth century, for people of all incomes. In many ways, the poor have advanced the most and are now capable of living in decent housing, owning an automobile, and enjoying many of the pleasures previously afforded by the wealthy. Cheap airline services allow them to travel extensively. Television gives them the chance to see sports events and musical shows previously limited to the rich and the middle class. Compared to yesteryear, every house today is a castle, every man is a king. □

1. John Kenneth Galbraith, *The Good Society: The Humane Agenda* (Boston: Houghton Mifflin Co., 1996), p. 50.

2. For a critique of the Lorenz curve, see my work *Economics on Trial* (Irwin, 1991), pp. 187–197.

3. Stanley Lebergott, *Pursuing Happiness: American Consumers in the Twentieth Century* (Princeton, N.J.: Princeton University Press, 1993), p. 58.

4. *Ibid.*, pp. 117–118. See also Lebergott's latest work, *Consumer Expenditures* (Princeton, N.J.: Princeton University Press, 1996).

BOOKS

The Bamboo Network: How Expatriate Chinese Entrepreneurs Are Creating a New Economic Superpower in Asia

by Murray Weidenbaum and Samuel Hughes

Free Press • 1996 • 272 pages • \$24.00

Reviewed by William H. Peterson

A sharp turn in human events since the end of the Cold War is the emergence of a powerful new global economic force, one without fanfare, and in an unexpected place: Southeast Asia.

The force is the "Bamboo Network." It's made up of rich entrepreneurial Chinese families in Greater China: booming Mainland China (population 1.2 billion with a land mass as big as Canada), Hong Kong, and Taiwan for the most part; and, in one degree or another, in nearby and similarly booming Thailand, Singapore, Malaysia, Indonesia, Vietnam, and the Philippines.

This Bamboo Network is quickly advancing from socialism or heavy state interventionism to a huge market economy, from degrees of totalitarianism to forms of limited republics—with Mainland China and its strict one-party rule having the greatest way to go.

What is more, this late-blooming economic miracle, an unmatched recast of much of the Far East, is envisioned, financed, and led in great measure not by Japanese and Western investors but by those aforementioned wealthy, mainly overseas Chinese family investors and entrepreneurs. They bring to mind the earlier House of Rothschild phenomenon of internationalization and multiplication of family fortunes.

Ironically, most of these ethnic Chinese superinvestors, while removed from their ancestral home, are now closely involved with its economic success as well as that of their new-found homes, despite some lingering local discrimination (Malays vs. Chinese, for

example). These superinvestors are the refugees, or their children, who fled the Maoist communists in the 1940s. They have much to teach their Western counterparts who invest in that part of the world—or anywhere else.

Such are the fascinating Weidenbaum-Hughes findings. Murray Weidenbaum, President Reagan's first chairman of the Council of Economic Advisers, holds the Mallinckrodt distinguished chair at Washington University in St. Louis, where he also serves as chairman of the University's Center for the Study of American Business. Samuel Hughes, a former Center fellow, is a St. Louis-based management consultant.

The authors supply fresh meaning to networking, noting "it is common for the father-CEO stationed in Hong Kong or Bangkok or Singapore to send one son to Shanghai, another to Taipei, a son-in-law to Manila, and a nephew to Kuala Lumpur," so positioning them in the Bamboo Network for future senior leadership. (Nepotism doesn't extend as far for daughters.)

Confucian culture explains a good deal of what's behind the dramatic rise of the Bamboo Network and its growing, pounding heart, Mainland China. The philosophy of Confucius, who died in 479 B.C., has been the fare of Chinese students ever since. His values help explain the Bamboo Network's business success—values that include loyalty to the hierarchical structure of authority, a code of defined conduct between children and parents and other adults, a work and quality ethic, a sense of ethnic responsibility, a disdain for conspicuous consumption, consequent high saving rates, a bent for focus, and a drive for entrepreneurship as a dynamic rivalrous process to combine land, labor, and capital into profitable, privately held enterprises that serve and are served.

Covered here then are the Charoen Pokphand Group of Thailand, the Li Ka-shing Group of Hong Kong, the Ong Beng Seng Group of Singapore (whose holdings include participation in Planet Hollywood, a movie-theme restaurant chain co-owned by Arnold Schwarzenegger and Sylvester Stallone), the Y. C. Wang Group of Taiwan, the Salim Group of Indonesia, the Kuok Group of

Malaysia, and the Henry Sy Group of the Philippines. (Henry Sy's teenage daughter was abducted and killed in 1993. The authors note that rich local Chinese offer tempting targets to Filipino criminal gangs.)

The authors also note the Bamboo Network has only partially checked bribery, lack of property rights protection, and enforcement of contracts in the People's Republic of China. Intellectual property security, such as trademarks and copyrights, is regularly broken. Imitation Bausch & Lomb Ray Ban sunglasses are sold as "Ran Bans," for instance. Lux brand soap in the same colored wrapper is passed along as "Lix" soap. Dupont's copyrighted rice plant herbicide formula has been filched and produced without royalties. Software and movie video theft is fair game, upsetting American executives at, among other firms, Microsoft and Walt Disney.

Relatedly, McDonald's 20-year restaurant land lease in Beijing was summarily torn up in 1994 to make room for a more lucrative Oriental Plaza complex of commercial, office, and residential properties. A sop to McDonald's: a "guaranteed" spot in the complex upon its completion in 1998.

So degrees of apathy and corruption are "in" in the PRC. Shangri-La it's not. The message to entice U.S. citizens and firms: Be wary. The U.S. Foreign Corrupt Practices Act subjects American bribe-payers, if caught, to a fine of up to \$100,000 plus five years in prison.

Yet the wary can win out. Coca-Cola, for example, sells 2.4 billion cans a year—or two for each man, woman, and child—winning over 15 percent of China's fast-growing soft-drink market. Motorola has won a large fraction—\$2 billion in sales in 1994 on its investment of \$1.2 billion in the PRC—of the fast-growing Chinese cellular phone and pager market.

Motorola is among the 70 percent of all U.S. firms whose Far Eastern headquarters are in Hong Kong, a strategic location for mainland know-how and joint-venture connections. Motorola's neighbors there include Bank of America, Dun & Bradstreet, Exxon, Hyatt, Time-Warner, May Department

Stores, PepsiCo, Polaroid, Walt Disney, and Xerox. The largest overseas U.S. Chamber of Commerce is the American chamber in Hong Kong.

Indeed, China could already be the world's second largest economy, suddenly surpassing Japan. (Is the United States next?) Using the controversial "purchasing power parity" theory of measuring output by comparing each national currency's buying power of a similar "market basket" of goods, *The Economist* (March 9, 1996) puts China's GDP at \$3.0 trillion in 1994 against Japan's \$2.7 trillion and the United States' \$7.0 trillion.

But what of the future? Two clouds on the horizon: What happens to the Chinese Communist party leadership when time and tide catch up with the revered founder of the PRC Economic Revolution, Deng Xiaoping, now in his nineties? And how will Hong Kong fare with its Colossus parent when it becomes a "special administrative unit" of the PRC in July 1997, even with "guaranteed" retention of its present social, economic, and legal systems for 50 years, according to the British-PRC Joint Declaration of 1984?

So the authors wind up their insightful book with a self-described "foggy crystal ball" and see three possible scenarios for the giant PRC: successful transition to a market economy, reversion to communism, and growing instability leading to fragmentation.

The first scenario on a successful transition signals a triumph for world freedom and free enterprise along with a spur to global trade and economic growth. The second scenario on reversion to communism takes heed of PRC's ownership of—apart from nuclear warheads—literally thousands of subsidized, mostly money-losing state enterprises, some of them very large. Many xenophobic state enterprise operators resent the intrusion of foreign competition, foreign capital, foreign products, foreign ideas, and foreign influence in Beijing and throughout the provinces. The third scenario on fragmentation sees how, for example, the highly successful southeastern province of Guangdong with its Cantonese dialect and its next-door proximity to Cantonese-speaking Hong Kong—itsself shrewd if nervous—could break away.

In all three scenarios the Western-educated younger generation of overseas Chinese business leaders will play a decisive role. Ah, but how? Time will tell. Stay tuned. Meanwhile, Murray Weidenbaum and Samuel Hughes remind you that the Chinese symbol for durability is bamboo, that as an old oriental maxim puts it: "Bamboo bends; it does not break." □

Dr. Peterson is this month's guest editor.

Christianity and Economics in the Post-Cold War Era: The Oxford Declaration and Beyond

Edited by Herbert Schlossberg,
Vinay Samuel, and Ronald J. Sider

Eerdmans Publishing Company • 1994 • 149
pages • \$11.00 paperback

Reviewed by John W. Robbins

As part of an ecumenical effort to articulate a religious view of economics and economic systems, 36 conferees describing themselves as "evangelical"—an undefined term which apparently means neither Roman Catholic, Eastern Orthodox, nor liberal Protestant—gathered in 1987, and over 100 gathered in 1990 at Oxford and again in New Delhi in 1995.

The result of the second meeting in 1990 was the "Oxford Declaration." This volume, which includes the text of the Oxford Declaration and 11 essays that are commentaries on it, explains the genesis of the Oxford Declaration as being organized by Ronald Sider, author of *Rich Christians in an Age of Hunger*. (The editors fail to list the signatories of the Declaration, and to disclose who funded this expensive project.)

What is the Declaration itself? Its full title is "The Oxford Declaration on Christian Faith and Economics." It makes pronouncements on four major topics: Creation and Stewardship; Work and Leisure; Poverty and Justice; and Freedom, Government and Economics. It is actually an updating, a greening, of the old social gospel, the gospel of altruism,

that swept through American Protestant churches at the beginning of the twentieth century. The Declaration makes no contribution to an understanding of either Christianity or economics. It makes a thorough muddle of both. It is an ambiguously worded document of undefined terms and emotive phrases.

Filled with the jargon of socialism, interventionism, and welfare liberalism—basic needs, common good, exploitation, selfish individualism, empowerment, ecology, dehumanization, environmental devastation, inequitable distribution of wealth and income—the Declaration calls for government action on several fronts, for example: (1) "to create and enforce just frameworks of incentives and penalties . . . [to promote] ecologically sound practices"; (2) "the right to earn a living would be a positive or sustenance right. Such a right implies the obligation of the community to provide employment opportunities"; (3) "We encourage governments and international financial institutions to redouble their efforts to find ways to . . . ensure the flow of both private and public productive capital where appropriate"; and (4) "We urge that a major part of the resulting 'peace dividend' be used to provide sustainable solutions to the problems of the world's poor." There is more, but by now the reader gets the general idea.

The only redeeming economic value this book has is two essays by Calvin Beisner (of Covenant College) and Herbert Schlossberg (of the Fieldstead Institute), both participants in the Oxford conference. Beisner attacks the Declaration directly for its contradictory ideas about justice, and Schlossberg finds it astonishing that the Declaration (1) says nothing at all about capital formation, and (2) assumes the Marxist notion that economic theory rests on and is concerned only with material factors.

The Declaration implies a rejection of both capitalism and central planning, but the notion that there is a third way is a chimera. Neither social stability nor freedom can be achieved by attempting to combine the primacy of the individual with the primacy of the group; or equality before the law with partiality for favorites; or the rule of law with the rule of whim.

The Declaration concludes: "We acknowledge that all too often we have allowed society to shape our views and actions and have failed to apply scriptural teaching in this crucial area of our lives, and we repent." Would that they had. □

Dr. Robbins is president of the Trinity Foundation.

Getting It Right: Markets and Choices in a Free Society

by Robert J. Barro

MIT Press • 1996 • 191 pages • \$20.00

Reviewed by Chris Weinkopf

Despite serving on the faculty at Harvard, Robert J. Barro is judicious, discerning, and an unflagging champion of liberty. He is not scared to tackle taboo—blasting the faux science of "second-hand smoke" hysteria, and questioning the wisdom of "protecting" endangered species at the cost of untold millions. Such unconventional wisdom makes him eminently likable to conservatives and libertarians. They will no doubt rush to buy, read, and enjoy this book. But only the first task will come easy.

This is not to say that *Getting It Right* has nothing to offer; even valuable lessons can be hard to sit through, and on various subjects, most notably foreign policy, Professor Barro has much to teach. He spurns foreign aid and third-world-debt forgiveness schemes for subsidizing socialism and discouraging private-sector investment. Likewise, he dissects the notion that the United States can implement democracy in areas that don't protect property rights, let alone support functional markets. Even the war on drugs—an obvious domestic failure—has harmful international repercussions, providing an easy source of revenue for foreign guerrillas like Peru's Shining Path.

But Barro's greatest asset, his ability to demonstrate free-market truths empirically (often with charts and diagrams), becomes a liability when he places greater trust in tables and formulae than in common sense and

public knowledge. In the first chapter, Barro assigns numerical values to the economic freedom of various countries. He confidently forecasts that states with a capitalism quotient higher than a base minimum will be more democratic by the year 2000. Hong Kong ranks third in his list of nations on the fast track to political freedom—never mind that the tyrants of Peking take over in July.

His commitment to economic analysis sometimes supersedes even his own good instincts. Barro offers tortured reasoning to explain that Major League Baseball must impose caps on its players' "excessive" salaries because "the competitive wage for athletic skills reflects the benefit to an individual team . . . in contrast, the 'correct' wage from a social standpoint is the value of all teams having better players." But unregulated teams will never pay a player too much (more than what he can earn for them at the box office, concession and souvenir stands, or in TV revenues); Barro should know that.

This wonkish approach might be tolerable if it didn't also infuse the writing, but it does. *Getting It Right* is a collection of columns not published as separate essays, but strung together haphazardly in what fails to comprise a coherent whole. Barro's prose is drier than toasted rye, and not because it includes too much data or jargon, but because it lacks conviction. For example, Barro blithely dismisses the Civil War, saying slavery "would have been eliminated peacefully in not very many years." Perhaps, but this reasoning ignores the moral imperative, not to mention natural rights. His arguments for freedom are always strictly utilitarian; he never acknowledges that liberty has an innate value separate from its material benefits. That sort of sagacity doesn't show up in a graph. □

Mr. Weinkopf is the editor of National Review Online (<http://www.nationalreview.com>).



Classical Economics: An Austrian Perspective on the History of Economic Thought, Volume II

by Murray N. Rothbard

Edward Elgar Publishing Limited • 1995 •
528 + xvi pages • \$99.50

Reviewed by Douglas E. French

Years ago Murray Rothbard set out to write an Austrian answer to Robert Heilbroner's *The Worldly Philosophers*. Rothbard was much more ambitious than Heilbroner, whose 347 pages only (lightly) covers from Adam Smith to "The Modern World." Professor Rothbard kept finding more and more characters that influenced economic thought, resulting in a two-volume history of economic thought from the Austrian perspective. His death in 1995 kept him from finishing the third volume.

Volume II, entitled *Classical Economics*, picks up the story (which started with the Ancient Greeks in Volume I) with Frenchman J.B. Say. "Say's Law" is known to all Econ 101 students as "supply creates its own demand." But little else is taught about Say. Yet, Say's *Treatise on Political Economy* was the most popular economics text in the United States through the Civil War, going through 26 printings, after eight printings in French.

Rothbard next examines Jeremy Bentham, James Mill, and David Ricardo. Ricardo is known for "the law of comparative advantage," which makes the case for free trade. But, as Rothbard points out, Professor William O. Thweatt has demonstrated that Ricardo didn't originate the law of comparative advantage, didn't understand it, didn't even have much interest in it. It was in fact James Mill who first presented the law while defending free trade against Thomas Malthus's support of the Corn Laws.

The heart of *Classical Economics* revolves around the monetary and banking theories of the 1800s. With Great Britain suspending required specie payments, allowing the Bank of England to greatly inflate the supply of money, economic thinkers had to consider the

effects of a fiat paper money system. The "bullionists" contended that the increase in paper money caused the price inflation. The opposing "anti-bullionists" placed the blame for the higher prices on wartime disruptions, supply shortages, and any other cause that let the government and Bank of England off the hook.

The boom and subsequent bust of 1825 in Britain led to the currency versus banking school debate. The currency school advocates insisted that bank notes be backed 100 percent by specie. Unfortunately, they forgot about demand deposits. Thus, as Rothbard writes, "the banking system, led by the Bank of England, [shifted] their inflationary and expansionary attentions to deposits alone—a condition that still prevails throughout the world."

Next, Rothbard looks at Marxism with a religious slant: "Marx harked back to the apocalyptic, . . . who foresaw a bloody Armageddon at the Last Days, before the millennium could be established." "Violent, worldwide revolution, in Marx's version made by the oppressed proletariat, would be the instrument of the advent of his millennium, communism."

Rothbard uses poems that Marx penned to expose him as "mean, hard-core, [and] proto-Stalinist." The mantra of Marxists is that free-market capitalism oppresses the masses for the benefit of the wealthy bourgeoisie. In terms of sheer numbers, no system has oppressed its citizens in the twentieth century like the communist governments of Lenin, Stalin, Mao, and Pol Pot, whose regimes "can be considered the logical unfolding, the embodiment, of the nineteenth century vision of their master, Karl Marx."

Rothbard leaves Marx for the French *laissez-faire* school, led by Frederic Bastiat, and closes with the decline of *laissez-faire* thought during the late 1880s and into the early 1900s, spurred by a burgeoning number of Ph.D.'s who sang the praises of "modern and progressive" Big Government.

The book's final paragraph puts a lump in the throat of any Murray Rothbard fan, student, or friend. He writes that, "it is now clear that the revolution against the classical

school paradigm went far beyond emphasis on the marginal unit of a good or service, especially in the hands of Carl Menger and his followers. But that is the stuff of another volume."

For scholars and students, Rothbard's bibliographical essay is worth the hefty price of the book. Dr. Rothbard was dismayed that the publisher was asking so much for the two volumes (together nearly \$200). This writer and other former students wrote Edward Elgar, attempting to convince the publisher that the book would reach a much wider audience, selling more units, if the price were lowered. But now, we just wish we could buy Volume III, no matter the price. □

Mr. French is a vice-president in commercial real estate lending for a bank in Las Vegas, Nevada.

The Life of Adam Smith

by Ian Simpson Ross

Clarendon Press, Oxford • 1995 • 495 pages • \$35.00

Reviewed by Raymond J. Keating

If you ever wondered what books Adam Smith's father kept in his library, then Ian Simpson Ross's *The Life of Adam Smith* is for you. Indeed, Ross's biography of the father of free-market economics is jam-packed with such facts regarding Smith, his family, teachers, friends, and associates.

It's rather striking, when you consider Adam Smith's impact on mankind, that more has not been written about his life. As Ross notes, the last full-scale biography on Smith was published 100 years ago. *The Life of Adam Smith* paints a technically complete picture of Adam Smith—complete in the sense that the major endeavors of Smith's life are addressed. That is, we see Smith the student, the moral philosopher, the rhetorician, the historian, the teacher, the customs official, and of course, the economist.

Overall, we gain a portrait of Smith as a self-confident man, though modest and self-deprecating, absent-minded, charitable, and

committed to scholarship to the point that his health sometimes suffered. Various particulars about Smith's personal life are noted, including a deep dedication to his mother, being kidnapped by gypsies at the age of three, a possible nervous breakdown as a student, and lifelong bachelorhood with one or two lost loves along the way. Ross concludes "that first and last [Smith] was a moralist whose character bore the impress of the Roman Stoics."

Ross warns, however: "We must not think that Smith's life was all labour over his books, worry over their reception, and refuge from concentration on chains of complex ideas in the endless ramifications of the business routine of the Customs Board. He enjoyed a stimulating social life, particularly through entertaining visitors from other countries in Edinburgh."

Ross discusses Smith's works in their entirety, naturally giving great attention to *The Theory of Moral Sentiments* and *An Inquiry into the Nature and Causes of the Wealth of Nations*. In summary, Ross notes that *The Theory of Moral Sentiments* contributed to a better understanding of the role of sympathy in moral judgments and developed the idea of the "impartial spectator to account for the formation of our judgements of ourselves." As for *The Wealth of Nations* and the economics model developed within, Ross observes: "The leading features of the model, with its concept of a freely competitive and self-regulating market, have proved highly attractive up to the present day." As defined by Smith himself, the Smithian model was the "obvious and simple system of natural liberty."

Ross illustrates that Smith's free-market ideas were brewing for some time before the publication of *The Wealth of Nations* in 1776. For example, Ross provides a quote from a 1755 paper prepared by Smith to be read to a society in Glasgow: "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force

things into another channel, or which endeavour to arrest the progress of society at a particular point are unnatural, and to support themselves are obliged to be oppressive and tyrannical."

This biography particularly excels when examining the many people who influenced Adam Smith to varying degrees. Most important were his teacher Francis Hutcheson, his friend David Hume, and François Quesnay and the French Physiocrats.

The Life of Adam Smith is well worth reading. However, I must admit that the book left me wanting more in two particular areas. First, from the perspective of reading a biography, the tidbits regarding Smith's personal life were not enough to satiate me. This is probably an unfortunate consequence of the amount of information available, though, and not necessarily the fault of the author.

Second, the final chapter cried out for a stronger discussion regarding the massive and durable impact of Smith's economics for more than two centuries. Unfortunately, at the book's close, the reader possesses some doubt as to whether or not Ross fully grasps Smith's deep influence to this very day.

There is much for the free-market reader to appreciate in *The Life of Adam Smith*, with still a bit left to be desired. □

Mr. Keating serves as chief economist for the Washington, D.C.-based Small Business Survival Foundation.

Backfire

by Bob Zelnick

Regnery • 1996 • 416 pages • \$27.50

The Affirmative Action Fraud

by Clint Bolick

Cato Institute • 1996 • x + 170 pages • \$10.95 paperback

Reviewed by Michael Levin

Despite what should have been major legal setbacks from recent court decisions, organs of government continue to discrimi-

nate against white males, and to pressure private employers to do so. Two books attacking affirmative action are therefore most welcome.

Zelnick's is the more useful. Replete with statistics and telling anecdotes, it establishes the ubiquity of state-enforced double standards penalizing white males and favoring blacks and women on no other basis than race and sex. A reporter, Zelnick lets the facts speak for themselves and, when transcribing interviews, stays in the background. It is all here: the discrepancy in SAT scores between black and white university admittees (150 points or more at Princeton, Duke, Dartmouth, and Brown, among others), the discrepancy in admission rates (Amherst takes 51 percent of all blacks who apply as against 19 percent of whites, although the academic records of the blacks are far inferior); government set-asides of billions of dollars in contracts that virtually exclude whites; banks forced to subsidize mortgages for high-risk blacks; Justice Department charges of "discrimination" against home insurers (made in the absence of a single black complainant) leading to demands that "discouraged applicants" be paid millions of dollars in restitution.

Zelnick explains clearly the assault on testing in employment, various schemes to dilute white voting strength, and the "effects" test introduced into the 1982 Voting Rights Act, showing how they reduce productivity and polarize racial politics. Particularly odious are college admissions officers, one of whom swoons over mediocre grades by "minorities" while airily dismissing incomparably more qualified Jewish students with the remark "They'll be fine."

Analytical when required, Zelnick replies effectively to the arguments for quotas. Don't colleges favor the children of alumni? "[T]here is little if any evidence that sons and daughters of alumni have, as a group, academic credentials even slightly below the norm." Can black interests be represented without racial proportionality? Medicaid, Medicare, remedial education, low-income housing, and other measures thought of as benefiting blacks show inescapably "that sub-

stantive black interests have received a sympathetic hearing in the councils of government for many years running." Zelnick's sole weakness is a tendency to describe anyone who agrees with him as tall, distinguished, shrewd, or knowledgeable—a minor vice in an otherwise objective, hard-hitting book.

Affirmative Action Fraud is more ambitious (and windier). It too reports on the current state of play—Bolick and Zelnick cite many of the same passages from court decisions, especially to emphasize Thurgood Marshall's deviousness and hypocrisy—but Bolick also seeks to trace the ideological path from civil rights to quotas. His account seems to me correct. The civil rights movement was born, he says, when the right of all men to be free from coercion—the "American Creed"—was seen to conflict with the institution of slavery. This perception led to the Civil War and the Reconstruction Amendments protecting the rights of blacks against incursion by the states. But a fatal misstep was the Civil Rights Act of 1964 banning *private* discrimination. "[C]ivil rights laws went beyond restraints against coercion to tread directly upon voluntary freedom of association among private individuals," clearing the way for "all the mischief that would follow."

The precedent that individual autonomy could be invaded, combined with the view that "black failure to reach parity with whites is

due exclusively to . . . oppression," licensed the federal government to tell employers whom to hire, banks whom to lend to, homeowners what neighbors they had to have, and children where they must go to school. The "fraud" is that none of these exertions has helped the population they were actually intended to help, namely the black underclass.

Where Zelnick simply wants affirmative action ended, Bolick holds critics are obliged to propose some positive solution to the problems facing the underclass. His is "empowerment," the centerpiece of which are school vouchers allowing "choice." He is particularly enthusiastic about a Milwaukee program allowing "1,000 low-income children to leave abysmal public schools and to apply the state portion of their education funds—roughly \$2,500 per student—as full payment of tuition in nonsectarian private schools."

Such plans, popular among conservatives, are gravely flawed. Bolick delicately avoids mentioning the source of that \$2,500, namely the taxpayers of Wisconsin. Vouchers are another device to forcibly transfer money from producers to non-producers and to infringe upon freedom of association. As such, they should be resisted by friends of liberty. □

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Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$30.00 or more receive a subscription to *The Freeman*. Student subscriptions are \$10.00 for the nine-month academic year; \$5.00 per semester. Additional copies of this issue of *The Freeman* are \$3.00 each. For foreign delivery, a donation of \$45.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

What Money Can't Buy

Education is very much in the policy air, and virtually everyone says that we must spend more to improve our schools. In fact, the way politicians seek to prove that they are in favor of education is by promising to increase outlays for government schools and education programs.

A little perspective is in order. From the end of World War II until 1965 per student expenditures (adjusted for inflation) doubled. In the next two decades, 1965-1985, real per student outlays doubled again, and from 1985 to 1995 per pupil expenditures increased by 20 percent. In short, over the last half century the price of education nearly quintupled. By any standard, that's a big jump. It is an especially remarkable increase considering the dramatic decline in the price of technologies deployed as educational aids.

If outlays determined educational quality, we would expect students today to be five times smarter than students in 1945, or at least a little bit better informed than students of a generation ago.

However, the results of SAT and other tests demonstrate an almost inverse correlation with spending. For example, when median SAT scores reached their apogee in 1963, per pupil expenditures were about \$2,400. Today expenditures are well over \$6,000 per student, but median SAT scores have fallen about 150 points. Factors like the expansion in the number of students taking the test account for part of the decline, but the results are still dismal. In short, it is time to debunk the claim, once and for all, that achievement and expenditures are correlated. If they were, Iowa, which spends less on education than almost any state in the union, should not routinely score first or second in the nation on the SAT.

Expensive specialized government programs have no greater effect. A 1995 Department of Education report concluded that the gap between "disadvantaged students and others" had not closed despite the expenditure of \$100 billion on Title I programs since 1965. In fact, there is scarcely an initiative one can cite, including Head Start, that demon-

strates spending more money leads inexorably to greater achievement.

This reality is starting to sink in. Gary Burtless, in his study "The Effect of School Resources on Student Achievement," published by the liberal Brookings Institution, concludes that "on balance, the case for additional school resources is far from overwhelming. . . . Increased spending on school inputs without any change in the current arrangements for managing schools offers little promise of improving either student performance or adult earnings."

Thus, reformers genuinely concerned about student performance should look first to the more basic issue as to who runs the

schools. Unfortunately, many supposed reformers are not serious. Rather, *soi-disant* reformers, such as the National Education Association, have a stake in maintaining the status quo and ensuring an infusion of additional money.

The primary hope for the future lies with parents coming to the conclusion that a bigger tax bite does not result in smarter children. When parents refuse to spend more money for poorer performance, genuine reform may finally be possible.

—HERBERT LONDON

Dr. London is John M. Olin Professor of Humanities at New York University, New York.

Forty Years Ago in *The Freeman* . . .

Edmund A. Opitz: "There is little in our culture—even in our religion—which serves to bring our minds to bear upon the great human themes. . . . Our minds are preoccupied more with the means of getting a living than with the ends for which life should be lived. Our lives are so fragmentary and full of distractions that we seldom get around to those things for which, in our more thoughtful moments, we feel a need. Yet even the least of us occasionally entertains angels unawares by acts of kindness, by doing more than our duty, by striving for justice, by spreading beauty, and by speaking the truth. Our lives are shot through with eternity, and we live in the midst of things of permanent value which serve to remind us what we really are and to what we are called."

F. A. Harper: "[Government] is constantly insolvent, obligating itself to spend something it does not yet have. It has no earned revenues from prior services rendered and sold in the market at a net gain, as you do when you go shopping with money you earned at yesterday's work. The government, instead, must obtain by force of taxation the revenue with which to pay its bills. . . .

"Tax assessments to pay almost all the costs of government are imposed by force. Payment is obligatory on everyone, whether he wants the 'service' or not—whether he uses it or not. He must accept it from the government source at a dictated price, even though he may know a better and cheaper way of obtaining a service he wants."

—APRIL 1957

The Entrepreneur on the Heroic Journey

by Candace A. Allen and Dwight R. Lee

“What do you want to be when you grow up?” was a question that adults regularly posed to all of us when we were young. Generally, even as children, we imagined ourselves becoming like those whose accomplishments we respected or whose qualities we admired. At a time when sports figures, Hollywood personalities, musicians, and even politicians vie for the hearts of the young, why not honor those among us who provide the energy and strength behind the invisible hand of economic progress?

Entrepreneurs are, in fact, heroic figures, and their accomplishments are worth celebrating. All of us are better off because entrepreneurs have been willing to attempt what others “knew” couldn’t be done, and then persist in the face of adversity. Their visions extend beyond existing horizons, and eventually expand the realm of the realistic, transforming one generation’s dreams into the next generation’s necessities.

Who Are Heroes?

Who is a hero? For some, a hero represents a person who embodies such age-old values as honesty, integrity, courage, and bravery. For others, a hero is someone who is steadfast or who sets a good example. To many, being a hero means sacrifice, even of life itself, for

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the sake of others. Increasingly, many people find heroic those who simply gain notoriety or attention.

However, Joseph Campbell, an expert on world mythology, would probably find all of these definitions to be incomplete. Campbell contends that every society celebrates heroes, and in doing so, honors the past, energizes the present, and shapes the future. In studying most known cultures, Campbell has discovered that though details of the heroic path change with time, the typical journey of the hero can be traced through three stages. In our view, the entrepreneur travels through all three.

The first stage involves departure from the familiar and comfortable into the unknown, risking failure and loss for some greater purpose or idea. The second stage is encountering hardship and challenge, and mustering the courage and strength necessary to overcome them. The third is the return to the community with something new or better than what was there before. Ultimately, the hero is the representative of the new—the founder of a new age, a new religion, a new city, or a new way of life that makes people and the world better off.

The Modern Entrepreneurial Hero

In our modern world, the wealth creators—the entrepreneurs—actually travel the heroic path and are every bit as bold and daring as

the mythical heroes who fought dragons and overcame evil. With conventional virtues, the entrepreneur travels through the three stages of the classic journey of the hero to achieve unconventional outcomes and should serve as a model of inspiration and guidance for others who follow.

In the first stage of the heroic journey, the entrepreneur ventures forth from the world of accepted ways and norms. He asserts, "There is a better way, and I will find it!" Unlike those who are overwhelmed by the challenges of their immediate world, the entrepreneur is an optimist, able to see what *might* be by rearranging the world in creative and useful ways. The entrepreneur refuses to accept the conclusions of others about what is or is not possible.

In this first stage, risk-taking entrepreneurs are motivated by many factors. Some want to become rich or famous. Others desire to better themselves, their families, or their communities. Some seek adventure and challenge. Regardless, they are characterized by energy, vision, and bold determination to push into the unknown.

In the second stage the entrepreneur finds himself in uncharted territory. Everything is at stake. The entrepreneur sacrifices for an idea, purpose, vision, or dream that he sees as greater than himself. Comfort and security become secondary.

Entrepreneurial action is often controversial. An entrepreneurial educator, for example, might leave the state school system to find a better way to provide education to youngsters as an alternative to government schooling. Yet, former colleagues might see him or her as a traitor. Regardless of what the entrepreneur sacrifices during this stage of the heroic quest, he is impelled into risky, unfamiliar territory. He must be resilient in the face of mistakes or failure.

In this discovery stage, the entrepreneur often encounters those who have a stake in maintaining the status quo. Business opponents may even turn to the state, as Netscape has pushed the Justice Department to hound Microsoft for alleged predatory behavior. Professor Don Boudreaux, writing in the *Wall Street Journal*, sees this anticompetitive tactic

as a serious abuse of the legal and judicial system in an attempt to prevent entrepreneurs from bringing new products and services to consumers.

The third stage of the classic heroic journey begins when the entrepreneur returns to the community with his product, service, or new process. By buying the new offerings, the customer acknowledges the entrepreneur's success. The more profit that is generated, the greater the value of wealth produced. Thus, profits are the entrepreneur's reward for increasing benefits to individuals in society. Serving in the capacity as wealth creator, the entrepreneur becomes a social benefactor.

The true heroic entrepreneur will continue to anticipate future challenges. He is no ordinary business person whose main priority is keeping one step ahead of his competitors and maintaining market share. Nor does he seek government subsidy or protection. For him, the quest is to venture forth again and again into the unknown to create and bring back that which other individuals value.

The Bold Quests of Individuals

Not all people who venture forth on such heroic quests succeed. Approximately 80 percent of new businesses quickly fail. But over three-quarters of all new jobs each year come from firms no more than four years old. Though large, well-established corporations are more visible, one finds the most entrepreneurial action and risk-taking activity in small business ventures. Hermann Simon, author of *Hidden Champions: Lessons from 500 of the World's Best Unknown Companies*, argues that many little-known, super-performer companies made up of two, three, or more highly entrepreneurial folks have control over 50, 70, and even 90 percent of the world-wide market for their products. For example, St. Jude Medical has 60 percent of the world's market for artificial heart valves. Today, those *individuals* (or small groups of them) who are embarked on the bold quests are the ones who are changing the face of society so rapidly. And we can look to the future with optimism, since opportunities abound for further entrepreneurial adventure.

In fact, the changes we have witnessed in our lives since we were children are likely to pale in comparison to the changes we will see in coming decades. Yet, while entrepreneurs are essential for this progress, seldom are entrepreneurs hailed as heroes. To the contrary, typically they are ignored in textbooks, or castigated as "robber barons." It's no surprise, then, that most adults know far more about successful politicians than about successful entrepreneurs, and most admire the former more than the latter. How can a society continue to prosper when it views those who transfer wealth as more heroic than those who create it?

Why are entrepreneurs seen as looters and exploiters rather than as heroes? One reason is the political bias against them. As government control over the economy has grown, so has the incentive for politically influential interests to disparage entrepreneurs. Few, if any, economic forces are more disruptive than entrepreneurship. But while this "creative destruction," in Joseph Schumpeter's words, is essential to general progress, it harms some individuals and groups whose wealth is tied to the status quo. Each group wants to gain protection against progress that imposes costs on itself. The larger government becomes, the more it acts as a force against progress. While the entrepreneur with a superior idea can draw large numbers of customers from existing corporate giants in market competition, he can't mobilize large numbers of citizens against government obstacles to that competition.

Of course, entrepreneurs can often overcome political obstacles, but such effort diverts attention and energy from the creative activities that propel economic progress. Moreover, political opponents of economic change frequently vilify individual entrepreneurs. Thus, instead of celebrating entrepreneurs who do the most to push back the frontiers of the possible, the public often seems to single them out for condemnation.

Another reason entrepreneurs are criticized is that the connection between their innovations and economic progress is often indirect and difficult for most to recognize. For example, few people understand the great

contributions made by Michael Milken and Bill Gates. Special-interest groups with a stake in the status quo can exploit this lack of understanding to depict entrepreneurs as rapacious scoundrels.

Indeed, few people understand how capitalism works. Most tend to focus on the concentrated costs inflicted by market competition, while taking for granted the diffused benefits made possible by that competition. Trying to explain the workings of the invisible hand is not an easy task. Educating the public is made more difficult by intellectuals who use their positions in academia to criticize capitalism and the entrepreneurial energy that propels it.

Why Individual Entrepreneurs Matter

Even many staunch supporters of the free-market system diminish the importance of entrepreneurs. The economists who have developed the subdiscipline referred to as the "new economic history" have been among the most effective at explaining the causal links between the market and economic progress. Yet many of these new economic historians dismiss the role of entrepreneurs. For example, Robert Thomas of the University of Washington argues that individual entrepreneurs, whether alone or as archetypes, "just don't matter." According to Thomas, a successful entrepreneur is no more important to the economy than the winning runner in a 100-yard dash is to the race. The winner gets all the glory, but if he had not been in the race, the next runner would have won by crossing the finish line a fraction of a second later, and the spectators would have enjoyed the race just as much. Thus, if Henry Ford, Ted Turner, or any other successful entrepreneur had not made his pioneering contribution, someone else would have quickly done so. So, as Thomas tells the story, it is hard to justify special celebration of their accomplishments.

Thomas's view is incomplete. Go back to his race analogy. The argument that a given entrepreneur's accomplishments would, in his absence, quickly be achieved by others assumes an environment that encourages en-

trepreneurship. If the runners themselves, their training, and their efforts during the race are simply taken as givens, it is no doubt true that removing the winner of the race would do little to reduce the benefits of winning. But the identity of the runners and their preparation and efforts can't be taken for granted. Competitors are influenced by treatment afforded the winner. When champion runners receive public esteem, those with the greatest talent are more likely to become runners, train hard, and run faster. Similarly, public attitudes affect the entrepreneurship process.

Of course, the entrepreneur profits financially if he is successful, which is one reason critics discount the role of public acclaim. Money is obviously important in directing his efforts into those ventures in which his talents have the greatest social value. But this actually strengthens the case for celebrating entrepreneurs. Failing to do so emboldens politicians, and their special-interest clients, who are constantly looking for justifications to tax away the financial gains of successful entrepreneurs. It is no coincidence that, over the past century, as public respect for entrepreneurs has eroded, so have the constitutional barriers against what is best described as the punitive taxation of economic success.

Thus, just as the society that doesn't venerate winners of races will produce fewer champion runners than the society that does, the society that does not honor entrepreneurial accomplishment will find fewer able people

engaged in wealth-creating activities. And that society will be less well off than the one which perceives the wealth creator to be a hero.

One last factor helps explain why entrepreneurs are seldom viewed as heroes. When defining a hero, people often focus on self-sacrifice, rather than benefits received by other individuals and society. Yet the vast majority of entrepreneurial efforts do fail, often with significant loss to the entrepreneur. And when the entrepreneur succeeds, he receives his reward only after having enriched everyone else even more.

Conclusion

Economists tend to focus on what can be seen—the measurable aspects of the economy and mechanical understanding of the marketplace as an efficient resource allocator. But abstract economic models seldom inspire. To paraphrase Schumpeter, economic efficiency is a poor substitute for the Holy Grail. In human entrepreneurs, in contrast, people, particularly the young, can see and appreciate those heroic qualities that continuously create a better world.

Some may criticize romanticizing the entrepreneur. But societies are shaped by the ideals they embrace. If one of our children or grandchildren wanted to emulate an entrepreneur who heroically struggled in uncharted territory and ultimately changed the world for the better, we would be proud. □

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—LEONARD E. READ
founder of FEE

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The Free Market: Lifting All Boats

by Don Mathews

In the free market, the rich get richer while the poor get poorer.” “America’s market economy might create wealth for some, but it certainly doesn’t benefit the poor.” How often we read or hear such statements. What they assert is familiar. But is it true? Does the free market really leave the poor behind?

A good way to determine how the poor fare in the free market is to examine how the standard of living of the poor has changed over time. One factor to consider is real income. Between 1900 and 1990, the growth in real (inflation-adjusted) income—generated by the free market—was enormous: Real income in 1990 was 15 times greater than it was in 1900. Real per capita income was over four and one-half times greater in 1990 than in 1900.

Another important measure of income is real money earnings from employment. Real earnings were almost four times greater in 1990 than in 1900. But statistics on real earnings mask significant changes in work hours and the way workers are compensated. In 1900 nonfarm workers toiled 60 hours a week; by 1990 they worked 39.3 hours a week, a decrease of over one-third. Moreover, in 1900 workers received almost all of their compensation in wages; by 1990 workers received nonwage benefits accounting for almost 40 percent of their total compensation.

Professor Mathews teaches economics at Coastal Georgia Community College.

That means an hour of work in 1990 paid well over eight times what it did in 1900.

Still, one might argue that real per capita income and money earnings tell us little about the status of the poor. Did the poor share in the economy’s growth?

Since real income in the United States has increased, we know that the real income of the poor has increased if the share of income received by the poor is stable or increasing. In 1900, the poorest 20 percent of income earners received 4.8 percent of the nation’s income; in 1990, they collected 4.6 percent. Thus, the real incomes of the poor have risen significantly this century.

Another way of determining whether the poor have benefited from income growth is to look at changes in the percentage of families classified as living in poverty over time. By our current definition of poverty, 56 percent of families in the United States were poor in 1900. By 1947, even after the economic shocks of the Great Depression and World War II, the percentage of families in poverty had been reduced by more than half, to 27 percent. By 1967, the percentage was halved again, to 13 percent. Notably, the decrease in poverty between 1900 and 1967 occurred before the advent of the greatly expanded welfare state. In other words, it was the free market, not government welfare, that caused the poverty rate to fall from 56 percent in 1900 to 13 percent in 1967.

What has happened to real incomes and poverty rates demonstrates that the free market does not leave the poor behind. Yet another measure of the standard of living is the level of goods and services consumed. Real per person spending on consumer goods rose dramatically between 1900 and 1990. (See the table below.)

	1900	1990	Percent Change
Food	\$1,178	\$ 1,814	54
Clothing	272	920	238
Housing	256	1,898	641
Water	20	87	335
Electricity	1	265	26,400
Health	172	1,928	1,021
Transport	143	1,621	1,034
Total	\$3,266	\$13,051	300

Source: Stanley Lebergott, *Pursuing Happiness* (Princeton University Press, 1993).

These extraordinary gains were shared by the poor. Consider some conveniences that we consider to be essential today:

	1900	1990
Percent of homes with:		
running water	24	99+
flush toilets	15	99+
electricity	3	100
Percent of households owning:		
car	0	88
refrigerator	0	100
television	0	98
telephone	5	95

Sources: Lebergott, *Pursuing Happiness* and *The Americans: An Economic Record*; *Statistical Abstract of the U.S.*, 1994.

Health is another important component of the standard of living. Life expectancy at birth was 47.3 years in 1900, and 75.4 years in 1990. Other health statistics are even more revealing. Deaths from once-common diseases have dropped dramatically since 1900. It was not primarily medical advances, but improved water and sewer systems and housing, that lowered mortality rates—and helped the poor far more than the rich. (See table following.)

Death Rates (per 100,000 population)

	1900	1990
Tuberculosis	194	0.70
Typhoid	31	0.05
Diphtheria	40	0.05
Whooping cough	12	0.05
Measles	13	0.05
Influenza, pneumonia	202	32.00
Gastritis, colitis	143	1.00

Sources: For 1900, U.S. Bureau of the Census, *Historical Statistics, Colonial Times to 1970*. For 1990, *Statistical Abstract of the U.S.*, 1994.

Of course, a critic might concede the dramatic nature of these changes, but counter that these improvements took 90 years to occur. It would be helpful, then, to look at a shorter period, during which time the living standards of the poor, according to “common knowledge,” worsened.

Under the official definition of poverty, a household of four, for example, is classified as poor if its annual income is less than \$14,400. But, as noted earlier, living standards depend on the goods and services consumed, so a family should be classified as poor on the basis of its level of consumption, not income. University of Texas economist Daniel Slesnick has devised a consumption-based measure of poverty and calculated poverty rates for the years 1949 to 1989. He found that 24

Percent of households with . . .	Poor households		All households
	1984	1994	1971
Washing machine	58.2	71.7	71.3
Clothes dryer	35.6	50.2	44.5
Dishwasher	13.6	19.6	18.8
Refrigerator	95.8	97.9	83.3
Freezer	29.2	28.6	32.2
Stove	95.2	97.7	87.0
Microwave	12.5	60.0	<1.0
Color television	70.3	92.5	43.3
VCR	3.4	59.7	0
Personal computer	2.9	7.4	0
Telephone	71.0	76.7	93.0
Air conditioner	42.5	49.6	31.8
One or more cars	64.5	71.8	79.5

Source: Federal Reserve Bank of Dallas, 1995 Annual Report, p. 22.

percent of U.S. households were poor in 1959. By 1989, only a generation later, the poverty rate was but 2 percent. And Mr. Slesnick's calculations exclude noncash government benefits such as Medicaid, public housing, and a long list of government-provided community services.

The claim has also been regularly made that the poor have been getting poorer for over a decade. Yet households officially counted as poor are as likely to own a host of major consumer goods as was the general population just two decades ago. (See the table on the previous page.)

But these data indicate something even more striking: the remarkable amount of goods owned by poor families. In the United States today a household which owns a washer, dryer, refrigerator, stove, microwave, color TV, VCR, and car might still be con-

sidered poor. The point is, the free market has not only dramatically improved the material well-being of the poor; it has generated so much wealth that it has completely transformed what we consider poverty to be.

What has happened to the living standards of the poor in our predominantly free-market economy shouldn't surprise us. The soul of the free market is not wealth creation but liberty and private property, and it is liberty and private property which enable entrepreneurs to create more efficient production methods that yield better goods and services. Entrepreneurs were the primary cause of the income growth that we've observed, as well as all those new and improved products consumed by everyone. The free market does not leave the poor behind, it makes them, as well as everyone else, richer. Much richer. □

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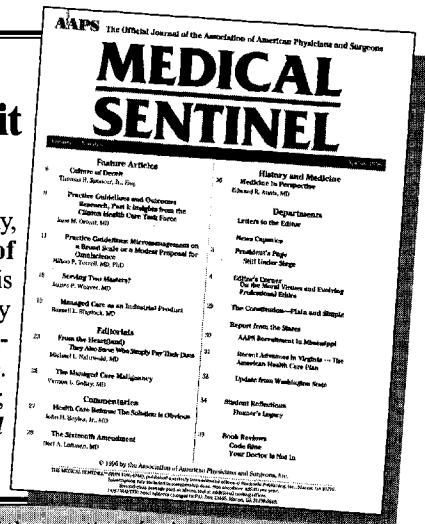
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1086-4784

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There's More to Government Than You Think

"Thank God we don't get all the government we pay for."

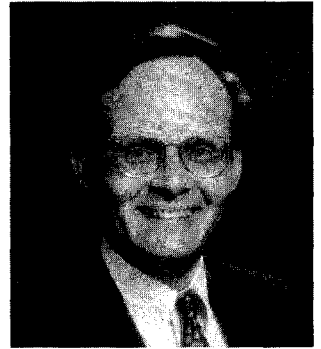
I can't verify who first said that, but no doubt millions of Americans would agree with it. Millions more would endorse it if they understood that government is actually costing them far more than they ever imagined. This seems like a timely subject for April, the month when taxpayers render unto Caesar what Caesar's tax tables tell them they owe.

Make no mistake about it. Cost has a lot to do with our personal choices. Indeed, as every economics instructor points out to his freshman students, people demand more of a good when its cost declines—all other factors remaining equal. They demand less of it as its cost rises. The more costly a good becomes, the more it prompts individuals to ask these questions: Do I really need this? Might I be better off doing with less and spending my money on something else? What might be the alternative to this particular good?

As taxes rise, more and more people begin asking these questions about government, too. The problem is, many taxes are not readily apparent to those who pay them, and even *all taxes*—both the obvious and the hidden—do not make up the total price we pay to be governed.

We pay for government not only when we fill out our 1040 forms, but also every time

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we trade for anything in the marketplace. Its various impositions on producers are baked into the prices of the goods they sell, the return they are able to provide to investors, and the wages they can afford to pay their employees. Federal regulations alone are estimated to cost Americans more than \$600 billion yearly.

We pay for government in lives shortened or lost because of delays in new drug approvals. Because of a raft of restrictive barriers to enterprise, we pay for government in terms of businesses stymied or never started and jobs never created. A government education monopoly that often fails to educate exacts a terrible price by stunting careers and squandering immense human potential. One cost of government that can't be reckoned in dollars and cents—a diminution of the individual's basic freedom to act and speak on his own—has been deemed important enough to spark a revolution from time to time.

No one would suggest that government is all cost and no benefit. When it protects property and keeps the peace, it performs a positive good. Diehard statists see almost nothing *but* the supposed benefits, from keeping peanut farmers in business to putting a man on the moon. Unfortunately, the public debate about government almost always overstates the benefits (because they are visible and concentrated) and understates the costs (because they are hidden and diffused). In the interest of full disclosure and a better informed citizenry, the cost side of government could use a little illumination.

What if every filling station posted its price alongside a breakdown of all the taxes that are paid from the oil well to the gas pump? Consumers would see that of the \$1.25 they just paid for a gallon of gasoline, at least 70 cents goes to government (essentially, to people who wouldn't know how to drill a well if their very lives depended on it). It might put a new light on the phrase "windfall profits."

Haven't we all heard every increase in Social Security benefits defended with the retort, "But I paid in!"? That sentiment is expressed even by those who received back, with interest, their entire lifetime tax contributions to Social Security in their first three years of retirement. Now a decade later, they are collecting benefits paid for by other workers and still they cry, "But I paid in!" If every Social Security check stub had two simple numbers on it—how much the individual paid in *and* how much he had received to date—a few recipients might stake their claim on other citizens with a little less enthusiasm.

Imagine how public debate might change if employers told their workers about the costs of government that come right out of their paychecks? Not just the obvious costs that show up on their pay stubs now, like federal, state, and local income taxes and the employee's share of Social Security and Medicare, but some of the not-so-obvious ones as well. Enhance the pay stub to inform the worker—that's it in a nutshell.

To encourage employers to do just that, the Mackinac Center for Public Policy has come up with what we call the "Right to Know Payroll Form." The form extends most current payroll accounting beyond the standard withholdings or deductions to include the employer's share of certain taxes, the expense of having a paid staff to compute and administer payroll taxes for the government, and the cost of other employment-related mandates.

The Right to Know Payroll Form starts with a calculation of "Estimated Payroll Allocation"—the sum of those taxes and other costs imposed specifically on the employment relationship. Included are the company's expenses for mandated programs from the Americans With Disabilities Act to the Family and Medical Leave Act to affirmative

action, which are estimated and spread across the existing workforce, prorated for each pay period. The effect is to show each employee that his company pays out quite a bit before he even gets to the "Gross Pay" figure on the traditional pay stub.

To illustrate, here's information from an actual pay stub of a real, live worker at a company that has adopted our form. (The name has been deleted to protect the victim.)

1. ESTIMATED PAYROLL ALLOCATION:
\$3,012.04

2. Government Cost:	
Tax Administration	\$6.90
3. Government Cost:	
Mandated Benefits	\$4.14
4. Government Tax:	
Workers' Compensation	\$19.32
5. Government Tax:	
Unemployment Insurance	\$24.84
6. Government Tax: Employer's	
Share of Social Security	\$159.21
7. Government Tax: Employer's	
Share of Medicare	\$37.23
8. GROSS PAY:	\$2,760.39

9. Government Tax:	
Federal Income Tax	\$288.32
10. Government Tax:	
State Income Tax	\$95.79
11. Government Tax:	
City Income Tax	\$27.60
12. Government Tax: Employee's	
Share of Social Security	\$159.21
13. Government Tax: Employee's	
Share of Medicare	\$37.23
14. NET PAY:	\$2,152.24

This employee is now much better informed. Before his employer adopted the Right to Know Payroll Form, when asked how much he pays for government, he used to simply add up #9 through #13 and arrive at a response of "\$608.15." Now when he's asked that same question, knowing that every payroll expense comes out of whatever pool of revenue the business has to pay its workers with, he includes the sum of #2 through #7 and responds this way: "\$859.79, and I'm not sure I'm getting my money's worth."

Note the recommended usage of the terms *Government Tax* and *Government Cost*. We don't want anybody to think these things are either voluntary or from the tooth fairy.

The Right to Know Payroll Form is adaptable to any workplace. Some businesses may want to include additional line items not mentioned here. The State of Michigan implemented its own variation of the form in 1996 for all 61,000 state employees and included additional information about health and pension benefits negotiated by the public-employee unions.

In any event, providing information like this helps workers understand the constraints

employers face when seeking to create jobs, increase pay, and compete effectively in a global economy. It shatters the myth that taxes and mandates can be placed on employers without affecting the workers themselves. It encourages awareness of employment-related public policy and how it affects jobs and wages. And it may even help the cause of liberty to the extent it encourages each worker to ask, "Do I really want or need this much government?"

So as you fill out the forms for your friends at the Internal Revenue Service, remember that as high as the government's bill may be, there's a part of it you already paid. □

Back in Print!

GOVERNMENT—AN IDEAL CONCEPT

by Leonard E. Read

New Introduction by Hans F. Sennholz



To Leonard Read, government was neither a manager of economic activity nor an almoner of gifts to the people, but a necessary instrument of social order. Its only basis is justice, not pity. Government is represented by agents who are expected to enforce and defend man's natural rights and protect him against wrongs of his fellowmen. But these agents should not do what the individual must not do. The agents of government should be men and women of integrity. Unfortunately, Read observed, political office tends to rob a person of modesty, humility, and integrity, which make it advisable never to accept a political office.

Leonard Read's eloquent discussion of the nature of government and a new beginning in freedom will endure as a principled work of great value. It is a guidepost for readers seriously interested in the limits of public regimen and the cause of liberty.

152 pages, indexed, paperback \$12.95

A few years before Leonard E. Read authored this book, he created The Foundation for Economic Education. He was convinced that every generation must defend its freedom anew against the intellectual forces that seek through ever new devices to enslave it. Therefore, he dedicated his great strength and ability to the study and dissemination of freedom ideas. He managed the Foundation from its beginnings in 1946 until his death in 1983.

Stockholders as Stakeholders

by Edward W. Younkins

The issue of corporate social responsibility first emerged in the early twentieth century, when corporations were criticized for being too large and powerful and for engaging in anti-social and anti-competitive practices. Some business leaders responded by using their private wealth for community and social purposes. A shift from individual philanthropy to corporate philanthropy evolved when community needs seemingly outpaced the resources of even the wealthiest individuals.

Consequently, critics of business cited the stewardship principle in urging managers to view themselves as trustees of the public interest. Managers were encouraged to act in the interest of *all* those affected by a firm's actions—not just stockholders, but employees, creditors, customers, suppliers, communities, competitors, government, and society in general. Some companies now not only accept, but promote this view as well.

Stakeholder Theory as a Management Strategy

As a management strategy, stakeholder (or constituency) theory has merit. Effective corporate managers pay attention to those individuals and groups that are vital to the survival and success of the firm—shareholders, employees, suppliers, customers, the local community, and so on. In this context, stakeholder theory merely describes an approach for improving corporate profits; it suggests no other moral responsibility for companies.

Dr. Younkins is a professor of accountancy at Wheeling Jesuit University.

That is, a manager should undertake “socially responsible” actions when he anticipates effects that, in the long run, will benefit his firm. Such an investment should have a direct business purpose and be expected to generate sufficient future net tangible benefits for the enterprise and its shareholders. The question is not whether an activity is in the interest of a firm, but whether it is enough in its interest to justify the expenditure.

Thus, socially responsible actions should be linked to business goals, particularly the company's need to attract loyal customers, productive employees, and enthusiastic investors. In such a case, socially responsible activities simultaneously serve the interests of the business and the beneficiaries.

For example, corporate advertising and philanthropy can be closely related. Linking charitable contributions to the firm's products or services may increase sales to customers who hold certain social values. In addition, donations for community improvement can be used to attract skilled workers. Contributions to research or educational programs may promote the firm's economic interest. Company-sponsored employee volunteer programs not only benefit others, but can help attract good employees, create a sense of teamwork and corporate mission, and improve worker performance.

John M. Hood's excellent new book, *The Heroic Enterprise*, provides specific illustrations of how companies can and do serve society through the pursuit of profits. Sponsoring safety and health promotion programs for employees can lower health, accident, and life insurance premiums. Providing child care, family leave, flexible work schedules, job sharing, employee assistance programs (e.g., counseling), and telecommuting opportunities benefits the firm and its workers. When a company humanely and effectively uses outplacement services for employees who are laid off due to strategic rightsizing, the result is not only a savings in severance payments, but also good public relations and maintenance of employee morale and productivity. A firm can make profits while assisting distressed communities, especially if the communities are viewed as underserved markets.

By helping to renovate inner cities, making them safer, and training their residents, businesses can serve their own interests as well as those of the urban population. Earning the trust of consumers and community leaders can lead to long-term economic gains.

A Flawed Ethical Theory

As an ethical theory, however, the emphasis on stakeholders is problematic. It erroneously suggests that corporations are possessions and servants of larger society.

The term stakeholder has been defined by Anthony Buono and Laurence Nichols as "any identifiable group or individual who can affect or is affected by organizational performance in terms of its products, policies, and work processes." Proponents of stakeholder theory as an ethical theory attempt to base their argument on Immanuel Kant's principle of respect for persons. For example, according to William Evan and R. Edward Freeman, each stakeholder group has a right to be treated as an end in itself and not as a means to some other end, and therefore must participate in determining the future direction of the firm. In other words, the corporation should be managed for the benefit of its stakeholders. Thus, managers have a duty to represent the stakeholders' interests.

This theory misinterprets Kant's principle. What he actually said was that every human being is entitled to be treated not merely as a means but also as an end in himself. To regard persons as ends is to recognize that they are autonomous moral agents, which is the same as respecting their natural rights to pursue their own goals and associate with those of their own choosing. Respecting the autonomy of stakeholders does not imply that they are entitled to influence corporate decisions or that the firm should be operated in their interests. It merely means freely bargaining with them without the use of force or fraud. No stakeholder should be forced to associate with the company without his consent.

Instead, treating all stakeholders as having equally important interests removes management decisions from their emphasis on increasing profit. In this way, stakeholder theory places managers in the impossible situation of balancing competing claims from a wide variety of groups. Without the explicit goal of returning the highest value to stockholders, managers would find themselves in the position of having to make essentially political rather than business decisions.

Stockholders Are the Only True Stakeholders

Stockholder theory assumes a fiduciary obligation by a corporation and its managers to its stockholders. Stakeholder theory implies a multi-fiduciary approach that is inconsistent with free markets, property rights, and the special moral responsibility of management to the stockholders. Since shareholders hire managers to serve their interests, managers should be responsible to the stockholders. It follows that managers have neither the obligation nor right to spend the stockholders' money in ways that have not been sanctioned by the owners, no matter what social benefits may occur by doing so. Corporations are simply arrangements whereby shareholders advance money to managers to use for specific ends. Managers are limited by their agency relationship to serve the objectives outlined by their stockholder principals. Expenditures for socially beneficial purposes are legitimate only when they have been specifically authorized by the stockholders or when managers reasonably believe they will increase the firm's long-run profitability.

In the end, one must invest in a corporation to actually have a stake in it. Other so-called stakeholders, with the possible exception of employees, have no claim against a specific corporation as long as it is able to fulfill its freely contracted obligations with such groups. Stockholders are the only true stakeholders. □

Star Trek and Collectivism: The Case of the Borg

by Steven Yates

Star Trek is easily the most popular science fiction epic of all time. Over the past three decades, the saga has given birth to four television series, eight motion pictures, dozens of novels, and a variety of paraphernalia—including technical manuals of the *Enterprise*, English/Klingon dictionaries, and even books on such themes as leadership lessons in *Star Trek*. The odyssey launched by Gene Roddenberry has generated a rich and complex “history of the future” and garnered a worldwide audience of millions—not to mention enormous profits for Paramount Pictures, owner of the lucrative *Star Trek* trademark.

Star Trek’s vision of the future is optimistic, implying that we humans will eventually conquer our major faults, transform our planet into a poverty-free ecological paradise, go to the stars, and become a civilizing force throughout our “quadrant” of the galaxy. The vision is also rather statist, at least by implication. The political philosophy of *Star Trek* appears only in (sometimes inconsistent) bits and pieces. A world-government-as-savior theme appears in several episodes. At the same time, ironically, the United Federation of Planets, despite its civilizing influence, is centralized, bureaucratic, procedure-laden, and sometimes utterly unable to handle the

complexities of new challenges (its “prime directive”—not to interfere with indigenous cultures on developing worlds—is violated countless times).

There is environmental correctness. For example, in an episode where the *Enterprise* is on a mercy mission to a world whose inhabitants devastated their natural environment, chief engineer Geordi La Forge asks something like, “Why didn’t they just do the sensible thing and regulate emissions?” Suggestions are also rife that “all cultures are equal,” a staple of multiculturalism.

The Borg

Despite such (occasionally glaring) flaws, *Star Trek* nevertheless presents perhaps the most disturbing example of full-fledged collectivism currently available. This depiction occurs in four episodes of *Star Trek: The Next Generation* (*ST:TNG*), the paperback novel *Vendetta*, and the movie *Star Trek: First Contact*, released last November. These all feature encounters between the *Enterprise* and a race known as the Borg, the deadliest foe yet faced by the Federation.

The Borg are a race of cyborgs, the product of a technology that “hardwires” artificial intelligence directly into the brain and central nervous system. Immediately after birth, Borg infants receive neural implants, which provide physical nourishment as well as information from a network connecting all the Borg brains

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and nervous systems with the rest of their technology. The Borg grow completely dependent on the implants, with every Borg brain in contact with every other Borg brain at all times. They share a “group mind”—a kind of organic Internet accessed with thoughts instead of computers.

Thus, their vast spaceships automatically go where the “group mind” wills, and if damaged, the craft repair themselves. There is no hierarchy or chain of command in any normal sense. Significantly, this “group mind” was eventually labeled the Borg Collective. The Borg have numerical “designations” instead of names and a repulsive physical appearance. Surgically implanted mechanical devices often replace their eyes and limbs. Individual Borg have extreme difficulty initiating action or even reacting to immediate surroundings without a cue from the “group mind” that can see through their eyes and communicate through their implants.

The *Enterprise* crew first encounters the Borg in the second-season episode “Q Who?” when the whimsical and enigmatic character Q, member of a race of omnipotent beings who call themselves the Q Continuum, hurls the *Enterprise* into a previously unexplored region of the galaxy. The Borg’s one obsession, the crew quickly learns, is to “assimilate” other intelligent life forms, adding new technologies to their own and thus “improving themselves”—destroying the other races in the process. It is impossible to reason with them, since one can’t communicate with them in any ordinary sense. When they have selected a target, they are relentless.

In short, *Star Trek*’s writers have succeeded brilliantly in presenting their audience with an unsettling vision.

In “The Best of Both Worlds” (the cliffhanger that ended the third season), the Borg attack the Federation and zero in on Earth. After destroying a number of Federation outposts, several Borg appear on board the *Enterprise* and kidnap Captain Picard. They “assimilate” him by giving him implants and create the evil Locutus—who inherits Picard’s encyclopedic knowledge of Federation technology and defensive capabilities. The Borg use this intelligence to launch an apparently

unstoppable attack on Earth. Against seemingly hopeless odds, the *Enterprise* crew figures out how to exploit the Borg’s weakness—their total interdependence and dependence on a technology consisting of subroutines and programs instead of procedures capable of being checked by individual minds. The equivalent of a computer virus essentially shuts them off!

This story from the 24th century has lessons for us as we approach the end of the millennium. Some might interpret these episodes as a commentary on how much we fear having our humanity overwhelmed by technology in a world growing more computerized every day. It is true that technology is a double-edged sword, capable of being either friend or foe of liberty, depending on how and by whom it is used.

The Threat of Collectivism

I believe the Borg stories yield yet a more important message. Ayn Rand once wrote that “there is no such thing as a collective brain.” The writers of *ST:TNG* and *First Contact*, intentionally or not, have given us a chilling depiction of what a collective brain would look like. Their vision can be viewed as an extended metaphor for what collectivism offers individuals: a stark choice between submission to naked force or destruction. Captain Picard was violated in the worst possible way—his body is literally no longer his own, invaded by the alien will. In a terrifying sequence early in the second part of “The Best of Both Worlds,” the alien technology renders Picard less and less human and more and more “Borglike.” He is aware of what is happening but powerless to stop it—a close-up reveals a teardrop on his otherwise expressionless face. Picard’s handling of the situation, however, demonstrates individuality in action: eventually he breaks through the will of the Collective and is able to communicate to the *Enterprise* crew the clue that destroys the Borg vessel.

The Borg conform well to the notion that collectivism is essentially parasitic. The Borg subsist by “assimilating” other cultures, adding new technologies to their own. “The Borg are the ultimate users,” Q had explained to

Captain Picard in the earlier episode. "They're not interested in humans. They just want your technology. They've identified it as something they can consume."

Back here on Earth, the histories of Marxism, Nazism, and other harmful ideologies show that every form of collectivism that has risen to power has had to enslave its citizenry and plunder its neighbors to survive. Collectivism thrives in our society among those who advocate taxing and redistributing the fruits of other people's labor instead of producing and trading goods in a free market. Collectivism, too, advocates the use of force when necessary. In its politically correct permutations in academe, collectivism is virulently anti-intellectual and regards individuality as an enemy concept. In operation, collectivists have an ugly track record that rivals that of the Borg in *Star Trek*.

It is interesting that eventually the Borg become somewhat humanized. In the episode "I, Borg," the *Enterprise* recovers a single severely injured Borg from a wrecked spacecraft and nurses him back to health. At first he displays abject terror at his isolation, but slowly he acquires a sense of his own personhood and even a name, Hugh. Captain Picard considers sending him back with another virus to destroy the Borg Collective but, ever the moral actor, rejects the idea as genocide. Nevertheless, Hugh has been "infected" with something even more insidious from the collectivist point of view—the subversive concept of individuality. Several Borg appear in the two-part episode "Descent," the last of the *ST:TNG* Borg episodes—having been forged into a group following Data's evil twin, Lore. It is unclear whether the entire Collective has been infected and destroyed or just this small part of it. In *Star Trek: First Contact*, the Collective goes back in time—a frequent *Star Trek* plot device—to destroy humans and their deadly virus of individuality. Ironically, in *First Contact*, the Collective has a "queen"—who looks and talks very much like an individual, asserting, "I am the Collective."

Of course, this implicitly recognizes that no collective race such as the Borg could exist. Technology, even if once mastered, does not perpetuate itself without individuals to main-

tain and further develop it. Marx, the great philosopher of collectivism, correctly observed that human beings must produce the means of their own survival; he incorrectly thought that since capitalism had permanently solved the problem of production, the primary problem was to ensure the just distribution of goods.

However, it turned out that societies dominated by collectivism became economic, cultural, and technological backwaters. The problem of production was not solved, because it requires myriad and ongoing human actions. We inhabit a physical universe that does not take care of us. Our minds are, indeed, our means of survival: We must discover regularities in our surroundings and act based on objective causality. This process does not become either automatic or optional merely because a civilization has reached a certain stage of technological development. The illusion to the contrary contributed to the downfall of Marxism.

But now that Marxism has fallen into disrepute, new collectivist endeavors take such forms as multiculturalism, radical feminism, and extreme environmentalism. Ayn Rand identified the reason why collectivism never has and never can work. With no collective brain or intellect, there can be no "collective action"; all actions attributed to groups are really metaphors for ordered sequences of actions taken by individual members of the groups.

Thus, contrary to another philosopher of collectivism, Jean Jacques Rousseau, there is no "general will." In practice, collectivism has always "forced individuals to be free," in Rousseau's words, by assuming that "true freedom" can be had only by giving up individuality and immersing oneself completely in a collective. The basic problem is that there is no collective mind. We are not Borg. Most of us have no wish to be. This is why we find such imagery repulsive.

Anyone who finds collectivism tempting ought to seek out those *Next Generation* episodes featuring the Borg. Thanks to *Star Trek*, it is no longer impossible to imagine what a society controlled by an actual "collective mind" would be like. It isn't pretty. □

The Myth of the “Independent” Fed

by Thomas J. DiLorenzo

Ever since its founding in 1913, the Fed has described itself as an “independent” agency operated by selfless public servants striving to “fine-tune” the economy through monetary policy. In reality, however, a non-political governmental institution is as likely as a barking cat. Yet, the myth of an “independent” Fed persists. One reason this myth persists is that statist textbooks have helped perpetuate it for decades.

From 1948 until about 1980 Paul Samuelson’s *Economics* was the best-selling introductory economics text. Generations of students were introduced to economics by Samuelson. Although not as popular as it once was, Samuelson’s text (now co-authored with William Nordhaus) is still widely used. According to the 1989 edition:

The Federal Reserve’s goals are steady growth in national output and low unemployment. *Its sworn enemy is inflation.* If aggregate demand is excessive, so that prices are being bid up, the Federal Reserve Board may want to slow the growth of the money supply, thereby slowing aggregate demand and output growth. If unemployment is high and business languishing, the Fed may consider increasing the money supply, thereby raising aggregate demand and augmenting output growth. In a nutshell, this is the function of central banking,

which is an essential part of macroeconomic management in all mixed economies.

For about the past fifteen years the top-selling economics text has been Campbell McConnell’s *Economics*, which echoes Samuelson and Nordhaus’s idealistic statism:

Because it is a public body, the decisions of the Board of Governors are made in what it perceives to be the public interest . . . the Federal Reserve Banks are not guided by the profit motive, but rather, they pursue those measures which the Board of Governors recommends. . . . The fundamental objective of monetary policy is to assist the economy in achieving a full employment, noninflationary level of total output.

These are mere wishes, not statements of facts, for there is voluminous evidence that the Fed—like all other governmental institutions—has always been manipulated by politicians.

The Fed as a Political Tool

When the Fed was founded, it was controlled by two groups, the Governors’ Conference, composed of the twelve regional bank presidents, and the seven-member Federal Reserve Board in Washington. In 1935 the Fed was reorganized to concentrate nearly all power in Washington. Franklin Roosevelt “packed” the Fed just as he later filled the U.S. Supreme Court with political

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sycophants. Roosevelt appointed Marriner Eccles, a strong supporter of deficit spending and inflationary finance, as Fed Chairman, although Eccles had no financial background and lacked even an undergraduate degree. In those years the Fed was really run by Eccles's political mentor, Treasury Secretary Henry Morgenthau, Jr., and thus ultimately Roosevelt.

Later presidents were no less willing to influence supposedly independent Fed policy. According to the late Robert Weintraub, the Federal Reserve fundamentally shifted its monetary policy course in 1953, 1961, 1969, 1974, and 1977—all years in which the presidency changed. Fed policy almost always changes to accommodate varying presidential preferences.¹

For example, President Eisenhower wanted slower money growth. The money supply grew by 1.73 percent during his administration—the slowest rate in a decade. President Kennedy desired somewhat faster money creation. From January 1961 to November 1963, the basic money supply grew by 2.31 percent. Lyndon Johnson required rapid money creation to finance his expansion of the welfare/warfare state. Money-supply growth more than doubled to 5 percent. These varying rates of monetary growth all occurred under the same Fed chairman, William McChesney Martin, who obviously was more interested in pleasing his political master than in implementing an independent monetary policy.

Martin's successor, Arthur Burns, was such a staunch supporter of Richard Nixon that he lost all professional credibility by enthusiastically endorsing Nixon's disastrous wage and price controls. Even though his staff informed him in the fall of 1972 that the money supply was forecast to grow by an extremely robust 10.5 percent in the third quarter, Burns advocated ever faster growth before the election. *The growth rate in the money supply in 1972 was the fastest for any one year since the end of World War II* and helped re-elect Richard Nixon.

However, President Ford called for slower monetary growth as part of his "Whip Inflation Now" program, and the Fed complied with a 4.7 percent growth rate. But when Jimmy Carter was elected, Burns again com-

plied with presidential wishes by stepping up the growth rate to 8.5 percent. Carter did not reappoint Burns, but the latter's successors were equally cooperative. The money supply increased at an annual rate of 16.2 percent in the five months preceding the 1980 election—a post-World War II record.

In 1981 Donald Regan, Ronald Reagan's Treasury Secretary, advocated, and got, more rapid monetary growth. A year later the President himself met with Fed Chairman Paul Volcker to lobby for slower growth, which was dutifully produced by the Fed. More recently, Alan Greenspan has reportedly been most "accommodating" to President Clinton.

Both Sides Benefit

The Fed is obviously influenced by the executive branch. But the relationship between the Fed and administrations runs far deeper. As Robert Weintraub observed, such contact "has been and continues to be fostered by cross planting of high level personnel" in both directions. Officials have also met weekly for decades. But personal contact is not necessary for the Fed to allow itself to be used as a political tool. The administration's policy views are generally well known. Economist Thomas Havrilesky has even developed an index of executive branch "signaling," based on newspaper accounts of the administration's monetary policy preferences as reported in the *Wall Street Journal*.² And as Weintraub concluded, "a Chairman of the Federal Reserve Board who ignores the wishes of the President does so at his peril."

The Fed and presidents alike benefit from this arrangement. Economist Edward Kane has argued persuasively that the Fed's ultimate political function is to serve as a political scapegoat when things go wrong. Writes Kane: "Whenever monetary policies are popular, incumbents can claim that their influence was crucial in their adaptation. On the other hand, when monetary policies prove unpopular, they can blame everything on a stubborn Federal Reserve and claim further that things would have been worse if *they* had not pressed Fed officials at every opportuni-

ty.”³ In return for this favor, the Fed is allowed to amass a huge slush fund (discussed below) by earning interest income from the government securities it purchases through its open market operations.

A Demand for Inflation?

It is also well established that politicians use the Fed as a tool of money creation to advance their own re-election. As Robert J. Gordon wrote in the *Journal of Law and Economics* more than 20 years ago: “Accelerations in money and prices are not thrust upon society by a capricious or self-serving government, but rather represent the vote-maximizing response of government to the political pressure exerted by potential beneficiaries of inflation.”⁴

Gordon is wrong in denying that government is inherently capricious and self-serving, but he’s got a good point: Politicians are naturally inclined to finance government handouts to special-interest groups with the hidden tax of inflation, which hides the true costs of government from the taxpaying public. Joining with election-minded officials in favor of expansive monetary policies is a “low-interest-rate lobby,” led, argues Edward Kane, “by builders and construction unions and by financial institutions that earn their living by borrowing short to lend long.”

The Fed underwrites an enormous volume of research, some of which is very good. But, as *Business Week* magazine once observed: “There is disturbing evidence that the research effort of the bank’s 500-odd Ph.D. economists is being forced into a mold whose shape is politically determined by the staff of the Federal Reserve Chairman.” Some Fed economists admit that political expedience is the rule. Says former Fed economist Robert Auerbach, “the practice at the Bank where I worked was to clear research through the Board of Governors and to ‘persuade’ economists to delete material that the Board or the Bank officials did not like.”⁵

Thus, all Fed research should be taken with a grain of salt. However, one recent study in particular deserves special attention. In 1992 Boston Fed research director Alicia Munnell

published a report claiming to find persistent mortgage loan discrimination against minorities in Boston. The study, used to justify racial quotas for bank loans, was fatally flawed. The data were hopelessly jumbled. Equally important, the report failed to control for credit-worthiness—credit ratings, job history, income, and so on. When confronted with these facts by Peter Brimelow and Leslie Spencer of *Forbes* magazine, Munnell admitted: “I do not have evidence . . . no one has evidence of lending bias.”

Taxpayer-Funded Lobbying

The Fed also uses its privileged position—and especially its multi-billion dollar slush fund generated by interest income on open market purchases—to lobby. Its preferred method is to pressure member banks, which it regulates, to lobby for it. It also recruits a small army of academic researchers, who benefit from Fed research grants, visiting appointments, and invitations to conferences at exotic locations, to testify on its behalf at Congressional hearings.

For instance, in the late 1970s Representative Henry Reuss introduced a bill authorizing the General Accounting Office to audit the Federal Reserve system. It was defeated because, as Reuss later explained, “with the Federal Reserve Board in Washington serving as the command center, a well-orchestrated lobbying campaign was mounted, using the members of the boards of directors [of the regional banks] as the point men.” In a speech to the American Bankers Association after the GAO bill was defeated, the Richmond Fed’s chairman, Robert W. Lawson, congratulated the assembled commercial bankers for their success: “The bankers in our district and elsewhere did a tremendous job in helping to defeat the General Accounting Office bill. It shows what can be done when the bankers of the country get together.”⁶ Academics conducted themselves in an equally disgraceful way, warning of potential abuses and assuring Congress that the Fed could be trusted to behave responsibly.

For decades, believers in the “public interest” theory of Fed behavior blamed the Fed’s

failures to ensure price stability on the agency's incomplete knowledge and difficulty "fine-tuning" the economy. But research suggests that the Fed's abysmal record in controlling inflation reflects not mere incompetence, but the way in which the Fed is organized.

Until the Fed's creation, there was no overall upward trend in the price level. Inflation occurred during wars, but prices then gradually declined to their former levels. Since the establishment of the Fed, however, there has been a continuous upward surge in prices. Public choice scholars believe that an important reason why the Fed has caused so much inflation is that it benefits from inflation. Since the entire operation has been funded since 1933 from revenue acquired through interest payments on government security holdings, the Fed has an incentive to purchase securities (thereby expanding the money supply) more than it has an incentive to sell them. Purchasing government securities is a source of income to the Fed, whose income is "earned" by the interest paid on the securities. Selling securities, on the other hand, causes a loss of income.

The Fed is constrained to return "excess revenues" to the Treasury, but enjoys great discretion over its budget and managed to spend over \$2 billion on itself in 1996. Fed officials live quite well on their revenues. As a recent General Accounting Office report revealed: "The Fed has 25,000 employees, runs its own air force of 47 Learjets and small cargo planes, and has fleets of vehicles, including personal cars for 59 Fed bank managers. . . . A full-time curator oversees its collection of paintings and sculpture."⁷ The Fed held \$451 billion in accumulated assets as of 1996, when it was engaged in building for itself several expensive new office buildings. The number of Fed employees earning more than \$125,000 per year more than doubled (from 35 to 72) from 1993 to 1996; even the head janitor (known as the "support services director") is paid \$163,800 in annual salary plus benefits. Money is lavishly spent on professional memberships, entertainment, and travel.

Economist Mark Toma has studied the

Fed's spending habits and believes that the Fed does in fact conduct monetary policy with an eye toward how its managers and employees can themselves profit from it. That means instituting a bias toward bond purchases and money creation.⁸ Similarly, William Shughart and Robert Tollison contend that the Fed behaves exactly like many other government bureaucracies, padding "its operating expenditures by increasing the number of employees on its payroll."⁹

That is, the Fed uses staff expansion to reduce the amount it must return to the Treasury. Thus, "when engaging in expansionary policies," write Shughart and Tollison, "the Fed can both increase the supply of money and increase the size of its bureaucracy because the two goals are served by open market purchases of securities." Contractionary policies, on the other hand, force the Fed to lower its profits and staff. Because of this unique financing mechanism, argue Shughart and Tollison, "the Fed has been more successful in enlarging its employee staff over time than the federal government as a whole." This employment effect, moreover, "may partially explain why the Fed has apparently been more willing to engage in expansionary than in contractionary monetary policies."

Regulation as a Political Tool

The Fed also uses its vast regulatory powers for political purposes, rather than to promote the "public interest." The Fed's authority is vast, but is most abused through enforcement of the Community Reinvestment Act of 1977. Under the CRA, the Fed must assess a bank's record of "meeting community needs" before allowing a bank to merge or open a new branch or even an automatic teller machine. An entire industry of nonprofit political activists routinely files protests with the Fed, which must be evaluated before the bank can win Fed approval. The activists typically threaten to stall mergers or branch expansions unless banks give *them*—not the poor in their communities—money, a practice that many bankers consider pure blackmail.

For example, the Chicago-based National Training and Information Center threatened

to delay a merger by a Chicago bank unless it received \$30,000 to renovate its office. The bank agreed, and also gave \$500,000 to other leftist organizations. In Boston, left-wing activist Bruce Marks, the head of the Union Neighborhood Assistance Corporation, filed complaint after complaint with the Fed over Fleet Financial Group's community lending record until Fleet agreed to give \$140 million to his organization and to make \$8 billion in loans to individuals and businesses favored by Mr. Marks. "We are urban terrorists," Marks explained to the *Wall Street Journal*.¹⁰

The CRA is frequently used as a means of racial extortion. For example, the Fed, under the direction of former Governor Lawrence Lindsey, found "statistical disparities" in lending, i.e., the percentage of loans granted by the Shawmut Services Corporation to blacks and Hispanics did not match the groups' proportion in the population. Yet no individuals complained of discrimination and the Fed did not claim to have found any "victims." In fact, between 1990 and 1992, when the discrimination allegedly occurred, Shawmut's mortgage loans to blacks and Hispanics more than doubled, and the mortgage rejection rate fell by 45 percent and 26 percent, respectively. However, the Fed employed 150 people to go out and find people who claimed to have been "discriminated against" by Shawmut and to offer them \$15,000 each, effectively robbing the company of \$1 million.

Conclusions

Any government monopoly will be corrupt and inefficient, but the Fed may be the worst government monopoly of all. Not only does it operate for its own advantage in the name of promoting the public interest, and offer government officials political cover for their self-interested policies, the Fed also allows no escape. One can at least refuse to do business with, say, the government school monopoly by homeschooling or by sending one's children to private schools. But one cannot avoid the effects of the Fed's monetary monopoly. It is time to depoliticize and denationalize our money. □

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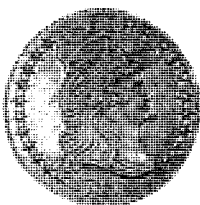
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What Big Government Is All About

by David Boaz

Government has an important role to play in a free society. It is supposed to protect our rights, creating a society in which people can live their lives and undertake projects reasonably secure from the threat of murder, assault, theft, or foreign invasion. By the standards of most governments in history, this is an extremely modest role. That's what made the American Revolution so revolutionary. The Declaration of Independence proclaimed, "To secure these rights, governments are instituted among men." Not "to make men moral." Not "to boost economic growth." Not "to ensure everyone a decent standard of living." Just the simple, revolutionary idea that government's role was limited to securing our rights. But imagine how much better off we would all be if our government did an adequate job at this simple, limited task.

Unfortunately, most governments fail to live up to Thomas Jefferson's vision in two ways. First, they don't do a good job of swiftly and surely apprehending and punishing those who violate our rights. Second, they seek to aggrandize themselves by taking on more and more power, intruding themselves into more

aspects of our lives, demanding more of our money, and depriving us of our liberty.

The most revolutionary aspect of the American Revolution was that it sought to create from scratch a national government limited to very little more than protecting individual rights. During the Middle Ages, in England and other European countries, the idea of limits on government had grown. Cities had written their own constitutional charters, and representative assemblies had sought to control kings through documents such as Magna Carta and the Golden Bull of Hungary. Many of the American colonists—and some of their British supporters such as Edmund Burke—saw the Revolution as a reclaiming of their rights as Englishmen. But the soaring words of the Declaration and the strict rules of the Constitution went further than any previous effort in declaring the natural rights of life, liberty, and property and delegating to the new government only the powers necessary to protect those rights.

We should distinguish at this point between "government" and "state." Those two terms are sometimes used interchangeably, especially in American English, but they actually refer to two very important but easily confused kinds of institutions. A government is the consensual organization by which we adjudicate disputes, defend our rights, and provide for certain common needs. A condominium association, for example, has a government to adjudicate disputes among own-

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ers, regulate the use of common areas, make the residents secure from outside intruders, and provide for other common needs. We can readily see why people seek to have a government in this sense. In every case, the residents agree to the terms of the government (its constitution or charter or by-laws) and give their consent to be governed by it. A state, on the other hand, is a coercive organization asserting or enjoying a monopoly over the use of physical force in some geographic area and exercising power over its subjects. The audacity and the genius of the American Founders was to attempt to create a government that would not be a state.

Historically, the real origins of the state lie in conquest and economic exploitation. The sociologist Franz Oppenheimer pointed out that there are two basic ways to acquire the means to satisfy our human needs. "These are work and robbery, one's own labor and the forcible appropriation of the labor of others." He called work and free exchange the "economic means" of acquiring wealth, and the appropriation of the work of others the "political means."

From this basic insight, Oppenheimer said, we can discern the origins of the state. Banditry and robbery and fraud are the usual ways in which people seek to forcibly appropriate what others have produced. But how much more efficient it would be to organize and regularize robbery! According to Oppenheimer, "The State is the organization of the political means." States arose when one group conquered another and settled in to rule them. Instead of looting the conquered group and moving on, the conquerors settled down and switched from looting to taxing. This regularization had some advantages for the conquered society, which is one reason it endured: rather than planting crops or building houses and then being subject to unpredictable looting by marauders, the peaceful and productive people may prefer simply to be forced to give up, say, 25 percent of their crop to their rulers, secure in the knowledge that that will—usually—be the full extent of the depredation and that they will be protected from marauders.

This basic understanding of the distinction

between society and the state, between the people and the rulers, has deep roots in Western civilization, going back to Samuel's warning to the people of Israel that a king would "take your sons, and your daughters, and your fields" and to the Christian concept that the state is conceived in sin. The Levelers, the great fighters for English liberty in the time of Charles I and Cromwell, understood that the origins of the English state lay in the conquest of England by the Normans, who imposed on free Englishmen a "Norman yoke." A century later, when Thomas Paine sought to undermine the legitimacy of the British monarchy, he pointed out, "A French bastard, landing with an armed banditti, and establishing himself king of England against the consent of the natives, is in plain terms a very paltry rascally original."

In a 1925 essay, "More of the Same," the journalist H. L. Mencken agreed:

The average man . . . sees clearly that government is something lying outside him and outside the generality of his fellow men—that it is a separate, independent, and hostile power, only partly under his control, and capable of doing him great harm. . . . [Government] is apprehended, not as a committee of citizens chosen to carry on the communal business of the whole population, but as a separate and autonomous corporation, mainly devoted to exploiting the population for the benefit of its own members. . . . When a private citizen is robbed, a worthy man is deprived of the fruits of his industry and thrift; when the government is robbed, the worst that happens is that certain rogues and loafers have less money to play with than they had before.

The Democratic State

It is usually argued in the United States that all this may have been true in ancient times, or even in the countries our forefathers fled, but that in a democratic country "we are the government." The Founders themselves hoped that a democratic—or, as they would have said, a republican—form of government would never violate people's rights or do

anything against the interests of the people. The unfortunate reality is that we can't all be the government. Most of us are too busy working, producing wealth, taking care of our families to watch what the rulers are doing. What normal, productive person can read a single one of the 1,000-page budget bills that Congress passes each year to find out what's really in it? Not one American in a hundred knows how much he really pays in taxes, given the many ways that politicians hide the real costs.

Yes, we have the power every four years or so to turn the rascals out and put in a new set of rascals. But many factors limit the value of that power:

- There aren't many fundamentally different alternatives on the ballot. Most choices are hardly worth getting excited about.

- We have to choose a package deal. In the real world, one candidate offers higher taxes, legalized abortion, and getting out of the war in Vietnam; another promises a balanced budget, school prayer, and escalation of the war. What if you want a balanced budget *and* withdrawal from Vietnam? In the marketplace, you get lots of choices; politics forces you to choose among only a few.

- People employ what economists call "rational ignorance." That is, we all spend our time learning about things we can actually do something about, not political issues that we can't really affect. That's why more than half of us can't name either of our U.S. senators. And why most of us have no clue about how much of the federal budget goes to Medicare, foreign aid, or any other program. Even if a citizen studies the issues and decides to vote accordingly, he has a one in a hundred million chance of influencing the outcome of the presidential election, after which, if his candidate is successful, he faces a Congress with different ideas, and in any case, it turns out the candidate was dissembling in the first place. Instinctively realizing all this, most voters don't spend much time studying public policy.

- Finally, as noted above, the candidates are likely to be kidding themselves or the voters anyway. One could argue that in every presidential election since 1968, the Ameri-

can people have tried to vote for smaller government, but in that time the federal budget has risen from \$178 billion to \$1.6 trillion. George Bush made *one* promise that every voter noticed in the 1992 campaign: "Read my lips, no new taxes." Then he raised them. If we are the government, why do we get so many policies we don't want, from school busing and the war in Vietnam to huge deficits, tax rates higher than almost any American approves, and the intervention in Bosnia?

No, even in a democracy there is a fundamental difference between the rulers and the ruled. Mark Twain once said, "It could probably be shown by facts and figures that there is no distinctly native American criminal class except Congress." Of course, Congress is no worse than its counterparts in other countries.

One of the most charming and honest descriptions of politics ever penned came from a letter written by Lord Bolingbroke, an English Tory leader in the eighteenth century.

I am afraid that we came to Court in the same dispositions as all parties have done; that the principal spring of our actions was to have the government of the state in our hands; that our principal views were the conservation of this power, great employments to ourselves, and great opportunities of rewarding those who had helped to raise us and of hurting those who stood in opposition to us.

Why Government Gets Too Big

Thomas Jefferson wrote, "The natural progress of things is for liberty to yield and government to gain ground." Two hundred years later, James M. Buchanan won a Nobel Prize in economics for a lifetime of scholarly research confirming Jefferson's insights. Buchanan's theory, developed along with Gordon Tullock, is called Public Choice. It's based on one fundamental point: Bureaucrats and politicians are just as self-interested as the rest of us. But lots of scholars did—and do—believe otherwise, and that's why textbooks tell us that people in the private economy are self-interested but the government

acts in the public interest. Notice the little sleight of hand in that last sentence? I said “people in the private economy,” but then I said “government acts.” Switching from the individual to the collective confuses the issue. Because actually, the *government* doesn’t act. *Some people in the government* act. And why should the guy who graduates from college and goes to work for Microsoft be self-interested, while his roommate who goes to work for the Department of Housing and Urban Development is suddenly inspired by altruism and starts acting in the public interest?

As it turns out, making the simple economic assumption that politicians and bureaucrats act just like everyone else, namely, in their own interest, has enormous explanatory power. Far better than the simplistic civics-book model that assumes public officials act in the public interest, the Public Choice model explains voting patterns, lobbying efforts, deficit spending, corruption, the expansion of government, and the opposition of lobbyists and members of Congress to term limits. In addition, the Public Choice model explains why self-interested behavior has positive effects in a competitive marketplace but does such harm in the political process.

Of course politicians and bureaucrats act in their own interest. One of the key concepts of Public Choice is *concentrated benefits and diffuse costs*. That means that the benefits of any government program are concentrated on a few people, while the costs are diffused among many people. Take Archer Daniels Midland’s ethanol subsidy, for instance. If ADM makes \$200 million a year from it, it costs each American about a dollar. Did you know about it? Probably not. Now that you do, are you going to write your congressman and complain? Probably not. Are you going to fly to Washington, take your senator out to dinner, give him a \$1,000 contribution, and ask him not to vote for the ethanol subsidy? Of course not. But you can bet that ADM chairman Dwayne Andreas is doing all that and more. Think about it: How much would you spend to get a \$200 million subsidy from the federal government? About \$199 million if you had to, I’ll bet. So who will members of

Congress listen to? The average Americans who don’t know that they’re paying a dollar each for Dwayne Andreas’s profits? Or Andreas, who’s making a list and checking it twice to see who’s voting for his subsidy?

If it were just ethanol, of course, it wouldn’t matter very much. But most federal programs work the same way. Take the farm program. A few billion dollars for subsidized farmers, who make up about 1 percent of the U.S. population; a few dollars a year for each taxpayer. The farm program is even more tricky than that. Many of its costs involve raising food prices, so consumers are paying for it without realizing it.

Billions of dollars are spent every year in Washington to get a piece of the trillion dollars of taxpayers’ money that Congress spends every year. Consider this ad from the *Washington Post*:

Infrastructure ... is a new Washington buzzword for: A. America’s crumbling physical plant? \$3 trillion is needed to repair highways, bridges, sewers, etc. B. Billions of federal reconstruction dollars? The 5¢ per gallon gasoline tax is only the beginning. C. Your bible for infrastructure spending—where the money is going and how to get your share—in a concise biweekly newsletter?

ANSWER: All of the above. Subscribe today.

Countless such newsletters tell people what kind of money the government is handing out and how to get their hands on it.

In 1987 an advertisement in the Durango, Colorado, *Herald* touting the Animas-La Plata dam and irrigation project made explicit the usual hidden calculations of those trying to get their hands on federal dollars: “Why we should support the Animas-La Plata Project: Because someone else is paying the tab! We get the water. We get the reservoir. They get the bill.”

Economists call this process rent-seeking, or transfer-seeking. It’s another illustration of Oppenheimer’s distinction between the economic and the political means. Some individuals and businesses produce wealth. They grow food or build things people want to buy

or perform useful services. Others find it easier to go to Washington, a state capital, or a city hall and get a subsidy, tariff, quota, or restriction on their competitors. That's the political means to wealth, and, sadly, it's been growing faster than the economic means.

Of course, in the modern world of trillion-dollar governments handing out favors like Santa Claus, it becomes harder to distinguish between the producers and the transfer-seekers, the predators and the prey. The state tries to confuse us, like the three-card monte dealer, by taking our money as quietly as possible and then handing some of it back to us with great ceremony. We all end up railing against taxes but then demanding our Medicare, our subsidized mass transit, our farm programs, our free national parks, and on and on and on. Frederic Bastiat explained it in the nineteenth century: "The State is that great fiction by which everyone tries to live at the expense of everyone else." In the aggregate, we all lose, but it's hard to know who is a net loser and who is a net winner in the immediate circumstance.

Thus, every group in society comes up with a way for the government to help it or penalize its competitors: businesses seek tariffs, unions call for minimum-wage laws (which make high-priced skilled workers more economical than cheaper, low-skilled workers), postal workers get Congress to outlaw private competition, businesses seek subtle twists in regulations that hurt their competitors more than themselves. And because the benefits of every such rule are concentrated on a few people, while the costs are spread out over many consumers or taxpayers, the few profit at the expense of the many, and they reward the politicians who made it happen.

Another reason that government grows too big is what Milton and Rose Friedman have called "the tyranny of the status quo." That is, when a new government program is proposed, it's the subject of heated debate. (At least if we're talking about big programs like farm subsidies or Medicare. Plenty of smaller programs get slipped into the budget with little or no debate, and some of them get pretty big after a few years.) But once it has passed, debate over the program virtually

ceases. After that, Congress just considers every year how much to increase its budget. There's no longer any debate about whether the program should exist. Reforms like zero-based budgeting and sunset laws are supposed to counter this problem, but they haven't had much effect. When the federal government moved to shut down the Civil Aeronautics Board in 1979, they found that there were no guidelines for terminating a government agency—it just never happens. Even President Clinton's own National Performance Review—the much-touted "reinventing government" project—said, "The federal government seems unable to abandon the obsolete. It knows how to add, but not to subtract." But you could search a Clinton budget for a long time and not find a proposal to eliminate a program.

One element of the tyranny of the status quo is what Washingtonians call the iron triangle, which protects every agency and program. The Iron Triangle consists of the congressional committee or subcommittee that oversees the program, the bureaucrats who administer it, and the special interests that benefit from it. There's a revolving door between these groups: a congressional staffer writes a regulation, then she goes over to the executive branch to administer it, then she moves to the private sector and makes big bucks lobbying her former colleagues on behalf of the regulated interest group. Or a corporate lobbyist makes contributions to members of Congress in order to get a new regulatory agency created, after which he's appointed to the board of the agency—because who else understands the problem so well?

If bureaucrats and politicians are self-interested, like the rest of us, how will they act in government? Well, no doubt they will sometimes seek to serve the public interest. Most people believe in trying to do the right thing. But the incentives in government are not good. To make more money in the private economy, you have to offer people something they want. If you do, you'll attract customers; if you don't, you may go out of business, or lose your job, or lose your investment. That keeps businesses on their toes, trying to find

ways to better serve consumers. But bureaucrats don't have customers. They don't make more money by satisfying more consumers. Instead, they amass money and power by enlarging their agencies. What do bureaucrats "maximize"? Bureaucrats! Their incentive, then, is to find ways to hire more people, expand their authority, and spend more taxpayers' dollars. Discover a new problem that your agency could work on, and Congress may give you another billion dollars, another deputy, and another whole bureau under your control. Even if you don't discover a new problem, just advertise that the problem you were commissioned to handle is getting a lot worse, and you may get more money and power. Solve a problem, on the other hand—improve children's test scores or get all the welfare recipients into jobs—and Congress or your state legislature is likely to decide you don't need more money. (It could even decide to shut your agency down, though this is largely an idle threat.) What an incentive system! How many problems are likely to get solved when the system punishes problem solving?

The obvious answer would seem to be to change the incentive system. But that's easier said than done. Government doesn't have customers, who can use its products or try a competitor instead, so it's difficult to decide when government is doing a good job. If more people send letters every year, is the U.S. Postal Service doing a good job of serving its customers? Not necessarily, because its customers are captive. If they want to mail a letter, they have to do it through the Postal Service (unless they're willing to pay at least ten times as much money for over-night service). As long as any institution gets its money coercively, through legally required payments, it is difficult if not impossible to measure its success at serving customers. Meanwhile, special interests within the system—politicians, administrators, unions—fight over the spoils and resist any attempts to measure their productivity or efficiency.

To see the self-interested nature of those in the state, just look at any day's newspapers. Check out how much better the federal employees' pension system is than Social Secu-

urity. Look at the \$2 million pensions that will be collected by retiring members of Congress. Note that when Congress and the president temporarily shut down the federal government, they kept on getting *their* paychecks while rank-and-file employees had to wait.

Political scientist James L. Payne examined the record of 14 separate appropriations hearings, committee meetings where members of Congress decide which programs to fund and by how much. He found that a total of 1,060 witnesses testified, of which 1,014 testified in favor of the proposed spending and only 7 against (the remainder were not clearly for or against). In other words, in only half the hearings was there even *one* witness against the program. Congressional staff members confirmed that the same was true in each member's office: The ratio of people coming in to ask the congressman to spend money versus those who opposed any particular program was "several thousand to one."

No matter how opposed to spending a new legislator may be, the constant, day-in-and-day-out, year-in-and-year-out requests for money have an effect. He would increasingly say, We've got to get spending down, but *this* program is necessary. Studies indeed show that the longer a person stays in Congress, the more spending he votes for. That's why Payne called Washington a Culture of Spending, in which it takes almost superhuman effort to remember the general interest and vote against programs that will benefit some particular person who visited your office or testified before your committee.

About a century ago a group of brilliant Italian scholars set out to study the nature of the state and its monetary affairs. One of them, Amilcare Puviani, tried to answer this question: If a government were trying to squeeze as much money as possible out of its population, what would it do? He came up with eleven strategies that such a government would employ. They're worth examining:

1. The use of indirect rather than direct taxes, so that the tax is hidden in the price of goods
2. Inflation, by which the state reduces the value of everyone else's currency

3. Borrowing, so as to postpone the necessary taxation

4. Gift and luxury taxes, where the tax accompanies the receipt or purchase of something special, lessening the annoyance of the tax

5. "Temporary" taxes, which somehow never get repealed when the emergency passes

6. Taxes that exploit social conflict, by placing higher taxes on unpopular groups (such as the rich, or cigarette smokers, or windfall profit makers)

7. The threat of social collapse or withholding monopoly government services if taxes are reduced

8. Collection of the total tax burden in relatively small increments (a sales tax, or income tax withholding) over time, rather than in a yearly lump sum

9. Taxes whose exact incidence cannot be predicted in advance, thus keeping the taxpayer unaware of just how much he is paying

10. Extraordinary budget complexity to hide the budget process from public understanding

11. The use of generalized expenditure categories, such as "education" or "defense," to make it difficult for outsiders to assess the individual components of the budget

Notice anything about this list? The United States government uses every one of those strategies—and so do most foreign governments. That just might lead a cynical observer to conclude that the government was actually *trying* to soak the taxpayers for as much money as it could get, rather than, say, raising just enough for its essential functions.

In all these ways, government's constant instinct is to grow, to take on more tasks, to arrogate more power to itself, to extract more money from the citizenry. Indeed, as Jefferson observed, "The natural progress of things is for liberty to yield and government to gain ground."

The State and War

The apotheosis of state power is war. In war the state's force is not hidden or implicit; it is

vividly on display. War creates a hell on earth, a nightmare of destruction on an otherwise unimaginable scale. No matter how much hatred people may sometimes feel for other groups of people, it's difficult to conceive why nations have chosen so often to go to war. The calculation of the ruling class may be different from that of the people, however. War often brings the state more power, by drawing more people under its control. But war can enhance state power even in the absence of conquest. (Losing a war, of course, can topple a ruling class, so making war is a gamble, but the payoff is good enough to attract gamblers.)

Classical liberals have long understood the connection between war and state power. Thomas Paine wrote that an observer of the British government would conclude "that taxes were not raised to carry on wars, but that wars were raised to carry on taxes." That is, the English and other European governments gave the impression of quarreling *in order* "to fleece their countries by taxes." The early twentieth-century liberal Randolph Bourne wrote simply, "War is the health of the State"—the only way to create a herd instinct in a free people and the best way to extend the powers of government.

U.S. history provides ample evidence of that. The great leaps in federal spending, taxation, and regulation have occurred during wartime—first, notably, the Civil War, then World War I and World War II. War threatens the survival of the society, so even naturally libertarian Americans are more willing to put up with state demands at such a time—and courts agree to sanction unconstitutional extensions of federal power. Then, after the emergency passes, the government neglects to give up the power it has seized, the courts agree that a precedent has been set, and the state settles comfortably into its new, larger domain. During major American wars, the federal budget has gone up ten- or twenty-fold, then fallen after the war, but never to as low a level as it was before. Take World War I, for example: Federal spending was \$713 million in 1916 but rose to nearly \$19 billion in 1919. It never again fell below \$2.9 billion.

It isn't just money, of course. Wartime has occasioned such extensions of state power as

conscription, the income tax, tax withholding, wage and price controls, rent control, censorship, crackdowns on dissent, and Prohibition, which really began with a 1917 statute. World War I was one of the great disasters of history: In Europe it ended ninety-nine years of relative peace and unprecedented economic progress and led to the rise of Communism in Russia and Nazism in Germany and to the even greater destruction of World War II. In the United States the consequences were far less dramatic but still noteworthy; in two short years President Woodrow Wilson and Congress created the Council of National Defense, the United States Food Administration, the United States Fuel Administration, the War Industries Board, the Emergency Fleet Corporation, the United States Grain Corporation, the United States Housing Corporation, and the War Finance Corporation. Wilson also nationalized the railroads. It was a dramatic leap toward the megastate we now struggle under, and it could not have been done in the absence of the war.

Statists have always been fascinated by war and its possibilities, even if they sometimes shrink from the implications. The rulers and the court intellectuals understand that free people have their own concerns—family and work and recreation—and it's not easy to get them enrolled voluntarily in the rulers' crusades and schemes. Court intellectuals are constantly calling for a "national effort" to undertake some task or other, and most people blithely ignore them and go on about the business of providing for their families

and trying to build a better mousetrap. But in time of war—*then* you can organize society and get everyone dancing to the same tune. As early as 1910, William James came up with the idea of "The Moral Equivalent of War," in an essay proposing that young Americans be conscripted into "an army enlisted against Nature" that would cause them to "get the childishness knocked out of them, and to come back into society with healthier sympathies and soberer ideas."

Collectivists don't like the killing involved in war, but they love its domestic effects: centralization, the growth of government power, and, not coincidentally, an enhanced role for court intellectuals and planners with Ph.D.'s. The dangers of war in the modern era have encouraged the state and its intellectual allies to look for more trumped-up emergencies and "moral equivalents of war" to rally the citizenry and persuade them to give up more of their liberty and their property to the state's plans. Thus we've had the War on Poverty, and the War on Drugs, and more crises and national emergencies than a planner could count on a super-computer. One advantage of these "moral equivalents of war" is that real wars eventually end, while the War on Poverty and the War on Drugs can go on for generations. And thus does the alliance between the state and its compliant intellectuals reach its zenith in war or its moral equivalent.

War, then, is Public Choice theory writ large: bad for the people but good for the governing class. No wonder everyone wishes it would stop but no one can stop it. □

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Can the Budget Be Cut?

by Doug Bandow

To listen to Washington officials, you'd think cutting the budget was impossible. In their view, every program, no matter how inconsequential, has played a critical role in America's past success and must be preserved to ensure the nation's future progress.

But you don't have to look far into the budget to find spending for which there is no conceivable justification. Consider welfare for business. For instance, over the last decade the Agriculture Department's Market Access Program (MAP) has spent roughly \$1 billion to promote the export of goods produced by agribusiness. Impecunious enterprises like McDonald's, Ernest and Julio Gallo, Tyson's Foods, Pillsbury Company, Campbell Soup Co., Pepperidge Farms, Jim Beam, Ralston Purina, Welch's Food, Inc., and the Wine Institute have all ended up on the federal dole. Despite a new majority supposedly devoted to fiscal frugality, Congress actually *increased* program outlays for last year by \$14.5 million annually.

Nor is MAP the only bit of corporate welfare in the federal budget. To the contrary, every year Uncle Sam spends \$75 billion, roughly half the current deficit, on 125 different programs to directly enrich business. To these the 104th Congress made only modest reductions. "Of the \$19.5 billion budgeted for the 35 least defensible programs, Congress cut just \$2.8 billion in 1996," or

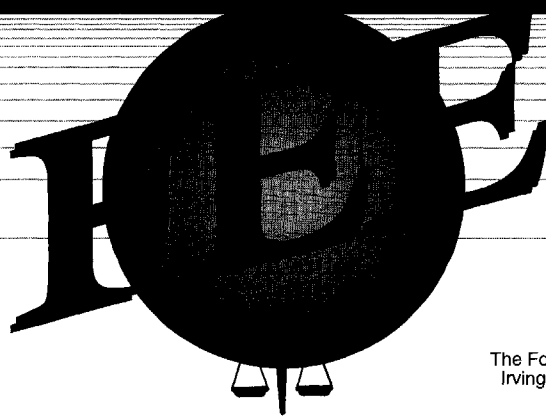
about 15 percent, report Cato Institute analysts Stephen Moore and Dean Stansel. They add:

Many corporate subsidy programs were reduced minimally, or not at all. Those programs include the Agricultural Research Service; the Conservation Reserve Program; the International Trade Administration; fossil energy R&D; the Bureau of Reclamation; the Office of Commercial Space Transportation; the Overseas Private Investment Corporation; the Export-Import Bank; and the Agriculture Department's Market Promotion program.

Business subsidies deserve to go on the chopping block simply as a matter of priorities. Deficits continue to accumulate at more than \$100 billion a year, and, unless further cuts are made, will soon start rising again. Thus, every low-priority program should be eliminated, and enriching some of the largest and most profitable businesses in America should be considered the lowest priority of all.

Nor are loans and loan guarantees a cheaper means to achieve the same ends of direct outlays. For instance, the Rural Business Cooperative Service and Rural Housing Service use below-cost credit to underwrite virtually everything, from housing to business, in rural areas. Unfortunately, politicized credit usually turns out to be bad credit. Delinquency rates for the government average eight percent, roughly three times private rates. During the 1980s the Small Business

Mr. Bandow, this month's guest editor, is a Senior Fellow at the Cato Institute and the author of several books, including The Politics of Plunder: Misgovernment in Washington (Transaction).



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April 1997

Faith in the Fed

Economic life is encompassed by political and social institutions. When they are conducive to economic effort and productivity, conditions may improve and bring forth general prosperity. When they turn hostile and burdensome, economic conditions are bound to deteriorate. This is why everyone must always keep an eye on the body politic.

A prominent political institution in every country is the central bank. In the United States, it is the Federal Reserve System, the 1914 masterwork of the Woodrow Wilson Administration. It is the federal moneybag which can finance any government expenditure and come to the rescue of any number of banks and financial institutions. It can create new money with the speed of a computer command and transfer it in seconds by high-speed modem. It can create deposits of one dollar as efficiently as it can create one million, one billion, or even one trillion dollars. The Fed derives this magical power from its position as money monopolist, from the legal tender force of its money, and from its regulatory powers over financial institutions. Its power is purely political, created and granted by the United States Congress, sanctioned by the courts, and enforced by the police.

The eyes of the economic profession, of the media, bankers, businessmen, investors, and speculators are glued on the Fed. Economic reporters on radio and television

hasten to report on every move of the Fed. "Did it add liquidity today or did it abstain from creating credit?" When the Chairman speaks the financial world holds its breath. An encouraging remark may lift stock prices hundreds of points and add one trillion dollars to equity wealth. A critical remark may cause the bond and stock markets of the world to plummet. Woe to the investor who fails to listen or interpret correctly the words of the Chairman!

The powers of the Federal Reserve System reach to all corners of the world. It is the "lender of last resort" not only to the U.S. Government and American financial institutions but also to foreign central banks. It watches over and comes to the rescue of banks in distress from Mexico to Malawi. Its vast international powers rest on two foundations: the central position of the American financial market in the world and the central role of the U.S. dollar as the reserve money of the world. The Fed manages the international dollar standard.

Most economists view the vast powers of the Fed with favor and applaud its managers. Unfortunately, they seriously overestimate the Fed's power and take no heed of the fateful role played by the Fed. Their blind faith in political power cannot bear to look.

As the monetary arm of the Federal government, the Fed suffers from all the temp-

tations, foibles, and uncertainties of politics. Its primary purpose is to finance government and conduct money and credit policies in accordance with the general plan of the administration in power. Ultimate control over the System rests in the hands of the President of the United States. He appoints the seven members of the Board of Governors and the United States Senate confirms them. His Secretary of the Treasury and his Treasurer sign all Federal Reserve currency from the one dollar bill to the \$100 bill which is the largest denomination now being issued. These signatures alone make a farce of Federal Reserve independence.

While the Fed wields monopolistic power over U.S. money markets, it faces potent competition in international markets. The Japanese yen and the German mark are "hard-money" competitors to the U.S. dollar, setting limits to the inflationary powers of the Fed. To ignore them is to invite dangerous dollar crises and the demise of the world dollar standard. Therefore, the U.S. dollar must always remain competitive in purchasing power and worthy of the trust of its owners; Fed policies must remain in step with the policies of the competitors.

Despite its vast powers the Fed's ability must not be overrated. It has limits which are visible in the dollar-yen and dollar-mark quotations in the money markets of the world from London to Tokyo. The limits also make their appearance in rising consumer prices which reveal the consequences of the countless additions of Federal Reserve credit. When consumer prices rise beyond the margins of public tolerance, the Fed is caught in a bind. Its function to provide liquidity for multifarious purposes conflicts with the function of "fighting inflation." The problem is that the Fed has only one tool — adding or reducing its own liquidity. To fight inflation, it must cease and desist from adding liquidity, from inflating the currency

and expanding its credits. In short, it must not pour more fuel on the fires of inflation which it ignited.

Americans may soon experience the limits of Fed power when the Bank of Japan or the Bundesbank raise their interest rates or when consumer price inflation raises its ugly head. The Fed would have to raise its rates in order to remain competitive with the Bank of Japan and the Bundesbank or to call a halt to the consumer price inflation. The raise would cause financial markets to tumble. In loss and suffering, Americans may finally realize that their faith in the Fed was painfully misplaced and their reliance on political money management a standing invitation to disaster. They may even learn that the creation of the Federal Reserve System by the Congress radically altered the political and economic order. It built a political command post over the people's money and banking which in time was to become the money monopolist. The law which created the System provided a federal fountainhead which in time was to become the paterfamilias of the trillion-dollar welfare state. It built a powerful engine of inflation and rendered the economy highly vulnerable to business booms and recessions. In the end, the American people may even regret the creation of the Fed and want to abolish the Wilson monster.

At this time, a wise man will not trust three things: the solemn promises of central bankers to "fight" inflation, the bluster of politicians to "balance" their budgets, and the chatter of Fed governors about the stabilizing effects of their policies.



Hans F. Sennholz

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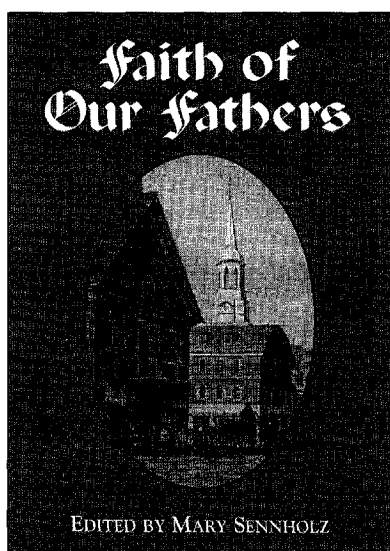
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Faith of Our Fathers

Edited by Mary Sennholz

God-given natural rights were the guiding light of the Founding Fathers. The stirring closing paragraph of the Declaration of Independence was not only the formal pronouncement of independence but also a powerful appeal to the Creator of all rights: "We, therefore, the Representatives of the United States of America, in General Congress, Assembled, appealing to the Supreme Judge of the world for the rectitude of our intentions, do, in the Name, and by

authority of the good People of these Colonies, solemnly publish and declare, that these United Colonies are and of Right ought to be free and independent States." In the final sentence of defiance they appealed to the Almighty for His protection: "And for the support of this declaration, with a firm reliance on the protection of divine Providence, we mutually pledge to each other our Lives, our Fortunes and our Sacred Honor."

The moral precepts and the self-evident truths that guided our Founding Fathers may not be fashionable in our time, but they are as inescapable and inexorable as they have been throughout the ages. We are free to ignore and disobey them, but we cannot escape the rising price we must pay for defying them.

Faith of Our Fathers includes an incisive introduction by Mary Sennholz and powerful essays by Clarence B. Carson, John Wesley Young, Robert A. Peterson, Wesley H. Hillendahl, Gary North, Ridgway K. Foley, Jr., Hal Watkins, James C. Patrick, Hans F. Sennholz, George C. Roche III, F. A. Harper, Jarret B. Wolstein, Leslie Snyder, Bruce D. Porter, Benjamin A. Rogge, Paul L. Adams, Ken Ewert, Ben Barker, John K. Williams, Edmund A. Opitz, Erik von Kuehnelt-Leddihn, and Calvin D. Linton.



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Administration saw 20 percent of its loans go bad. The delinquency rate for the Farmers Home Administration (since folded into the Rural Housing Service) ran nearly 50 percent. And even loans that are repaid are not cheap, since they divert credit from more productive uses elsewhere in the economy. That is, money is not free, so if Uncle Sam is providing subsidized loans to politically favored interests, he is inevitably directing money away from more deserving, but less well-connected, businesses and individuals.

A Matter of Principle

There is a more fundamental principle at stake, however. The problem isn't just that we can't afford to subsidize corporate America. It is that we shouldn't do so. It isn't right to take money from average taxpayers for the benefit of business interests. Put bluntly: Gallo Wine should pay to promote its own products. The role of government is to fulfill critical common goals that can't be achieved privately, not to redistribute wealth among private parties based on the size of their campaign contributions.

The fact that major corporations don't have to pay their own way, and instead are able to enlist legislators to mulct common citizens—and businesses with more modest political connections—deforms the entire political system. It is the availability of hundreds of billions of dollars in taxpayer loot that has encouraged the creation of PACs and the consequent flow of special interest money into politics. Companies like Archer Daniels Midland simply buy access to politicians in both parties, access lacked by the people who pay the bill. As a result, the only way to "clean up" politics is to eliminate the benefits up for auction, not to rerig the political game.

Of course, advocates of corporate welfare are rarely foolish enough to admit that their goal is self-enrichment. Rather, they argue that the programs generate countervailing benefits—usually jobs. After all, if McDonald's is selling more hamburgers overseas, it is employing more people at home. But there is nothing in the Constitution that

empowers Congress to take money from some to benefit others, even if a few jobs are created in the bargain.

In fact, far more jobs are destroyed in the transaction. The point is, federal spending is not free. Money given to Archer Daniels Midland, Boeing, General Electric, IBM, and Ralston Purina is taken from people and enterprises across America. Which reduces their purchases, investments, and other economic activities—and thus the number of jobs created. There ain't no such thing as a free lunch, goes the saying, and nowhere does it apply with more force than to the issue of corporate welfare.

At the very least policymakers could target the most egregious of the 125 business welfare programs. The worst 35 alone cost \$19.5 billion in 1995.

Where the Money Goes

The Commerce Department has always been the epicenter of general corporate welfare. Among the most outrageous business subsidies are:

- Advanced Technology Program (\$431.0 million in 1995)—R&D grants to the giants of corporate America.
- Economic Development Administration (\$409.7 million)—grants and loans to help local governments lure firms to their areas.
- International Trade Administration (\$266.1 million)—export promotion services.
- Manufacturing Extension Partnership (\$91.0 million)—technical assistance to manufacturing enterprises.
- Minority Business Development Agency (\$43.8 million)—assistance to minority-owned firms.
- National Oceanic and Atmospheric Administration (\$1.912 billion)—specialized forecasting activities for the agricultural, aviation, fishery, and shipping industries.

Another important fount of corporate welfare is the Agriculture Department, which spends even more money while benefiting an even narrower special interest. The culprits include:

- Agricultural Research Service (\$758.4 million)—subsidies to increase agricultural

productivity, improve food products, and encourage new uses of them.

- Commodity Credit Corporation (\$9.813 billion)—assorted crop subsidies.

- Conservation Reserve Program (\$1.743 billion)—payments to farmers not to farm their land.

- Cooperative State Research, Education, and Extension Service (\$932.1 million)—assistance to farmers in their operations.

- Economic Research Service (\$53.9 million)—agriculture industry research.

- Export Enhancement Program (\$800 million)—subsidies for big exporters.

- Federal Crop Insurance Corporation Fund (\$709.2 million)—underwriting crop insurance for farmers.

- Foreign Agricultural Service (\$118 million)—overseas government offices to promote food exports.

- Forest Service/Road and Trail Construction (\$130.9 million)—building roads, most of which primarily benefit private lumber companies.

- Market Promotion Program [since renamed the Market Access Program] (\$85.5 million)—underwriting corporate advertising abroad.

- National Agricultural Statistics Service (\$81.3 million)—collection of data used to formulate crop subsidies.

- Rural Utilities Service (\$128.1 million)—subsidizing the cost of electricity and telephones in one-time rural areas, delivering many of the resulting savings to business.

Energy and Transportation Subsidies

The Energy Department devotes billions of dollars to research and statistical activities that primarily benefit the energy industry. The Energy Information Administration (\$84.6 million) accumulates industry data, the Energy Supply Research and Development program (\$3.315 billion) underwrites research on energy technologies, the Fossil Energy Research and Development program (\$423.7 million) subsidizes more energy research, and the Power Marketing Administrations (\$272.5 million) provide cheap

power to some of the nation's most affluent regions.

The Transportation Department is another agency that benefits business more than the public. The Essential Air Service program (\$33.4 million) subsidizes airlines to serve politically favored areas, the Federal Highway Administration/Demonstration Projects (\$352.1 million) deliver almost pure pork to local construction firms, the Maritime Administration/Differential Subsidies (\$214.4 million) underwrite high-cost merchant ships, and the Office of Commercial Space Transportation (\$6.1 million) funds supposedly private-sector space activities.

The Department of the Interior, through the Bureau of Mines (\$152.4 million) and Bureau of Reclamation (\$841.2 million), supports the mining and cattle industries. The Geological Survey (\$547.6 million) maps resource deposits, to the benefit of mining interests. In the Department of Defense, the Army Corps of Engineers (\$3.409 billion) creates waterways and water projects, which typically enrich local business interests. The Semiconductor Manufacturing Technology program (\$89.5 million), known as Sematech, provides direct handouts to the semiconductor industry. The Technology Reinvestment Program (\$443.0 million) underwrites the behemoths of industry to produce dual-use (for both civilian and military) technologies.

Moreover, Congress has established a number of independent agencies with no function other than the enrichment of business. The Export-Import Bank (\$782.1 million)—long known as Boeing's bank because it financed so many of the aircraft manufacturer's deals—provides loans, loan guarantees, and credit insurance to the purchasers of American goods. The Overseas Private Investment Corporation (\$58.3 million) offers loans, loan guarantees, and risk insurance to U.S. businesses that invest overseas. The Small Business Administration (\$917.4 million) hands out loans and loan guarantees, and provides consulting services, to smaller enterprises. The Tennessee Valley Authority (\$142.9 million), like the Power Marketing Administrations, offers low-cost electricity. The Trade

and Development Agency (\$45.0 million) promotes U.S. investment overseas.

Restrictions, Quotas, and Tariffs

Some corporate welfare is delivered indirectly. The \$1.4 billion sugar price-support program is backed by quotas on imported sugar, which cost consumers several billion dollars a year. Some 40 percent of the benefits of the program go to the largest one percent of sugar farms. All told, the U.S. government imposes restrictions, like quotas and tariffs, on more than 8,000 products, including autos, computer parts, mushrooms, steel, and textiles. Estimates of the cost of protectionism, which primarily enriches domestic producers, run as high as \$80 billion annually.

The Jones Act requires that private companies use U.S. flag vessels to ship products between U.S. ports. Military goods and half of other government cargoes (furnished under federal contract, for instance) must go on more expensive American carriers. This simple regulatory directive, which cost the Department of Defense alone \$436 million in 1995, acts as a huge windfall for corporate America.

Ethanol, a corn-based substitute for gasoline, is expensive and inefficient, but receives two tax benefits—credits for firms that produce ethanol and exemption from federal excise taxes—worth some \$500 million annually. Companies like Archer Daniels Midland, which dominates the ethanol market

and contributes heavily to Democrats and Republicans alike, are the primary beneficiaries.

Subsidies to Amtrak support a quasi-independent firm and lower the price to business travelers. So-called Food for Peace, ostensibly a foreign-aid initiative, was created to unload domestic food surpluses abroad. NASA offers a cornucopia for government contractors. The Corporation for Public Broadcasting provides welfare to the wealthy, if not specifically to corporate America. And on and on.

Even a decade of huge budget deficits has changed nothing. Over that time Congress eliminated two truly egregious programs, the Synthetic Fuels Corporation (which subsidized the production of high-cost synthetic energy) and Urban Development Action Grants (which paid businesses to invest in particular regions). But the rest continue, though occasionally with different names (Congress turned the Rural Electrification Administration into the Rural Utilities Service). And new ones, like Sematech, continually arise.

It is time to kick corporate America off of the dole. The federal budget has long been filled with waste. But few expenditures are more obnoxious than those for business welfare. Policymakers should be able to agree that there is at least one thing government should not do—mulct taxpayers to enrich corporate interests. If legislators won't cut this kind of abusive spending, what programs will they kill? □

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Government-Mandated Insecurity

by Tadd Wilson

As a 22-year-old still paying off college debts, I may seem a bit premature in worrying about my retirement. Then again, how could I not? Every payday, more than 15 percent of my check is syphoned away, ostensibly to ensure that I have an income when I retire at age 65. Or will it be 70—or 75? And will there really be any funds to collect when I retire? Most importantly, why can't I decide how best to provide for my own future?

The Making and Breaking of Trust

A glance at the history of Social Security shows why it has been dubbed the “third rail” of American politics. In their debate on the Social Security Act of 1935, the two major parties appeared to switch traditional roles. The Republicans advocated a program targeted solely at the poor (not the party's usual constituency) to be funded on a pay-as-you-go basis out of general tax revenues. The Democrats, on the other hand, backed a program to include everyone (not just their poorer supporters), and to be paid for with earmarked tax dollars held in a “trust fund.”

This apparent shift in the parties' usual preferences was no mere quirk. According to political scientist William Keech, the “Democrats seem to have known that if people believed that ‘insurance contributions’ were being held in a ‘trust fund,’ they would feel

entitled to those benefits and would retain higher self-esteem than if they were receiving tax revenues doled out to the needy, [making it] more difficult to limit or scale down the Democratic program in times of budgetary stringency.” In short, no one would want to cut Social Security because doing so would reduce benefits to themselves. By 1936, Republican opposition to Social Security had disappeared.

Unfortunately, Republican fears about the program were soon confirmed. Until 1972, when a presidential candidates' bidding war burned off the excess in the Social Security coffers, Social Security increases corresponded suspiciously to even-numbered (i.e., election) years. Most beneficiaries were paid many times what they and their employers contributed. (In 1982 the Federal Reserve Bank of New York reported that the average 65-year-old retiree with a nonworking spouse recovered his lifetime contributions within nine months of retirement.)

Moreover, the alleged trust fund, which in truth is nothing more than a pile of IOUs from the U.S. Treasury Department, camouflaged the system's pay-as-you-go operation. Some Social Security critics understandably call it the trust fund with “no trust and no fund.”

Can We Trust Uncle Sam?

The issue of trust becomes even clearer when considering how to respond to the looming Social Security crisis. The basic prob-

Mr. Wilson is a free-lance writer in Fairfax, Virginia.

lem is demographics. When the Social Security Act was passed, 65-year-old male retirees could expect to live for another 12 years, females another 13. By 2030, male retirees can expect to live another 17 years, females another 21. Moreover, the population is aging, as the baby-boom bulge nears retirement. Thus, while the number of workers supporting each Social Security recipient stood at 16 in 1950, there will be less than two by 2030.

There are three basic policy options to “preserve” Social Security: do nothing, raise taxes, or cut benefits. The first ensures disaster. Even the Social Security Administration admits that by 2013 outgo will exceed income.

The second option is to increase the 15.3 percent payroll tax (employers theoretically pay half of that, but it comes out of the worker’s check). Unfortunately, the levels of taxation required to maintain the current system would impoverish workers and cripple the economy. According to A. Haeworth Robertson, former chief actuary of the Social Security Administration and president of the Retirement Policy Institute, a payroll tax of between 26 and 44 percent would be necessary to cover currently promised benefits. Even if the economy still functioned under such a burden, observes Robertson, people “would retain such a small proportion of what they produced, and there would be such a massive redistribution of income, that the nation would have moved a long way—if not all the way—toward a socialist economy.”

The third option is to cut benefits. However, the reductions would have to range between 25 percent and 50 percent, forcing individuals to retire much later and with a lower standard of living than they had planned. Government would find its own credibility brought into question.

In essence, then, with Social Security sliding toward fiscal disaster, Washington has only two options, neither of which is attractive: break its promise to taxpayers and wreck the economy, or break its promise to Social Security recipients and destroy its image.

But the problem gets even worse. Even if the government could preserve the current system without further raising taxes or cutting payments, beneficiaries would still lose. Most

taxpayers below the age of 37 face a negative rate of return, if they collect at all. This compares to the 5 to 10 percent, or more, compounded annual return possible with private investments, a much greater long-term opportunity cost imposed by the system. Ironically, in the name of retirement security, Social Security forces rich and poor worker alike to retire with a lower standard of living than if the program did not exist.

A Seventeenth-Century Solution to a Twenty-First-Century Problem

Although the Social Security debacle is primarily seen as a fiscal emergency, the economic problem is really an extension of a larger moral crisis: government’s assumption of control over individuals’ lives and livelihoods. While such concerns may seem abstract, they represent fundamental flaws in the program, which we must recognize, lest we risk replacing one failed policy with another.

Yet the lack of such an understanding is evidenced by the reform proposals put forth by Washington’s usual suspects. For example, several members of President Clinton’s Social Security Advisory Council have suggested investing a portion of the existing Social Security Trust Fund in stocks to help stave off bankruptcy. While taking advantage of higher returns in the private marketplace might seem to make sense, government investment would suffer from two crippling flaws. First, individuals would still not be allowed to prepare for their retirement as they wished. Second, allowing the federal government to purchase stock on such an enormous scale would give it dangerous control over private industry. We would end up in the same collectivist mire as with the high-tax “solution.”

Thus, the only morally and economically sound reform is privatization: allowing individual investors to choose where to put their money and retain a property right to that money. Moving to such a system would not be costless: Workers would obviously have to assume the risks normally associated with

investing. Moreover, protecting those near retirement who have already paid large sums into Social Security would generate transition costs of as much as \$7 trillion over the next 75 years, according to the Cato Institute.

However, these costs are not insurmountable, nor are they unique to privatization. The system as it now exists gives those retiring in future decades no choice but to invest in a "fund" that is not only risky but guaranteed to cost them money. And it is a deal that can only get worse, as taxes are raised, benefits are cut, or some combination of the two. In short, no system can avoid paying high costs. However, the privatization solution forthrightly replaces today's decrepit system with a better alternative, rather than attempting to patch it for another few decades. Without doubt, the benefits of privatization make it the best alternative available.

Wall Street and the Paradox of Trust

With their economic arguments exhausted, critics of privatization fall back on vague appeals to the spirit of Social Security. Robert Dreyfus, writing in the November/December 1996 issue of *Mother Jones*, says, "privatization would destroy the communal vision that is the strength of the Social Security system." Dreyfus worries that a privatized system "would evolve from a universal retirement system to a welfare program for poor and low-income workers" which would rapidly lose support from those with higher incomes, undoing the political Gordian (some would say Machiavellian) knot constructed by the Democrats back in 1935, and giving the Republicans their victory at last, albeit over half a century late. However, Social Security's "communal vision" is political, not moral—a delicately coordinated set of self-interested

constituencies, as Dreyfus's own Realpolitik concerns reveal. Moreover, a private system would allow poor and low-income workers to secure a higher standard of living for their retirement by investing their own money, rather than devolving into a welfare program.

Some critics of privatization still balk at the prospect of relying on Wall Street to ensure Americans' retirement. However, the beauty of a private system rooted in individual investors' property rights is that they don't have to trust either Pennsylvania Avenue or Wall Street. Every investor could choose to take his money elsewhere, giving private fund managers an interest in actively attracting and retaining customers. If one fund is losing money or even earning a smaller profit than the market as a whole, individuals can simply change companies. Investment firms must earn profits for their clients, irrespective of their "communal vision," or lack thereof.

Thus, it is private property and economic competition, not political campaigns, that breed true trust. With would-be retirees treated as individual customers, not as constituencies to be bought off at the expense of all, and with investors reaping the benefits of an expanding stock market and compound interest, trust would naturally develop. Paradoxically, then, real trust evolves out of a property rights-based system that does not need it, while trust is destroyed by an outdated Social Security system that demands it.

Ultimately, for both economic and moral reasons, people should be allowed to invest their money as they please, especially when it has such a dramatic impact on their future quality of life. So serious are the flaws of the existing system that most young workers would be better off stuffing their savings under their mattresses rather than letting the federal government "invest" it. We must replace, not "fix," Social Security. □

Competition in Education: The Case of Reading

by Daniel Hager

The nature of accountability in the public and private sectors is fundamentally different. Perhaps nowhere is the contrast more vivid than in education, particularly the teaching of reading to young children.

A private school named H.O.P.E. (an acronym for Heightened Options in Private Education) Academy in Lansing, Michigan, offers a good example of free-market accountability. The school is organized as a for-profit institution sustained solely by tuition money. Its owners must provide value to attract and retain customers.

The school markets its ability to teach youngsters to read. More than half of its customers are minority families, many with limited incomes. As a result, the owners have to offer a reading pedagogy that is not only effective but inexpensive. Failure to deliver the promised results would lead to declining enrollment, loss of revenue, and potential extinction for the enterprise.

By contrast, there is little accountability in public school systems. The schools isolate their customers from the choice of reading pedagogy. Parents must try to exert their

influence through elected representatives, who usually defer to professional managers on curriculum matters. This political insulation allows professionals with motives and agendas at odds with those of parents to nevertheless impose their choices. Only through political pressure, a process that is simultaneously more time-consuming and less effective than merely taking one's business elsewhere, can customers modify the services offered to their children.

H.O.P.E. Academy's teaching technique is phonics. Children are taught the relationships between sounds and alphabetic symbols and learn how to combine the correlations into words, sentences, and meanings. This system flourished when private schools were the rule in teaching the nation's children. The dominant text then was Noah Webster's "Blue-Backed Speller," the familiar name for a book first published in 1783 and used for more than 100 years. Webster provided an analysis of sounds leading from the simple to the complex, numerous tables of words illustrating "an easy standard of pronunciation," and practice lessons for students to read.

Make Way for Dick and Jane

The method used to teach reading that prevails in public school systems today originated in America in the first half of the nineteenth century, when it was touted by a number of educational elitists, including Horace Mann, the leading figure in establishing state control over education. Under this system children are introduced to reading by memorizing whole words and later receive instruction in symbol relationships, though not in the systematic manner provided by Webster.

In his 1973 book *The New Illiterates*, Samuel Blumenfeld traced the roots and development of this newer reading technique. Thomas Gallaudet, who taught from 1817 to 1830 at the American Asylum at Hartford for the Education of the Deaf and Dumb, used it, plus supplemental pictures to link words with objects, to teach deaf-mutes to read. He applied the method to his own children, who had normal hearing; they enthusiastically and rapidly learned the meanings of simple words

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without having to first master phonetic principles. The sight-word technique was soon adopted by other textbook authors. But it resulted in poor results in Boston, where a group of schoolmasters succeeded in banishing it after 1844.

However, the social-management *philosophes* who fashioned the “progressive education” principles that spread into the nation’s schoolrooms in the early decades of the twentieth century revived Gallaudet’s method after a period of obscurity. In 1930 “Dick and Jane” made their debut in a series of readers featuring controlled vocabularies to be mastered by students through the sight-word or look-and-say technique.

Hooked on Failure

As this reading pedagogy proliferated, Blumenfeld noted, “the failures of the method” soon led to “a whole remedial reading industry.” Critic Rudolf Flesch pointed out that the method reduces English to an ideographic language, using symbols to stand for whole words and negating the advantages offered by alphabetization. He explained, “We have decided to forget that we write with letters and learn to read English as if it were Chinese.” According to Blumenfeld, whole-word memorization enables children to get off to a fast start, but “this initial success is deceptive because it does not provide the foundation for learning thousands of additional words, and therefore it is in the second and third years in which the sight readers’ problems become evident.”

This pedagogy, despite significant opposition, has remained entrenched in public educational systems. An amendment to the 1986 Human Services Reauthorization Act required the Department of Education to study costs and benefits of different beginning reading instruction programs, including phonics. It took seven years for the Department to produce a report titled *The Beginning Reading Instruction Study*.

The highest-priced programs employ sight-

word instruction. The most expensive cost \$312.97 per pupil to implement, or nearly \$9,400 per 30-student classroom, based on 1992 prices. Other systems ranged downward between \$309.80 and \$205.26 per pupil, and several fell below \$200 per pupil. Phonics-based programs ranged from relatively costly to very inexpensive. One system ran \$215.20 per pupil, but others, consisting simply of kits for classroom use, cost as little as \$.83 per pupil. The cheapest offered only a teaching manual and cost just \$18, or \$.60 per pupil.

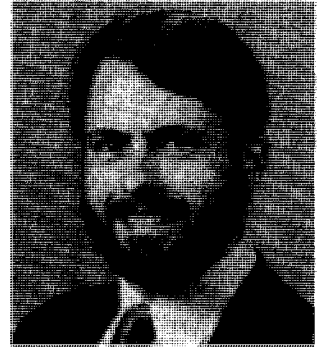
That manual is used in each classroom at H.O.P.E. Academy in conjunction with an \$18 set of phonograms or flash cards to drill students in phonetic relationships. A library of graded books enables them to practice and improve their reading skills. Making the cards instead of buying them could further reduce costs, says school co-owner Eleanor Sambaer. The students also use notebook paper for students’ writing exercises instead of the expensive workbooks included in sight-word programs.

H.O.P.E.’s tuition runs about two-thirds the average cost per pupil in Michigan’s public school systems. Sambaer and partner Marina Farhat are so confident of their pedagogy that they offer a tuition refund to parents of any kindergartner who is not reading at first-grade level by the end of the school year. The school has not had to issue a refund in its nearly 12 years of operation.

The public sector, of course, could not make such a guarantee, since it would quickly run out of money. Insulated from consumer pressure, educational professionals continue to promote their costly pedagogy while refusing to take responsibility for substandard literacy around the nation. Only the marketplace can determine the best pedagogy—the process of teaching reading that produces the best results for the lowest cost.

In short, the only really effective educational reform would be to abolish public education. Then schools would have to compete for customers, and parents could choose with their checkbooks. □

The Judgment of History



President Bill Clinton has run for public office for the last time. No longer subject to judgment by the voters, he is now accountable only to history, or at least to the historians who write the history books.

Nearly 50 years ago historian Arthur Schlesinger organized a poll of 55 historians to rate America's presidents. Schlesinger staged a repeat in 1962. Some journalists subsequently conducted their own surveys. Now Schlesinger's son, writer Arthur Schlesinger, Jr., has organized yet another survey of the historical establishment. The results of all these efforts are predictable. Presidential greatness is defined as action, the more frenetic the better. Which means big government, the more intrusive the better.

Abraham Lincoln tops the list, a unanimous choice for greatness. There's no doubt that he was a skillful politician and succeeded in his primary goal of preserving the union. But was it worth plunging the nation into a war that killed 620,000 Americans? His predecessor, James Buchanan, is judged to be a failure and indeed Buchanan did much to exacerbate sectional tensions. But he, at least, held back from the fateful step of making war on states that only sought to peacefully depart the union.

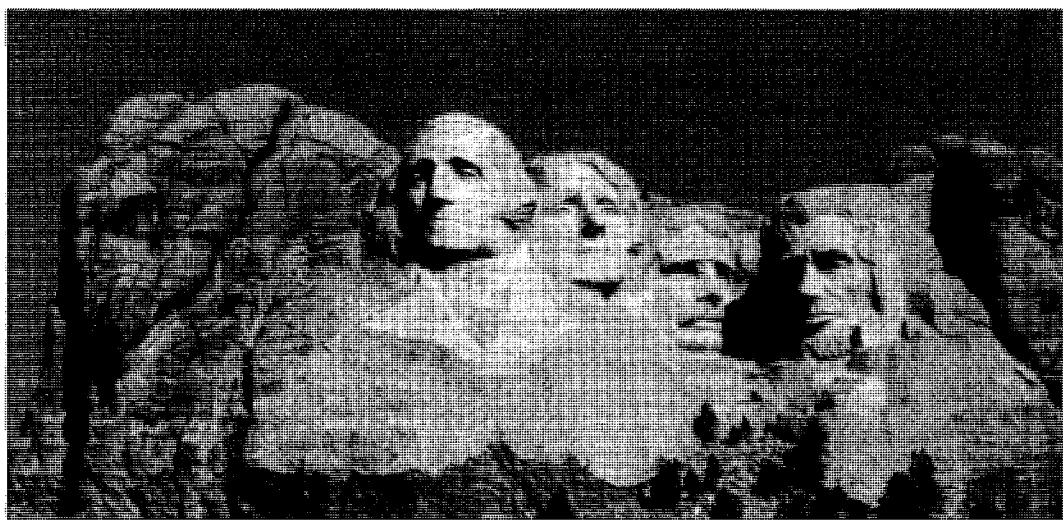
Lincoln also began a tradition of subverting constitutional liberties. He unilaterally suspended *habeas corpus*; his administration

jailed political opponents, banned critical newspapers from the mails, and manipulated border state elections. At his urging Congress conscripted men into the army and turned paper money into legal tender. Moreover, the Civil War proved the truth of the adage that war is the health of the state: Abraham Lincoln created the first national government that intimately intruded into the lives of its citizens.

Second in the rankings is Franklin Delano Roosevelt. This president, too, was a political master. His economic policies were a failure, however. The New Deal, as he termed it, might have improved Americans' morale, but it did not spark a sustained recovery. Now, decades later, we are reaping the bitter harvest of many of his misguided initiatives: deposit insurance, which led to the S&L debacle; Social Security, which is heading over a fiscal cliff; and pervasive government meddling, which has slowed our economy's growth and reduced our freedom.

Moreover, while his wartime leadership may have been competent, he had a wildly naive view of mass murderer Joseph Stalin. Equally important, Roosevelt maneuvered secretly to drag the United States into the worst war in human history, a decision which deserved to be debated fully by the American people. Finally, he committed perhaps the single greatest violation of civil liberties of any president—the incarceration of over 100,000 Japanese-Americans based on their national origin. Equally grotesque was his administration's refusal to allow the entry of Jewish

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"Greats" and "near-greats" on Mount Rushmore.

refugees even while the Nazis were destroying European Jewry.

The third and last "great" president is George Washington. He is the only one who deserves that designation, as much for what he did not do as for what he did. President Washington, in contrast to so many of his successors, rejected the opportunity to accumulate power. Nor did he see America's role as that of an international nanny; to the contrary, he warned against foreign entanglements. He truly believed in individual liberty and republican government.

The near-greats are led by Thomas Jefferson and Andrew Jackson who, like Washington, are good selections. Both had their flaws; the latter favored slavery, for instance. But neither mistook a desire to expand state authority with public-spiritedness. Both inveighed against the use of government to enrich the politically powerful.

Next in line, however, is Woodrow Wilson, a man who pushed the United States into World War I and sacrificed 110,000 lives in his belief that he had been anointed to save mankind. His administration was the most repressive in U.S. history; it persecuted critics of both conscription and the war and inflamed popular hysteria against anyone who demonstrated anything other than enthusiasm for the president's policies. Wilson even proposed outlawing criticism of the government. He ended his presidency crippled by a stroke

but hanging onto power by deceiving the public.

Then comes Theodore Roosevelt. He was a complex and fascinating man, but his appetite for war was probably unmatched by any other president. The specific opponent didn't matter—over the years he advocated conflict with Britain, Germany, and Spain. Rather, he believed in war as a matter of principle. His view of non-Western peoples was disgraceful. His interventionist economics ultimately made the economy less, not more, competitive.

The next near-great is Harry S. Truman. President Truman is impressive only insofar as he rose above the worst sort of machine politics with a performance adequate to avoid disaster in the dangerous post-World War II era. But his international policies exacerbated the Cold War, yielding the national security state and outsized military that plague us to this day. His mistakes in Korea turned a small regional conflict into a lengthy war with China. Constitutional limits did not deter him, as exhibited by his attempted seizure of the steel industry. His domestic policies were marked by inefficient economic intervention.

The last of the almost-greats is James Knox Polk, an unabashed imperialist. He initiated what was, truth be told, a war of aggression against Mexico that led to the seizure of half of that nation's territory. He was frugal when

it came to economics, but his belief that territorial expansion warranted war was more befitting a twentieth-century dictator. Today we can thank him for the addition of Arizona, California, New Mexico, and Texas; the people subjugated by U.S. troops probably had a different view, however.

In contrast, Dwight Eisenhower, who ended the Korean War, warned against militarism, and moderated domestic federal expenditures, is judged to be merely average. At least he now comes in better than he did in 1962—an embarrassing 22nd out of 31.

Calvin Coolidge, who presided over prosperity and peace, is rated below average. He had no grand initiatives, since there was no cause for grand initiatives. But to establishment historians, leaving the American people alone is considered to be a sign of mediocrity, not greatness.

Warren Harding, whose associates were notoriously corrupt, is termed a failure. But it was Harding who restored civil liberties after the repressive Wilson era. He also kept America aloof from France's vindictive post-World War I policies and presided over a strong

economy. This is a better record than that amassed by most of the supposed greats and near greats.

What will history say of Bill Clinton? It's too early to tell, though historians obviously like presidents who send the military into action around the globe, propose massive new social programs, and talk endlessly in action-oriented terms.

However, the judgment that matters most will be that of history—as reflected in the actions of millions and billions of people around the globe. Already they have rendered their verdict on the ruthless totalitarians who were venerated as demigods earlier this century. Those dictators' monuments have been toppled and their memories are now execrated. As what historian Paul Johnson calls the age of politics recedes in America too, many of the great and near-great presidents are likely to find their reputations falling in the same way. Presidents mesmerized by power and willing to sacrifice American lives, wealth, and freedom for social engineering projects at home and abroad will find history, if not historians, to be unkind. □

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Benjamin Franklin: The Man Who Invented the American Dream

by Jim Powell

Benjamin Franklin pioneered the spirit of self-help in America. With less than three years of formal schooling, he taught himself almost everything he knew. He took the initiative of learning French, German, Italian, Latin, and Spanish. He taught himself how to play the guitar, violin, and harp. He made himself an influential author and editor. He started a successful printing business, newspaper, and magazine. He developed a network of printing partnerships throughout the American colonies.

When Franklin saw that something needed doing, he did it. In Philadelphia, he helped launch the city's first police force, the first volunteer fire company, the first fire insurance firm, the first hospital, the first public library, and the academy that became the first institution of higher learning (the University of Pennsylvania). As postmaster, he doubled and tripled the frequency of mail deliveries.

Franklin, who reportedly amassed early America's largest private library, helped expand the frontiers of science and invention. He started the American Philosophical Soci-

ety, which was this country's first scientific society and maintained the first science library, first museum, and first patent office; more than 90 members of this society went on to win Nobel Prizes. On his eight trans-Atlantic crossings, Franklin made measurements that helped chart the Gulf Stream. He pioneered the study of water flowing around a hull—hydrodynamics. He investigated meteorology. He invented bifocal spectacles. He was most famous, of course, for his experiments with electricity, especially lightning. His lightning rod helped banish the terror of thunderstorms.

Franklin had more to do with founding the American republic than anyone else. As American representative in London, he helped persuade Parliament to repeal despised Stamp Act taxes, giving America an additional decade to prepare for armed conflict with Britain. He was on the committee that named Thomas Jefferson to draft the Declaration of Independence. He went to France and secured military help as well as a formal alliance, without which America probably wouldn't have won the Revolutionary War. He helped negotiate the peace with Britain. He crafted a compromise that helped prevent the collapse of the Constitutional Convention, and he was the one who moved that the Constitution be adopted.

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Franklin, more than anybody, linked the emerging international movements for liberty. James Madison recalled that he “never passed half an hour in his company without hearing some observation or anecdote worth remembering.” Franklin dined with *Wealth of Nations* author Adam Smith. The Scottish philosopher David Hume told Franklin: “America has sent us many good things, Gold, Silver, Sugar, Tobacco, Indigo, &c. But you are the first Philosopher, and indeed the first Great Man of Letters for whom we are beholden.” Edmund Burke, who had opposed Britain’s war against America, called Franklin “the friend of mankind.” When the French wit Voltaire met William Temple Franklin, he quipped: “God and Liberty! It is the only benediction which can be given to the grandson of Franklin.” Laissez-faire economist Anne Robert Jacques Turgot remarked that Franklin “snatched the lightning from heaven and the scepter from tyrants.”

Franklin was a late-blooming radical. During his 30s, he brokered the sale of some slaves as a sideline for his general store. He and his wife owned two slaves. In 1758, when he was 52, he suggested establishing Philadelphia’s first school for blacks. He abandoned his support for the British Empire and committed himself to the American Revolution when he was 70. Philadelphia Quakers had launched the abolitionist movement by organizing the Pennsylvania Society for Promoting the Abolition of Slavery (1775), but its activities ceased during the Revolution; this pioneering society revived in 1787 when Franklin became its president, at 81. Two years later he voiced his support for the ideals of the French Revolution.

Franklin was famous for his charm and tact, which enabled him to get the most out of people, but he had detractors. For instance, John Adams complained that “I could never obtain the favour of his Company in a Morning before Breakfast which would have been the most convenient time to read over the Letters and papers. . . . Mr. Franklin kept a horn book always in his Pockett in which he minuted all his invitations to dinner, and Mr. [Arthur] Lee said it was the only thing in which he was punctual . . . and after that went

sometimes to the Play, sometimes to the Philosophers but most commonly to visit those Ladies. . . .” John Dickinson, head of Pennsylvania’s delegation to Congress, hated Franklin so much that he refused to install a lightning rod on his Philadelphia mansion—and it was struck by lightning.

While Franklin was generous with his friends and adopted families, he could be insensitive with his own. He disregarded pleas from his dying wife, Deborah, whom he hadn’t seen in almost a dozen years, to return home from Britain where he represented American colonial interests. He refused to approve his daughter’s proposed marriage to the man she loved. His son’s decision to side with Britain during the American Revolution provoked a bitter break that never healed.

As biographer Ronald W. Clark noted, Franklin “was only an inch or two less than six feet in height, thickset and muscular, with dark brown hair above friendly hazel eyes. He was obviously able to look after himself, a distinct advantage in the rougher eighteenth century. . . . These physical attributes were compounded by a nimbleness of mind, so that in argument as well as in action he tended to be off the mark quicker than most men. Above all, and largely concealed by his instinctive hail-fellow-well-met nature, there was a steely determination to succeed and some impatience with those who got in his way.”

Childhood and Youth

Benjamin Franklin was born in a Milk Street, Boston, house January 17, 1706, the tenth son of Abia Folger, daughter of an indentured servant. His father Josiah Franklin was a candlemaker.

At eight, he was sent to Boston’s Latin school with the idea of entering Harvard, which would prepare him for the ministry. But Harvard required unquestioning devotion, and Franklin exhibited some religious skepticism. At one point, for instance, he suggested that his father shorten his lengthy mealtime prayers and “say Grace over the whole cask—it would be a vast saving of time.” Within two years, Franklin was transferred to a more practical Boston school for

writing and arithmetic. He apprenticed in his father's candlemaking shop.

But by age 12, he had become restless. Apparently because he began to enjoy books, his father arranged for him to apprentice with his 21-year-old brother James, who had set himself up as a Boston printer. "I was fond of reading," Franklin recalled, "and all the little money that came into my hands was ever laid out in books." Among other titles, he read Plutarch's *Lives*, John Bunyan's *Pilgrim's Progress*, and John Locke's *Essay Concerning Human Understanding*.

Franklin gained experience writing when his brother began publishing a newspaper, the *New-England Courant*. At 16, he anonymously wrote 14 articles known as the *Dogood Papers*, satirizing religious dogmas and government officials, and his brother published them apparently without ever knowing the identity of the author. As a consequence, the Massachusetts Governor's Council sentenced James Franklin to a month in jail, and it ordered him to stop publishing the *New-England Courant*. The paper continued to appear, however—under Benjamin Franklin's name. But the brothers began squabbling, apparently over control. Impatient to become his own man, he ran away from home in September 1723.

Somewhere along the line, Franklin learned how to be more tactful and persuasive. He expressed himself "in Terms of modest Diffidence, never using when I advance any thing that may possibly be disputed, the Words *Certainly, undoubtedly, or any others that give the Air of Positiveness to an Opinion*; but rather say, I conceive, or I apprehend a Thing to be so and so, It appears to me, or I should think it so or so for such & such Reasons, or I imagine it to be so, or it is so if I am not mistaken."

Franklin went to Philadelphia, where he heard a printer was looking for help. "I was dirty from my Journey," he wrote about his arrival at the Market Street Wharf, "my Pockets were stuff'd out with Shirts & Stockings; I knew no Soul, or where to look for Lodging. I was fatigued with Travelling, Rowing & Want of Rest. I was very hungry, and my whole Stock of Cash consisted of a Dutch

Dollar and about a Shilling in Copper." Yet as biographer Ronald Clark noted, Franklin "was distinctly presentable, a well-set-up young man in his early twenties, lacking the plumpness of his later years and radiating an apparently inexhaustible energy."

Young Ben Franklin in London

Franklin got a job and somehow met Pennsylvania's governor William Keith, who needed a good printer. Although Franklin was just 18, his evident intelligence made him a standout. The governor offered to provide financing so Franklin could establish his own print shop. Accordingly, in November 1724 he sailed for England to buy about £100 of printing equipment, but the governor's promise turned out to be worthless. During the next 20 months, Franklin worked for a couple of big London printers. He wrote a pamphlet which, questioning certain religious doctrines, served as a calling card. Franklin met Bernard Mandeville, the Dutch doctor who wrote *The Fable of the Bees, or Private Vices, Public Benefits*, anticipating Adam Smith's idea of the "invisible hand."

London, an intellectual capital of Europe, had expanded Franklin's vision. He had become a first-class printer and met many sophisticated people. During the tedious 79-day voyage home, he wrote down some principles for success. His original draft was lost, but the main points were probably similar to what he remembered later: "1. It is necessary for me to be extremely frugal for some time, till I have paid what I owe. 2. To endeavor to speak truth in every instance, to give nobody expectations that are not likely to be answered, but aim at sincerity in every word and action; the most amiable excellence in a rational being. 3. To apply myself industriously to whatever business I take in hand, and not divert my mind from my business by any foolish project of growing suddenly rich; for industry and patience are the surest means of plenty. 4. I resolve to speak ill of no man whatever, not even in a matter of truth; but rather by some means excuse the faults I hear charged upon others, and, upon proper

occasions, speak all the good I know of everybody.”

Within months after his return in late 1726, he was in business for himself. He landed a contract to print Pennsylvania’s currency—and, alas, promoter that he was, he touted it in a pamphlet, *A Modest Enquiry into the Nature and Necessity of a Paper-Currency*. Franklin printed a wide range of things, including the first novel published in America (Samuel Richardson’s *Pamela*), and sold material printed by others, including Bibles and all kinds of legal forms. Moreover, Franklin served as a moneylender for the poor, providing as little as two shillings.

***The Pennsylvania Gazette* and “Poor Richard”**

Franklin bought a failing newspaper, changed its name to *The Pennsylvania Gazette*, wrote many of the articles himself and made money. The December 28, 1732, issue announced that he would be offering *Poor Richard: an Almanack*. It was published annually until 1758, offering memorable aphorisms about success. For instance: “God helps them that helps themselves. . . . Diligence is the Mother of Good-Luck. . . . Early to bed and early to rise, makes a man healthy, wealthy and wise. . . . Well done is better than well said. . . . He that has a Trade, has an Office of Profit and Honour. . . . Life with Fools consists in Drinking; With the wise Man Living’s Thinking. . . . Employ thy time well, if thou meanest to gain leisure. . . . As Pride increases, Fortune declines. . . . Be always asham’d to catch thy self idle. . . . Wink at small faults; remember thou hast great ones. . . . Folly and Wickedness shortens Life. . . . Drive thy business; let not that drive thee. . . . When you’re good to others, you are best to yourself. . . . Love, and be lov’d.” *Poor Richard’s Almanack* sold some 10,000 copies a year—a big number in those days—and helped make Franklin a household name.

Meanwhile, in 1727, Franklin started a group called the “Junto,” which he described as “a Club for mutual Improvement.” Participants—many of whom were young apprentices—suggested “one or more Queries on

any Point of Morals, Politics, or Natural Philosophy, to be discuss’d by the Company, and once in three Months produce & read an Essay of his own Writing on any Subject he pleased.” They met weekly on Friday evenings, initially at a tavern and later in a rented room. When the Junto reached what Franklin considered an optimum size (12), he encouraged interested people to form their own groups, and they sprouted all around Philadelphia.

During the next three decades, Franklin’s Junto helped pioneer many of Philadelphia’s institutions, starting with the city’s first public library. After members discussed the idea, it was considered by people in the other groups. Then Franklin talked about it in the columns of *The Pennsylvania Gazette*. The library began by charging an entrance fee and an annual subscription fee. Next, to provide greater security against crime, Franklin started City Watch, which organized teams of constables patrolling neighborhoods at night. Through the Junto, Franklin promoted the paving, cleaning, and lighting of streets.

Reflecting his cosmopolitan view, Franklin decided that “The first drudgery of settling new colonies, which confines the attention of people to mere necessities, is now pretty well over. . . .” He believed it was time “to cultivate the finer arts and improve the common stock of knowledge.” In 1744, he and fellow Junto members helped organize the American Philosophical Society; he served as its first secretary.

Franklin thought college education should be available to people in Pennsylvania—as it was available in Connecticut (Yale), Massachusetts (Harvard), and Virginia (William and Mary). He discussed his idea with members of the Junto and wrote a pamphlet, *Proposals Relating to the Education of Youth in Pennsylvania*. He recommended that the curriculum focus on basic skills like writing and speaking. His proposed reading list included works by the seventeenth-century radical author Algernon Sidney and *Cato’s Letters*, the influential early eighteenth-century case for natural rights. In 1749, Franklin was elected the first president of this new Academy, helping to recruit trustees, raise money,

rent a house, and hire teachers. The Academy prospered and went on to become the University of Pennsylvania.

A doctor named Thomas Bond tried to establish Philadelphia's first hospital, but he couldn't get support. People assumed that if the project were worthwhile, Franklin would be involved. So Bond approached Franklin, who became a subscriber and enthusiastically solicited support from others. This was the beginning of Pennsylvania Hospital.

Franklin was becoming a successful self-made man, but his life wasn't complete. He had some romantic adventures, one of which brought a son, William. On September 1, 1730, he began a common-law marriage with Deborah Read, a carpenter's daughter. They had a son, Francis, who died four years later from smallpox, and a daughter, Sally (Sarah), who was born in 1743. Franklin's first son, William, lived with them. Deborah seems to have been a barely literate homebody, and she couldn't begin to keep up with her husband. During the next 45 years, she displayed phenomenal patience as he spent decades away on business throughout the colonies and Europe.

By 1748, Franklin turned over management of his printing business to a partner and retired from it, while continuing to receive half the profits. He still edited *The Pennsylvania Gazette* and *Poor Richard*.

With his buoyant curiosity, Franklin pursued myriad scientific interests. He investigated weather patterns. Before geology was a science, Franklin speculated about the origin of mountains. He invented a more efficient wood-burning stove, connected to a radiator. In 1744, he started popularizing this stove as the Pennsylvania Fire Place.

Experiments with Electricity

Franklin began to experiment with electricity. He determined that there were two kinds of charges, which he called "positive" and "negative." In June 1752, he climbed a Philadelphia hill, flew a silk kite during a thunderstorm, touched one knuckle to a key on the wet string—and felt an electrical shock. Franklin published *Experiments and Observa-*

tions on Electricity, and it was translated into French, German, Italian, and Latin. The English editor and statesman Lord Brougham marveled, years later, that Franklin "could make an experiment with less apparatus and conduct his experimental inquiry to a discovery with more ordinary materials than any other philosopher we ever saw. With an old key, a silk thread, some sealing-wax, and a sheet of paper, he discovered the identity of lightning and electricity." Franklin developed lightning rods that could draw lightning away from a house and protect it from fire. Lightning rods earned Franklin the gratitude of people throughout America and Europe. Harvard and Yale universities awarded him honorary degrees. He was elected a Fellow of the English Royal Society and the French Académie des Sciences.

By the time Franklin had become famous for his experiments on electricity, he was in the thick of Pennsylvania politics. He was elected to the Pennsylvania Assembly in August 1751. As Britain and France struggled for control of North America, the French won over many Indian tribes as allies, and people in Pennsylvania were vulnerable to attack. The Penn family, known as "the Proprietors" because they owned the colony, refused to mount a defense. Franklin helped organize a people's militia. In 1754, the British Board of Trade and Plantations asked nine colonies north of the Potomac River to participate in a Congress aimed at preventing the Iroquois Indians from becoming allies of the French. Pennsylvania's governor appointed Franklin as a representative, and the conference took place in Albany, New York, "the gateway to French Canada," as historian Catherine Drinker Bowen called it. A peace treaty was signed. Franklin proposed the "Albany Plan of Union," which would have established a federal union of the colonies under the British crown. Although the plan wasn't adopted, Franklin had emerged as a person whose vision and capabilities could take him far beyond Pennsylvania.

He prepared the 1758 *Poor Richard* and turned it into a pamphlet. Lacking fresh material, he rewrote some of his aphorisms. For instance: "I will tell thee, my friend, what

Poor Richard says, Employ thy time well if thou meanest to gain leisure; and, since thou art not sure of a minute, throw not away an hour. Leisure is time for doing something useful; this leisure the diligent man will obtain, but the lazy man never; so that, as poor Richard says A life of leisure and a life of laziness are two things. No, for as poor Richard says, Trouble springs from idleness, and grievous toil from needless ease. Many without labour, would live by their wits only, but they break for want of stock. Whereas industry gives comfort, and plenty, and respect." This little work was issued as *The Way to Wealth*, which went into nine Spanish printings, 11 German printings, 56 French printings, and 70 English printings. Moreover, it also appeared in Bohemian, Catalan, Chinese, Danish, Dutch, Gaelic, Greek, Polish, Russian, Swedish, and Welsh.

Pennsylvania politics intensified. Many people resented the Penns because their vast landholdings were tax-exempt. Since Franklin had been to England, was well known in Europe, and had proven himself as a negotiator, the Assembly sent him to London where, it was hoped, he could secure their interests against the Penns. After a fruitless discussion with Thomas Penn, William Penn's son, it was clear that Franklin was in for a long stay. He learned the fine art of British-style lobbying. He brought to it his skill of writing letters and essays—he contributed 32 articles to the *London Chronicle*, 33 articles to the *Public Advertiser*, and additional articles in *The Citizen* and *The Gentleman's Magazine*. He anonymously collaborated with fellow Pennsylvania agent Richard Jackson to produce *An Historical Review of the Constitution and Government of Pennsylvania* (1758), a polemic against the Penns; and *The Interest of Great Britain Considered, With Regard to her Colonies, And the Acquisitions of Canada and Guadeloupe* (1760), a pamphlet supporting the expansion of the British Empire. Franklin dined out six days a week, developing relationships with influential people. In April 1759, the Pennsylvania Assembly had passed a bill which aimed to raise £100,000 for defense against the French—by taxing all land. It specified that the long tax-exempt

Penn properties would be taxed, at a rate no higher than any other property. The bill was upheld in London.

Soon after Franklin returned on November 1, 1759, battles resumed with the Penns. He was convinced Pennsylvania would be better run as a royal colony. The Pennsylvania Assembly agreed and sent him back to London the following October. He was appointed by assemblies in Massachusetts and Georgia to represent their interests, too.

The Stamp Act Crisis

Asking George III to take over Pennsylvania turned out to mean support for British taxation. Britain and France had concluded their costly Seven Years' War, and Britain wanted the Colonies to help pay for it. Parliament passed the Stamp Act, which became law November 1, 1765. It called for taxes on legal documents, newspapers, and playing cards in the colonies, and Franklin accepted it as a fait accompli. He did speak out against "the mistaken Notion . . . that the Colonies were planted at the Expense of Parliament, and that therefore the Parliament has a Right to tax them, &c." America, he emphasized, "had not been conquer'd by either King or Parliament, but was possess'd by a free People."

Franklin was startled by the intensity of colonial resistance to the Stamp Act. He feared the Stamp Act could provoke a break with Britain. Accordingly, he launched one of his trademark propaganda campaigns against it. Writing under such pseudonyms as "Homespun" and "Traveler," he presented a case that it was in Britain's interest to repeal the Stamp Act. When Parliament held hearings on repeal, Franklin was among the 30 witnesses who testified. Asked if Americans would accept a more moderate tax, Franklin declared: "No, never unless compelled by force of arms." The Stamp Act was repealed.

Parliament tried again to assert its supremacy over the colonies. It passed a Quartering Act that empowered the British commander in America to demand lodgings for his soldiers. In June 1767, Parliament enacted new colonial taxes on glass, lead, paint, paper, and

tea. Franklin urged some kind of conciliation, but back in the colonies Boston patriots Samuel Adams and James Otis spurred the Massachusetts Assembly to call for renewed resistance against British policies. Public opinion radicalized after the "Boston Massacre," in which British soldiers killed five Boston patriots.

In 1771, Franklin visited his friend Jonathan Shipley, bishop of St. Asaph, at his Twyford home, near Winchester. There he started work on his autobiography. "Franklin," reported Yale University scholars, "wrote the autobiography on large folio sheets, two leaves or four pages to a sheet. In initial composition he used only one vertical half of each page, leaving the other temporarily blank. As he later reviewed what he had written, he canceled words or phrases in the first draft, inserted between the lines new or revised phraseology, or, if more room was necessary, used the space in the adjoining blank column."

In Britain, Franklin met Anthony Benezet, the Philadelphia Quaker teacher who was probably the earliest abolitionist and an advocate of educating blacks and women. He encouraged Quaker merchants to get out of the slave trade. He introduced Franklin to leading abolitionists and prodded him to join the opposition to the slave trade. In 1772 Franklin wrote "The Somerset Case and the Slave Trade," an unsigned article for the *London Chronicle*. He asked: "Can sweetening our tea with sugar be a circumstance of such absolute necessity? Can the petty pleasure thence arising to the taste compensate for so much misery produced among our fellow creatures, and such a constant butchery of the human species by this pestilential, detestable traffic in the bodies and souls of men?" Franklin agreed to serve on the board of Bray Associates, an organization that established schools for black boys and girls in Newport, New York, Philadelphia, and Williamsburg. In 1774, Franklin wrote the Marquis de Condorcet: "Negroes . . . are not deficient in natural Understanding, but they have not the Advantage of Education."

Somehow, Franklin got his hands on six explosive letters by Massachusetts governor

Thomas Hutchinson. In one, drafted after the Stamp Act crisis, Hutchinson had written: "There must be an abridgment of what are called English liberties . . . there must be a great restraint of natural liberty." On December 2, 1772, Franklin secretly sent them to Thomas Cushing, Speaker of the Massachusetts Assembly, asking that they be kept confidential. But Samuel Adams broke the news, and the letters were published. The Massachusetts Assembly petitioned George III to remove Hutchinson as governor.

In London, Franklin became an outcast. Perhaps attempting to redeem himself, he publicly criticized the "Boston Tea Party" (in which Samuel Adams and the Sons of Liberty dumped 342 chests of British tea into Boston Harbor) and offered to pay for the lost tea. Franklin was summoned to a hearing before the British Privy Council. It cleared Hutchinson of any wrongdoing, and Solicitor General Alexander Wedderburn denounced Franklin. Maverick member of Parliament Charles James Fox warned that "all men tossed up their hats, and clapped their hands in boundless delight, at Mr. Wedderburn's speech against Dr. Franklin, without reckoning the cost it was to entail upon them." As Fox anticipated, this experience irrevocably turned Franklin against Britain.

The "Shot Heard Round the World"

Before he sailed for America on March 21, 1775, he learned that his wife, Deborah, had died of paralysis. He hadn't seen her in 11 years, and little is known about his feelings toward her. Whatever they were, Franklin became swept up with fast-breaking events. While he was at sea, Paul Revere warned his compatriots that British soldiers were preparing for action in Lexington, Massachusetts, and then came the "shot heard round the world," as Ralph Waldo Emerson later immortalized it. Edmund Burke wrote a friend in the French army: "What say you to your friend and brother Philosopher Franklin, who at upwards of seventy years of age, quits the Study of the Laws of Nature, in order to give Laws to new Commonwealth; and has crossed

the Atlantick ocean at that time of Life, not to seek repose but to lunge into the midst of the most laborious and most arduous affairs that ever were."

On May 6, 1775, the day after Franklin reached Philadelphia, the Pennsylvania Assembly made him a delegate to the Second Continental Congress, and a week later the British government issued an order for his arrest. "My time was never more fully employed," Franklin wrote. "In the morning, at six, I am at the Committee of Safety, appointed by the Assembly to put the province in a state of defense, which Committee holds till nine, when I am at the Congress, and that sits till after four in the afternoon." Franklin was named to the Secret Committee of Congress, responsible for acquiring war supplies; and the Committee of Secret Correspondence, the fledgling State Department, whose aim was "corresponding with our friends in Great Britain, Ireland, and other parts of the world." Franklin met George Washington to learn what was needed, and since the government didn't have any credit, Franklin advanced another American commander £353 in gold from his personal funds.

In October 1775, Franklin talked with an impassioned English immigrant whom he had met in London, suggesting the Englishman write "a history of the present transactions." Indeed, the young man was already at work on such a project. He seems to have showed Franklin a draft in December. It was published as a 47-page pamphlet on January 10, 1776, and the author reportedly gave Franklin the first copy. The young man was Thomas Paine, and the pamphlet was *Common Sense*, whose eloquent call for independence electrified people throughout the colonies. In just a few months, *Common Sense* sold some 120,000 copies. With this single mighty blow, Paine banished efforts to achieve a reconciliation with Britain.

The Declaration of Independence

On June 21, 1776, Franklin, John Adams, Thomas Jefferson, Robert Livingston (New York), and Roger Sherman (Connecticut)

were appointed to a committee for producing a declaration which would announce American independence. The committee asked Jefferson to draft it. Adams and Franklin read at least one version. Handwritten revisions suggest it was Franklin's idea to change Jefferson's description of "sacred and undeniable" truths to "self-evident." Jefferson had written "reduce them to arbitrary power," which Franklin changed to "reduce them under absolute despotism." Franklin changed Jefferson's phrase "deluge us in blood" to "destroy us." And he had a number of other changes that tightened up Jefferson's magnificent draft.

Jefferson later remembered that "I was sitting by Dr. Franklin, who perceived that I was not insensible to these mutilations. 'I have made it a rule,' said he, 'whenever in my power, to avoid becoming the draftsman of papers to be reviewed by a public body.'"

When time came to sign the Declaration on August 2, John Hancock, President of Congress reportedly remarked: "We must be unanimous; there must be no pulling different ways; we must all hang together." According to legend—not any contemporary accounts—Franklin urged that the Declaration be adopted unanimously, saying "we must, indeed, all hang together, or most assuredly we shall all hang separately."

With war underway, the best bet for help was France, which, having lost a war with Britain, would surely have wanted the British Empire to come apart. But the French were circumspect. They were at peace with Britain. The Americans were the underdogs, and nobody, including the French, wanted to publicly back a loser. King Louis XVI saw danger in supporting revolution against another monarchy. The Americans, for their part, felt some uneasiness seeking help from a king who claimed absolute power, and they didn't want the French to know how desperate they were. In addition, the British had spies everywhere, so it was likely that whatever the Americans did would soon be known in London.

In Paris, a private outfit, Rodrique Hortalez and Company, was set up to acquire and ship war supplies. The Secret Committee of Con-



Benjamin Franklin being presented at the French court. Illustration by John Andrew (1856).

gress thought they should have one of their own on the spot, so they dispatched Connecticut Congressman Silas Deane. But he wasn't able to move things along. "Unknown and unconnected in Europe," he acknowledged, "I was without personal credit, and the accounts of our misfortunes in America, with the confident assurances of the British Ministry by their ambassadors and partisans in Paris, that everything would be finished." When Franklin was asked if he would go to France, he noted his gout and other infirmities and reportedly replied, "I am old and good for nothing." But he agreed, then withdrew more than £3,000 from his bank and lent it to Congress. French intellectuals respected him for his pioneering experiments with electricity, and ordinary people knew that his lightning rods saved homes from fire. As John Adams put it: "there was scarcely a peasant or a citizen, a valet de chambre, coachman or footman, a lady's chambermaid or a scullion in a kitchen, who was not familiar with [Benjamin Franklin], and who did not consider him as a friend to human kind."

Franklin in Paris

On October 26, 1776, Franklin secretly left Philadelphia with his grandsons William Temple Franklin and Benjamin Franklin Bache. They reached Paris on December 22. Franklin established his headquarters at Passy, a chateau in the town of Chaillot which was about one mile from Paris and seven miles from Versailles. The chateau belonged to Jacques Donatien Le Ray de Chaumont, an entrepreneur who had made money supplying uniforms to the French army. It was at Passy that Franklin gave dinner parties and cultivated business relationships. Among other things, he learned how to deal effectively with the French. "Telling them their commerce will be advantaged by our success, and that it is in their interest to help us, seems as much as to say, help us, and we shall not be obliged to you. Such indiscreet and improper language has been sometimes held here by some of our people, and produced no good effects."

Franklin discovered how to make an appealing impression. He described himself as "very plainly dressed, wearing my thin, gray

straight hair, that peeps out under my only coiffure, a fine fur cap, which comes down my forehead almost to my spectacles. Think how this must appear among the powdered heads of Paris!" Pictures of Franklin seemed to appear everywhere. Fashionable artists like Jean Honoré Fragonard did paintings of Franklin. His portrait was reproduced as engravings and aquatints. His likeness was on medallions, wall plaques, rings, bracelets, snuffboxes, and hats. He wrote his daughter, Sally: "These, with pictures, busts and prints (of which copies upon copies are spread everywhere), have made your father's face as well known as that of the moon."

On one occasion, Franklin was dining at a Paris restaurant and learned that Edward Gibbon, the British historian who chronicled ancient Rome's decline and fall, was there, too. Franklin invited Gibbon to his table, but Gibbon declined, saying that since he was loyal to George III, he wouldn't speak with a rebel. Franklin replied that if Gibbon ever wanted to write a history of Britain's decline and fall, he would provide "ample materials."

Despite all Franklin's savvy, he might not have accomplished much without evidence that the Americans could win. Washington provided that when he crossed the Delaware River on Christmas Day 1776 and won the Battle of Trenton, capturing over 900 fierce Hessian soldiers, mercenaries for the British. Franklin negotiated two treaties ("Alliance" and "Commerce") with France, giving important diplomatic recognition to the American republic. Franklin arranged a succession of shipments to America. That they included the most basic goods suggests how vulnerable America was. In one shipment, for instance: 164 brass cannon, 3,600 blankets, 4,000 tents, 4,000 dozen pairs of stockings, 8,750 pairs of shoes, 11,000 grenades, 20,000 pounds of lead, 161,000 pounds of gunpowder, 373,000 flints, and 514,000 musket balls. Altogether, Franklin secured some 26 million francs of military supplies.

Franklin handled many more tasks. For example, he met the Scottish-born naval captain John Paul Jones and encouraged his bold raids along Britain's coast, undermining British morale. Jones's flagship, the *Bon Homme*

Richard, honored the "Poor Richard" of Franklin's Almanack.

Franklin's phenomenal diplomacy clinched victory. In 1781, the British General Charles Cornwallis retreated from advancing forces led by George Washington and the French Marquis de Lafayette. Cornwallis brought his 8,000-man army to Yorktown, a Virginia coastal town where he expected relief from the mighty British navy. But the ships off Yorktown were commanded by the French Admiral François Joseph Paul de Grasse, and Cornwallis was cornered. He surrendered on October 19, 1781, essentially ending the Revolutionary War.

Franklin had worked wonders even though London learned about practically every move. His chief assistant at Passy was his friend Dr. Edward Bancroft, an American who worked as a British spy. Jonathan Dull, author of *Franklin the Diplomat*, remarked that "The American mission was so full of people stealing information it is surprising they did not trip over each other." British spies routinely opened Franklin's letters, and sometimes the spies were able to alert British ships which captured war materials bound for America.

Despite his hard work and health complaints, Franklin seems to have enjoyed himself. "You mention the Kindness of the French Ladies," he remarked to a friend. "This is the civilest Nation upon Earth. Your first Acquaintances endeavour to find out what you like, and they tell others. . . . Somebody, it seems, gave it out that I lov'd Ladies; and then every body presented me their Ladies . . . as to the kissing of Lips or Cheeks it is not the Mode here, the first, is reckon'd rude, & the other may rub off the Paint."

Franklin's work still wasn't done. Congress named him to a committee which would negotiate peace terms with Britain. Negotiations dragged on because the British refused to acknowledge American independence and sovereignty. Finally, after eight and a half years, missions accomplished, Franklin left Paris on July 12, 1785. He took five days to go the 146 miles to Le Havre, and he bid farewell to friends and well-wishers all along the way. He sailed for America with Jean-Antoine

Houdon, the sculptor who had done a noble bust of Franklin and would help immortalize Jefferson, Lafayette, and Washington.

Soon after arriving, Franklin declared: "I shall now be free of Politicks for the Rest of my Life." He spent time with his daughter and grandchildren. He planned an expansion of his house. His most recent inventions, at age 80, included an eight-foot-long gadget with a wooden "thumb" and "finger" at the end, to help a reader retrieve a book from a high shelf; a chair which, turned upside down, could serve as a step-stool; and a bathtub with a book rest.

The Constitutional Convention

Franklin's last great opportunity came as the Constitutional Convention gathered in Philadelphia, in the spring of 1787. He was elected to the Philadelphia delegation. When Washington arrived on May 13, he stopped first at Franklin's Market Street house. The Convention met in the State House where the Second Continental Congress had met and where the Declaration of Independence had been signed.

When it looked like the Convention might collapse because of conflict between small states and big states (Massachusetts, Pennsylvania, and Virginia) over how they would be represented, Franklin suggested that subsequent sessions begin with a prayer. Although the proposal was rejected, it seemed to help calm down the participants. Congress named a "Grand Committee" in hopes of proposing a solution. Franklin, a member of it, recommended there be two legislative bodies—an idea which others had suggested—because this made possible a compromise: states would have equal representation in one legislative body (the Senate) and representation according to population in the other legislative body (the House of Representatives), with the House having the power to originate money bills. This "Great Compromise" assured the small states that their interests would be protected, and they were more willing to compromise on other issues, helping to move the proceedings forward.

Finally, Franklin made a motion that the Constitution be adopted. "When you assem-

ble a number of men to have the advantage of their joint wisdom," he reflected, "you inevitably assemble with those men, all their prejudices, their passions, their errors of opinions, their local interests, and their selfish views. From such an assembly can a perfect production be expected? It therefore astonishes me, Sir, to find this system approaching so near to perfection as it does. . . . On the whole, Sir, I cannot help expressing a wish that every member of the Convention who may still have objections to it, would with me, on this occasion doubt a little of his own infallibility, and to make manifest our unanimity, put his name to this instrument."

In late 1787, Franklin had a bad fall going down steps to his garden, and he suffered excruciating pain from a kidney stone. He wrote his will and resumed work on his autobiography. He corresponded with friends. George Washington wrote: "As long as I retain my memory, you will be thought of with respect, veneration and affection." Franklin declared that the new Constitution looked like it might last, but "in this world nothing can be said to be certain, except death and taxes." As the French Revolution exploded across the Atlantic, Franklin wrote his friend David Hartley: "God grant that not only the love of liberty, but a thorough knowledge of the rights of man, may pervade all the nations of the earth, so that a philosopher may set his foot anywhere on its surface, and say, 'This is my country.'"

In March 1790, Thomas Jefferson visited him and reported: "I found him in bed where he remains almost constantly. He had been clear of pain for some days and was cheerful & in good spirits. . . . He is much emaciated. I pressed him to continue the narration of his life, & perhaps he will." Franklin entrusted Jefferson—the only one outside his family—with a copy of some chapters from his *Autobiography*. The last letter Franklin ever wrote, nine days before his death, was to Jefferson.

Franklin developed a fever and complained about pain on the left side of his chest. His daughter expressed the hope that he would live for quite a while, but he replied: "I hope not. A dying man can do nothing easy." Then a lung abscess burst, and breathing became

ever more difficult. He died on April 17, 1790, about 11:00 at night. He was 84. Four days later, a funeral procession began at the State House, and he was buried at Christ Church cemetery. Some 20,000 people paid their respects, including officials, militia men, scientists, merchants, bankers, teachers, printers, apprentices, and others whose lives were touched by the extraordinary enterprising spirit of Benjamin Franklin.

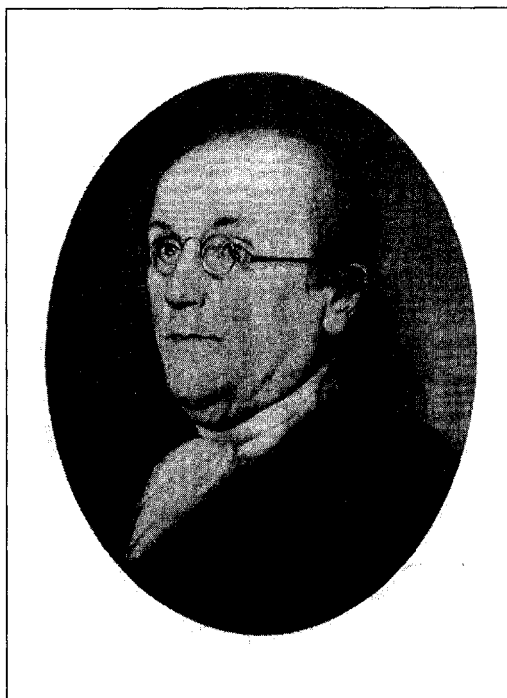
He had written his wry epitaph long ago: "B. Franklin, Printer; like the Cover of an old Book, Its Contents torn out, And stript of its lettering and Gilding, Lies here, Food for Worms. But the Work shall not be wholly lost, For it will, as he believ'd, appear once more, In a new & more perfect Edition, Corrected and amended By the Author."

John Adams, though a Franklin critic, acknowledged his "reputation was more universal than that of Leibnitz and Newton, Frederick or Voltaire, and his character more beloved and esteemed than any or all of them." In Paris, Comte de Mirabeau, the orator and revolutionary leader, told the French National Assembly: "Franklin is dead—he has returned to the bosom of God—the genius who has liberated America, and shed over Europe the torrents of his light."

Franklin's *Autobiography*

Part One of Franklin's *Autobiography*—a pirated French edition—was published in 1791. Then came two English editions. There were 14 reprintings before 1800. Franklin's selected works, including the *Autobiography*, weren't published until 1817 because of delays by the aimless William Temple Franklin, who had inherited his grandfather's manuscripts. The rest of Franklin's manuscripts were stored in a stable and eventually recovered by the American Philosophical Society. John Adams expressed appreciation for what was available, because "there is scarce a scratch of his Pen that is not worth preserving."

The *Autobiography* had many factual errors, since Franklin recalled events years after they happened. The story only went up to 1760. Franklin revealed little about his feelings. But the book appealed to people because he



Benjamin Franklin

chronicled his failures as well as his successes, and he identified principles for building strong character. He wrote in a refreshingly plainspoken manner.

Franklin, noted American historian Carl Becker, was "a true child of the Enlightenment, not indeed of the school of Rousseau, but of Defoe and Pope and Swift, of Fontenelle and Montesquieu and Voltaire. He spoke their language, although with a homely accent, a tang of the soil, that bears witness to his lowly and provincial origin. . . . He accepted without question and expressed without effort all the characteristic ideas and prepossessions of the century . . . its healthy, clarifying skepticism; its passion for freedom and its humane sympathies; its preoccupation with the world that is evident to the senses; its profound faith in common sense, in the efficacy of Reason for the solution of human problems and the advancement of human welfare."

The book had significant impact around the world. Inspired by Franklin, the great German poet Johann Wolfgang von Goethe organized a "Friday Club" whose aims and practices were similar to Franklin's Junto.

Franklin inspired Simón Bolívar and José de San Martín, who helped people in South America achieve independence. Franklin's *Autobiography* was a hit in Japan, where Fukuzawa Yukichi and other thinkers promoted his principles, which inspired entrepreneurs. The Florentine painter Gaspero Barbera published an Italian translation, explaining: "At the age of 35 I was a lost man. . . . I read again and again the *Autobiography* of Franklin, and became enamoured of his ideas and principles to such a degree that to them I ascribe my moral regeneration. . . . Now, at the age of fifty-one, I am healthy, cheerful and rich."

During the heyday of American individualism, Franklin's story was taken up by educators whose books sold in the tens of millions. For instance, drawing on the *Autobiography*, Noah Webster included an 11-page account of Franklin's life in his *Biography For the Use of Schools* (1830). Peter Parley wrote a *Life of Benjamin Franklin* (1832). William Holmes McGuffey included selections from the *Autobiography* in his enormously popular *Readers*.

By the 1850s, the *Autobiography* had been reprinted almost 100 times. Between 1860 and 1890, Franklin was reportedly the most popular subject for American biographers. Many successful Americans testified about the impact Franklin had on their lives. The *Autobiography* inspired James Harper to leave his Long Island farm and launch what became one of America's most venerable publishing houses (now HarperCollins). "Yes, sir," Harper told a friend, "the basis on which we commenced was *character, not capital*"—and he had an artist paint a profile of Franklin into his own portrait. Horace Greeley, a poor boy who became the famous editor of the *New York Tribune*, declared in 1862: "Of the men whom the world currently terms Self-Made—that is, who severally fought their life-battles without the aid of inherited wealth, or family honors, or educational advantages, perhaps our American Franklin stands highest in the civilized world's regard."

The *Autobiography* inspired Thomas Mellon to leave his farm for business; he became a banker and made his family fortune. "I

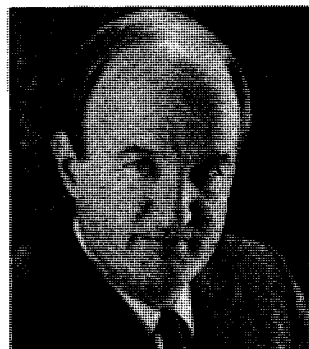
regard the reading of Franklin's *Autobiography* as the turning point of my life," he wrote. "Here was Franklin, poorer than myself, who by industry, thrift and frugality had become learned and wise, and elevated to wealth and fame." The *Autobiography* inspired steel entrepreneur Andrew Carnegie. Harvard University President Jared Sparks told how the *Autobiography* "first roused my mental energies . . . prompted me to resolutions, and gave me strength to adhere to them. . . . It taught me that circumstances have not a sovereign control over the mind."

Mark Twain noted Franklin's influence on millions. Savings banks across America were named after Franklin. Altogether, reported American historian Clinton Rossiter, Franklin's *Autobiography* has been "translated and retranslated into a dozen languages, printed and reprinted in hundreds of editions, read and reread by millions of people, especially by young and impressionable Americans. The influence of these few hundred pages has been matched by that of no other American book."

But as individualism fell out of fashion, intellectuals belittled personal responsibility and self-help. For instance, novelist D.H. Lawrence in 1923: "The soul of man is a dark vast forest, with wild life in it. Think of Benjamin fencing it off! . . . He made himself a list of virtues, which he trotted inside like a gray nag in a paddock. . . . Middle-sized, sturdy, snuff-coloured Franklin. . . . I do not like him." In recent decades, some professors focused on his personality, claiming the *Autobiography* was an elaborate pose, covering up the allegedly "hidden" Franklin—complex, elusive, secretive, intriguing. One professor talked about Franklin's "dark side."

But none of the critics deny that Benjamin Franklin achieved stupendous things. He championed personal responsibility, intellectual curiosity, honesty, persistence, and thrift—principles that have helped people everywhere lift themselves up. He nurtured an entrepreneurial culture which creates opportunity and hope through peaceful cooperation. He affirmed that by improving yourself and helping your neighbors you can make a free society succeed. His most glorious invention was—and is—the American dream. □

Free Marketers Miss Opportunity at AEA Meetings



“People saved more and we had a recession in 1990.”

—Olivier Blanchard

“A reduction in the federal deficit is short-term expansionary.”

—Alan Blinder

The two statements above, made on January 7, 1997, at the American Economic Association meetings in New Orleans, contrast the “old” and the “new” visions of economic policy.

MIT professor Olivier Blanchard, reflecting old-style Keynesian thinking, blamed the 1990–1991 recession on excessive saving instead of higher taxes and tight money.

Alan Blinder, Princeton economist and former Fed official, represented new classical thinking when he declared that increased deficit spending was bad for the economy and that a deliberate policy of cutting the deficit was expansionary because it would mean a decline in interest rates. Keynes must be turning over in his grave!

Both statements were made at a well-attended meeting titled, “Is there a core of practical macroeconomics that we should all believe?” The participants were all mainstream economists from established institu-

tions, yet they could not agree on many fundamental issues. Blanchard (MIT) was anti-saving and John Taylor (Stanford) was pro-saving. Some said the Phillips trade-off between inflation and unemployment was real, others said it was chimera. Supply-side economics was not represented. No one advocated tax reduction in an age of high tax burdens.

The debate could have been much more lively if the organizers had invited economists from outside the mainstream, such as Marxists and Austrians. But in most cases unorthodox thinkers are not invited to the sessions sponsored by the AEA. What to do? Most outcasts offer their own programs, side by side with the regular AEA sessions.

Where Were the Free-Market Advocates?

The Marxists are particularly well organized—the Union for Radical Political Economists sponsored over 30 sessions of their own. The “Growth and Gender” session was especially unprecedented: All five members of the panel were from the University of Utah’s economics department, which has apparently been taken over by Marxists. Imagine, a Marxist revolution in the center of conservative Utah!

Why the free-market schools don’t offer their own agenda at these national meetings is a mystery. The Society for the Development of Austrian Economics has its own program at the annual meetings of the Southern Eco-

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nomic Association; why not sponsor sessions at the annual AEA meetings? In the exhibit hall, where thousands of academic economists mingle and search for alternative books and materials, there were hardly any representatives of free-market economics. The American Enterprise Institute was there, but that was about it.

My Debate with Paul Samuelson

Quite by accident, I ran into Paul Samuelson, the famed MIT economist and Nobel Prize winner. We had recently been corresponding over an article I wrote entitled, "The Perseverance of Paul Samuelson's *Economics*." It is a rather unfriendly review of all 15 editions of Samuelson's famed textbook. (The article, along with a rebuttal by Samuelson, appears in the Spring 1997 issue of *The Journal of Economic Perspectives*.) I accuse Samuelson of, among other things, an anti-saving mentality. But Samuelson denied the charge, saying that he regularly appeared before Congressional committees advocating a higher saving rate to stimulate economic growth. In response, I said it was too bad he didn't inform his students of his views in his textbook. Instead they got the "paradox of thrift."

What Will Stimulate Long-Term Growth?

One of the more interesting sessions I attended was a discussion about the 50th anniversary of the Employment Act of 1946. Murray Weidenbaum (Washington University) and Martin Feldstein (Harvard) represented the free-market viewpoint, while Robert Eisner (Northwestern) represented the Keynesian approach. Andrew Brimmer, a former Fed official, chaired the panel.

The Employment Act of 1946 established three economic policy goals: full employment,

stable purchasing power of money, and economic growth. Most of the panel agreed that all three policies had been achieved in the 1990s—employment was dynamic and growing, inflation was low, and recession had been avoided. However, there was an uneasy feeling that economic growth could be substantially higher than the current 2–3 percent rate. In a recent *Business Week* column (September 2, 1996), MIT professor Rudi Dornbusch advocated two structural reforms in the United States that would substantially increase economic growth: privatize Social Security and privatize education. I asked the panelists what they thought of these proposals. Surprisingly, everyone on the panel except Eisner endorsed them.

The Dismal Science Comes to China

Most of the agenda at AEA meetings is pretty plain fare, although I encountered a few exceptions. One was a paper presented by K. K. Fung, who teaches at the University of Memphis. "Dying for Children" advocates the buying and selling of "birth rights" as a way of solving China's population problem. Each Chinese married couple would have the right to one child, plus an additional child if a parent or grandparent died. Or they could buy a birth right in the marketplace from an elderly Chinese who chooses to "exit early" (commit suicide). Accordingly, "hopelessly ill" grandparents would be encouraged to "exit early" in order to create another grandchild. According to Fung, suicide would then be viewed as beneficial—allowing a child to be born! Brigham Young University's Larry Wimmer, who presided over the session, called the paper "grim," a proposal that "sets families against parents and grandparents." It amounts to a "social program of euthanasia."

Apparently the dismal science has a long way to go before solving the world's problems. □

BOOKS

Business as a Calling: Work and the Examined Life

by Michael Novak

The Free Press • 1996 • 246 pages • \$22.50

Reviewed by Raymond J. Keating

The relationship between economics, business, philosophy, and theology periodically received serious attention from the time of Adam Smith into the early twentieth century. Albeit with a handful of very valuable exceptions, this discussion unfortunately has been on a general decline ever since.

With his book *Business as a Calling: Work and the Examined Life*, Michael Novak offers one of these precious exceptions. Novak is a trained philosopher and theologian with a sound understanding of economics. In his introduction he notes the prevailing weaknesses in the two camps that at least supposedly ponder the mix of business, economics, and morality. He criticizes business and economics faculties for being “complacently concerned almost exclusively with *means* rather than with *ends*,” and also observes that, “religious leaders speak inadequately about business—more so than about almost anything else they preach on.” *Business as a Calling* attempts to fill some of the void left by both these camps.

Novak captures the ultimate and critical purpose of the business enterprise: “Business is about creating goods and services, jobs and benefits, and new wealth that didn’t exist before.” In contrast to today’s predominant views, Novak illustrates clearly that business is neither morally bankrupt nor amoral. Instead, business is “a morally serious enterprise” that “requires moral conduct.” Indeed, since he rightly identifies business as “the single largest institution of civil society” under the project of self-government, Novak concludes that the “moral health of society, therefore, depends to a great extent on the moral character of business leaders.”

The author cites seven responsibilities of the business enterprise which spring from the ubiquitous nature of business as an economic association serving “the common good of the community”: (1) satisfying customers with goods and services of real value, (2) earning a reasonable return on the funds entrusted to the business corporation by its investors, (3) creating new wealth, (4) creating

new jobs, (5) defeating envy—which Novak correctly identifies as the ultimate destroyer of republics—by generating upward mobility and empirical evidence that hard work and talent are fairly rewarded, (6) promoting invention and ingenuity, and (7) diversifying “the interests of the republic.”

Novak lists “seven further sets of moral responsibilities proper to the business worker as Christian or Jew”: (1) establish a sense of community and respect within the firm, (2) “protect the political soil of liberty,” (3) “exemplify respect for the law,” (4) practice social justice as a social virtue, (5) communicate with investors, shareholders, pensioners, customers and employees, (6) make the surrounding community a better place, and (7) “protect the moral ecology of freedom.”

All of these responsibilities can sound almost trite at first glance. But as described, discussed, and examined by Novak in *Business as a Calling*, they carry a great weight and deserve serious attention.

For example, Novak makes a very important Madisonian economic point as to why business is important to “the interests of the republic”: “The sheer dynamism of economic invention makes far less probable the coalescing of a simple majority, which could act as a tyrant to minorities. The economic interests of some citizens are, in an important sense, at cross-purposes with the economic interests of others, and this is crucial to preventing the tyranny of the majority.”

As for protecting the “political soil of liberty,” the author sagaciously advises: “Since the survival of business depends on the survival of free institutions, the responsibilities of people in business include the need to build majorities well informed about the principles of free society.” Many businesses take this responsibility quite seriously.

Business as a Calling can be appreciated for many reasons. This reviewer, though, was most satisfied by its understanding and explanation of individuals as creators, and that only the free-market economic system allows individuals to fully unleash their creative energies and abilities for the good of all. Religious leaders who too often look down upon the business vocation need to understand Novak’s following point:

The dynamism driving a capitalist system forward . . . is the virtue of creative initiative. The other side of that virtue is the responsibilities it imposes. Implicit in that dynamism is a commitment to make things better. The assumption behind it is that the Creator did not make the world finished but to be finished. His purpose in making women and men in his image was to draw them into his own creative work as co-creators.

Michael Novak proves to be far closer to the original concept of the economist as exemplified by Adam Smith, than are many of today's narrow economists who see economics as only dealing with aggregate demand theories or econometric models. Novak understands that economics ultimately is about human actions. □

Mr. Keating, as chief economist for the Small Business Survival Foundation, is the author of New York by the Numbers: State and City in Perpetual Crisis (Madison Books, 1997).

The Truth About the National Debt: Five Myths and One Reality

by Francis X. Cavanaugh

Harvard Business School Press • 1996 • 192 pages • \$22.95

Reviewed by Robert Batemarco

"The last temptation is the greatest treason: to do the right deed for the wrong reason." In this book, Francis X. Cavanaugh, an astute former Treasury Department economist, applies these words of T. S. Eliot to most of the popular discussion of federal budget deficits. In using economic analysis like a bowling ball to mow down fallacious arguments, he leaves just one standing. And it is a non-fallacious one: the ability to run deficits lets politicians have "the pleasure of spending (getting votes) without the pain of taxing (losing votes). Without that discipline, federal spending is out of control." On the other hand, a budget which must be balanced forces legislators to ask the necessary questions before embarking on new projects: "Is it essential? Is it good for the country, for now and for the future: Should it be done by government or by the private sector?"

One of the virtues of this book is that it sees government spending as a burden regardless of how it is financed. The author makes clear that whenever the government acquires resources that could be put to better use in the private sector, it makes at least some of us poorer. Moreover, when it uses resources for consumption that would otherwise have gone for investment, it reduces future production possibilities as well. This focus on spending as the burdensome aspect of deficits demonstrates the absurdity of fighting deficits through tax increases. Whether government finances resource acquisition through taxes, selling bonds in the open market, or selling those bonds to

the central bank in exchange for newly created money merely determines *which* of us it makes poorer.

This redistributionist aspect seems to underlie most of the arguments regarding the deficit the author sees as fallacious. Indeed, it seems to me that one of his blind spots is the failure to see an economic or moral problem with using state power to redistribute income. This causes him to repeat an old falsehood about the deficit—that, "we owe it to ourselves." (The phrase smacks of Keynesianism at its worst.) While he does not let aggregation run amok to the point of suggesting that "we" and "ourselves" are the very same people, he does give short shrift to the disincentive effects that result from the higher taxes needed to repay the debt, including the interest on it. He also fails to recognize the injustice of making future taxpayers pay for current government spending. He perceptively notes that deficits cannot literally shift resources from the future to the present. But he fails to mention that deficits do create a two-way redistribution (of present resources from bondholders to taxpayers, and of future resources from taxpayers to bondholders), which makes it seem that way from the taxpayers' viewpoint.

Still, for a man who spent his career in the government's employ and probably learned his economics at a time when Keynesianism ruled the roost, Cavanaugh steers clear of many of Keynes's pet notions. Thus, he denies in no uncertain terms that fiscal policy has any role to play in fine-tuning the economy. He also refutes the notion that full employment is necessary in order for government spending to crowd out private spending.

This is not to say that the author has completely risen above the "conventional wisdom." He repeats the silly notions that the Fed is concerned with fighting inflation, that inflation is caused by increased economic activity, and that the American people collectively own the government. He also suggests that there is such a thing as government investments that actually pay for themselves (while this is not a logical impossibility, my guess is that it would be harder to find than kind words for socialism in *The Freeman*).

On balance, this book makes a valuable contribution to our understanding of a crucial subject. By shifting the emphasis from deficits to government spending as the problem, it should reduce the appeal of tax increases as a solution. Or at least it would in a more rational world. □

Dr. Batemarco is director of analytics at a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York.

Slouching Towards Gomorrah: Modern Liberalism and American Decline

by Robert H. Bork

ReganBooks/HarperCollins • 1996 • 382 pages • \$25.00

Reviewed by Jessica Schupak

Robert Bork's *Slouching Towards Gomorrah* thoroughly chronicles how modern liberalism has corrupted American culture and set the country on the road to moral chaos. In the 1960s the Left developed its two main tenets: radical individualism and radical egalitarianism. The first describes the decreasing limits individuals place on personal gratification, and the second refers to the growing emphasis on equality of outcomes rather than opportunity. Together they have formed the new religion of the Left.

It is logically impossible to be both a radical individualist and a radical egalitarian. In trying to do so, the Left has become what Harold Rosenberg termed the "herd of individual minds." It recommends a leveling of income not out of genuine compassion for the poor, but an aversion for the successful. As Bork observes, liberals are driven not by what they lack, but what others have. Their strategy has been to vilify the rich, in an attempt to stop anyone from attaining such status. It is, after all, easier to arrive at the Left's utopia by preventing success than by engaging in mass redistribution of wealth.

Likewise, as Bork notes, liberals are opposed to any real achievement in academia. Self-esteem overrides learning not only in the Ivory Tower, but in elementary and secondary education as well. Learning also succumbs to politics as universities disparage Western civilization, and academic bankruptcy and political correctness plague their curricula, perpetuating facets of liberal ideology such as radical feminism and Afrocentrism, not to mention blatant historical inaccuracies like the myth of the "robber barons."

Such revisionism comes without remorse. The Left, having renounced any claims to objective truths, embraces moral relativism and eschews institutions that once defined moral constraints on liberty, including religion, family, and community. Consequently, it ignores fact for political expediency—in this case, that laws indeed impose a morality and that a public morality is both unavoidable and necessary.

Liberalism, asserts Bork, is incompatible with true democracy because it seeks to concoct con-

ditions that no individual would actually desire. In fact, the radical egalitarian element of liberalism is necessarily statist because it cannot be implemented and enforced by any entity other than the government. Bork cites Alexis de Toqueville's observation that Americans are more obsessed with equality than freedom, and notes that this misguided prioritization did not pose a threat to liberty until the twentieth century. Liberals now view inequality of income as one of the most pressing issues that need attention and rectification—by politicians, of course.

Bork does an excellent job relaying the components of America's cultural demise. He lacks solutions, however, and many of those he does offer are dubious, such as his proposal for a constitutional amendment allowing Congress to override state and federal court decisions. More disappointing is his unadulterated pessimism about America's cultural future. He dismisses the popular conservative theory that because modern liberalism is predicated on intellectual dishonesty and moral nihilism it will fail on its own. Instead he proposes that only an unlikely "optimism of the will" can divert America from the highway to Gomorrah. Judge Bork gives liberalism too much credit. □

Miss Schupak is a junior at Tufts University in Medford, Massachusetts.

The Last Monopoly: Privatizing the Postal Service for the Information Age

edited by Edward L. Hudgins

Cato Institute • 1996 • 140 pages • \$9.95 paperback

Reviewed by William H. Peterson

PPrivate Postal Service in the 21st Century." That was the brave title of a 1995 Cato conference seeking privatization of the vast vertically integrated, largely unionized 800,000-employee U.S. Postal Service.

The USPS fights back. Its newspaper ads trumpet the claim that it gets not a dime of federal subsidies. Oh. Edward Hudgins, Cato director of regulatory studies and editor of this volume of conference papers, begs to differ. He points to federal support of some \$1.2 billion, mainly to offset revenue forgone by federally mandated free or reduced-rate mail such as Congress's franking privileges. Still, with annual revenues at about \$56 billion, that two percent or so of federal support seems not too tiny.

Hudgins also takes note of many indirect subsidies. He observes, for example, that the Postal Service is virtually tax-free, gets preferential federal borrowing treatment, and has billions of dollars of unfunded pension liabilities backed by Uncle Sam. Too, the USPS boasts monopoly power dating back to the private express statutes of 1845. This power has long enabled the post office to raise its prices, have a grip over all residential and company mail boxes, and allow no competitors on its exclusive turf.

Today, however, the Information Age intrudes more and more on this slipping monopoly via faxes, E-mail, Internet, telephone calls, electronic check deposits, and overnight delivery couriers such as United Parcel Service and Federal Express.

A key argument for maintaining the USPS monopoly is that it is "a natural monopoly," so competition would fragment its ability to serve the public. Conferee-economist Thomas J. DiLorenzo of Baltimore's Loyola College disagrees. He views the natural monopoly idea as a fiction. Why? He says that prices are not set by historical costs but by the interplay of supply and demand, that a free-market monopoly is an oxymoron because competition is a discovery process of dynamic rivalrous entrepreneurship.

DiLorenzo notes, for example, that California and other states are transforming the regulated electric utility industry of fixed-area franchises into a free market of price-cutting interstate and intrastate competition. He also sees that while cable TV operators complain of "duplication" and accordingly win franchise monopolies, prices tend to fall fast whenever new operators break into local franchises.

So, is USPS "the last monopoly," as claimed in the title? Maybe. One proposed congressional bill would create the world's largest ESOP or employee stock ownership plan and transfer the entire Postal Service to its 800,000 employees. They would get comparable retirement benefits and a spur to control costs and raise productivity. Postal unions show some interest, even if after a five-year grace period their industry would be open to all comers.

For his part, conferee-U.S. Postmaster General Marvin T. Runyon rejects the proposal. Mr. Runyon asserts that universal mail service must be "backed by the full faith and trust of the U.S. Government." He calls for "the right amount of deregulation" that will allow the USPS to "compete on an equal footing with other couriers and alternative communication."

But what's meant by "the right amount" and "equal footing"? Enter politics. Or will uninhibited

competition with its cleansing action be at last allowed to enter the postal industry? In a sense, it already has, if imperfectly. So shouldn't Congress act to privatize the USPS and avoid what Milton Friedman calls "the tyranny of the status quo"? □

Mr. Peterson, a Heritage Foundation adjunct scholar, is the Distinguished Lundy Professor Emeritus of Business Philosophy at Campbell University.

The Industrial Revolution and Free Trade

Edited by Burton W. Folsom, Jr.

The Foundation for Economic Education • 1996
• 178 pages • \$14.95 paperback

Reviewed by Gene Smiley

By the mid-1800s, socialists had initiated an attempt to show that the industrial revolution and concomitant rise of free trade had worsened the lives of British workers. Great Britain's adoption of free trade internationally with the repeal of the Corn Laws in 1846 only made detractors more determined to show that a society built on private property and free exchange did not improve the general lot of workers. For years historians taught this as fact. But modern scholarly research has shown that this simply was not true.

Unfortunately, myths tend to persist. Some contemporary historians continue to believe and teach that the industrial revolution harmed, rather than helped, workers. Government officials and others, not understanding the true nature of the industrial revolution of the last half of the eighteenth and first half of the nineteenth centuries, continue to call for restrictions on internal and international trade to improve the well-being of their citizens. These individuals would do well to read the collection of essays, primarily from *The Freeman*, that Burton W. Folsom, Jr., has assembled in this volume.

The book is divided into three sections: "Theories and Theorists," "The Industrial Revolution and Its Consequences," and "The Case for Free Trade." In the first essay on theory, Murray Rothbard points out the similarities between mercantilism and Keynesianism and then describes a number of the restrictive practices that mercantilists employed which were incompatible with the industrial revolution and free trade. John Montgomery's essay on Adam Smith describes how *The*

Wealth of Nations undermined the legitimacy of mercantilism and led to the development of a science of economics focused on freedom and free trade. Smith provided the intellectual foundations and legitimacy for the industrial revolution already underway in Great Britain and for the breaking down of trade barriers. Nick Elliott's and John Chodes's essays on John Bright and Richard Cobden describe two individuals at the center of the movement toward free trade in nineteenth-century Britain. They focus on Bright and Cobden's successful battle for the elimination of restrictive British trade practices, most importantly the cessation of the Corn Laws. Henry Hazlitt's essay describes how Marx took the labor theory of value from Smith and Ricardo and developed it into a theory of the exploitation of the worker. It was the development of the theory of marginal productivity that overturned the labor theory of value and strengthened the case for capitalism and free trade.

The essays in the second section of the book examine the nature and consequences of the industrial revolution. Ludwig von Mises points out that the true facts about the industrial revolution show that the rise of the British factory system improved the lives of the workers who came to the factories and created cheap goods to improve the lives of people in general. It was not the case that government interference brought about these improvements. Lawrence W. Reed shows that the problem with child labor was one of apprentices in the custody of parish government officials, not free voluntary labor. F. A. Hayek makes it clear that the industrial revolution began in the eighteenth century and was probably a by-product of the increased freedom brought about by seventeenth-century limitations on government power. Any deplorable conditions in the Midlands manufacturing populations of the 1830s and 1840s cannot be attributed to the industrial revolution.

Although many Christian leaders seem to deplore capitalism, James Gwartney argues that Christians would do well to defend an economic system that "reinforces Christian virtues, improves living standards, and provides for minority views." James Robbins describes how capitalist technology saved the whales, while Stephen Gold shows that the improvements brought about by capitalist market developments facilitated the decline of infectious diseases. Bettina Bien Greaves argues

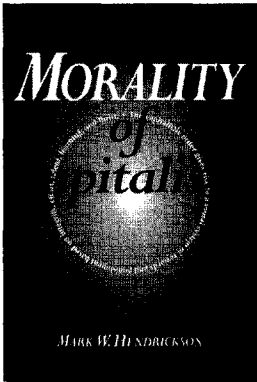
that the true liberation of women was brought about by the market advances and economic growth of capitalist societies. George Winder shows how Ferdinand de Lesseps struggled to privately build the Suez Canal against the desires of the most powerful government in the world, and how government support was only forthcoming after the canal had demonstrated its profitability and importance to world commerce. Robert A. Peterson argues that Hong Kong, Southeastern Asia's jewel of capitalism, is further demonstration of the importance of free-market economics.

The final section of the book presents essays that make the case for free trade. Donald Billings and Ellis Lamborn consider the arguments for subsidization and protection of domestic industries against foreign competition. They cite Frederic Bastiat's satiric plea to the French government in 1846 to protect French producers of lighting and lighting equipment from the sun. Steven Daskal argues that free trade inevitably brings prosperity and needs to be applied on a global scale. Thomas J. DiLorenzo demolishes ten common myths that politicians have used to justify protectionism. Hans Sennholz explains how protectionism does not reduce unemployment, while John Finneran recounts how the Irish potato famine helped Robert Peel's government end the Corn Laws. Jo Kwong explains how free trade and environmental concerns are not antagonistic and S. J. Cicero takes a closer look at "dumping" as a justification for protectionism. In the final essay, Mark Skousen points out that even though some producers may have benefited from recent protectionist moves by the government, consumers on the whole were harmed. He argues that a far better way to provide relief for domestic businesses would be to give domestic tax and regulatory relief to them. Imagine, says Skousen, the economic growth that would ensue with reductions in corporate income and capital gains taxes and with reductions in red tape and streamlined regulations.

Overall this is an excellent set of essays which I highly recommend to anyone who wishes to learn more about the interrelationships between the industrial revolution, the freeing up of trade, and the market system. □

Professor Smiley teaches economics at Marquette University.

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THE MORALITY OF CAPITALISM

Edited by Mark W. Hendrickson

Introduction by Hans F. Sennholz

"Ethical considerations give essential justification to private property in the means of production, to market competition, and the profit system. They grant the capitalistic economic order an important place within a moral order, a place with one system of ethics for rulers and subjects alike—to be honest and peaceful, refraining from any action that would do harm to a fellow man. In fact, the capitalistic order gives rise to a moral system of rewards and punishment based on integrity, effort, talent, learning, and thrift. By lending protection to economic freedom it also becomes the ultimate guarantor of the noneconomic elements of freedom such as the freedom of speech, of religion, the press, and personal behavior."

—HANS F. SENNHOLZ (from the Introduction)

Despite Communism's recent setbacks, the moral arguments of Marxist thought—the reality of class struggle and the need for collective government action due to capitalism's exploitation of the masses—still persist in the Western mind. This collection of essays by powerful writers attacks that "moral" foundation of Marxism. Capitalism, with its emphasis on personal responsibility, respect for an individual's rights, and protection of the fruits of one's labors, makes moral as well as economic sense.

Contributors include: Edmund A. Opitz, John K. Williams, Leonard E. Read, F.A. Hayek, Perry E. Gresham, Garet Garrett, Norman S. Ream, Robert A. Sirico, Paul L. Poirot, Peter J. Hill, Bill Anderson, Hans F. Sennholz, Allan Levite, Ludwig von Mises, Israel M. Kirzner, Steven Yates, and John Attarian.



Published by **The Foundation for Economic Education, Inc.**
Irvington-on-Hudson, NY 10533

ISBN 1-57246-055-5 216 pages (indexed) paperback \$14.95

Available in bookstores nationally, or call

(800) 452-3518 • Fax (914) 591-8910

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IDEAS ON LIBERTY

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Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com
FEE Home Page: <http://www.fee.org>

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George Washington on The Role of Government

Lost in the fog of another presidential election year was the fact that 1996 was also the bicentennial of one of the greatest speeches ever made by an American president: George Washington's Farewell Address to the Nation in September of 1796. Reviewing some of the highlights of Washington's last presidential address sadly reminds us of how the American republic, as envisioned by the founding fathers, has been lost. But it also serves as an eternal road map for regaining our freedoms.

Though he was the most famous military leader of his time, Washington disdained the existence of a permanent military establishment. "Avoid the necessity of those overgrown Military establishments," he said, "which, under any form of Government, are inauspicious to liberty, and which are to be regarded as particularly hostile to Republican Liberty."

It is wise to assume that all politicians are liars, Washington advised, for "one of the expedients of Party to acquire influence, within particular Districts, is to misrepresent the opinions and aims of other Districts." Special-interest groups may "now and then answer to popular ends," but as a rule they should be despised. For they inevitably "become potent engines, by which cunning, ambitious and unprincipled men will be enabled to subvert the Power of the People, and to usurp for themselves the reins of Government." It is "the interest and duty of a wise people," moreover, to "discourage and restrain" government power by every available means.

Washington would be appalled at all the foreign campaign contributions solicited by today's politicians, for such solicitation "opens the door to foreign influence and corruption," whereby "the policy and the will of one country, are subjected to the policy and will of another."

The "Great rule of conduct for us" in foreign affairs ought to be to trade with other countries, but "to have with them as little

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

political connection as possible” and to “steer clear of permanent Alliances, with any portion of the foreign world” except in the case of extraordinary emergencies.

Modern-day “judicial activism” would likely cause Washington to reach for his sword, for he believed it to be a devious means of constitutional “change by usurpation” and a dire threat to liberty. Judicial activism is nothing less than “the customary weapon by which free governments are destroyed.”

On economic policy George Washington favored strict *laissez faire*. Our commercial policy should “hold an equal and impartial hand: neither seeking nor granting exclusive favors or preferences” to anyone. Instead, we should rely on “consulting the natural course of things” and “forcing nothing” by legislation and regulation.

In Washington’s eyes, a *laissez-faire* economic policy, minimal military establishment, the absence of entangling political alliances with foreign nations, and a Constitution that would perpetually confound special-interest politics and keep the size and scope of government to a bare minimum were essential to “prevent our Nation from running the course which has hitherto marked the Destiny of Nations.” This message is just as important to Americans in 1997 as it was in 1797.

—THOMAS J. DiLORENZO

Dr. DiLorenzo, a professor of economics at Loyola College, Baltimore, Maryland, is this issue’s Guest Editor.

Jefferson on States’ Rights

Resolved, That the several states composing the United States of America are not united on the principle of unlimited submission to their general government; but that by compact under the style and title of a

Constitution for the United States and of amendments thereto, they constituted a general government for special purposes, delegated to that government certain definite powers, reserving each state to itself, the residuary mass of right to their own self-government; that whensoever the general government assumes undelegated powers, its acts are unauthorized, void, and of no force: That to this compact each state acceded as a state, and is an integral party, its co-states forming, as to itself, the other party: That the government created by this compact was not made the exclusive or final judge of the extent of the powers delegated to itself; since that would have made its discretion, and not the Constitution, the measure of its powers; but that as in all other cases of compact among parties having no common judge, *each party has an equal right to judge for itself.* . . .

—THOMAS JEFFERSON,
Kentucky Resolution of 1798

Parchment Promises

I have no faith in parchment, sir, I have no faith in the abracadabra of the constitution; I have no faith in it. . . . If, under a power to regulate trade, you draw the last drop of blood from our veins; if . . . you draw the last shilling from our pockets, what are the checks of the constitution to us? . . . When the scorpion’s sting is probing us to the quick, shall we pause to chop logic? Shall we get some learned and cunning clerk to say whether the power to do this is to be found in the constitution, and then, if he, from whatever motive, shall maintain the affirmative, like the animal whose fleece forms so material a part of this bill, quietly lie down and be sheared?

—JOHN RANDOLPH,
commenting on the Tariff of 1824

Free Trade and Human Rights in China

by James A. Dorn

The best way to promote human rights around the world is to promote free trade. Trade liberalization improves ties among nations, increases their wealth, and advances civil society. Protectionism does the opposite. Governments everywhere need to get out of the business of trade and leave markets alone. Western democratic governments, in particular, need to practice the principles of freedom they preach and think of free trade not as a privilege but as a fundamental human right.

A free-market approach to human rights policy does not mean an attitude of indifference toward human rights abuses. Using slave labor or political prisoners and compelling very young children to compete in international markets are wrong. But blanket restrictions, such as the denial of most-favored-nation (MFN) trading status or the use of sanctions not directly targeting the wrongdoers, should be avoided. The problem is that even limited actions are very difficult to enforce and unlikely to bring about political change in an authoritarian regime.

Protectionist measures are more apt to radicalize than liberalize closed societies. The logical alternative is to use the leverage of trade to open authoritarian regimes to market forces and let the rule of law and democratic

values evolve spontaneously as they have in Chile, South Korea, and Taiwan. The expansion of markets creates a culture of commerce and economic liberty that naturally spills over to social and political life. As people become freer in their economic life, they will demand greater autonomy in other areas, including a stronger voice in government.

Free Trade as a Human Right

The proper function of government is to cultivate a framework for freedom by protecting life, liberty, and property, including freedom of contract (which includes free international trade), not to use the power of government to undermine one freedom in an attempt to secure others. The right to trade is an integral part of an individual's property rights and a civil right that governments should protect as a universal human right.

Market exchange rests on private property, which is a natural right. As moral agents, individuals necessarily claim the right to liberty and property in order to live and to pursue their interests in a responsible manner. Governments should afford the same protection to economic liberties, including free international trade, as to other liberties.

Restrictive trade practices impede not only the flow of goods and services but also the exchange of information and the transmission of values that occur with free markets. When market exchange opportunities are curtailed,

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"Restrictive trade practices impede not only the flow of goods and services but also the exchange of information and the transmission of values that occur with free markets. When market exchange opportunities are curtailed, government power grows, with adverse effects on human liberty."

government power grows, with adverse effects on human liberty. Likewise, when markets expand, individuals gain autonomy and government power diminishes. People become less dependent on the state and more dependent on one another when markets open and protectionism declines. A case in point is China.

The Chinese Experience

Before China's open-door policy, initiated in 1978, the Chinese Communist Party (CCP) had a monopoly on economic, social, and political life. China isolated itself from the West, and the Chinese people had little opportunity to expand their horizons. The repressive system of communal farming prevented China's large rural population from determining its own fate, and state enterprises made the urban population totally dependent on government. The lack of an alternative to the centrally planned economy made China a giant serfdom where individuals had little hope of improving themselves and their families.

After 1978, China's economic reforms—which liberalized trade, ended collectivized farming, and created new employment opportunities outside the state sector—freed millions of people from the iron grip of the CCP. The return of farming to families under the household responsibility system (*baochan daohu*) changed the whole dynamic of economic, social, and political life. The state was no longer the master for the 80 percent of China's population that lived in rural areas. Farmers became risk-takers, created new markets, developed rural industries, and mi-

grated to urban areas. They and their families were no longer slaves to the state: they resisted coercion and initiated what Kate Xiao Zhou calls "a spontaneous, unorganized, leaderless, nonideological, apolitical movement" that transformed the old communist system and enhanced human rights.¹

The quiet revolution that has been taking place in China's economy since 1978 is combining with the information revolution to strengthen the fabric of civil society, especially in China's southern coastal provinces. Commenting on China's cultural transformation, Jianying Zha writes in her book *China Pop*, "The economic reforms have created new opportunities, new dreams, and to some extent, a new atmosphere and new mind-sets. The old control system has weakened in many areas, especially in the spheres of economy and lifestyle. There is a growing sense of increased space for personal freedom."² Anyone who has visited China and seen the vibrancy of the market, the dynamism of the people, and the rapid growth of the nonstate sector will concur with Zha's cautious optimism.

Commercial life in China is evolving naturally as people flee the countryside for improved living conditions and the chance to strike it rich in the growing nonstate sector.³ If this current growth continues, by the year 2000 nonstate enterprises will account for more than two-thirds of China's industrial output and as much as 40 percent of China's gross domestic product.⁴

The liberalization and decentralization of economic life in China has widened the scope for civil society. Princeton University professor Minxin Pei believes that the gradual

"The full range of human rights will come to China only when property rights are treated as fundamental civil rights and when civil rights are protected by the rule of law."

development of China's legal system toward affording greater protection for persons and property, the growing independence and educational levels of members of the National People's Congress, and the recent experiments with self-government at the grassroots level will help move China toward a more open and democratic society. He points to the upward mobility of ordinary people, occasioned by the deepening of economic reform, and to the positive impact of trade liberalization on political norms. In his view public opinion and knowledge of Western liberal traditions, such as the rule of law, "have set implicit limits on the state's use of power" and have promoted the democratization of the legal system. There has been a sharp rise in the number of civil lawsuits against the state, and individuals are winning about one-fifth of their cases, according to Pei.⁵

Of course, as long as the CCP stands in the way of private property and the rule of law, China will continue to experience corruption, and the future of freedom and civil society will remain precarious. But isolating China, by the use of trade sanctions or by denying China MFN trading status, would only make matters worse and slow political change. Trade has a civilizing influence, and that influence is more likely to change China than foreign intervention and protectionism.

The Civilizing Influence of Trade

Commerce brings people together, not only to trade goods but also to exchange information. Trade liberalization helps to depoliticize economic life, widen human experience, and reduce the threat of war. Peace and free enterprise tend to reinforce each other. When countries restrict foreign trade, they reduce

wealth, diminish freedom, and increase the likelihood of conflict. They also block the natural formation of civil society, which is fostered by the growth of commerce. Traders find it in their own self-interest to treat their customers with respect. Good manners and good business go hand in hand; commercial society and civil society are inseparable. Trade also fosters the rule of law as people find it useful to accept common rules, respect one another's rights, and be generally tolerant.

In *The Wealth of Nations* (1776), Adam Smith described how the development of commercial life in Europe "gradually introduced order and good government, and with them, the liberty and security of individuals."⁶ Likewise, the English liberal Richard Cobden wrote in his 1835 pamphlet *England, Ireland, and America*, "Commerce is the grand panacea, which, like a beneficent medical discovery, will serve to inoculate with the healthy and saving taste for civilisation all the nations of the world." According to Cobden, "not a merchant visits our seats of manufacturing industry, but he returns to his own country the missionary of freedom, peace, and good government."⁷

Harvard economist Robert Barro's recent empirical work, summarized in *Getting It Right*, shows that earlier writers were correct in seeing a close relation between free trade and free people. Barro finds "that improvements in the standard of living . . . substantially raise the probability that political institutions will become more democratic over time." He argues:

The advanced Western countries would contribute more to the welfare of poor nations by exporting their economic systems, notably property rights and free markets, rather than their political systems, which typically developed

after reasonable standards of living had been attained. If economic freedom can be established in a poor country, then growth would be encouraged, and the country would tend eventually to become more democratic on its own.⁸

Conclusion

Trade policy and human rights policy should not be yoked. Imposing punitive tariffs on China by removing MFN trading status or using other restrictive practices to sanction China for human rights violations will do more harm than good. As Kate Zhou has shown in the case of China, "commercial activity is liberating" and "a major way out of governmental control."⁹ We should not lose sight of that lesson in the pursuit of some "feel-good" policy that has little chance of changing China's political climate but will devastate its blossoming market sector. Keeping people in China and elsewhere in poverty by restricting their human right to trade is neither ethical nor logical.

What China needs is a new system and a new way of thinking. The full range of human rights will come to China only when property rights are treated as fundamental civil rights and when civil rights are protected by the

rule of law. As Harry Wu, a former political prisoner in China, put it, "Until private ownership is allowed on a wide scale, genuine liberalization—representative government, free markets and individual rights—will remain elusive" in China.¹⁰ □

1. Kate Xiao Zhou, *How the Farmers Changed China* (Boulder, Colo.: Westview Press, 1996), p. 4. According to Zhou (p. 10), "baochan daohu, markets, rural industry, and migration all reduced official control over people's lives, particularly rural people's lives. This great increase in autonomy surpassed anything experienced before in the People's Republic."

2. Jianying Zha, *China Pop* (New York: The New Press, 1995), p. 202.

3. The nonstate sector consists of all enterprises not directly controlled by the central government or by provincial governments. Nonstate enterprises include urban and rural collectives (of which township and village enterprises are particularly important), individually owned enterprises, foreign-owned enterprises, and joint ventures. Unlike state-owned enterprises, collectives face a hard budget constraint and are primarily market driven. See Michael W. Bell, Hoe E. Khor, and Kalpana Kochhar, *China at the Threshold of a Market Economy*, Occasional Paper 107 (Washington, D.C.: International Monetary Fund, 1993), p. 13.

4. *Ibid.*

5. Minxin Pei, "Economic Reform and Civic Freedom in China," *Economic Reform Today*, No. 4 (1994), p. 12.

6. Adam Smith, *The Wealth of Nations*, edited by Edwin Cannan (New York: The Modern Library, 1937), p. 385.

7. Richard Cobden, "Commerce Is the Grand Panacea," in David Boaz (ed.), *The Libertarian Reader* (New York: The Free Press, 1997), pp. 320–21.

8. Robert J. Barro, *Getting It Right: Markets and Choices in a Free Society* (Cambridge, Mass.: The MIT Press, 1996), p. 11.

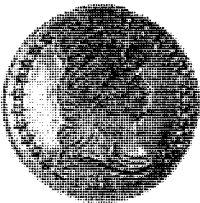
9. Zhou, p. 100.

10. Harry Wu, "A Chinese Word to Remember: 'Laogai,'" *Washington Post*, May 26, 1996, p. C7.

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What We Know, When We Know It

by Llewellyn H. Rockwell, Jr.

To outsiders, mainstream economics can look strange and obscure, or even silly and pointless. The mathematical techniques that dominate most academic journals can be intimidating in themselves. And they are all the more alarming since the subject matter of economics—people who buy, sell, invest, and work—doesn't seem to lend itself to a wholly mathematical rendering. Physics and chemistry, yes. But economics deals with people and their choices under constraints. Shouldn't their actions require logical and not mathematical explanations?

Indeed they should, and the best and most influential economists in history have always used words, not equations, to express their ideas. Sadly, the profession took a turn for the worse in the postwar era, and having exalted Keynesian-style policies, hailed measurement and calculus as the essence of all science, even when that science deals with society itself.

In pursuit of this goal, economics became more and more detached from reality and, therefore, from good sense. Economists have dealt with this problem by a professional flight into obscurantism. They began to talk only to each other, because only members of the club could understand and appreciate the peculiar language and the accepted bounds of theorizing. That pattern still dominates.

Sometimes economists emerge from their

self-imposed exile from reality to speak about everyday issues. More often than not, however, they do so only for the purpose of criticizing rival schools of thought. (Think of MIT's Professor Paul Krugman, one of the profession's leading lights. Most of his popular articles do nothing but bash supply-side economics as silly and unscientific.) H.L. Mencken said modern philosophy consists of one philosopher trying to show that some other philosopher is a jackass, and proving it beyond all doubt. Much the same could be said of economics.

When the Nobel Prize committee awards its economics prize, reporters attempt to sum up the winning insight in plain language. Invariably, the result is so banal and ridiculous that people wonder why such a prize was instituted in the first place. People think: Physicists are solving mysteries of the universe, medical researchers are discovering new cures, writers are entertaining us, but what are economists doing? They are merely confusing us, and for this they get a prize.

Sadly, this was the story again in 1996. James Mirrless of Cambridge University and the late William Vickrey of Columbia University won for their work in "information asymmetries." The inevitable public confusion that followed wasn't the fault of the media, which tried to present their theoretical apparatus fairly. The fault lies with economists, who for decades have held on to a theory of human behavior so absurd that it

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took little more than the application of good sense to correct it, although much more correction is needed.

Information Asymmetries

What are information asymmetries and what did Mirrless and Vickrey say about them? These economists described, in highly mathematical terms, what happens when participants in a market exchange have different kinds and incomplete levels of information. Company managers know more about the firm's prospects for future profitability than stockholders do. A person buying insurance knows more about the potential risks than the insurer. The used-car dealer knows more about the quality of the car than the buyer.

According to mainstream economic theory, these information asymmetries are something to fret about, because they produce bumps on the economic road. If you're a stockholder and you think the managers are holding out on you, you may not buy the stock, even if you are wrong in your assumption. In other cases, asymmetries can cause people to do things they shouldn't, like buy lemons instead of well-functioning cars.

The 1996 Nobel laureates have explored the issue at great length. For example, they have argued that information asymmetries in the insurance market can lead to moral hazards. An insurer might offer a policy that pays for doctor visits, but he doesn't know that the policyholder plans to respond to the prospect of free care by eating junk food and becoming a couch potato. This is a strategic response, but it causes other insurers to overcompensate by making premiums higher than they probably should be (in the assessment of economists).

Mirrless and Vickrey also explained that the free market has many ways of responding to the risks posed by information asymmetries. Each party can learn from bitter experience what kind of information he needs to make a profitable exchange.

The stockholder can demand more information about the way a company is run before he buys its stock. An insurer can demand more detailed information about a person

before extending coverage. A used-car buyer can develop a more sophisticated understanding of automobile technology, and of the tricks of the trade.

Can Government Fix the Problem?

Yet it's easy to see why the theory of information asymmetries, even when given a free-market spin, is menacing. If people in the marketplace are flying blind when making such crucial decisions as whether to buy or sell fire insurance, isn't there a role for government in fixing the problem? That's the logic that led to "lemon laws" mandating used-car dealers to guarantee the quality long after the deal is made. Indeed, the information-asymmetry literature has collapsed into yet another variation on the "market failure" theme composed by economists back in the 1950s.

According to this view, the free market only takes us so far in eliminating differences in the information people have. Interventionists claim, and correctly, that perfect information is hard to achieve through voluntary efforts. So they take the next step: Government should guarantee full information. Thus our economy should be burdened by thousands of requirements that order business to provide full disclosure, even when consumers or stockholders are not particularly interested in getting it.

The warning labels you see on every product from wine to sunglasses are inspired by the view that consumers have no other way of getting necessary knowledge. Every day, we are bombarded with government-mandated information: how much fat is in our food, that so-and-so is an equal opportunity employer, that the terms on a car loan are subject to various constraints, and so on. The idea is to "protect" the consumer, who the government presumes can't get the information he needs to make intelligent choices. We hear it all so often, we stop paying attention.

The regulations also presume that business is a vast conspiracy designed to hide information from the buying public, yet the reverse is the case. The whole point of advertising is

to bring knowledge that a producer has about his product to the consuming public. What's more, business undertakes this information-disseminating job at its own expense. Under capitalism, we get most of our information for free, and then decide whether to act on it.

Let's contrast this with the information confusion inherent in any political race. In the 1996 campaign, the Clinton campaign said that the Dole campaign's tax plan didn't add up, a charge which the other side disputed. The dispute couldn't be resolved because the different camps used different assumptions about how taxpayers will respond to changes in the tax code. Voters had no way of knowing who was right.

With lower taxes, will taxpayers work harder to make more money, or will they choose to "purchase" more leisure with their higher incomes? Depending on the choice, government revenue can go up or down by tens of billions of dollars. The trouble is that no one knows in advance what people will do. There's an information asymmetry between the candidates and the taxpayers, i.e., the people who will actually have to live and work under the new tax environment the politicians are proposing.

Now, this may appear to be much ado about nothing, and in many ways, it is. For there are two assumptions behind this information literature that are never proven. First, that all parties affected by an economic exchange need perfect information. Second, that the job of economists is to see that people get it, somehow, somehow.

But these assumptions are absurd. The future is always and everywhere uncertain, as every investor or stock trader knows. We can know that certain causes have certain effects (below-market price ceilings cause shortages), but we cannot know with certainty at what time, by how much, or how people will respond to any change in economic life. This is why economists' qualitative predictions about the future can never be precisely on target.

Ask a mainstream economist why his most recent prediction didn't pan out, and he will always say: trends changed. That's precisely

the point. Trends are forever changing. "However complete and recent statistical information may be," writes Ludwig von Mises, "it always remains information about the past and does not assert anything about the future."

The Uncertainty of the Future

In fact, information asymmetries don't exist in some markets. They exist in all of them. They are built into the very fabric of human life. As Mises said, "the uncertainty of the future is already implied in the very notion of action." The future "can never be foretold with more than a greater or smaller degree of probability." Oddly, this is a truth that the economics profession has long rejected (or, more accurately, not thought much about) in its futile search for theory analogous to physics.

Neither is government any help. If the market is pervaded by uncertainty and incomplete information, the government is even more so. Officials have virtually no incentive to discover true information, one of many reasons why everything they do brings about sheer waste and inefficiency.

Moreover, there is no reason to think incomplete information is normatively objectionable (yet another hidden assumption in this literature). Let's look back to St. Thomas Aquinas's famous example of the desperately thirsty man buying water from a single supplier. The supplier knows that many other suppliers are on their way, but doesn't reveal this fact so he can command the highest possible price. In St. Thomas's opinion, the water supplier has no obligation to reveal all his information, though he considers it to be an act of charity if he does.

There are other cases when incomplete information should not be "overcome," but rather protected and guarded. In the early sixties, Walt Disney had the dream of building a fabulous Florida theme park encompassing 45 square miles. The trouble he faced was in acquiring the property, which was selling for about \$400 an acre. If the existing landowners learned what was afoot, the price of the land would have skyrocketed. Instead, Mr. Disney

created 100 corporate fronts, and sent them on a secret land-buying spree.

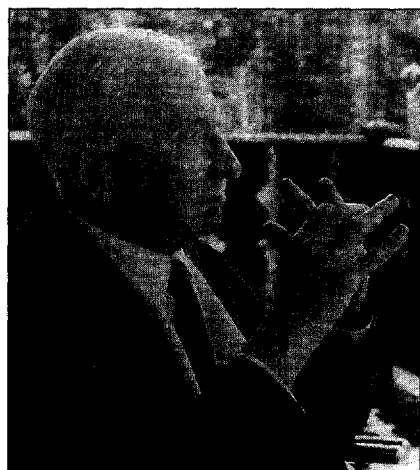
As Walt Disney knew, there is no moral obligation to reveal all your future intentions unless that is an explicit part of the contract. More to the point, neither party can necessarily know what the future holds. The very existence of the market for stock futures is made possible only because people have different expectations about the future value of the price of the stock. In the never-ending process of market valuations, we are all constantly changing our expectations. The market is a process that constantly adjusts what we know and when we know it.

What Professors Mirrless and Vickrey have done is provide an incomplete corrective to a badly flawed economics paradigm. But more is needed: The paradigm should be over-

thrown and replaced by a more realistic theory that goes to the heart of what economics should be attempting to do. Economics should not be creating other-worldly mathematical models that have nothing to do with human action, and calling in the state to make the real world conform. Economics should deal with people and their world as they are, alleged imperfections and all.

A minority of the profession is already interested; witness the flowering of the Austrian School, which works in the tradition of Professor Mises's writings. This tradition rejects the goal of perfect information, and offers a theory that understands how markets can use the uncertainty of the future to the benefit of all, while never invoking the government as a means for achieving the unachievable. □

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Wisdom of a “Liberal” Giant

by William H. Peterson

He knew Milton Friedman, Henry Hazlitt, William F. Buckley Jr., Ayn Rand. He was the mentor of F.A. Hayek, who went on to win the Nobel Prize in economics. He was a key teacher of Gottfried Haberler of Harvard and Fritz Machlup of Princeton, each of whom went on to become president of the American Economic Association. That association appointed him distinguished fellow. His name adorns a think-tank at Auburn University, a professorial chair at Hillsdale College in Michigan, a library building at Francisco Marroquin University in Guatemala.

In 1920 he foresaw the end of the Soviet Union for its lack of market calculation. A prominent Polish socialist economist, Oskar Lange, conceding the lack but holding it could still be met, proposed a statue in his honor.

In 1949 he set forth a monumental book on philosophy, economics, and politics, *Human Action*, now out in a fourth revised edition prepared by Bettina Bien Greaves (The Foundation for Economic Education, Irvington-on-Hudson, N.Y., 928 pages, \$49.95). Other editions have been published in German, French, Italian, Spanish, Portuguese, Chinese, and Japanese.

Yet he has been largely ignored by professional economists who feel he is too “literary,” too “nonquantitative,” too down on “macro-economics,” too opposed to “social engineer-

ing” by the state. First-edition reviews were mixed. Vermont Royster praised the book in the *Wall Street Journal*, John Kenneth Galbraith panned it in the *New York Times*. Yet *The Economist*, while wary of the work’s libertarian implications, still said: “Intellectual power roars through it like a great wind; it has the impetus of a first-rate polemic and the impeccable coherence of Euclid.”

He is Ludwig von Mises (1881–1973), the modern leader of Austrian free-market economics.

The Nazis had three strikes against him: he was a Jew; he was anti-socialist and championed the free market; and he refused to compromise. In 1938 the Nazis confiscated the contents of his apartment in Vienna. (His personal papers were in turn seized by the Soviets and preserved in Moscow. These newly discovered treasures should soon be available to the world.)

Soon after the fall of Paris in June 1940, he and his wife, Margit, bravely fled from Switzerland through occupied France to America.

Human Action says it all. It is a paean to freedom and free enterprise, a classic on voluntarism and laissez faire. In it Mises employs an odd word, praxeology, as the science of human action or choice. He says the drive behind choice is ineptly described as the profit motive even though the end of any action is always satisfaction of some desire of man—ever choosing, acting, rejecting.

Choosing determines all human decisions. In making his choice man chooses not only between various material things and services. All

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human values are offered for option. All ends and all means, both material and ideal issues, the sublime and the base, the noble and the ignoble, are ranged in a single row and subjected to a decision which picks out one thing and sets aside another. (p. 3)

Choosing reflects man's free will, ongoing reasoning, subjective evaluation: a process of continual removal of felt uneasiness. The process evidences the fact that man thinks, that thought distinguishes him from the lower animals.

Man is a being capable of subduing his instincts, emotions, and impulses; he can rationalize his behavior. He renounces the satisfaction of a burning impulse in order to satisfy other desires. He is not a puppet of his appetites. A man does not ravish every female that stirs his senses; he does not devour every piece of food that entices him; he does not knock down every fellow he would like to kill. He arranges his wishes and desires into a scale, he chooses; in short, he acts. (pp. 16-17)

What also distinguishes man is his very social being. He engages in extensive human interaction, including unforced exchanges of goods and services. Society, says Mises, is social cooperation, concerted action, division of labor, and combination of labor. Even so, he rejects a line by the politically correct who see society as a thinking entity and say "society believes this," or "society thinks that."

It is always the individual who thinks. Society does not think any more than it eats or drinks. The evolution of human reasoning from the naïve thinking of primitive man to the more subtle thinking of modern science took place within society. However, thinking itself is always an achievement of individuals. There is joint action, but no joint thinking. (p. 177)

The politically correct also confuse society for the state and use the two terms interchangeably. Too, oblivious to what Hayek called "the fatal conceit," they confuse the role of government in society and endow it with omnipotence and benevolence, see it as a somehow wise and compassionate Santa



Ludwig von Mises

Claus. Mises does not share the confusion. He condemns the modern revival of collectivism as "the main cause of all the agonies and disasters of our day." He asks the politically correct to rethink the nature of man, state, and society in light of Adam Smith's "invisible hand" of self-interest under the rule of law as the high road to social order and civil society.

State or government is the social apparatus of compulsion and coercion. It has the monopoly of violent action. No individual is free to use violence or the threat of violence if the government has not accorded this right to him. The state is essentially an institution for the preservation of peaceful interhuman relations. (p. 149)

The Mises viewpoint is similar to that of Thomas Paine, who called government "a necessary evil." But while Mises also regards government as necessary, he does not regard it as necessarily evil.

Government . . . is by necessity the opposite of liberty. Government is a guarantor of liberty and is compatible with liberty only if its range is

adequately restricted to the preservation of what is called economic freedom. Where there is no market economy, the best-intentioned provisions of constitutions and laws remain a dead letter. (p. 285)

Socialism may be a dead letter today across the world but not its vigorous half-brothers—welfarism and interventionism—both of which similarly lack the corrective action of market calculation. Interventionism tallied a home run when Congress recently raised the minimum wage by 90 cents an hour, a bit unmindful of its hit on entry-level employability. So Mises cues you on state boomerangs, to explain why “government help” is an oxymoron.

All varieties of [government] interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters, but bring about a state of affairs which—from the point of view of their authors’ and advocates’ valuations—is less desirable than the previous state of affairs which they were designed to alter. (p. 858)

So the irony of today’s play on democracy is that—via protectionism, welfare, intervention, hyper-regulation, egalitarianism, and so on—the state ignores or overrules individual rights, the market rule of majority and minority rights, and thus reaps a whirlwind.

Egalitarianism plays on group rights to compensate for past inequities, to promote equality of outcomes. Mises disagrees. He espouses equal individual rights but sees natural inequality in terms of intelligence, drive, integrity, beauty, talent, and other attributes. (His use of the word “liberal” in the following is in the nineteenth-century sense of the word.)

The liberal champions of equality under the law were fully aware of the fact that men are born unequal and that it is precisely their inequality that generates social cooperation and civilization. Equality under the law was in their opinion not designed to correct the inexorable facts of the universe and to make natural inequality disappear. It was, on the contrary, the device to secure for the whole of mankind the maximum of benefits it can derive from it. . . . It

leaves it to the voters to decide who should hold public office and to the consumers to decide who should direct production activities. (pp. 841–842)

Note that Mises holds that consumers are sovereign—the real bosses in the democratic marketplace. Here every day is Election Day, every candidate runs scared, and every consumer, young and old, daily has an economic vote. Indeed, every consumer has quite a few such votes.

The consumers patronize those shops in which they can buy what they want at the cheapest price. Their buying and their abstention from buying decides who should own and run the plants and the farms. They make poor people rich and rich people poor. They determine precisely what should be produced, in what quality, and in what quantities. They are merciless bosses, full of whims and fancies, changeable and unpredictable. For them nothing counts other than their own satisfaction. They do not care a whit for past merit and vested interests. (p. 270)

Such reasoning clashes with the modern liberal battlecry of “entrenched wealth,” with the Hobbesian argument of war of all against all—of, for example, the rich against the poor. If anything, it’s practically the other way around. Mises says the wealthy are at the mercy of consumers, even poor consumers. Wealth, once invested, becomes “a social liability.”

Ownership of the means of production is not a privilege, but a social liability. Capitalists and landowners are compelled to employ their property for the best possible satisfaction of the consumers. If they are slow and inept in the performance of their duties, they are penalized by losses. If they do not learn the lesson and do not reform their conduct of affairs, they lose their wealth. No investment is safe forever. (pp. 311–312)

Well, if consumers are so powerful, why the Welfare State, why the Nanny State, why so many governmental agencies designed to protect the hapless shopper? And, with government taking 47 percent of the national in-

come, with "entitlements" alone running at \$1.1 trillion a year—and growing fast—why the persistence of planning in a thousand beguiling guises?

The alternative is not plan or no plan. The question is whose planning? Should each member of society plan for himself, or should a benevolent government alone plan for them all? The issue is not automatism versus conscious action; it is autonomous action of each individual versus the exclusive action of the government. It is freedom versus government omnipotence. (p. 731)

But surely the government should intervene against any type of excessive or dangerous consumption such as cigarettes. Recall America's backfiring Noble Experiment, its violent episode of Prohibition (1920–1933).

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. . . . 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. (pp. 733–734)

For many, Mises, who proved so right on socialism, remains too unappreciated. He and his magnum opus, *Human Action*, await discovery or rediscovery as the New Deal and the Great Society live on, as many wonder anew if "the era of big government" is really over, as social insurance and social justice—indeed all manner of subtle and unsubtle state interventions—continue to mushroom and self-destruct.

The market economy needs no apologists and propagandists. It can apply to itself the words of [architect] Sir Christopher Wren's epitaph in St. Paul's [Cathedral in London]: Si monumentum requiris, circumspice. ["If you seek his monument, look around."] (p. 854) □

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Critique of Interventionism

BY LUDWIG VON MISES

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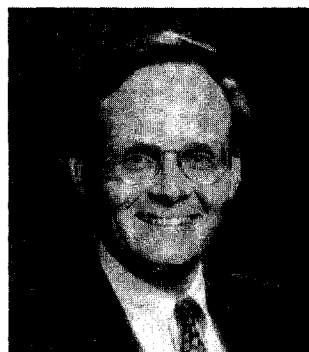
The economic principles that Ludwig von Mises expounded in these six essays during the 1920s have endured; they are as valid today as they were in the past. In this volume, Ludwig von Mises emphasizes again and again that society must choose between two systems of social organization: either it can create a social order that is built on private property in the means of production, or it can establish a command system in which government owns or manages all production and distribution. There is no logical third system of a private property order subject to government regulations. The "middle of the road" leads to socialism because government intervention is not only superfluous and useless, but also harmful.

ISBN 1-57246-058-X • 136 pages • paperback \$12.95



Published by
The Foundation for Economic Education, Inc.
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The New Zealand "Revolution"



"And now that the legislators and do-gooders have so futilely inflicted so many systems upon society, may they finally end where they should have begun: May they reject all systems, and try liberty. . . ."
—Frederic Bastiat, 1850

For producing both material goods and personal fulfillment, economic freedom makes all the difference in the world. No country proves that more convincingly than tiny but beautiful New Zealand. The story of that island country's dramatic transformation over the past 12 years needs to be shouted from the rooftops.

Situated in the South Pacific midway between the equator and the South Pole, New Zealand is just two-thirds the size of California. Its 3.5 million inhabitants live on two main islands and a scattering of tiny ones. New Zealanders—known as "Kiwis"—are proud of a long heritage as a British outpost that achieved full autonomy in 1931.

In 1950, New Zealand ranked as one of the world's five wealthiest countries, with a relatively free economy and strong protections for enterprise and property. Then, under the growing influence of welfare state ideas that were blossoming in Britain, the United States, and most of the Western world, the country took a hard left turn.

The next 20 years produced "Kiwi socialism"—a harvest of big government and economic malaise. New Zealanders found themselves increasingly victims of exorbitant tariffs, massive farm subsidies, a huge public debt, chronic budget deficits, rising inflation, a top marginal income tax rate of 66 percent, and a gold-plated welfare system.

The central government in those years became involved in virtually every aspect of economic life. It established its own monopolies in the rail, telecommunications, and electrical businesses. About the only things that grew during the period from 1975 to 1983 were unemployment, taxes, and government spending.

With an endless roster of failed statist programs and economic ruin staring them in the face, New Zealand's leaders in 1984 embarked upon what the Organization for Economic Cooperation termed "the most comprehensive economic liberalization program ever undertaken in a developed country."

All farm subsidies were ended in less than two years. Tariffs were cut by two-thirds almost immediately and have continued to decline. Today, the average New Zealand tariff rate is a mere 3.2 percent—virtually unilateral free trade. In fact, over 90 percent of all imports now enter the country completely free of any quota, duty, or other restriction.

Taxes were slashed. The top rate is now 33 percent, half of what it was when the big government crowd was in charge. The average

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income tax level is just 21.5 percent. There are no capital gains or real estate taxes at all.

Since 1984, the New Zealand government has been engaged in a massive privatization effort, selling off at least 22 state enterprises. Its most dramatic success was the sale of Telecom NZ. Pre-privatization, this state communications firm boasted 26,500 employees, many of them in do-nothing jobs. Lean, modernized, and in private hands, it now employs 9,300 and faces competition for the first time from such companies as MCI in long distance and Bell South in cellular.

The country has not suffered some privately engineered communications nightmare; rather, it has gone from antiquated technology to a 97 percent digital system rated second on the planet by the World Competitiveness Report. Telecom NZ is no longer a drain on the public treasury. It actually pays taxes.

New Zealand's public-sector work force in 1984 stood at 88,000. In 1996, after the most radical downsizing of any government anywhere, its public-sector work force stood at less than 36,000—a reduction of 59 percent. The Ministry of Transport, when it owned and operated everything from the ports to a national airline, employed 4,500. Its entire staff now occupies the equivalent of two floors of a typical downtown office building.

The country's banking system is thoroughly deregulated. Even foreign banks are now welcome. Americans who have grown accustomed to the thought that government should guarantee their bank deposits might be shocked to learn that in New Zealand, the central government imposes no deposit insurance on financial institutions. Instead, banks provide full public disclosure of their financial conditions and secure whatever insurance they need in the open market.

Establishing a new business in New Zealand is easy, largely because the few regula-

tions imposed are applied evenly and consistently. Environmental and safety regulations are sometimes burdensome, but are largely offset by low taxes and a business-friendly policy climate.

What the New Zealanders did to change labor policy was especially striking, if you'll pardon the pun. William Eggers of the Reason Foundation terms it "the most aggressive and far-reaching labor market deregulation in the world." Compulsory union membership was abolished, as were union monopolies over many labor markets. Stripped of special privileges that once allowed them to hold the economy hostage, unions now enjoy a legal status no different from that of any other private, voluntary associations.

As the New Zealand ambassador to the United States told a gathering at the Heritage Foundation in Washington, D.C., a few months back, all these dramatic changes have paid off big time in economic dividends. The national budget is balanced, inflation is negligible, and economic growth is surging ahead at between 4 percent and 6 percent per year.

Eggers reports that after the ports and railways were privatized, freight costs plunged as much as 50 percent. That helped to offset the loss of subsidies to farmers, who are now among the most competitive in the world.

Recent elections brought about a change in government once again, but most observers believe the political consensus for free-market policies has become too deeply rooted to be easily reversed. Indeed, the only party that openly opposed what New Zealanders call "the revolution" garnered a paltry 12 percent of the vote.

There's a powerful lesson here: Big Government sucks the life out of an economy. Free enterprise can undo the damage. Statists everywhere have much to learn from the New Zealand model. □

Government Schooling: The Bureaucratization of the Mind

by Thomas E. Lehman

In April 1983, the National Commission on Excellence in Education issued its now infamous report, *A Nation at Risk*. The Commission found that American students were experiencing, among other things, a decline in literacy levels, a diminishing level of science and mathematics skills, and a limited knowledge in the “social sciences” when compared to American students of earlier generations or even to students in other countries. The Commission concluded that serious problems existed in the American system of education.

Since the publication of *A Nation at Risk*, Americans have done much soul-searching in an attempt to address the problems outlined in the report. Most of the “solutions” proposed by educators, politicians, and the media involve increased government funding in an effort to expand training programs, lengthen the academic year, reduce violence, and identify and assist those students who are “slipping through the cracks.” Other proposals have also come to the forefront, including Milton Friedman’s educational voucher program, which would ostensibly create “competition” among public schools by offering “taxpayer choice” in school selection.

However, these and other proposals flowing from Washington, D.C., state capitals, and local school districts have missed the mark. School reformers are attempting to shore up

an existing educational system which is, by its very nature, destined to fail. Misguided policy “solutions” for American education attempt to salvage a system that is unsalvageable—a system that is intellectually, socially, and economically backward. Reformers refuse to admit or to understand that the American system of compulsory public education has foundered precisely because it is public—that is, government-controlled. The only solution to the serious education problems in America is to proclaim the separation of school and state, and allow education to be bought and sold through the free and unhampered market process.

Compulsory Public Education: The Economic Dilemma

Public schools—like all public agencies—are inherently unable to evaluate their own performance accurately in terms of the satisfactions derived by their constituents, i.e., students and their parents. The absence of proper evaluation lies in the inability of the educational bureaucracy (or any government agency) to calculate profits or losses in terms of numerical assignments to monetary units. In other words, public bureaucracies cannot perform economic calculation.¹

Economic calculation is the process of comparing and contrasting opportunity costs (prices) among a variety of choices facing an individual actor or group of actors regarding

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the means to achieve a desired end. For a private firm operating within the parameters of a market economy, economic calculation consists in comparing and contrasting the outputs (expenses) and inputs (revenues) in order to arrive at the most efficient use of scarce resources in the satisfaction of the consumers' most urgent wants.

In the market sector, outputs and inputs (expenses and revenues) are linked through the determination of profit or loss. A profit indicates that the private firm succeeded in providing a commodity or service that consumers valued more than the costs expended in bringing it about. A loss indicates that the private firm failed to provide a commodity or service for which consumers were willing to pay more than the costs expended in its creation. Profits are an implicit declaration by consumers that the scarce resources used for the creation of a given commodity were prudently applied. Losses are an implicit declaration by consumers that scarce resources were squandered and should have been employed in a manner more conducive to their satisfactions. Regardless the profit or loss outcome, however, all private firms, operating within the confines of an unhampered market economy, are offered the ability to positively or negatively evaluate their own performance for the immediate accounting period precisely because they have the use of economic calculation.

Government bureaucracies have no such ability. The essence of bureaucracy is that it cannot evaluate performance in terms of consumer satisfaction because of the absence of economically calculable profits or losses. This is why bureaucracies are encumbered with regulated structural procedures. By their very nature, government educational agencies cannot link outputs (expenditures) to inputs (tax revenues). There is no relationship between the taxpayer who is coerced into financing all educational expenditures, and the student who is the consumer of what such expenditures have created.

Because the educational bureaucracy exists within a sea of capitalist economic calculation, bureaucrats can calculate and budget expenses. But, because government agencies

do not operate on a profit-and-loss basis, these administrators have no way of relating expenses to tax revenues to determine if the expenses were prudently applied. They do not know whether the resources taken from taxpayers were employed according to the most urgent demands of consumers. Government agencies are deprived of profit-and-loss accountancy methods, precisely what is necessary to economically evaluate past performance and make changes based upon the information provided.

From an economic point of view, then, the government education system in America is like a ship lost at sea with neither a compass nor a lighthouse to guide it. Absence of evaluative information in the form of profits or losses makes rational navigation impossible.

The Political Dilemma

Because education administrators cannot evaluate their agency's performance in terms of consumer satisfaction, they resort to noneconomic criteria. These noneconomic measurements may be labeled "political calculation." As with any government agency, the American education system is motivated by political considerations, and its performance must be evaluated in terms of these political considerations. Evaluative criteria in the field of education thus become the subjective social, ideological, and political goals of individuals within the establishment itself. The success or failure of the organization is based entirely upon the degree to which these social, ideological, or political goals have been achieved.

Politically or ideologically motivated administrators within any public bureaucracy will, in order to achieve their goals, seek to employ their authority to the maximum as long as their government-sanctioned position allows them to do so. They will seek to expand the annual budget of their agency by spending more than is annually allocated, thus appearing "necessary" to society. They will seek to expand their agency's sphere of influence, thus obtaining greater power and prestige than agencies with which they compete for

congressional or municipal funding. They will attempt to use the power of their positions to force their own subjective values upon society. Unless it becomes politically necessary, they do not give a great deal of attention to those whom their agency is designed to serve, namely students and parents. They are not motivated through economic profit and loss, but rather by personal political or ideological considerations.

This process of "political calculation" is inevitable. When an organization loses the relationship between revenues and expenditures, when it can no longer be influenced from without, it becomes influenced from within. And, the more power it is granted to carry out its political, social, or ideological agenda, the more it will become a law unto itself. The modern "political correctness" and "outcome-based education" movements, as well as the ongoing submarginal academic performance of American students, are a direct result of politically and ideologically motivated educators attempting to socialize an entire nation of unsuspecting young minds, to remake society in their own egalitarian image through the use of compulsory government education. Government-controlled education easily becomes government-controlled indoctrination.

This is not to argue that all or even most teachers in the government school system are ideologically or politically motivated. Most of them no doubt receive a great deal of satisfaction from teaching and want to perform their jobs well.

The same cannot be said, however, about education officials at the national, state, and local levels of government. Sadly, education administrators and the teachers' unions have both the taxpayer and the student at their mercy. They covet their insulated positions because they are able to control the curriculum and enforce government licensing "standards" that inevitably discourage competition and creativity. Their virtual monopoly status enables them to present their ideological biases as unquestionable truths. Any notion of a free market in education threatens to undo their immunity from accountability to consumers. Those in the education establishment

do not want anything taught that would challenge or disparage their own established ideological creeds and dogmas.

The Unconditional Solution: A Free Market in Education

In order to restore academic integrity, individual achievement, intellectual freedom, and a peaceful learning environment to the American student, we must dismantle the education monopoly and establish separation of education and state. Government school administrators and teachers must begin to compete in the marketplace of ideas. The American people must begin to see education for exactly what it is: an economic commodity to be bought and sold in the marketplace according to the subjective valuations and preferences of education consumers, both students and parents alike.

Taxed-based financing of education must be replaced with consumer-funded education. Education must be produced and consumed according to the demands of independent education consumers, and must be offered at a competitive price. Outcomes in the education market must be the sole result of the voluntary buying and abstention from buying by education consumers, and not in any way the result of intervention by politically or ideologically motivated politicians or public administrators.

Further, education must be noncompulsory. If children (and their parents) do not care to consume the information and knowledge provided by the education entrepreneurs competing in the marketplace, so be it. Out of self-interest, relatively few individuals would go uneducated. Moreover, noncompulsory education would suppress violence in schools. Those who did attend would have a financial incentive to make the most of it. Behavioral accountability among students would be restored.

Market-based schools would have the incentive to provide a top quality educational experience to students at a competitive price. If a school did not enforce rigorous programs and a thorough curriculum, their graduates would be ill prepared to compete in their

respective fields. The school would earn a poor reputation as its graduates would be unable to command respectable incomes, thus discouraging prospective students, causing financial loss, and forcing the school to re-evaluate its performance. Conversely, those schools providing the best education to their students would earn profits, thus reflecting their proper employment of scarce resources. In either case, economic calculation in terms of profits or losses would enable schools to accurately evaluate their performance in terms of the demands of education consumers.

Competition among educational entrepreneurs would tend to weed false prophets and educational quacks from the market. The general nonsense which now pervades most government school systems would not long

survive the market-driven search for truth and excellence. Students would no longer be captive to the ideological or political biases of teachers and administrators. Rather, teachers and administrators would be required to provide a valuable educational experience to their students in a peaceful learning environment or find themselves unemployed.

Americans must begin to realize that the separation of education and state is equally as important as the separation of church and state. Only then will American students begin to experience academic diversity, intellectual growth, and a crime-free learning environment. Only then will we be liberated from the bureaucratization of the mind. ☐

1. See especially Ludwig von Mises, *Bureaucracy* (Spring Mills, Pa.: Libertarian Press, 1983).

HAD ENOUGH?

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The Moral Obligations of Workers

by Jeffrey Tucker

You hate your boss. Your hours are bad. Your salary is too low, and you haven't been promoted in years. What's a worker to do? If you can't get your way, and just can't take it anymore, you can quit. In a free market for labor, your skills will be better appreciated elsewhere. You gain satisfaction from making this decision on your own. In a free society, no worker is forced to be trapped in a job when there is another that appears more inviting. It's one of the glorious rights a free society offers its members, one that has been unknown to most people during most of human history.

But what happens if you stick around the workplace? What if you choose to continue in your present position on grounds that it's probably the best you can do for yourself right now? The answers to these questions have changed dramatically in the last several decades. There was a time when workers understood their moral obligations to themselves and to the person who signed their checks. It was to fulfill the terms of the contract, and do the best job possible. A productive life requires virtuous work habits and adherence to basic ethical norms; besides, a slothful worker is justly fired at any time.

The right to quit and the right to fire are two sides of the same coin. The boss can't force the worker to stay, and the worker can't force

the boss to keep him employed. The beauty is that it depends on voluntarism. No matter how many grievances they may have against each other, if boss and worker choose to continue the economic exchange, they do so by their own free wills. We can assume, in a free market, that all employment contracts work to the mutual advantage of both parties.

Nowadays, the moral code requiring a worker to give a day's work for a day's pay has nearly been shredded. Workers think less and less of production and honest dealing and more and more of rights, protests, strikes, and lawsuits. The best-selling cartoon book of 1996 (featuring the character "Dilbert") is devoted to attacking employers and presenting worklife as a huge ripoff, which is a fundamentally anti-capitalist message. To be sure, this change in attitude toward work began long before the advent of laws allowing employees to sue companies, even bankrupt them, for the slightest grievance. The go-slow, strike-threat strategies of labor unions chipped away at the moral code of workers decades ago.

A union member in the 1950s musical *Pajama Game* sardonically promised his boss "a day's work, for a week's pay." But back then, he could only get it through extreme measures. In the normal course of the workday, only the powerless "grievance committee" lent an ear to the perpetual complainer. Even in this pro-union musical, the fundamental right of the management to hire and

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fire as it sees fit—and the obligation of workers to do their very best in normal times—was never seriously questioned.

Job Conflict

These are far from normal times. Troublemakers in the workforce have an exalted status, as well as the legal right to grab whatever they can get from their employers. For those reasons, many employers now fear their employees, and even potential employees in the interview stage of hiring. Anti-discrimination law puts the boss in a double bind. If he hires based only on merit, or on a hunch that the person is a good team player, he must also think of all the people passed by for a job. Are they going to claim to be members of some federally protected victim group (the list of which gets longer every year) and thereby sue on grounds of discrimination? The courts have upheld the rights, for example, of alcohol abusers and convicted felons to have the same “right” to be hired for a job as everyone else.

In practice, this means employers must pad their staffs with officially recognized victims if only to protect themselves from government investigation and class-action lawsuits. This reality has shifted the balance of power in the workplace. Workers no longer view their first obligation as to do their best work for the sake of themselves and the company. Instead, they know that they are potential lawsuit plaintiffs, and hold it over the management and the owners for every slight. A complaining employee can demand pay increases and promotions through a subtle form of legal blackmail, a tactic familiar to most anyone who works in a medium- or large-size company. Employers now fear using strict standards of merit for promotions and perks. Such evaluations might result in a distribution of wages and salaries that is unequal among the demographic groups represented in the workforce, and therefore draw the attention of government officials or class-action lawyers.

Yet even this type of political padding doesn't always work. Texaco worked for years to keep all types of people represented at all levels of its operations. The company bent

over backwards to institute its own private quota system of hiring, if only to keep protesters and trial lawyers at bay. It gave out franchises based on the race of the applicant, and allowed more lenient application standards for groups said to be “underprivileged.” Yet when one employee's gripe mushroomed into a class-action lawsuit involving hundreds of workers, Texaco ended up having its good name dragged through the mud, and shelled out \$176 million to lawyers and complaining employees, without ever having entered the courtroom.

The sad tale began with an accountant at the company's Denver office who filed an internal complaint of racial discrimination, a powerful weapon in today's workforce. Fearing escalation, supervisors even higher up the management chain did everything possible to make her happy, moving her to a new division with plusher working conditions and assuring her that her job would be secure. It wasn't enough. When a few hotshot lawyers heard of the situation, it was only a matter of time before it became a general lawsuit involving 1,500 people, most of whom had no particular complaints at all! None of this means that the company was necessarily treating anyone poorly on grounds of race. It only means that the money was there for the taking, so who's to say someone shouldn't take it?

Take This Job . . .

In the traditional moral code of work that arose in a free market, the situation would have been handled very differently. If the accountant didn't like her job, she would have quit and gone to work for someone who appreciated her more. If she began to complain too loudly of her plight, undercutting the morale of other employees and creating a hostile work environment, she would have been fired. If she was at fault, she would have learned a valuable lesson in workplace ethics and human relations. If the company was at fault, it would have lost a valuable employee and would learn not to act so hastily next time.

This system of mutual rights creates peaceful cooperation between the employee and the employer. Each understands the obliga-

tions he has to the other. The goal, as with any economic exchange, is to better the lot of everyone involved. Contrary to the old Marxian claim that an inherent conflict exists between labor and capital, a free market makes it possible for them to exchange in a mutually advantageous and profitable manner.

The Joys of Work

Ludwig von Mises argues that such a voluntary relationship takes the drudgery (or the "disutility") out of work and can turn it into a genuine joy. The worker can delight that he is achieving personal goals, whether material or spiritual. He gains "self-respect and the consciousness of supporting himself and his family and not being dependent on other people's mercy. In the pursuit of his work the worker enjoys the esthetic appreciation of his skill and its product. This is not merely the contemplative pleasure of the man who views things performed by other people. It is the pride of a man who is in the position to say: 'I know how to make such things, this is my work.'"¹ Moreover, "To be joyful in the performance of one's tasks and in overcoming the disutility of labor makes people cheerful and strengthens their energies and vital forces."²

It is only legal interventions that tip the balance in favor of either the capitalist or the employee. There can be no doubt that the employee has the upper hand today, much to the detriment of his own ethical well-being. By suing and blackmailing his employers, creating hostile work environments, and threatening to call the government in, the employee is implicitly threatening to take property that is not his to take. That situation is bad for the company, for society at large, and even for the employee in the long run. It is contrary to a market-based work ethic, which is about more than merely working long and hard, but fulfilling the terms of your contract by striving toward excellence in the service of the business's institutional goals.

As Mises points out, when the worker views himself as a "defenseless victim of an absurd and unjust system," he becomes "an ill-humored grumbler, an unbalanced personal-

ity, an easy prey to all sorts of quacks and cranks," and even "morose and neurotic." In what appears to be a description of modern-day America, Mises wrote that "A commonwealth in which the tedium of labor prevails is an assemblage of rancorous, quarrelsome and wrathful malcontents."³

The Ethics of Work

There is both an economic and moral dimension to the work ethic. The economic side is dictated by the realities of property and contract relations. The employee is not the owner; capitalists and stockholders are. The worker has been hired by these owners to perform a certain function for the good, meaning the profitability, of the company. He is free to choose not to do so, but then he is obligated to do at least what he has agreed to do and then leave the company.

There is a respect in which the employer is an economic benefactor to employees. The capitalist pays out wages to employees before he sees the profits of their current production. He is undertaking a risk in an uncertain economic environment that the employee, the immediate recipient of wages, is not being asked to bear. Moreover, the capitalist cannot merely pay the wage he can afford; he is constantly in a position of having to keep his employees from being bid away by competitive enterprises, even those that take fewer risks in the market.

To accept an employment contract means to agree to provide a certain amount of labor in return for a defined amount of money. To not perform that contract is to violate the terms of the contract and to fail to respect the unique entrepreneurial role of the capitalist. It is also the moral equivalent of stealing property from the capitalist who has employed him. A system that gives this person legal recourse to turn against his employer-benefactor and loot even more property in a bitter personality struggle is not a system that respects property rights.

On the moral side, we can turn to the brilliant and beautiful writings of Stefan Wyszyński (1901–1981), whom former Polish president Lech Walesa has called "the spiri-

tual leader of Poland." As the teacher of John Paul II, Cardinal Wyszynski was arguably the key intellectual and religious force behind the eventual overthrow of the communist regime, though he did not live to see it. Imprisoned for three years by a totalitarian regime that labeled him one of the "greatest foes of the Polish People's Republic," Wyszynski spent many years reflecting on the nature and morality of work in free and unfree societies. In 1946 he published a full-blown philosophical elucidation of the moral obligations of workers.⁴ As a treatise on everyday morality, its power may be unsurpassed.

His views on work were developed in opposition to the pagan view of work, which was to despise labor itself. Pagans "regarded physical work as unworthy of man," Wyszynski writes. "It was the duty of slaves. It could not be reconciled with the sublimity of the free mind, for it limited it too much, and made it dependent both on itself and on others."⁵ But the coming of Christianity corrected this error, elevating work to participation in the creative work of God. In this, the Christian view follows the example of Jesus Christ, who said in the Gospel of John, "my Father has never ceased working, and I, too must be at work."

The Christian or Western view of work emphasizes the importance of uniting spiritual and physical work. In early monastic life, sublime contemplation and hard physical labor went hand in hand, and were seen as complementary to the achievement of the sanctity of the individual soul. As the Psalmist says, "For thou shalt eat the labors of thy hands, blessed art thou, and it shall be well with thee."

Putting Talent to Use

Every person has been given gifts that allow for productivity, and they are intended to be used in the service of God and of others. Therefore, man cannot be destined for only prayer or work. Work helps us to become holy, and holiness allows for the inner harmony necessary for productive work. St. John's Gospel uses both images in a passage on salvation: "the wages paid to him who

reaps this harvest, the crop he gathers in, is eternal life, in which sower and reaper are to rejoice together." This monastic attitude toward labor spread throughout society as the faith itself did, eventually supplanting both the pagan view that work is only for slaves, and even slavery itself.

As Wyszynski writes of the Christian ideal, "work is the duty of man. This duty arises from the very needs of man's life, as well as from the meaning that work holds for his perfection. Without work it is not possible either to sustain life or to reach the full development of one's personality. Work is the means of God's gift, life, in us, of properly satisfying its needs, and perfecting our rational nature."

Leisure is not the state of nature. Even before the fall, Wyszynski emphasizes in opposition to the pagan view, it was necessary to work. Work is not punishment for sin; it is "closely related to the rational nature of man."⁶ In the Genesis narrative, God's commandment to Adam to subdue and rule the earth preceded the first sin and God's judgment. It is only the *burden* of work that is a consequence of sin. "By the sweat of thy brow shalt thou eat bread." This burden should be borne joyously as part of our desire to improve ourselves and our relationship with God.

The implications seen by Wyszynski deserve to be quoted at length. "It is the working man himself who most benefits from work understood in this way. This is not because he gets his wages for his work, but because his work, which is bound inseparably with his person, shapes and develops his mind, will, feelings, and various moral virtues and characteristics, as well as his physical and spiritual skills. . . . Work, based on our reason and freedom, should develop our conscientiousness, our sense of duty, and our responsibility. Only then will it be the work of a rational being. Work, understood in this sense, immediately reveals to us two aims that every man ought to achieve in his personal work: the perfecting of things and the perfecting of the working man. This is the starting point for social-economic progress, for human civilization, for moral religious progress, and indeed for the culture of the world."⁷

Real Social Work

There are many social virtues associated with work. Work creates bonds between people, since it requires that we peacefully associate with others. It calls forth both cooperative behavior and the constant personal improvement needed to compete with our fellows. It makes it possible for families to form and thrive. It allows us to be generous with those who are unable to work for reasons not of their own choosing. Work even generates universal good, in that we are participating in the international division of labor and acquire the knowledge of what it requires the world over to bring about a prosperous social order.

Of course, none of this is possible in a collectivist setting, where worker and employer are not free to contract with each other. The institutional setting required to ennoble work is one of markets, competition, and, above all, private property, which Wyszynski calls "the leading principle of a well-regulated society."⁸ The true glory of private property is not that it allows personal accumulation. Rather, it allows us to employ others and to be employed in enterprise, with justly given and received wages, and thereby spreads prosperity to more and more members of society in service of the common good.

The Six Virtues of Labor

In addition to the social virtue of work, there are also individual virtues associated with keeping our moral obligations to those who employ us. Quality work requires and encourages them, even as a free market in labor rewards them. Wyszynski lists and discusses these virtues, in this order:

1. *Patience.* The task of patience is to control excessive and undisciplined sadness, and the tendency to complain and strike out when things do not go our way. We are usually more convinced of our own value to a company than are those who employ us, so it requires patience to put aside resentment and discouragement when we do not get the recognition we think we deserve. Those who do not succeed at this task are "full of

complaints, grievances, and lamentations arising out of their state of sadness."⁹

2. *Longanimity.* This is the virtue of forbearance or long-suffering, "a spirit of lasting endeavor in the pursuit of a distant good," writes Wyszynski.¹⁰ Every employer knows the types of workers who "watch the clock" from the beginning to the end of their shifts, who live for the weekend and for vacations, and can't see their way to the end of a major project. They do hasty, shoddy work because they lack longanimity, lose creativity and hope, do not improve as workers, and eventually break their moral obligations to those who employ them.

3. *Perseverance.* This means a "prudent, constant, and continual persistence in a rationally taken decision to strive toward some desired good."¹¹ Above all, this means the avoidance of emotional outbursts and wild shifts in mood that might cause us to hate our co-workers or employers, and pursue actions that are designed to cause them damage. For example, if a person who is pursuing a discrimination lawsuit against an employer were thinking clearly, he would realize there is much more to be gained over the long haul by perfecting skills, being rational, and working one's way up. Perseverance engenders others to trust us.

4. *Constancy.* This virtue allows us to pursue our goals no matter what obstacles may arise from external causes. Perhaps a worker has an employer who treats people unfairly. Perhaps a person is unjustly passed over for a promotion or a raise. Perhaps he is fired without seeming cause. Constancy allows a person to look past these slights to larger personal goals and do what is necessary to attain them. "Armed with constancy," writes Wyszynski, "we calmly await even the most unpleasant surprises."¹²

5. *Mildness.* This virtue is necessary to maintain concentration in a disorderly setting. "Silence and quietness are the essential conditions for fruitfulness in every type of work," says Wyszynski, "whether we are dealing with supernatural action, the world of science, or just ordinary daily work."¹³ Every employer knows of workers who spend more time talking than producing, and generate

more noise than thought. But to do truly good work, for the sake of our employers and ourselves, requires that we filter out "superfluous sensations"¹⁴ and exercise control over our mental faculties.

6. *Conscientiousness*. This is the spirit of cooperation that makes the division of labor possible, and turns a workplace into a place of mutual aid. It helps us understand that in any organization, people must take instruction from others. There are structures of authority that must be obeyed. Workers must submit to direction. Wyszynski reminds workers that this is not a power-based relationship but an educational one that aims at perfecting work. To be conscientious is also to be humble, an attitude that drives "out disputes, discord, quarrelsomeness, and division."¹⁵

What a welcome change that would be in the modern workforce, where everyone seems to be at each other's throats, each demanding his rights or accusing someone of violating his.

If these six virtues are cultivated, writes Wyszynski, then we can enjoy the blessing of leisure and prosperity that follow six days of work, and, he says, fully enjoy the presence of God after a lifetime of toil and struggle, when our sorrow is truly turned to joy.

If these attributes of virtue were once deeply ingrained in our culture, today they seem long gone. We recognize them only when we study the diaries of our great-grandparents, or read older works of pre-New Deal literature, but we don't see these virtues in most co-workers or the high-profile cases

of workplace conflict that bombard us every day on the news. These virtues were sustained by a vibrant market economy free of government controls and the conflicts they inevitably engender. It was a system that required personal responsibility, rewarded virtue, and kept the base desire to steal from others at bay.

However, the passing of that system is no excuse for not retaining and obeying the moral obligations inherent in every aspect of work. Virtuous work is the social and cultural foundation of freedom, and we must reclaim the ethics of work if our liberty is to be regained. It will always be true, as Wyszynski says, that "work cannot be carried out with a clenched fist and a shriveled heart."¹⁶ For the "result of all human work should be not merely the perfecting the thing produced, but also the perfecting of the worker, not merely external order in work, but also inner order in man."¹⁷ □

1. Ludwig von Mises, *Human Action* (Chicago: Regnery [1949] 1963), p. 589.

2. *Ibid.*, p. 591.

3. *Ibid.*, p. 591.

4. Stefan Cardinal Wyszynski, *All You Who Labor* (Sophia Institute Press [1946] 1995).

5. *Ibid.*, p. 21.

6. *Ibid.*, pp. 23-24.

7. *Ibid.*, p. 28.

8. *Ibid.*, p. 42.

9. *Ibid.*, p. 121.

10. *Ibid.*, p. 127.

11. *Ibid.*, p. 137.

12. *Ibid.*, p. 139.

13. *Ibid.*, p. 153.

14. *Ibid.*, p. 155.

15. *Ibid.*, p. 158.

16. *Ibid.*, p. 186.

17. *Ibid.*, p. 151.

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American Labor Law—Bad and Still Getting Worse

by George C. Leef

One of the great blunders of American history was the New Deal decision to institute a legal framework for labor relations that did away with the older common law rules of contract, property, and tort that applied equally to all parties, replacing them with a highly coercive, asymmetrical scheme intended to help labor union leaders achieve their aims. Much has been written on this subject generally.¹ My intention here is to discuss two recent developments in labor law that underscore the folly of having abandoned the neutrality and freedom of the common law.

“Salting”

Labor unions have never hidden their desire to eliminate—by nearly any means available—competition from firms and workers who choose to operate independently. The flow of dues money into union treasuries would be larger and more steady if only consumers could be deprived of the option of contracting with lower-cost, nonunion firms. A recently developed tactic known as “salting” shows the lengths to which unions will go to achieve, through manipulation and abuse of the legal system, objectives that they cannot achieve through peaceful means.

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Salting entails an attempt by unions to get nonunion firms to hire pro-union workers or even paid union organizers. If one of the union’s applicants for a job (let’s say, an electrician, since thus far salting has mainly been used against nonunion construction firms) is rejected by the employer, the union then files unfair labor practice charges against the company with the National Labor Relations Board (NLRB), claiming that the applicant was discriminated against because of his union sympathies, a violation of the National Labor Relations Act (NLRA). There may or may not be any truth to this charge—the manager who made the decision may have just thought that another applicant seemed better qualified, or he may have known or suspected that the individual was a union “salt” and decided against him on that ground. As far as the union is concerned, the truth of the accusation does not matter. There is no penalty for filing baseless charges with the NLRB. Nor is there any cost to the union to file; it has staff attorneys who can handle this paperwork very easily. However, defending against the charges will prove costly to the company. It will have to hire an attorney to defend itself and that can absorb a lot of a small firm’s funds. That is precisely the union’s objective.

On the other hand, if the “salt” is hired, he then can and will foment trouble internally. Should the company fire him for his trouble-

making, destruction, insubordination, and so forth, he then happily goes back on the union payroll and files charges for "discriminatory termination." Again, the company will have to incur legal costs to defend itself.

The point of "salting" is to wear a company down with repeated legal charges, not one of which was brought by an individual who actually had any intention of working for the firm and *earning* his pay.

Construction unions have launched salting campaigns against many nonunion construction companies in recent years. For example, Toering Electric Co. of Grand Rapids, Michigan, has been forced to pay out more than \$31,000 to "compensate" pro-union salts whom it declined to hire and, in an effort to bring peace, has agreed to hire pro-union electricians for the next five journeyman positions that come open. The union's newsletter brags about "putting a big hurt" on this company, as if the abuse of legal processes and coercion were something to be proud of.

"Can this be legal?" you may be wondering. Alas, yes. Last year, the Supreme Court reversed a court of appeals decision that union organizers weren't entitled to special legal protection if they apply for work at a firm they are targeting. The NLRA is vague on many points, including this one, but the Supreme Court chose to give it an interpretation at once hostile to freedom of contract and encouraging to this unscrupulous abuse of governmental processes. Salting has been given the green light. The unions are gleeful that their nasty harassing tactic may continue. It certainly will.

Why It Matters

Why should we care about this? For one thing, if unions succeed in driving out non-union competitors with this kind of coercive harassment, the cost of construction (and other things) will rise. Nonunion firms are despised by unions because they are able to make more efficient use of labor without the union's wasteful work rules, and thus often underbid unionized firms. In the absence of that competition, people would have

no choice but to deal with unionized firms. Union leaders, as they sometimes candidly admit, are businessmen. They sell labor. If there are only union construction firms, they will have cornered the market.

Second, there is the question of justice. Is it right for any group to use (or abuse) governmental processes to injure or destroy competitors? Isn't it wrong to use the law as a sword to impose ruinous costs on rivals just because you can get away with it? The unions would scream if their opponents used the same "might makes right" tactics against them, but philosophical consistency cannot be expected from statist.

Salting is only possible because of the coercive power invested in regulators by the NLRA—the power to punish firms for engaging in behavior that is not in breach of any contract, is not tortious, and violates no one's property rights. When such power is created, it will be used by people who like to get what they want through coercion rather than peaceful, voluntary interactions with others.

The Attack on Employee Involvement

In recent decades, there has been a marked shift in the United States away from the old-fashioned management style of just telling workers what to do, and toward using the observations and ingenuity of employees to assist in running the business better. Employee involvement (EI) works very well under most circumstances and is necessary to the survival of most American businesses in the intensely competitive global market.

It is undoubtedly in the interest of both business owners and employees to have the freedom to find the optimal ways of cooperating for mutual gain. There is no set formula for EI. There are so many different businesses faced with so many different and changing circumstances that no one can possibly specify the ideal way to handle EI programs. There isn't *an* ideal. Each firm has to seek its own.

Unfortunately, again owing to the National Labor Relations Act, managers and workers are not entirely free to experiment with EI. One section of that statute prohibits the

management of a company from "dominating or assisting" any labor organization. The original purpose of that section was to prohibit "company unions" back in the 1930s. It was organized labor's way of coercively restricting the range of options in labor relations. (Union spokesmen routinely say that company unions are "sham" unions, but if that were true, why wouldn't workers readily and willingly choose representation by "real" unions?) Today, organized labor, eager to guard its turf and appear useful, contends that the kinds of groups established under EI programs constitute management-dominated labor organizations and are thus illegal.

There has been a lot of litigation over this issue. The leading case, *Electromation v. NLRB*, decided by the NLRB in 1992 and upheld by the Seventh Circuit Court of Appeals in 1994, broadly restricts EI programs in nonunion workplaces. They may not discuss any issues that involve "terms or conditions of employment." *Electromation Inc.* was ordered to disband five "action committees" that dealt with the following subjects: absenteeism/infractions, no-smoking policy, communications, pay progression, and attendance bonuses. Most Americans would find it astounding that it can be illegal for managers and workers to sit down and discuss any aspect of work. Welcome to the Orwellian world of the NLRA.

Some subjects are clearly legal to address in an EI program. For example, managers and workers can discuss the *implementation* of a workplace attendance policy, but, as *Electromation* says, they may not discuss *absenteeism*. That may seem like a nonsensical distinction, but that is exactly what happens when you get lawyers battling back and forth over the meaning of a vaguely written statute. The problem for employers is that some potentially fruitful areas for EI programs are now taboo, and a cloud of uncertainty hovers over many others. As Howard Knicely, executive vice president of TRW Inc., said in testimony before the U.S. Senate, "It is virtually impossible for an employer and its employees to know what they can and cannot do under current law."

Organized labor doesn't like EI because it

may (and often does) lead to more satisfied workers, who are unreceptive to union organizers. AFL-CIO official David Silberman, for example, claims that the teams established by *Electromation* were a "bald-faced effort to stop union organizing." Never mind that the NLRB specifically found otherwise. The right question to ask is, "So what?" What on earth is wrong with management taking perfectly peaceful steps to increase the level of worker satisfaction? Union leaders talk as if they were entitled to interfere with the liberty of others to ensure that there will be a large pool of dissatisfied workers for them to entice into unions—and then collect dues from.

One of the most annoying aspects of the legal battle over EI is the fact that we are talking about *speech* here. The courts are remarkably eager to extend First Amendment protection to all sorts of *symbolic* speech (dancing, apparel, flag-burning), but they do nothing here to protect *actual* speech. The American Civil Liberties Union does not enter cases like *Electromation* with a brief arguing that freedom of speech is being infringed upon, and I would suppose (though I admit that I have not read the briefs) that the attorneys for the embattled firms do not even bother to raise First Amendment arguments. The courts, largely indifferent to employer freedom, have always turned a blind eye to the First Amendment in labor cases.

Cutting the Gordian Knot

The vile "salting" tactic and the legal attack on EI programs are both consequences of abandoning the freedom and neutrality of the common law in favor of the one-sided, authoritarian special-interest statute that is the NLRA.²

Both are egregious examples of harnessing the power of the state to accomplish ends that would be crimes or torts if the interest group members tried to do the same things on their own. If the union that was so incensed at the *Electromation* Action Committees (the Teamsters, which had lost a representation election there) had burst into the plant and demanded that the committees be disbanded

or else, that action would have been illegal. The NLRA spares unions the expense and danger of having to directly violate the rights of others. The government does the dirty work for them.

If I had a magic wand to repeal bad federal statutes, I would put the elimination of the NLRA right at the top of my list. Many would accuse me of throwing out the baby with the bath water, but the truth is that there is no

baby here. The NLRA is coercive interference with liberty and property rights from start to finish. ☐

1. Richard Epstein, "A Common Law for Labor Relations: A Critique of the New Deal Labor Legislation," 92 *Yale Law Journal*, 1357; and George Leef, "Legal Obstacles to a Market for Employee Representation Services," 9 *Cato Journal*, 663.

2. The NLRA is also unconstitutional; there is nothing in Article I, section 8 that gives Congress power to regulate labor-management relations. (No, the commerce clause won't do. See Professor Epstein's "The Proper Scope of the Commerce Clause," 73 *Virginia Law Review* 1387.)

Life, Liberty, and Pizza Delivery

by Thomas J. DiLorenzo

After 22-year-old Samuel Reyes was shot and killed while delivering a Domino's pizza in a government housing project in San Francisco, Domino's suspended pizza deliveries in the highest crime areas of many cities. The company also developed computer software that allows its franchisees to flag addresses that are unsafe (a yellow flag means curbside delivery only; green flag means go ahead; red flag means do not enter).

One would think that such an expression of concern for employee safety would earn Domino's one of the U.S. Department of Labor's "corporate social responsibility" awards. No such luck. Domino's behavior has infuriated liberal political activists and has led to a new "civil rights" campaign—against so-called "service redlining."

Because some of the most crime-ridden sections of San Francisco are in predominantly black government housing projects, the San Francisco Board of Supervisors recently

decided to make it illegal for Domino's (or any other fast-food deliverer) to refuse to deliver in areas the company believes would put its employees' lives in danger. The new law is the basis of a civil suit by aggrieved pizza consumers who apparently believe they have a constitutional right to pizza delivery.

The deep irony of San Francisco's new service redlining law is that in the name of civil rights it imposes forced labor on Domino's employees. The law also makes a mockery of private property and freedom of association, as the city's politicians seek to coerce business owners into associating with violent criminals and putting their employees' lives—and their business property—at risk.

The very idea that pizza delivery is a civil rights issue is absurd. Because the fast-food business is so fiercely competitive and profit margins so low, any business that ignored a large customer base because of racism would not long survive. Domino's did not become the hugely successful company that it is by refusing to sell its pizzas to blacks. Such discrimination would create enormous profit opportunities for its competitors and drive it

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from the market. If there are large, unrealized profit opportunities in the pizza delivery business in some sections of San Francisco, one wonders why members of the San Francisco Board of Supervisors do not invest in pizza delivery franchises there themselves. According to their own logic, millions of dollars in profits are just sitting there, waiting for racially enlightened business owners to pick them up.

While politicians in San Francisco and elsewhere argue over how best to regulate "service redlining," the free market is quietly solving the problems they are concerned about. A new business in Birmingham, Alabama, is the model. Home Boys Catering and Delivery hires ex-gang members to deliver pizzas and other food items to high-crime areas of the city. The business adds a \$2.50 service charge (or risk premium) to each delivery, and it has been so successful that it is expanding into other cities.

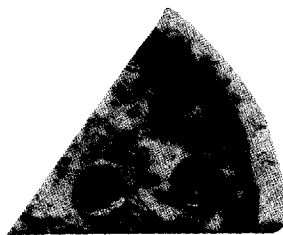
This particular form of price discrimination is rational and efficient, but political demagogues threaten its existence because of their economic ignorance and political opportunism. Many other businesses, such as grocery stores, charge what might be called a crime premium for operating in higher-crime areas; otherwise many of these businesses would not operate there at all. For example, grocery prices are often slightly higher in higher-crime areas of a city because the stores there incur higher costs due to a higher incidence of shoplifting, break-ins, and robberies. For decades, politicians who purportedly champion "the poor" have condemned this type of "discrimination" and in some cases have imposed price control laws which prohibit it.

But price controls that prohibit stores from passing on at least part of these costs to consumers will reduce—or eliminate—profit

margins at those stores, causing many of them to shut down, as has in fact occurred throughout the United States. The residents of these urban areas are then left with fewer places for purchasing groceries and may very well end up paying *higher* prices.

The fact that the free market is quickly and easily solving the problem of food delivery in high-crime areas, thanks to businesses like Home Boys Catering and Delivery, will likely be ignored by most self-appointed "civil rights leaders" for the same reason that most politicians always ignore the free market in general: Voluntary solutions leave no room for politicians to advance their careers by shaking down the businesses they threaten with regulation for campaign contributions and engaging in media grandstanding. In the name of civil rights, San Francisco's politicians would apparently rather enforce a form of involuntary servitude than sacrifice these career opportunities.

If the San Francisco Board of Supervisors wants to solve the problem of unequal service delivery in high-crime areas, it should create a better business climate in the city through deregulation—especially of food vendors and other small businesses that are plagued by occupational licensing regulation; tax cuts to spur economic growth; and better crime control. It needs to stand back and get out of the way of entrepreneurs like Home Boys Catering and Delivery owner Darek Marcel Eaves. Mr. Eaves provides a valuable service to his customers and performs a public service to his community by employing troubled young men and women and teaching them how to develop a work ethic and to run a successful small business. America's cities need more entrepreneurs like Mr. Eaves, not more laws, regulations, and mandates on business owners. □



Free-Market Emancipation

by Karol Boudreaux

Today, when we think about slavery in America we typically bring to mind images of nineteenth-century slaves trudging off at daybreak to grueling work in cotton fields and returning exhausted after sundown. We think of people with little freedom, whose best hope for liberty lay only in dangerous escape attempts.

Like any institution, slavery has a history. It evolved over time, becoming more repressive as years passed and as the forces of government coercion, such as Virginia's Slave Code, were used to restrict opportunities for blacks.

In the seventeenth century, however, blacks who were either slaves or indentured servants had, at least in one part of the South, a unique window of opportunity open to freedom. Their story is little known, and worth a closer look because of the lessons it teaches about the power of free markets and personal freedom.

In "*Myne Owne Ground*," professors T. H. Breen and Stephen Innes describe settlements on the Eastern Shore of Virginia between the years 1640 and 1680.¹ These communities had several interesting characteristics. First, and perhaps most importantly, Virginia's colonial government was located far away, across the Chesapeake Bay in Jamestown. Second, tobacco, grain, and livestock could be profitably raised on the Eastern Shore. And third, the common-law judges who held court on the Eastern Shore "shared

certain basic beliefs about the sanctity of property before the law."²

Breen and Innes tell the stories of a number of blacks who lived in Northampton County on the Eastern Shore during the mid-seventeenth century. These men, admittedly few in number, were able to contract with their owners to purchase their freedom. These purchase contracts typically required the slave to provide hundreds or thousands of pounds of tobacco to the owner. A slave would meet this daunting challenge by working small parcels of land, which his owner allowed him to use during his spare time. If he were both ambitious and lucky, the slave might actually raise enough tobacco to meet the purchase requirements and gain his freedom.

As Breen and Innes note:

Self-purchase obviously operated to the master's advantage. . . . The key to understanding self-purchase is productivity, for while the great planters of the Eastern Shore required able fieldhands . . . they obviously did not want people who were lazy or disobedient. For the slave, the incentives to diligence were quite limited. . . . One answer to the master's perennial problem was to hold out the possibility of freedom. Such an offer provided the slave with a powerful goal, a dream, a reason to sacrifice, and even though the terms of some freedom agreements appear grossly exploitive to the modern observer, they were welcome bargains to persons who otherwise faced lifelong bondage.³

Purchasing their freedom was only the first hurdle these remarkable men faced. Once

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free, they would either have to accumulate enough capital, or buy "headrights,"⁴ to acquire land and supplies in order to become small, independent farmers. By renting land and growing tobacco and livestock, these men could make a living. While some failed, many did quite well, buying hundreds of acres of land and becoming well-known traders.

Race Not a Barrier to Success

What is fascinating about their stories is that once they were part of the market system of Northampton County, these former slaves faced relatively little racial discrimination. They often successfully sued in Northampton courts to protect their property rights. They accumulated property and traded with whites. In short, they participated fully in the system of voluntary exchange that characterized Northampton's market economy. While social and political barriers existed for these men, in the market, at least, race was not a major barrier to success.

The success of Northampton's free blacks provides an important lesson about the functioning of markets. In a free market, where government interference is kept to a minimum and where people are free to contract with one another, those individuals who are able to supply products that other people want will succeed. Buyers look for sellers who offer the best products at the lowest prices. In a free market, the quality and price of the good, not the color of the seller's skin, are what count most. Indeed, in competitive markets, if buyers refuse to purchase goods from a seller based solely on the seller's race, they hurt themselves by passing up good deals. Racial discrimination, in other words, is costly in a market system.

This lack of racial discrimination is exactly what we see in the early history of Northampton County. Northampton County was a thriving market economy in the mid-seventeenth century, with relatively little government interference from faraway Jamestown. In this environment, we should not be surprised to

find that blacks prospered and faced relatively little discrimination. So long as these freemen could provide tobacco, grain, or livestock that their neighbors or merchants wanted, they succeeded. As Breen and Innes observe, "economic status rather than racial identity seems to have been the chief factor in determining how blacks and whites dealt with one another."⁵

Unfortunately, this relatively brief period of economic prosperity for free blacks in Northampton County ended by the close of the seventeenth century. Breen and Innes suggest that it was the very success of the free blacks that led to their undoing. As these resourceful people accumulated property and wealth they represented a growing competitive threat to white farmers. Faced with such unwanted competition, white settlers lobbied the government of Virginia to pass increasingly restrictive statutes, limiting the freedom of blacks. These legislative restrictions culminated in the repressive Virginia Slave Code of 1705 which, Breen and Innes argue, marks the moment at which racial lines "inexorably" hardened and "the tragic fate of Virginia's black population was finally sealed."⁶

The awful lesson of the Northampton County free blacks is that this hardening was made inevitable only by government action. Tragically, race relations in America could have evolved differently. In a community where a competitive market economy existed, where property rights were protected by the courts, and where government interference was minimal, people dealt with each other in a relatively colorblind manner. The relevance of this lesson to late twentieth-century America is all too obvious. □

1. T.H. Breen and Stephen Innes, *"Myne Owne Ground": Race and Freedom on Virginia's Eastern Shore, 1640-1676* (New York: Oxford University Press, 1980).

2. *Ibid.*, p. 15.

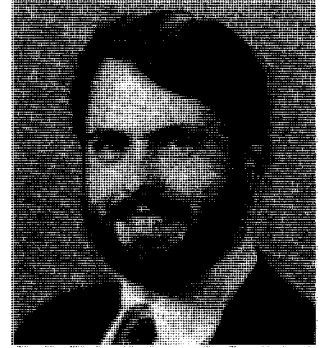
3. *Ibid.*, pp. 72-73.

4. The "headright" system entitled each settler to a grant from the colonial government of land, typically 50 acres. Headrights could be purchased and combined.

5. Breen and Innes, p. 111.

6. *Ibid.*, p. 5.

The New Assault on Capitalism



Capitalism has long had more than a few critics on the left. For years it was said that collectivism would eventually outproduce the market. That claim died with the Soviet Union. What remained of the left then began to complain that capitalism generated too many material goods.

The charge always was incongruous coming from a Gucci-clad elite who enjoyed the best the market system had to offer. But now similar attacks on capitalism are coming from an even stranger source, the right. The market, it is said, is a threat to family, human relationships, values, and virtue. Government programs like Social Security are said to be pro-family.

Both freedom, which, of course, is what capitalism is all about, and virtue are obviously under assault today. Government takes and spends roughly half of the nation's income. Regulation further extends the power of the state in virtually every area of people's lives. Increasing numbers of important, personal decisions are ultimately up to some public functionary somewhere.

Virtue, too, seems to be losing ground daily. Evidence of more decline is plentiful enough in America's political leadership. Things are scarcely better elsewhere in society, as family and community breakdown continues apace.

Unfortunately, the problem is being compounded as onetime supporters of both lib-

erty and virtue are setting the two against each other, treating them as frequent antagonists, if not permanent opponents. At the very least, they suggest, you cannot maximize both liberty and virtue, but, instead, have to choose which to promote and which to restrict.

However, it would be a mistake to assume that one must be sacrificed for the other. Rather, they are complementary. That is, liberty—the right to exercise choice, free from coercive state regulation—is a necessary precondition for virtue. And virtue is ultimately necessary for the survival of liberty.

Virtue cannot exist without freedom, without the right to make moral choices. Coerced acts of conformity with some moral norm, however good, do not represent virtue; rather, the compliance with that moral norm must be voluntary.

There are times, of course, when coercion is absolutely necessary—most importantly, to protect the rights of others by enforcing an *inter*-personal moral code governing the relations of one to another. The criminal law is an obvious example, as is the enforcement of contracts and property rights.

However, virtue reflects a standard of *intra*-personal morality. As such, it is an area that lies beyond the reach of state power.

Of course America today does not seem to be a particularly virtuous place. But then, the natural human condition, certainly in Christian theology, and in historical experience, too, is not one of virtue. "There is no one righteous, not even one," Paul wrote in his letter to the Roman church, citing the Psalms

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(Rom. 3:10). This explains the necessity of a transcendent plan of redemption.

Societies can be more or less virtuous. Did ours become less so because government no longer tries so hard to mold souls? Blaming moral shifts on legal changes mistakes correlation for causation. In fact, America's one-time cultural consensus eroded during an era of strict laws against homosexuality, pornography, and even fornication. Only cracks in this consensus led to changes in the law. In short, as more people viewed sexual mores as a matter of taste rather than a question of right and wrong, the moral underpinnings of the laws collapsed, followed by the laws.

What Government Can't Do

Government has proved that it is not a particularly good teacher of virtue. The state tends to be effective at simple, blunt tasks, like killing and jailing people. It has been far less successful at reshaping individual consciences. Even if one could pass the laws without changing America's current moral ethic, the result would not be a more virtuous nation. True, there might be fewer overt acts of immorality. But there would be no change in people's hearts: Forcibly preventing people from victimizing themselves does not automatically make them more virtuous, righteous, or good. It is, in short, one thing to improve appearances, but quite another to improve society's moral core.

Indeed, attempting to make people virtuous by force would make society itself less virtuous in three important ways. First, individuals would lose the opportunity to exercise virtue. They would not face the same set of temptations and be forced to choose between good and evil. This approach might thereby make their lives easier. But they would not be more virtuous, and society would suffer as a result. In this dilemma we see the paradox of Christianity: a God of love creates man and provides a means for his redemption, but allows him to choose to do evil.

Second, to vest government with primary responsibility for promoting virtue shortchanges other institutions, or "governments" in Puritan thought, like the family and church,

sapping their vitality. Private social institutions find it easier to lean on the power of coercion than to lead by example, persuade, and solve problems. Moreover, the law is better at driving immorality underground than eliminating it. As a result, moral problems seem less acute and people may become less uncomfortable; private institutions may therefore be less likely to work as hard to promote virtue.

Third, making government a moral enforcer encourages abuse by majorities or influential minorities that gain power. If one thing is certain in life, it is that man is sinful. Yet the effect of sin is magnified by the possession and exercise of coercive power. Its possessors can, of course, do good, but history suggests that they are far more likely to do harm. They may start with the best of intentions, but that doesn't prevent them from turning a supposedly family-friendly Social Security into a coercive public Ponzi scheme lurching toward fiscal disaster.

And as America's traditional Judeo-Christian consensus crumbles we are more likely to see government promoting alternative moral views. This is possible only if government is given the authority to coercively mold souls in order to "promote virtue." Despite the best intentions of advocates of statecraft as soulcraft, government is more likely to end up enshrining something other than traditional morality. All told, an unfree society is not likely to be a virtuous one.

In the end, people need to be more willing to tolerate the quirks and failings, even serious virtuous lapses, of their neighbors, so long as such actions have only limited effect on others. They should leave the punishment of most sins to God.

The fact that government can do little to help does not mean that there is nothing it should do. We would all be better off if public officials adopted as their maxim "first, do no harm." Although the community-wide moral breakdown most evident in the inner city has many causes, government policy has exacerbated the problem at almost every level. Governments punish both marriage and thrift through their tax policies. The state has spent years attempting to expunge not only religious

practices but also religious values from the public square; the public school monopoly discourages moral education.

Nevertheless, freedom is not enough. While liberty is the highest political goal, it is not life's highest objective. Moreover, while a liberal, in the classical sense, economic and political system is the finest one available, it will operate best if nestled in a virtuous social environment. And forming that environment

requires sustained effort, including bringing social pressure against businessmen in the marketplace—the purveyors of gangster rap, for instance.

Those who believe in both a free and virtuous society face serious challenges in the coming years. But neither cause will be helped by playing them off against each other. In the end, neither is likely to survive without the other. □

A Friendly View of Dealing

by Tibor R. Machan

When people set out to buy or sell in the marketplace, they do so with some terms in mind. But they don't know the exact terms they will accept before they start bargaining or as they compare different offers (among stores in a mall, for example). Indeed, considering a trade is itself only the first step to establishing its terms. As the process culminates, prices and other mutually acceptable conditions are determined.

Some view this as if the parties would need to compromise, since they do not usually end up with the terms they initially have in mind. There is, however, no compromise involved at all since there is no such thing as one party to the trade alone knowing what the price is. As in any necessarily cooperative venture, all participants, together, establish the crucial features involved. (In language, for instance, no one individual sets the precise meaning of concepts or words.) They may stick to some

minimum requirements without which they will refuse to trade, in which case no price will be agreed to. Finding the right price is a necessarily mutual process, since it is something that registers the terms of agreement, as it were.

Sometimes people feel awkward about not accepting another's terms right from the start. It seems like asserting themselves too much. This is more a sign of lack of confidence in their own role in the market process, as if the parties didn't have justice on their side by asserting their own interests. Well, one feature of justice is that when two or more parties consider coming together on some matter, they do so on mutually agreed terms rather than compelling someone to comply with the demands of another in the process. This is because *justice is*, in part, *respect for another's standing as a full human being*, a person with his or her judgments to make about his or her conduct in life, including whether and on what mutual terms to join others in certain endeavors.

This kind of justice, however, is conditioned on a more basic moral principle—that one's

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own life is not only for one to govern but ought also to be enhanced, for example, *via* trade. This is the practice of prudence. There can be occasions when the virtue of prudence is not so urgent as would be generosity or courage. Still, it is normally vital to living a good human life, so justice must make room for it, for example, in the course of commerce.

Now some interesting points follow from this. One is that obtaining what is deemed a high price for one's goods and services is going to depend, in part, on how those kinds of things are being received throughout the marketplace. Another is that most attempts to obtain a high price need to be understood as perfectly justified, unless, of course, they are outrageous (in comparison to how such goods or services fare in the marketplace). Even when folks find a price annoying, say when it is raised comparatively high in times of crises, they need to recall that such a move is often an honest expression of hope for some extra revenue for the seller in the light of a rare opportunity. This is nothing to scoff at. No one scoffs at it when done for people by their representatives in contract negotiations or when an agent embarks in one's behalf in selling real estate. Some do call it gouging when folks try to cash in on the sudden need

of others, but such is not the case unless deceit or fraud is perpetrated.

Furthermore, the derided business practice of advertising is best understood as a kind of hopeful "holler" to us from sellers who are trying to put meals on their tables, kids through school, or insurance payments in the mail by attracting us to their goods and services. They are calling out to us—on radio, TV, magazines, billboards, flyers, catalogues (what we so harshly call "junk mail")—so we might pay attention to what they are offering and we could well use. One should never get upset with advertising—it's just the cosmetics employed by the sellers in the course of seeking out a trade, calling attention to their good features in the attempt to attract a good reception from potential buyers. It can misfire in some ways, including outright deception or, less drastically, tastelessness or stupidity.

It would be very nice, more generally, if many people didn't have a one-sided view of the pursuit of economic well-being. This one-sidedness consists in finding one's own pursuit honorable but that of others nearly always degrading. Such an adjustment of attitude would do a lot to raise the reputation of the free market and, thus, of the prospects of general prosperity. □

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Benefit Societies in America: The Way It Used to Be

by Michael L. Probst

Conventional historical wisdom might suggest that there was very little poverty relief in the United States prior to the emergence of the government welfare state. This is not so. Before welfare assistance became institutionalized, a network of private fraternal organizations provided economic security to workers and relief to people in need. Those voluntary societies rendered support services based on the principle of mutual aid. By the end of the second decade of this century, 18 million adult Americans—including nearly 30 percent of the male population—held membership in fraternal societies.¹ The fraternalists offered such services as death and burial benefits, medical care, unemployment and sick relief, and education.

These mutual aid societies are referred to in a variety of ways—as benefit, fraternal, benevolent, or friendly societies. Some bore elaborate or unusual names. Many have disappeared, but others, including the Masons, Elks, Odd Fellows, and Eastern Star—continue their work today, providing medical and scholarship assistance for the young and residential care for aged members.

These societies are of interest to free-market proponents for several reasons. First, the benefit society tradition honored the free-market ideal of voluntary exchange. Second, mutual aid societies were mostly successful at avoiding social problems that char-

acterize the present welfare state—rising illegitimacy, broken families, rampant drug abuse, and pervasive violent crime. Finally, the mutual aid tradition declined dramatically about the same time the welfare state began its rise. This deterioration lends support to a common argument made by classical liberals—that as the state assumes responsibility for economic relief, private assistance diminishes.

Economic Functions of Benefit Societies

1. Life Insurance

The primary and most widely offered fraternal services were death and burial benefits, which provided a proper burial for the deceased and relief to the surviving family members.² The insurance was priced within reach of a typical worker. In terms of today's prices, the benefits could be purchased for about the cost of a single movie ticket per week. Besides providing the death benefit, the societies also commonly offered sick benefits,³ which were similar to today's unemployment insurance. These benefits provided relief for a member during periods of inability to work due to accident or illness.

Fraternal insurance could also be used to self-insure against poverty. A member arranged such protection by appointing the charitable institution in charge of his care as

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the beneficiary of his policy. Moreover, many societies also made provisions allowing for loans to be taken out against the value of a life insurance certificate.⁴

2. Medical Services

In the early part of the twentieth century many fraternal organizations began to make medical care available. They created something similar to the HMOs of today by contracting out for the services of doctors who agreed to provide care for members. The fees were as low as \$1 per year and coverage could be extended to members' families. This protection allowed for visits to the doctor's office and for house calls on request.⁵

3. Education

Other services to which the benefit societies devoted considerable resources included education and job training. This was especially true among the black fraternalists. The broad range of education opportunities is indicated by one society's advertisement offering tutelage in "kindergarten, English, normal, college preparatory (classical), college course (classical), industrial, sewing, cooking, fancy work, bicycle, umbrella and furniture repairing, mattress making and upholstery."⁶

Immigrants, too, used the benefit society as a tool for education. Because many of the new arrivals spoke only their native language, lessons in English were essential.⁷ Immigrant societies played an invaluable role in this respect, helping to educate and acclimate new arrivals.

Social Functions of Benefit Societies

Most fraternal societies did not confine their activities to mutual aid. Through the use of economic sanctions, the societies typically worked to encourage the practice of high moral standards as well. For example, the Boston African Society stipulated that persons whose misfortunes resulted from their own intemperance thereby forfeited all benefits. The Odd Fellows were also diligent in this respect, allowing membership only to those of "undoubted probity" and specifically

denying access to known gamblers.⁸ This moral encouragement not only helped bring members the advantages of living more wholesome lives, but it also served to help keep the payment of benefits in check.

Because the benevolent societies were formed along the lines of mutual aid, members had a direct interest in the health and well-being of their fellows. The desire to keep benefit payments low created an incentive for members to monitor each other's behavior in order to minimize the "moral hazard." In effect, peer pressure was used to check the conduct of members, thus allowing everyone to reap both social and economic advantages.

Fraternal societies also helped to foster pride and self-respect among members. The source of this pride lay in the very *nature* of their relief system. Because the societies were self-supporting, the benefits they dispensed were not considered charity, and this, of course, helped preserve the dignity of the recipients of its aid. Even the poorest of the poor did not want to be on public relief. When benefits were dispensed by the fraternal society, the recipients were able to view them as an entitlement *earned*, something they themselves had helped to finance with their previous contributions.⁹

Problems

While the benefit societies were viewed favorably by most, they were not without their critics. The most fundamental charge against them was that the aid they delivered was inadequate. As historian David Beito points out, however, the concept of relief has changed in recent history. The only benefit now taken into account is the number of dollars spent. Before the emergence of the welfare state, however, the adequacy of support was measured in other ways. Satisfactory assistance also implied ideas such as the building of "character, self-respect, and independence."¹⁰

Interestingly enough, some of the most ardent supporters of the welfare state are coming to terms with the apparent inability of state-run forms of relief to provide the non-material benefits associated with voluntary

aid. Even in mainstream policy discussions, the consideration that government welfare programs may, in fact, be unfit to encourage these values is not uncommon.

Professor Beito cogently argues that those who required help before the modern welfare state might very well have envied the material aid the disadvantaged presently receive—housing, food, and income—all guaranteed by the state. But if traits such as self-improvement, self-respect, pride, family and community cohesion, and relatively safe neighborhoods are considered, today's disadvantaged class might be very willing to change places with those who depended on mutual aid.¹¹ The success of the benefit societies is that their mutual aid function helped them provide relief to those in need while largely avoiding the social breakdown so evident in our current welfare state.

Decline

So what happened to the benefit societies and their practice of mutual aid? There are various explanations, some accounting for the disappearance of specific services the societies once provided, others accounting for their decline in general. For instance, Beito reports that the provision of medical care by the fraternal came under attack shortly after the turn of the century by physicians who viewed the fraternal's contracts with doctors as "a threat to traditional fee-for-service medicine." By the 1920s these efforts had largely succeeded, and the loss of medical services in particular is considered a major cause of the organizations' rapid decline.

Probably the best and most complete explanation for the decline of the fraternal societies, however, is the rise of the modern welfare state. Simply put, government benefits have replaced the need for the provision of the fraternal's mutual aid.¹²

Anecdotal evidence of government welfare activities displacing mutual aid abounds. For example, when workers' compensation was launched in the 1910s and 1920s, employees' mutual aid organizations withdrew "en masse

from providing industrial accident insurance." Further evidence is that by 1931, most states provided mothers' pensions, and in the 1930s, Social Security and Aid to Dependent Children were introduced. These increases of government involvement in economic relief paralleled decreases of mutual aid activities.¹³ While it is possible that such parallels were only coincidental, it seems much more likely that state benefits replaced the need for ones provided by the fraternal societies.

Conclusion

For persons concerned about the plight of the disadvantaged in the United States today, the experience of the past may provide the best guide for the future. Comparing the American tradition of mutual aid to the modern welfare state seems to confirm F.A. Hayek's ideas regarding progress and the human social order. Hayek believed that human achievement was not the result of conscious, collective planning. Instead, Hayek argued, progress emerges from a trial-and-error process wherever people are free to copy behavior that has proven successful for others. Maybe it's time we abandon the centrally planned welfare state and return to a model developed through successful experimentation—a model based fundamentally on the concept of voluntary mutual aid. □

1. David T. Beito, "Thy Brother's Keeper," *Policy Review*, Fall 1994, p. 56.

2. *Ibid.*, p. 55.

3. Howard W. Odum, *Social and Mental Traits of the Negro: Research into the Conditions of the Negro Race in Southern Towns* (New York: Columbia University Press, 1910), p. 115.

4. Richard DeRaismes Kip, *Fraternal Insurance in the United States* (Philadelphia: College Offset Press, 1953), pp. 114–129.

5. Beito, p. 56.

6. Odum, pp. 113–114.

7. Beito, p. 58.

8. Leonard P. Curry, *The Free Black in Urban America, 1800–1850: The Shadow of the Dream* (Chicago: University of Chicago Press, 1981), p. 211.

9. Beito, p. 58.

10. David Beito, "Mutual Aid for Social Welfare: The Case of American Fraternal Societies," *Critical Review*, Fall 1990, p. 720.

11. *Ibid.*, pp. 723–724.

12. Beito, *Policy Review*, pp. 58–59.

13. Beito, *Critical Review*, pp. 726–727.

How Galveston Opted Out of Social Security

by Ed Myers

In south Texas, along the windswept Gulf Coast where multitudes of hurricanes have made landfall over the centuries, there are three history-filled, ahead-of-their-time counties: Galveston, Brazoria, and Matagorda.

Until the early 1980s government entities, such as cities and counties, had the right of opting out of Social Security and establishing their own retirement system. This option had been provided when the Social Security Act was passed in the thirties.

Galveston County in 1979 looked into this idea when then-County Attorney Bill Decker contacted Don Kebodeaux, highly successful Houston businessman, and asked him if he could devise a plan so that Galveston County could opt out of Social Security. At that time Social Security was on the verge of bankruptcy and no one knew what the future held. Don pondered the problem and called in his friend Rick Gornto, a leading financial expert, who was later to become his partner. These two hard-driving and foresighted businessmen, realizing the coming problems in Social Security, designed a new program for political subdivisions that would provide a retirement plan for employees that was many times better than the existing Social Security program. Satisfied with the new program, and in order to properly present and handle this program, these two Texas entrepreneurs organized sev-

eral companies that became the First Financial Group.

The men from First Financial took their ideas, which they called *The Alternate Plan*, to Galveston County and presented them to County Judge Ray Holbrook and the Commissioners Court in 1980. When Judge Holbrook, a quiet, soft-spoken Texan, and County Attorney Bill Decker, a man dedicated to the betterment of his county, saw the wisdom and foresight of this concept they took charge and shepherded the plan through its various stages.

The beauty of the plan was simplicity itself. The 6.13 percent rate that the government had been taking out for Social Security in 1981 now would go into the pension fund for employees and would be matched by the county. Life and disability insurance were included at first to match exactly the Social Security benefits. In recent years the county increased its participation to 7.65 percent, which included payment of all premiums for life and disability insurance. The life insurance benefit for those under age 70 is 300 percent of one's annual earnings with the minimum benefit of \$50,000 and a maximum of \$150,000.

Many spirited debates were held throughout the county between Social Security representatives and the men from First Financial for the benefit of the county employees to answer all questions. Balloting on the question was held in 1981. By a resounding vote

Ed Myers is author of the book Let's Get Rid of Social Security.

of 78 percent to 22 percent, the Galveston County employees endorsed the idea and the county opted out of Social Security.

The local unions fought the idea at first, and several Galveston County officials also opposed the action. As time went on and they learned more about the program, nearly all of them saw the sound judgment in this course of action. Years later Decker, by then retired, told the story of how a number of unionized county workers thanked him for his wisdom and guidance. They said at first they had serious doubts about giving up the fixed income of Social Security, but now that they were getting ready to retire they were very happy they did.

"*The Alternate Plan* has been a godsend for Galveston County and clearly improved employee benefits," said Judge Holbrook recently. He continued, "The 22 percent who voted against it in 1980 are all supportive now and see the many benefits of having a retirement program other than Social Security, which most employees under age forty believe will not be existing when they retire because there will not be enough workers to contribute to this pay-as-you-go system. And now no one objects to the mandatory feature which was made part of *The Plan* a few years after it started." Judge Holbrook, who retired in 1994 after 28 years of distinguished service, concluded his narrative by saying, "Of all the things I accomplished while county judge, setting up this retirement system for Galveston County employees is one of my proudest achievements." Now in retirement, Judge Holbrook also pointed out that after just 12 years of service under *The Alternate Plan* he is now receiving twice as much as he would have under Social Security.

Seeing this tremendous potential in 1982 Brazoria County followed suit and opted out of Social Security in favor of *The Alternate Plan*. A year later Matagorda County climbed on board.

Tolbert Newman, operations manager for the First Financial Group who handles the overall responsibility for these plans for the three counties, cites the following example of the growth that can be achieved in this *Alternate Plan* pension fund. If an individual

is 25 years old and makes a \$2,000 annual contribution for just ten years, assuming an 8 percent earnings rate, this individual will have \$314,870 when he or she retires at age 65. If he works continuously for 40 years, he may well have accumulated a million dollars, depending on his contributions.

This idea began taking hold in a big way. The entrepreneurial spirit was alive and well. In a short period of time the idea spread and some 200 other counties, as well as many cities, in Texas and throughout the entire country, saw the latent possibilities of the program and were ready to become candidates to opt out and join the plan that First Financial Group had devised.

Then as these other political subdivisions began to set the wheels in motion for this farsighted change, up jumped the devil, Congress. Social Security had gone broke the year before and our legislators were now looking for ways to bail out the system. Capitol Hill had already decided to include the federal employees and then got a rude shock when it looked as though all employees of the various counties in Texas, and others throughout the country, were about to opt out of Social Security. That was a calamity it could not allow, so Congress canceled the opt-out clause in 1983. Fortunately Galveston, Brazoria, and Matagorda counties had their systems up and running and so the grandfather clause applied, and they were allowed to continue their *Alternate Plan*, much to the chagrin of all these other Texas counties.

The Alternate Plan that began as a fledgling, upstart employee benefit plan has stood the test of time and has shown that it can and does outperform Social Security. The plan that started in Galveston County ended the first year with a modest balance. Today, with over 5,000 employees from these three counties *The Alternate Plan* has grown to a very healthy and sizable portfolio. Those who retire after 20 years will receive three to four times the rate as under Social Security. This *Alternate Plan* is not just an isolated act of a group of responsible and dedicated Texans. There are countless other examples of other local and state government entities showing the same

responsibility and initiative throughout the United States. There are now five states that are not under Social Security and have their own plans: California, Nevada, Maine, Ohio, and Colorado. In the Colorado plan they now have over \$14 billion in assets. Local government entities such as police and fire departments have long handled their own retirement plans.

These plans clearly demonstrate that if left alone enterprising Americans can set up retirement systems, second to none.

The private sector, including the self-employed, will benefit from privatizing Social Security as never before. Phasing out the employer's share of the Social Security tax will, over time, return to the business community more than \$169.2 billion per year. Not

having to pay these FICA taxes in future years will be a tremendous boon to the business climate and the creation of untold new jobs.

Larry N. Forehand, president of the Texas Restaurant Association and founder of Casa Olé Mexican Restaurants, a fast-growing Texas restaurant chain, had this to say: "We currently pay over \$1.3 million in matching Social Security taxes annually. If our company had that \$1.3 million a year to invest in new locations, we could build six additional restaurants, employ an additional four hundred fifty people and add \$7.2 million to the economy every year. Based on current figures it is estimated that all restaurants in Texas will save \$1.2 billion per year."

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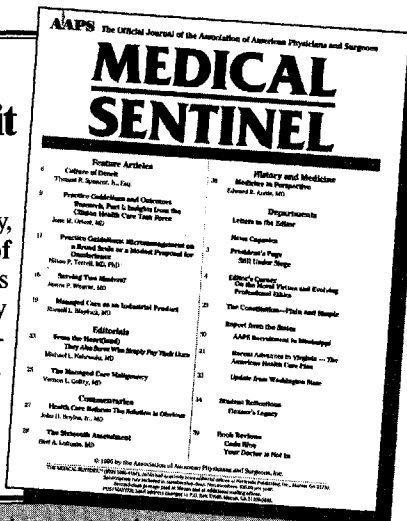
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ISSN Number
1086-4784



The True American Tradition

by Wesley Allen Riddle

"[In 1776,] the world was born again. . . ."

"... [R]emember the deeds of your fathers, and by them receive guidance for the future."

—*American Whig Review*, 1848, 1849

Americans venerated their past and traditions until very recently. Indeed, our sense of national identity is bound up with certain traditions and institutions stemming from the Revolution and the Constitutional Convention. America's sense that Providence had played a role in the founding also served to confer heavy presumptive validity to our national beginnings and to the *original intent* of the founders. Mere theory or the fleeting whim of majority opinion would not sanction change to the original compact between the people of the States before the Deity. While secularization has played its part in the undermining of American constitutionalism, even a secular constitutional republic cannot lose continuity with its past, unless it be transformed.

It was in Abraham Lincoln's day that American historicism suffered a telling blow. The great church denominations had already split North and South before the country drew its famed and tragic geographic line of political divide. One would expect the cataclysm of Civil War that followed to complicate any

people's sense of a common heritage or a providential mission. But it was not war, nor emancipation, nor Reconstruction that proved most injurious to that sense. It was an insidious reinterpretation of America's past, one which altered the original compact in the minds of many people, in order to justify the War, to enact and enforce socio-political equality for freedmen, and to impose martial law over half the country for a dozen or more years. The historical revision stayed in place, even after the Union was restored. It continued to work injury to our constitutional form of government and to divorce us literally from our past—even from the Founders' original intent and from the terms of our sacred constitutional compact.

The Declaration was elevated to *de facto* Constitutional status. The strictures placed on power by the Founders, their careful system of checks and balances, the Bill of Rights they placed against the federal government—these began to wane as government grew. American constitutionalism gave way to majority *sentiment*, increasingly expressed by the central government's open-ended commitment to vague notions of "equality" and "rights" from language found in the Declaration of Independence. In allowing this to happen, we have ignored the unique historical context of the Declaration, its form and function and words designed for a specific purpose, i.e., for *independence* from Great Britain—not for the peacetime structure and aims of a consolidated national government! Most among the very same Revolutionary generation, who fought the British Redcoats after declaring

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our independence, worked hard to give us the Constitution for the specific purpose of establishing a better government. Furthermore, they chose a federal republican form of government over consolidated union. In terms of function as organic law of the land, the Constitution was ratified—the Declaration was not.

Lincoln's Gettysburg Address has served the questionable notion of bridging the outcome of the Civil War to a few words in the Declaration instead of to the Constitution, because fourscore and seven years before 1863 is 1776—not 1789! Although we cannot know all that Lincoln would have done, the historical revision has created a perceived, binding commitment to the advancement of equality at the expense of almost everything else. It was the most amazing "open-air sleight-of-hand. . . . The crowd departed with a new thing in its ideological luggage"—what amounted to a new Constitution.¹ The irony is that at the most basic level (especially as implemented through pure majoritarian democracy), true liberty is incompatible, if not altogether *impossible*, with total equality.² We have since moved away from the principles and practices central to the American political tradition of the Founders—"those associated with self-government by a virtuous people deliberating under God,"³ and we have embraced a contrived "tradition" instead.

Willmoore Kendall and George Carey equate this embrace to the "derailment" of tradition and the loss of self-government:

Our Constitution . . . is clearly *nomocratic* in character, largely concerned, that is, with providing rules and limits for the government through which the people express their will. Since the derailment, however, the Constitution is increasingly viewed from a *teleocratic* perspective, as an instrument designed to fulfill the ends, commitments, or promises of the Declaration.⁴

Yet the original Constitution and Bill of Rights say nothing about equality. Moreover, the "rights" of individuals (life, liberty, property, safety, *pursuit* of happiness) until well after the Civil War Amendments, were understood in their relation to good government

(and rights of the *people*) in the federalist construct.⁵ Indeed, the Declaration did not establish our independence, except as a baker's dozen of new sovereignties! Even then, all thoughtful statesmen knew the endless controversies that must surround the reconciliation of rights and the contradictory values of liberty and equality. That is why the Founders erected a deliberative framework based on a moral foundation, which emphasized the commitment to *self-government*, "to rule the deliberate sense of the community." Article V of the Constitution does, however, give us the only legitimate means of changing our basic commitment: amending the Constitution.⁶

We have amended our Constitution many times, but we have not amended the Preamble, which serves as our finest statement of national purpose. The promise held out is *not* for a perfect union, but for one that is "more perfect." The Framers did not presume to know what a perfect Union is, but they did know something about constituting a "more perfect Union." They did not confuse means with ends. The Preamble does not mention equality, and the omission is no matter of oversight. It may be the most salient instance of the Founders' great wisdom, for the Founders were not utopians. Rather, they told us that a righteous people operating under the forms and processes established by the Constitution will see justice forthcoming.⁷ □

1. Garry Wills, *Lincoln at Gettysburg: The Words That Remade America* (New York: Simon and Schuster, 1992), p. 38.

2. See Erik von Kuehnelt-Leddihn, *Liberty or Equality: The Challenge of our Time* (Front Royal, Va.: Christendom Press, 1993).

3. Willmoore Kendall and George C. Carey, *The Basic Symbols of the American Political Tradition* (Washington, D.C.: The Catholic University of America Press, 1995 [1970]), p. ix; and see Wesley Allen Riddle, *The American Political Tradition* booklet (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, Inc., 1996).

4. Kendall and Carey, p. xxii. See also Michael Oakeshott, *On Human Conduct* (Oxford: Clarendon Press, 1975). The *nomocratic/teleocratic* framework is utilized in similar vein by M.E. Bradford, in *Original Intentions: On the Making and Ratification of the United States Constitution* (Athens, Ga.: University of Georgia Press, 1993).

5. Kendall and Carey, esp. chpt. IV.

6. Kendall and Carey, esp. chpt. V, quote p. 94.

7. Kendall and Carey, esp. chpt. VI, and see VII and VIII.

Atlas Shrugged Revisited: Forty Years of Voicing the Philosophy of Freedom

by Edward W. Younkins

Written in 1957, *Atlas Shrugged* presents a comprehensive statement and detailed illustration of Ayn Rand's original and perceptive philosophical ideas and moral vision. This long, complex novel has sold more than four million copies. Respondents to a joint Library of Congress-Book of the Month Club survey in 1991 hailed the book as second only to the Bible in its significant impact on their lives.

For Rand, the right philosophy is necessary to create the right story. *Atlas Shrugged* embodies Rand's Objectivism and introduces readers to ideas they might not otherwise encounter. Rand uses the story of *Atlas Shrugged* as a vehicle for incarnating her ideas, bringing abstract philosophy to life through character and plot.

A Conflict of Visions: Looters vs. Creators

The story takes place in a slightly modified United States. The country has a "head of state" rather than a president and a "National Legislature" instead of a Congress. The time is ostensibly the not-too-distant future in which American society is crumbling under

the impact of the welfare state and creeping socialism (most other nations have already become Communist "People's States"). The story may be described as simultaneously anachronistic and timeless. The pattern of industrial organization appears to be that of the late 1800s, with large capital-intensive corporations being run and owned by individual entrepreneurs. The mood seems to be close to that of the depression-era 1930s. Both the social customs and level of technical knowledge remind one of the 1950s. The level of government interference and political corruption is similar to that of the 1970s.

The story is an apocalyptic vision of the last stages of a conflict between two classes of humanity—the "looters" and the "non-looters." The looters are proponents of high taxation, big labor, government ownership, government spending, government planning, regulation, and redistribution. They include politicians and their supporters, intellectuals, religious leaders, government bureaucrats, scientists who sell their minds to the bureaucrats, and liberal businessmen who, afraid of honest competition, sell out their initiative, creative powers, and independence for the "security" of government regulation. The non-looters—the thinkers and doers—are the competent and daring individualists who innovate and create new enterprises. These

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prime movers love their work, are dedicated to achievement through their thought and effort, and abhor the forces of collectivism and mediocrity. The battle is thus between non-earners who deal by force and profit through political power and earners who deal by trade and profit through productive ability.

Rand's Entrepreneurial Heroes

The plot is built around several business and industrial executives. The beautiful Dagny Taggart, perhaps the most heroic female protagonist in American fiction, is the operating genius who efficiently runs Taggart Transcontinental Railroad, which was founded by her grandfather. Her brother James, president in title only, is an indecisive, incompetent, liberal businessman who takes all the credit for his sister's achievements. Dagny optimistically and confidently performs Herculean labors to keep the railroad running despite destructive government edicts, her brother's weaknesses, the incompetence of many of her associates, and the silent and inexplicable disappearance of society's competent industrialists, upon whom Dagny depends.

As both society and her railroad are disintegrating, Dagny attempts to rebuild an old Taggart rail line. In the process, she contacts Hank Rearden, a self-made steel tycoon and inventor of an alloy stronger and lighter than steel. Rearden, Dagny's equal in intelligence, determination, and sense of responsibility, becomes her ally and eventually her lover. They struggle to keep the economy running and ultimately discover the secret of the continuing disappearance of the men of ability.

Who Is John Galt?

John Galt, a messiah of free enterprise, is secretly persuading thinkers and doers to vanish mysteriously one after the other—deserting and sometimes sabotaging their factories before they depart. Galt explains how desperately the world needs productive individuals, but how viciously it treats them. The greater a person's productive ability, the

greater are the penalties he endures in the form of regulations, controls, and the expropriation and redistribution of his earned wealth. This evil, however, is only made possible by the "sanction of the victim." By accepting an undeserved guilt—not for their vices but for their virtues—the achievers have acquiesced in the political theft of their minds' products. Galt masterminds his plan to stop the motor of the world by convincing many of the giants of intellect and productivity to refuse to be exploited any longer by the looters and the moochers, to strike by withdrawing their talents from the world by escaping to a secret hideout in the Colorado Rockies, thus leaving the welfare state to destroy itself. The hero-conspirators will then return to lay the groundwork for a healthy new social order based on the principles of laissez-faire capitalism.

Galt, the mysterious physicist who is also a philosopher, teacher, and leader of an intellectual movement, has invented a motor that can convert static electricity into useful but inexpensive kinetic energy. He chooses to keep his invention a secret until it is time for him and the other heroes to reclaim the world.

For two-thirds of the novel, Galt exists only as a plaintive expression—"Who is John Galt?" He has been in hiding, working underground as a laborer in the Taggart Tunnels, while recruiting the strikers.

Other Heroes

One of the key hero-characters is Francisco d'Anconia, aristocrat, copper baron, and former lover of Dagny, who prefers to destroy his mines systematically rather than let them fall into the hands of the looters. Another is Ragnar Danneskjöld, a philosopher turned pirate, who avenges the work of Robin Hood by raiding only public, nonprofit, commerce ships in order to return to the productive what is rightly theirs. The Randian view is that Robin Hood robs from the strong and deserving and gives to the weak and worthless. Robin Hood, the most immoral and contemptible of all human symbols, reflects the idea that need is the source of rights, that

people only have to want—not to produce, and that men have claim to the unearned but not to the earned.

Galt's Gulch

The men of ability fade out of the picture and are labeled traitors and deserters by Dagny and Hank, who remain fighting at their desks. Ironically, because they haven't been told of the conspiracy, Dagny and Hank are even battling their natural allies—the ex-leaders of the business world who have gone on strike.

Dagny pursues one of the deserters by plane to a valley deep in the Rockies, crashes, and accidentally discovers John Galt's headquarters—the Utopian free-enterprise community created by the former business leaders along with several academicians, artists, and artisans. They have set up "Galt's Gulch" (also known as "Mulligan's Valley") as a refuge from the looters and moochers. Dagny is the last hero, except for Hank, to reach Galt's outpost. While there, Dagny listens to the logic of Galt and his associates and falls in love with Galt, who represents all that she holds dear. Inspired by the vision of Rearden, who continues to search for her and battle the looters, she decides to return to a world in a shambles. Dagny and Hank, who represent Everyman, refuse almost to the end to accept Galt's plan and stubbornly fight to save the economy.

Galt's Speech: The Essence of Rand's Worldview

A national broadcast by Mr. Thompson, the Head of the State, is interrupted by Galt who, in a three-hour speech, spells out the tenets of his philosophy. Among his many provocative ideas is the notion that the doctrine of Original Sin, which holds man's nature as his sin, is absurd—a sin that is outside the possibility of choice is outside the realm of morality. The Fall of Adam and Eve was actually a positive event since it enabled man to acquire a mind capable of judging good and evil—man became a rational moral being. Another provocative idea is that both forced and voluntary

altruism are evil. Placing the welfare of others above an individual's own interests is wrong. The desire to give charity, compassion, and pleasure unconditionally to the undeserving is immoral.

Galt explains that reality is objective, absolute, and comprehensible and that man is a rational being who relies upon his reason as his only means to obtain objectively valid knowledge and as his basic tool of survival. The concept of value presupposes an entity capable of acting to attain a goal in the face of an alternative. The one basic alternative in the world is existence versus non-existence. Life makes the concept of "value" meaningful. An organism's life is its standard of value. Whatever furthers its life is good and that which threatens it is evil. It is therefore the nature of a living entity that determines what it ought to do.

Galt identifies man's life as the proper standard of man's value and morality as the principles defining the actions necessary to maintain life as a man. If life as a man is one's purpose, he has the right to live as a rational being. To live, man must think, act, and create the values his life requires. In other words, since a man's life is sustained through thought and action, it follows that the individual must have the right to think and act and to keep the product of his thinking and acting (i.e., the right to life, liberty, and property).

He asserts that since men are creatures who think and act according to principle, a doctrine of rights ensures that an individual's choice to live by those principles is not violated by other human beings. All individuals possess the same rights to freely pursue their own goals. These rights are innate and can be logically derived from man's nature and needs—the state is not involved in the creation of rights and merely exists to protect an individual's natural rights. Since force is the means by which one's rights are violated, it follows that freedom is a fundamental social good. Therefore, it follows that the role of government is to protect man's natural (i.e., basic) rights, through the use of force, but only in retaliation and only against those who initiate its use.

The Melodramatic Climax

Galt follows Dagny back to the world and is captured by the looters. In an attempt to save the crumbling economy, they offer him the position of Economic Dictator, which he promptly refuses. They torture him, but the torture machine breaks down. Then, in a melodramatic confrontation, Galt is rescued by the Utopian entrepreneurs, and the looters are vanquished.

Galt and Dagny return to the valley, rewrite the Constitution, and add a clause stating that Congress shall make no law abridging the freedom of production and trade. At the end of the novel, just before going back to rebuild the world, Galt symbolically traces the sign of the dollar in the air.

A Fully Integrated Novel and Moral Vision

Atlas Shrugged is an abstract, conceptual, symbolic, and powerful novel of ideas that expounds a radically new system of philosophy that challenges many traditional beliefs. Rand, a writer of dazzling virtuosity, presents her ideas with precision and illustrates them in concrete and detailed terms.

The novel combines elements of realism, mystery, adventure, romance, fantasy, and science fiction and is therefore capable of satisfying readers on many separate levels. *Atlas Shrugged* may be read as a philosophical treatise; a dialogue on ethics; an unabashed, original, and insightful defense of capitalism; a political parable denouncing all forms of collectivism; or simply an entertaining, easy-to-read, and absorbing page-turner.

The story is developed in a straightforward, chronological manner. The narrative is interrupted, however, by a great number of speeches and monologues scattered throughout the book as various characters declaim their values. (Galt's speech alone covers 60 pages of the book.) Despite (and for many, because of) this lecturing, most readers have

been drawn by the story and Rand's eloquent flow of provocative ideas.

Rand has written the modern-day equivalent of a fifteenth-century morality play. Her characters represent symbols rather than people, are developed on the level of parable or fable, and are either all good or all bad. She deals entirely in black and white—there are no grays in her world to complicate reality and no ambiguous characters. The author clearly communicates whether a character is a hero or a villain by means of an introductory statement describing the individual's virtues or vices. Rand also tends to use a common allegorical technique by which characters' names are representative of their personalities. In addition, good characters are able, beautiful, brave, and physically and mentally superior. Bad characters are generally mean-spirited, cowardly, envious, and physically unattractive.

A Powerful Voice for Freedom

Atlas Shrugged is encyclopedic in its philosophical, political, economic, and psychological scope. This masterwork of logic has a wonderfully constructed plot and expounds an exhaustive, fully integrated philosophical system. Rand correctly argues that human nature requires freedom. Only when men are free to choose can they be moral. The intellectual basis of capitalism is that the individual is free by his nature, has responsibility to make moral choices, and has certain inviolable rights.

Atlas Shrugged is essential reading. It tells a fascinating story and presents an impressive, interesting, and thought-provoking portrait of businessmen who won't allow politicians to kick them around and thus is as relevant today as when it was written. *Atlas Shrugged* is not simply a novel to be read for entertainment. Nor is it a treatise solely to be read for enlightenment. Ayn Rand's masterpiece makes a most powerful case for liberty and, therefore, should be read, reread, and shared with our friends. □

Private Property and “Social” Justice

by Antony Flew

In the preface to the second volume of his trilogy *Law, Legislation and Liberty*, F.A. Hayek explained how he came to conclude “that the Emperor had no clothes on, that is, that the term ‘social justice’ was entirely empty and meaningless,”¹ and “that the people who habitually employ the phrase simply do not know themselves what they mean by it and, just use it as an assertion that a claim is justified without giving a reason for it.”²

Certainly, as Hayek proceeded painstakingly to show, this cant expression is usually employed quite thoughtlessly. Few if any of those who habitually employ it have even attempted to produce a systematic and consistent rationale for its application. But this is still not adequate to show that it is “entirely empty and meaningless.” For there is in fact sufficient regularity in the actual usage of the expression “social justice” to provide it with a meaning, albeit a meaning that is somewhat vague and variable.

Let us approach the problem of discovering this meaning a little indirectly, by referring first to the fact that Hayek dedicated his most famous work, *The Road to Serfdom*, “to the socialists of all parties.” In his preface to the second edition, which appeared nearly 30 years after the original publication, Hayek declared that he was still prepared to defend all the book’s main conclusions. But he warned against possible misunderstandings

arising from terminological changes: “At the time I wrote socialism meant unambiguously the nationalization of the means of production and the central economic planning which this made possible and necessary.” But since then “socialism has come to mean chiefly the extensive re-distribution of incomes through taxation and the institutions of the welfare state.”³

In the usage of the socialists (or in the United States the liberals) of all parties, who are the chief, if not quite the only employers of the expression “social justice” it, and what for many is apparently the equivalent expression “equality and social justice,” can be most illuminatingly defined as referring to what they themselves see as the ideal eventual distribution of goods and services of all kinds; an eventual redistribution which is to be achieved primarily by “the extensive re-distribution of incomes through taxation and the institutions of the welfare state.”

Hayek in his discussion of the expression “social justice” was also wrong to maintain that those who use it “just use it as an assertion that a claim is justified without giving a reason for it.” For anyone asserting that some policy is required by a kind of justice is in fact giving what—if but only if their assertion were true—would constitute the best of reasons. The truth, however, is that social justice as customarily conceived is precisely not a kind of justice.

On the contrary, such “social” justice es-

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entially involves what, by the standards of old-fashioned, without-prefix-or-suffix justice must constitute a paradigm case of flagrant injustice: namely, the abstraction under the threat of force (the taxing away) of some of what must be defeasibly presumed to be the justly acquired income and capital of the better off in order to give it (less, of course, some often substantial service charge) to those whom previous just acquisitions or lack of just acquisitions have left worse off. The tacit and even sometimes explicit identification of justice with equality is equally erroneous. For the rules of justice, like all rules, require not that all individuals, but only that all relevantly like individuals, should be treated in the same way. Who, for instance, would recognize a system which insisted that the guilty should be treated in exactly the same way as the innocent as a system of *justice*?

Most of those professing concern to promote what they call social justice conceal from themselves the force, indeed even the possibility of such objections, by tacitly assuming that the sum of all the incomes received and all the wealth owned within some nation is already the collective property of that nation. Hence it is available, free of all morally legitimate prior ownership claims, for redistribution at the absolute discretion of (socially) just redistributors.

Rawls and Social Justice

A remarkable example of the making of this assumption was provided by John Rawls in *A Theory of Justice*. This book has had more influence on, and has been more widely cited by, sociologists, economists, judges, and politicians than any other philosophical work of the present century.

Although Rawls entitled his 607-page book *A Theory of Justice*, he revealed as early as page seven that his true subject was "that of social justice." Yet at no stage does he attempt to show how, if at all, this is supposed to be related to justice as traditionally understood. He pays no attention to the warning about the need for definition which Socrates is scripted to give in the final sentence of the

first Book of Plato's treatise on justice. "For if I do not know what justice is I am scarcely likely to find out whether its possessor is happy or unhappy."⁴ Indeed it is only on his 579th page that Rawls explains that he was eager "to leave questions of meaning and definition aside and get on with the task of developing a substantive theory [not of social justice but] of justice."

The fundamental principles of what Rawls calls social justice are derived from a hypothetical social contract. Although he claims that "Throughout the choice between a private-property economy and socialism is left open . . ."⁵ the hypothetical contracting parties who "in the original position" are to make the hypothetical social contract nevertheless have to take for granted the ultimately collective ownership of all wealth and income. "For simplicity," rather than for any more substantial and compelling reason, they are required to "assume that the chief primary goods *at the disposition of society* are rights and liberties, powers and opportunities, *income and wealth*."⁶ They are to assume, that is to say, that income and wealth are "at the disposition of" that hypostatized collectivity "society"; altogether uninhibited, it seems, by any morally legitimate prior property claims.

In what is presented as a theory of justice readers ought to have been astonished to discover this assumption of the collective ownership of all wealth and income. But they should have then been utterly flabbergasted to find that, in explaining "The Main Idea of the Theory," Rawls asserts that "Once we decide to look for a conception of justice that nullifies the accidents of natural endowment and the contingencies of social circumstance as counters in the quest for political and economic advantage, we are led to these principles. *They express the result of leaving aside those aspects of the social world that seem arbitrary from a moral point of view.*"⁷

The preposterousness is to present this as a first and necessary step toward developing a particular conception of justice. For doing justice has traditionally been defined as rendering to each their due. The version of Ulpian's definition employed in the *Institutes of Justinian* is inscribed on a wall of the library

of the Harvard Law School: "To live honourably, not to injure another, to render to each his due." The expression "his due" or, better, "their due," is here naturally construed as referring to the several deserts and entitlements of different individuals, the deserts primarily under the criminal and the entitlements under the civil law.

Certainly, if all possible grounds for any differences in deserts and entitlements are thus to be dismissed as morally irrelevant, then indeed—always allowing that anyone is still to deserve or to be entitled to anything at all—it does become obvious that everyone's deserts and entitlements must be equal. Yet it is precisely and only upon what individuals severally and individually are, and have done or failed to do, that all their several and surely often very unequal particular deserts and entitlements cannot but be based. It is, therefore, bizarre superciliously to dismiss all this as irrelevant: as merely "the accidents of natural endowment and the contingencies of social circumstance."

The objection that "social" justice is not a kind of justice is often countered either by urging that the world would be a better place if the distribution of income and wealth were different from what it actually is or by protesting that this objection is at best trivially verbal. It is easy to agree with the first of these contentions. In my personal ideal world, for instance, successful pop stars would not be voted to become millionaires by the purchases made by teenage children. But this is simply irrelevant. For it is one thing to *justify* a situation, that is, to show it to be desirable or excusable or in some other way preferable to the available alternatives, but it is quite another thing to *justicize* it, that is, to show it to be not just "socially" just but plain old-fashioned, just.

To appreciate that and why the issue is most emphatically not trivially verbal it is sufficient to ask and answer the question of why people are so keen to maintain that their actions or policies are indeed (socially) just. It is of course because they want to arrogate to these

actions or policies the psychological associations which are presently linked with, and the logical implications which are presently carried by, employments of the word "just." Very understandably they want thus to see themselves and to be seen by others as occupying the moral high ground, and they want to see their opponents as *ex officio* callous, selfish, and immoral.

Perhaps even more importantly, though this is rarely recognized, those who share the socialist ideals of "social" justice need to equip themselves with what, if only it were true, would constitute a decisive answer to an otherwise properly embarrassing question: By what right are you proposing to deploy the forceful machinery of the state in order to impose upon all concerned your own personal or party vision of an ideal society? For justice is precisely not an expression of individual or group preferences, not such an individual or party vision of an ideal society. To appeal to justice is to appeal to a standard logically independent of all individual and collective interests or preferences. That is why everyone has to allow that what is prescribed by (moral) justice may properly, though not always prudently, be enforced by (legal) law. This point was put most decisively by Adam Smith in the penultimate paragraph of chapter one of Section II of Part II of his other masterpiece, *The Theory of Moral Sentiments*:

The man who barely abstains from violating either the person, or the estate, or the reputation of his neighbours, has, surely, little positive merit. He fulfills, however, all the rules of what is peculiarly called justice, and does everything which his equals can with propriety force him to do, or which they can punish him for not doing. □

1. F. A. Hayek, *The Mirage of Social Justice* (London: Routledge and Kegan Paul, 1976), p. xi.

2. *Ibid.*, p. xi.

3. F. A. Hayek, *The Road to Serfdom* (London: Routledge and Kegan Paul, Second Edition 1976), p. viii.

4. *The Republic*, S 354C.

5. John Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1971), p. 258.

6. *Ibid.*, p. 62: emphasis added.

7. *Ibid.*, p. 15: emphasis added.

Free-Born John Lilburne, Mighty Martyr for Liberty

by Jim Powell

Liberty doesn't just happen. Somebody must express a compelling vision of liberty and make it happen.

In many respects, the greatest pioneer was John Lilburne, who, in more than 80 pamphlets written during the mid-seventeenth century, attacked intolerance, taxes, censorship, trade restrictions, and military conscription. He championed private property, free trade, freedom of association, freedom of religion, freedom of speech, freedom of the press, a rule of law, a separation of powers, and a written constitution to limit government power. Lilburne helped bring these dynamic ideas together for the first time in human history.

Moreover, he risked death to put them into action. Lilburne was the first person to challenge the legitimacy of the Star Chamber, the English royal court that had become a notorious instrument for suppressing dissent. He was the first to challenge Parliament's prerogative as a law court for imprisoning adversaries. He was the first to challenge the prosecution tactic of extracting confessions until defendants incriminated themselves. He challenged the standard practice of imprisoning people without filing formal

charges. He challenged judges who tried to intimidate juries. Four times he faced the death penalty. He endured brutal beatings. He was imprisoned most of his adult life.

"I walk not, nor act, from accidents," Lilburne told a friend, "but from principles, and being thoroughly persuaded in my own soul they are just, righteous and honest, I will by God's goodness never depart from them, though I perish in maintaining them."

Dubbed a "Leveller" by his adversaries, he won the hearts of people and helped discredit the kinds of criminal justice proceedings that were a bulwark of oppression. "While others supported civil liberties to gain their own freedom and denied it to their enemies," wrote historian Leonard W. Levy, "Lilburne grew more and more consistent in his devotion to the fundamentals of liberty, and he was an incandescent advocate . . . he sacrificed everything in order to be free to attack injustice from any source. . . . His entire career was a precedent for freedom."

Lilburne looked like an ordinary man. Biographer M.A. Gibb described Lilburne, in his early twenties, as "slightly built, with a delicacy of appearance which renders his powers of physical endurance the more remarkable. Plainly dressed, after the fashion of the Puritans, he wore his hair to the shoulder and was beardless; his long, oval face, with its high forehead, luminous, earnest eyes, and often melancholy expression, indicated the depth of the fanaticism which could fire his

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spirit, while the resolute mouth showed strength of purpose and courage to fulfil his aims."

As Levy acknowledged, "Such men as Lilburne who make civil disobedience a way of life are admirable but quite impossible. He was far too demanding and uncompromising, never yielding an inch to his ideals. He was ostreperous, fearless, indomitable, and cantankerous, one of the most flinty, contentious men who ever lived. . . . No one in England could outtalk him, no one was a greater political pamphleteer. . . . Had Lilburne been the creation of some novelist's imagination, one might scoff at so far-fetched a character. He was, or became, a radical in everything—in religion, in politics, in economics, in social reform, in criminal justice."

Beginnings

John Lilburne was born in Greenwich, England, sometime in 1614 or 1615. His parents, Richard and Margaret Lilburne, were minor officials in the royal court. Margaret died when John was a small child and Richard moved to a country property in East Thickley, County Palatine. A rather reckless man, he made history in 1636 as one of the last Englishmen to try resolving a lawsuit through trial by battle rather than trial by jury.

John attended schools at Auckland and Newcastle, where he learned Greek and Latin. His formal education was over by age 15. He decided to pursue a career in the prosperous wool trade and went to London. For five years he served as an apprentice at a wool warehouse. He used what little extra money he had on Protestant literature: "I had spare time enough," he recalled, "yet I never mispent it, but continually spent it in reading the Bible, the Book of Martyrs, Luther's, Calvin's."

A fervent Anabaptist, Lilburne rebelled against the orthodoxy and corruption of the Church of England. The Church maintained a clerical hierarchy of bishops, priests, and deacons. Bishop of London William Laud spearheaded efforts to crush Protestant dissenters. In 1624, the King issued a proclamation making it illegal to publish or import a

book without a license from the Bishop of London or the Vice-Chancellor of Oxford or Cambridge. Licensed printers, who belonged to the Stationers Company guild, helped enforce the law against unlicensed competitors.

The proclamation didn't prevent courageous printers from issuing pamphlets challenging established authority, and Lilburne became friends with many of these dissidents. He visited the Gatehouse, where Presbyterian Dr. John Bastwick was imprisoned for writings that denounced the Church of England bishops. Bastwick subsequently had his ears cut off.

Through Dr. Bastwick, Lilburne met William Prynne, the fanatical London Presbyterian lawyer who had published many bold attacks on the Church of England. Prynne was fined, disbarred as a lawyer, condemned to life imprisonment in the Tower of London, his ears were hacked off, and his cheeks were branded with the initials "SL" (for seditious libeler). Imprisonment, furthermore, meant a financial drain, since prisoners had to pay the cost of their upkeep.

The government considered Lilburne a potential troublemaker for visiting imprisoned dissidents. In 1637, he left England and went to Holland, where free presses flourished. He seems to have spent his savings, perhaps about 50 pounds, on printing and distributing unlicensed pamphlets. He began with *Letany* by Dr. Bastwick. Lilburne, however, was betrayed by one of his collaborators, a London button seller. The English government seized the shipment of Dr. Bastwick's pamphlets, and Lilburne was arrested after he returned to London in December 1637.

Lilburne versus the Star Chamber

Lilburne was imprisoned in the Gatehouse, and his case came before the Star Chamber. It stood apart from the common law courts, and proceedings were based on interrogating defendants. Those who incriminated themselves were declared guilty and imprisoned. "It was a court of politicians enforcing a policy, not a court of judges administering a

law," wrote constitutional historian F.W. Maitland.

Lilburne was grilled about his trip to Holland and his knowledge of unlicensed Puritan pamphlets. Although he was only in his early twenties, he mounted an unprecedented challenge to the legitimacy of royal prerogative courts: "I know it is warrantable by the law of God, and I think by the law of the land, that I may stand upon my just defense, and not answer to your interrogatory, and that my accusers ought to be brought face to face, to justify what they accuse me of."

Lilburne attacked the Star Chamber because he had never been served with a *sub poena*, and no bill accused him of any crime. He wouldn't pay the court clerk's fee. He refused to take the *ex officio* oath promising to answer all questions. The Star Chamber fined Lilburne £500 and ordered that he be tied to a cart and whipped as it moved slowly from Fleet prison to Westminster Palace Yard—two miles. Every few steps, he recalled, his bare back was lashed with a whip made from "two or three cords tied full of knots." Altogether he was lashed some 200 times. The doctor who treated Lilburne reported that "the weals in his back, made by his cruel whipping, were bigger than tobacco pipes."

Then Lilburne was put in a pillory where, officials hoped, he would be humiliated. But he harangued all who would listen with attacks on the government and the Church of England. He was subsequently gagged, one woman reported, "with such cruelty that he caused his mouth to bleed." After several hours in the hot sun—having already been whipped for two miles—Lilburne was taken back to Fleet prison and chained in a cold, damp, dark cell for four months.

When the "Long Parliament" convened on November 4, 1640, a little-known country gentleman named Oliver Cromwell, who represented Cambridge, defended Lilburne in his first speech. Cromwell declared that Lilburne's Star Chamber sentence was "illegal and against the liberty of the subject." Soon he was released. Parliament passed bills abolishing the Star Chamber, and the king reluctantly agreed on July 5, 1641. Among other things, the bills made it a criminal offense for a

government official to force a defendant to take "any corporal oath, whereby he or she shall or may be charged or obliged to make any presentment of any crime or offense, or to confess or to accuse him or herself of any crime, offense, delinquency or misdemeanour, or any neglect or thing whereby, or by reason whereof, he or she shall or may be liable or exposed to any censure, pain, penalty or punishment whatsoever."

Lilburne tried to resume his private life. He married Elizabeth Dewell, who was to provide steadfast support during his subsequent imprisonments and to raise four children on little money. Despite his apprenticeship as a clothier, the Merchant Adventurers guild, which monopolized its trade as other guilds monopolized their trades, excluded him because he didn't have enough capital. His uncle suggested that he help run a brewery, and that's what he did.

Coke's *Institutes*

Lilburne spent his spare time studying philosophy and law. In 1642, the second part of jurist Edward Coke's *Institutes* was published, and Lilburne soon got a copy. Coke (1552-1634) had championed common law over arbitrary royal edicts. With common law, local judges made decisions case by case, from which evolved general rules. They tended to be applied more predictably than statutes. The first part of Coke's *Institutes* (1628) had commented on another jurist's work and wasn't of much use to Lilburne, but the second part offered learned commentary on statutes from the Magna Carta through the reign of King James I, who died in 1625. Most law books were in French, but Coke wrote in English and made common law a fighting creed. From Coke Lilburne gained inspiration—Coke, too, had been imprisoned for his views—and gathered legal precedents which, buttressed with material from the Biblical Old Testament, Psalms, and Apocalyptic writings, became the basis for his self-defense against tyrants.

He was soon drawn back into the epic struggle between king and Parliament. Parliament, enjoying the support of merchants

and traders, controlled money the spendthrift king desperately needed. In 1642, Lilburne was commissioned a captain in the Parliamentary Army, but he was captured in Brentford and imprisoned at Oxford Castle. Royalists offered him a pardon if he would recant his principles, but he refused. He was charged with treason and sentenced to death. Lilburne's wife, Elizabeth, addressed the House of Commons and persuaded Members to retaliate by executing captured royalists if any Parliamentary loyalists like Lilburne were executed. The result was a prisoner exchange that gave Lilburne his freedom.

He returned to the Parliamentary army with mixed feelings, because he disapproved of the Scottish government enforcing the Scottish National Covenant on everybody there. The Covenant called for loyalty to the king, loyalty to Calvinist theology, and a commitment to suppress religious dissidents. Chronic wrangling among military officers further undermined his commitment to the Parliamentary cause, and when Lieutenant-General Oliver Cromwell ordered that everybody in his New Model Army subscribe to the Covenant, Lilburne quit. He declared that he would "dig for carrots and turnips before he would fight to set up a power to make himself a slave."

Lilburne was influenced by the poet John Milton, who had been charged with violating Parliament's June 1643 law requiring that prior to publication written work must be licensed by a government censor and registered with the Stationers Company. Ordered to defend himself before Parliament, Milton gave a speech that became the famous pamphlet *Areopagitica* (1644). Borrowing from pamphlet attacks on monopolies, Milton maintained that truth tends to prevail when markets are open and the press is free.

In January 1645, Lilburne exploded with rage at the injustices he suffered, and he wrote *A Copy of a Letter*. It was a challenge to Puritan William Prynne, who, having suffered from intolerance by King Charles and Bishop Laud, extended intolerance to others. Lilburne talked about how the king and bishop unjustly imprisoned him, how the Puritans enforced the Covenant that further

restricted his freedom of religion, how the Stationers Company restricted his freedom of speech, how the Merchant Adventurers denied his right to work. "To persecute for conscience," Lilburne declared, "is not of nor from God, but of and from the divell and Anti-Christ."

During a raid authorized by Parliament, officials found a printing press alleged to have produced Lilburne's offending pamphlet. About this time, one of Lilburne's eyes was poked out by a pike—circumstances unknown—and Parliament, apparently feeling he had suffered enough, dropped the matter.

In April 1645, Lilburne became acquainted with John Goodwin, vicar of St. Stephen's Church on Coleman Street, London. He was among the Independents, a group that had perhaps one-tenth the following of the Presbyterians. Independents generally favored religious toleration for everyone except Catholics. Oliver Cromwell, John Milton, and many other talented people were Independents. Unlike the Presbyterians, who wanted to replace the Church of England ecclesiastical hierarchy with their own, Goodwin believed each congregation should govern itself. Lilburne shared some Independent views, writing in the pamphlet *Rash Oaths Unwarrantable* that God had appointed Jesus as the only lawgiver for His Church, and therefore human lawgivers (ecclesiastical officials) were anti-Christian. This comes close to advocating a separation between church and state.

Walwyn and Overton

Goodwin attracted a number of other notable dissidents to his "Coleman Street enclave" where they discussed issues and refined their views. Among those attending was William Walwyn, a merchant in his mid-forties who, while he wrote some pamphlets, spent considerable time encouraging bright people to embrace reason and toleration.

The keenest thinker and best writer in the group was Richard Overton, who spent some years in tolerant Holland. There he embraced the General Baptist Church, which emphasized that God's will was revealed directly to individuals. He returned to England before

1641 and became an unlicensed printer. He demanded religious toleration. He published some of Lilburne's pamphlets, and he wrote his own. Overton based his thinking more on fundamental principles than Lilburne who filled his pamphlets with common law precedents. Overton—who also wrote satire—sometimes displayed a wicked wit. Soon Lilburne was embroiled in controversy again. On July 19, 1645, the Presbyterian Dr. John Bastwick claimed Lilburne had publicly criticized William Lenthall, Speaker of the House of Commons, and Lilburne was again imprisoned. But by this time Lilburne knew that nothing inspired people as much as somebody who was willing to stand up fearlessly for his ideals. Summoned before the Committee on Examination, he refused to answer questions and demanded to know the charges against him. "I am a free-man," he insisted, "yea a free-borne denizen of England, and I have been in the field with my sword in my hand, to adventure my life and my blood against tyrants for the preservation of my freedom, and I do not know that ever I did an act in all my life that disenfranchised me of my freedom, and by virtue of my being a free man, I conceive, I have as true a right to all the privileges that do belong to a free man as the greatest man in England, whatsoever he be, whether Lord or Commoner, and the ground and foundation of my freedom I build upon the Grand Charter of England." The Committee on Examination ordered him back to Newgate prison.

On August 9, he was again summoned before the Committee on Examination, this time to answer questions about *A Copy of a Letter . . . to a Friend*, an inflammatory pamphlet which he had allegedly written in prison. Again, he refused to answer questions and demanded to know the charges against him. The Committee ordered that he be imprisoned in case it should later be proven that he wrote the pamphlet. William Walwyn organized protests and presented a petition with more than 2,000 signatures to the House of Commons.

Lilburne had come to stand for the rights of all English people. As one anonymous pamphleteer wrote in *England's Misery and Rem-*

edy (1645): "Lilburne's case is singular, that a member of the body represented, a free-born subject . . . that such a subject, contrary to the tenor of Magna Carta, contrary to the late Covenant and Petition of Right . . . should be three times imprisoned without showing cause, by a Parliament professing reformation and defense of our laws and liberties, and without any urgent or apparent necessity of state enforcing it. . . . I need not say how much the public liberty is wounded in the injury doubled and trebled upon their fellow man."

England's Birthright Justified

In Newgate prison, Lilburne wrote *England's Birthright Justified against all arbitrary usurpations, whether Regall or Parliamentary or under what Vizer soever* (1645). Lilburne opposed the arbitrary power of Parliament by appealing to the "declared, unrepealed Law" of liberty and justice. "It is the greatest hazard that can be run into," he wrote, "to disart the onely known and declared Rule; the laying aside whereof brings in nothing but Will and Power, lust and strength." He maintained that England's fundamental laws should "be in English . . . that so every Free-man may reade it as well as Lawyers." He insisted that a trial would be proper only when formal charges are filed, when they refer to known laws, and when the defendant can confront the accuser and have an adequate opportunity to present a defense.

Lilburne went on to denounce government-granted special privileges. He attacked the government-granted monopoly on preaching. Lilburne spoke out for free trade as he attacked government-granted business monopolies like the Merchant Adventurers guild, which barred competitors from the woollen business. He declared that such monopolies were "contrary to the law of Nature, the law of Nations, and the lawes of this Kingdome."

Moreover, Lilburne wrote that the "Third Monopoly is that insufferable, unjust and tyrannical Monopoly of Printing," which Parliament granted to the Stationers Company. It "suppresse every thing which hath any true Declaration of the just Rights and Liberties of

the free-borne people of this Nation." Book publishing, he maintained, "should be like a cryed Faire, and each one free to make the best use of their Ware."

Lilburne observed that the longer politicians remain in Parliament, the more corrupt they become: holding office "breeds nothing but factions and base cowardlinesse, yea and sowing up of mens lips, that they dare not speak freely for the Commonwealth, nor displease such and such a faction, for feare of being Voted and thrust out of their unfit to be enjoyed Offices." Lilburne called for annual Parliamentary elections and universal male suffrage: "Ought not the free-men of England, who have laboured in these destroying times both to preserve the Parliament and their own native Freedoms and Birthrights, not only to choose new members, where they are wanting once every year, but also to renew and inquire once a year after the carriage of those they have chosen." He urged people to do as much as they could to remedy wrongs through constitutional action, but he implied if this failed, people have a right to rebel.

Lilburne's pamphlet stirred debate. *England's Lamentable Slaverie* (1645), an anonymous pamphlet attributed to William Walwyn, saluted Lilburne's courage but said that his case depended too much on Magna Carta. Walwyn wrote that the right to resist unjust imprisonment stemmed from "reason, sense and the Common Law of equity and justice." Walwyn pushed further toward a natural rights vision, saying "That liberty and privilege which you claim is as due to you as the very air you breathe."

Summoned to court in October 1645, Lilburne was told there weren't any charges against him. He petitioned the Lord Mayor for his liberty and was released October 14. He petitioned Parliament to be compensated for his unjust imprisonment but got nowhere—further undermining his faith in Parliament.

The Freeman's Freedom Vindicated

In early June 1646, he wrote *The Just Man's Justification*, which spelled out his grievances

against the House of Lords. On June 11, he was summoned to appear before the House of Lords and asked if he knew about this latest seditious pamphlet. He countered by demanding to know what, if any, charges were filed against him. The House of Lords committed him to Newgate prison, where he wrote another pamphlet, *The Freeman's Freedom Vindicated*. He defied "my Lords, you being, as you are called, Peers, merely made by prerogative, and never intrusted or impowered by the Commons of England."

The House of Lords ordered the Keeper of Newgate to deliver Lilburne for another interrogation, but he issued a defiant letter to the Keeper: "Sir, I am a freeman of England, and therefore am not to be used as a slave or vassal by the Lords, which they have already done, and would further do. . . . Take this for an answer, that I cannot without being traitor to my liberties dance attendance at their Lordship's bar." When the Keeper refused to let Elizabeth Lilburne visit him, he defied officials to cut out his tongue and sew up his mouth, and he threatened to set the House of Lords afire. He was put in solitary confinement, and there were renewed efforts to prevent him from getting pen and paper.

Back before the House of Lords, Lilburne refused to show traditional respect by kneeling—he insisted he would kneel only to his God. He lashed out at the Lords and was fined £2,000 and sentenced to solitary confinement in the Tower of London.

Lilburne's friends again rallied to his defense. Elizabeth Lilburne organized groups of women who visited the House of Commons to offer her husband's petition for justice. *A Pearl in a Dunghill* (June 1646), a pamphlet variously attributed to William Walwyn or Richard Overton, reviewed Lilburne's ordeals and expressed outrage "that free commoners, who by the laws of the land are not to be adjudged of life, limb, liberty, or estate, but by commoners, should at the pleasure of the Lords be liable to their summons and attachment by pursuivants, to their oath *ex officio*, to their examination in criminal causes, to self accusing, and to imprisonment during their pleasures, the chosen Commons of England, the

supreme power, standing by like a cipher, as unconcerned, mere lookers-on."

In July 1646, Overton affirmed the sovereignty of the people when he wrote *A Remonstrance of many thousand citizens and other free-born People of England to their own House of Commons*, illustrated with an engraving of Lilburne behind bars. He underscored Lilburne's call for freedom of religion, freedom of the press and annual Parliamentary elections. Overton followed this pamphlet in August with *An Alarum to the House of Lords*, which escalated the protest. Lilburne, he wrote, "hath got a good cause, and all good people (that desire not to live by the oppression of others) on his side." Overton's authorship of this second pamphlet was discovered, and he too was arrested and dispatched to Newgate prison.

Parliament continued to hold Lilburne and Overton in prison, even though King Charles had fled to Scotland in June 1646, and the royalist stronghold of Oxford had surrendered, ending the first English Civil War. Many people felt they had been betrayed by Parliamentary forces, which supposedly fought for freedom. Lilburne remained as resolute as ever: "If I be called a state heretic, I answer for myself that the Parliament's own declarations hath made me so, and if I be deluded and deceived, they are the men who have done it." As historian G.P. Gooch noted, "By its injudicious treatment of the most popular man in England, Parliament was arraying against itself a force which only awaited an opportunity to sweep it away."

In his pamphlet *London's Liberty in Chains* (October 1646), Lilburne emphasized that the basis of legitimacy is consent: "The Omnipotent God, creating Man in his own Image (which principally consisted in his reason and understanding) . . . made him Lord over the earth. . . . But made him not Lord, or gave him dominion over the individuals of mankind no further than by free consent, or agreement."

Lilburne became convinced that Parliament betrayed liberty, and he appealed to ordinary people and the Army rank-and-file. In *The Oppressed Mans Oppressions* (January 1647), he wrote: "Tyrannie is tyrannie, exercised by whom soever; yea, though it be by

members of Parliament, as well as by the King, and they themselves have taught us by their Declarations and practises, that tyrannie is resistable . . . what is tyrannie, but to admit no rule to govern by, but their own wils?"

The Levellers gained so much influence in the New Model Army that the Presbyterians who controlled Parliament decided they should try to disband the Army. They passed bills dismissing soldiers without much compensation for their service. Consequently, there was seething discontent, and Lilburne and Overton helped rally the soldiers. A petition, titled *To the Right Honble. and Supreme Authority of this nation, the Commons in Parliament Assembled*, was presented to Parliament. "We still find the nation oppressed with grievances of the same destructive nature as formerly, though under other notions," it asserted. It called for religious freedom, freedom of speech, free trade, and a rule of law.

The Agreement of the People

Meanwhile, Lilburne's ideas inspired Army radicals to draft the *Agreement of the People*, for a firme and present Peace, upon grounds of Common-Right. The forerunner of modern constitutions, it made clear that sovereignty rested with the people. It called for dissolving the Long Parliament and holding Parliamentary elections every two years. It specified that representation should be proportional to population. It provided freedom of religion. It barred military conscription. It envisioned a rule of law: "That in all Laws made, or to be made, every person may be bound alike, and that no Tenure, Estate, Charter, Degree, Birth or place, do confer any exemption from the ordinary Course of Legall proceedings, whereunto others are subjected."

The *Agreement of the People* was the issue at the "Army debates" in Putney on October 28 and 29, 1647, where ordinary people discussed the future of their country.

The Army debates seemed to favor radical ideas, a threat to the harsh discipline that was a secret of Cromwell's military success. He ordered his loyal armed forces to intimidate the radicals, and he conducted a court martial for most stubborn opponents. The *Agreement*

of the People was history, but it was a landmark for liberty. Nowhere else in Europe had there been such a serious effort to resolve fundamental issues through discussion.

Lilburne, granted time away from prison while still serving a term, began organizing the first political party. His supporters identified themselves publicly by wearing sea-green ribbons. As House of Lords informer George Masterson reported, Lilburne's agents went "out into every city, town and parish (if they could possibly), of every county of the kingdom, to inform the people of their liberties and privileges, and not only to get their hands to the Petition." Lilburne raised money, held rallies, responded to adversaries. "We must own some visible authority for the present," Masterson quoted Lilburne as saying, "or else we shall be brought to ruin and confusion, but when we have raised up the spirits of the people through the whole kingdom . . . we shall force them to grant us the things we desire."

Imprisoned Again

In January 1648, as a result of Masterson's tips, Parliament ordered Lilburne to stand trial for sedition and treason—and he was again imprisoned. He wouldn't stop talking. "I fell of preaching law and justice out of Sir Edward Coke's *Institutes* (then in my hands), and the Parliament's own declarations, to the soldiers that guarded the House, telling them that they were raised to fight to preserve the liberties and freedoms of England, but not to destroy them, which they must of necessity do if they laid violent hands upon me to force me to prison upon the House's illegal warrant, and in making me a slave they subjected themselves to slavery." The soldiers fell under his spell and had to be replaced with tough Puritan recruits. Lilburne reported that he was saved when his wife defiantly stood between him and soldiers brandishing their swords.

Cromwell faced the prospect of renewed civil war. There wasn't any settlement with King Charles I. Scottish forces seemed likely to cross into England at any moment. The English navy vowed its loyalty to the king and

moved to blockade London. Accordingly, the House of Commons needed support from the Levellers, who had presented petitions with over 8,000 signatures demanding Lilburne's release. On April 18, 1648, it voted to drop charges against Lilburne. The next day, the House of Lords concurred. Parliament further voted Lilburne £3,000 as compensation for his suffering in prison ever since the Star Chamber proceedings—but Lilburne refused to accept any taxpayer money.

By November, Cromwell had crushed the king's forces, and many in the Army wanted to execute the king. But Lilburne declared that liberty depended on a balance of power: "I look upon the King as an evil man in his actions, and divers of his party as bad: but the Army has cozened us in the last year; and fallen from all their promises and declarations, and therefore could not rationally any more be trusted by us without good cautions and security . . . and the Parliament as bad as they could make them; yet there being no other balancing power in the Kingdom against the Army but the King and Parliament, it was to our interest to keep up one tyrant to balance another."

It became apparent that Army officers might prevail, and Lilburne met with Commissary-General Henry Iverson about a commitment to Leveller principles. But they raised objections, especially to religious toleration and representative government. While Lilburne was hoping to resolve constitutional issues, Army officers grabbed power. On December 6, Colonel Thomas Pride forcibly prevented 240 Presbyterian Members of Parliament from entering the House of Commons, thereby purging opponents of the Army. As pressure mounted to hold a special trial for King Charles and execute him, Lilburne countered that such a trial would be a treacherous step backward away from a rule of law, and that there wouldn't be anyone left to limit the power of the Army. The king was beheaded on January 30, 1649. Cromwell hailed this as an event "which Christians in after times will mention with honor."

Lilburne proved to be more perceptive than John Milton, who had rushed into print with a pamphlet defending the execution. Milton

put all his confidence in Cromwell, whom he referred to as "our chief of men," and he worked as a government secretary in Cromwell's emerging dictatorship.

Lilburne picked up his pen again. In *Englands New Chains* (February 1649), he lamented, "where is that liberty so much pretended, so dearly purchased?" He attacked the purged "Rump" Parliament—which consisted of 60 or 70 Members—for bypassing trial by jury, interrogating a Member about his religion, passing a law to conscript seamen, imprison people for debt, and enforce restrictions on printing. He renewed his call for ending religious tithes, government-granted monopolies, and restrictions on printing.

"John o' the Tower"

In March, Army officers dispatched about a hundred soldiers to seize Lilburne in his room at Winchester House. He, along with Richard Overton, William Walwyn, and Thomas Prince, were taken to Parliament and summoned before Oliver Cromwell's Council of State, which demanded to know if he was the author of *Englands New Chains*. He refused to cooperate, protesting that the officials were reviving high-handed practices from the Star Chamber. Then he told the crowd gathered outside what was going on. Cromwell, frustrated by the intransigence of these Levellers, reportedly thundered: "I tel you, Sir, you have no other Way to deale with these men, but to break them in pieces . . . if you do not break them, they will break you!" Accused of treason, they were sentenced to the Tower of London.

Levellers circulated petitions for "honest John o' the Tower," signed by some 40,000 people. They held rallies where people displayed their sea-green ribbons. People sang about "the bonny Besses in the sea-green dresses." Cromwell told his Council of Officers: "I thinke there is more cause of danger from disunion amongst ourselves than by any thinge from our enemies."

Lilburne, Overton, Walwyn, and Prince issued a new *Agreement of the People*, which elaborated on their libertarian views. When

Cromwell heard about it, he reportedly fumed that "the Kingdome could never be settled so long as Lilburne was alive, and that either he would stop his mouth or burst his Gall, rather than run the hazard of such discontents and mutinies as are dayly contracted in the Army by meanes of his Seditious scribbling."

In France and Scotland, royalists recognized the late King Charles's son Charles as the legitimate successor, and there were reports that royalist forces were assembling in Ireland. Accordingly, Cromwell planned a military campaign to subdue Ireland, which had been revolting against English rule since 1641. But Levellers resisted. They gained much support among soldiers who hadn't been paid for their previous campaigns.

Soldiers plotted revolt in Salisbury, Banbury, Aylesbury, Oxford, Lancaster, Plymouth, Bristol, Carlisle, Windsor, Derbyshire, and Yorkshire. Cromwell captured hundreds of rebels and hauled the ringleaders before firing squads. Twenty-three-year old Robert Lockier led about 60 men to seize the regimental colors and lock themselves inside London's Bull Inn until their claims were satisfied. Cromwell captured him and ordered him shot, and the Levellers gave him a farewell fit for a general—more than a thousand soldiers in his funeral procession, his coffin covered with sprigs of rosemary dipped in blood. Four regiments rebelled, and Leveller agitation threatened a widespread mutiny, but Cromwell struck fast, crushing the Levellers at Burford in May 1649.

Cromwell promoted a holy war against Ireland. When he learned that Protestant royalists were based in Drogheda and Wexford, on Ireland's east coast, Cromwell ordered a massacre that Irish rebels would never forget. "The Enemy were about 3000 strong in the Town," he reported after storming Drogheda. "I believe we put to the sword the whole number of the defendants . . . ordered by me to put them all to the sword. . . . I am persuaded this is a righteous judgment of God upon these barbarous wretches. . . ." After slaughtering everybody in Wexford, Cromwell suggested that the town was fair game for English settlers. Cromwell transferred title for vast Irish lands to English

owners. Historian George Macaulay Trevelyan observed: "In Ireland as Oliver left it and as it long remained, the persecuted priests were the only leaders of the people because the English had destroyed the class of native gentry. The Cromwellian settlement rendered the Irish for centuries the most priest-led population in Europe."

As Lilburne's two sons were dying of smallpox, he issued another pamphlet from the Tower of London, *The Legal Fundamentall Liberties* (June 1649). It attacked Army officers for ruling "over us arbitrarily, without declared Laws, as a conquered people. . . . And besides . . . we would not trust their bare words in generall onely, for they had broke their promise once already, both with us and the Kingdom; and he that would break once, would make no conscience of breaking twice, if it served his ends."

Out on bail to visit his family, Lilburne further escalated attacks during the summer of 1649. He aimed to incite rebellion with his pamphlet *An Outcry of the Youngmen and Apprentices of London* (August 1649). Addressing the soldiers, he wrote: "Do you justify these actions done in the name of the army? Do you uphold the *Agreement of the People* so far as to use your swords in its defense? . . . We earnestly beseech you to acquaint us whether from your hands . . . we may expect any help or assistance in this our miserable distressed condition. . . . You . . . the private Souldiers of the Army, alone, being the instrumentall authors of your own slavery and ours." No wonder Cromwell reportedly resolved that "either Lilburne or himself should perish for it."

Cromwell seems to have feared there might be a dangerous backlash if Lilburne were executed. He couldn't be court-martialed, since he wasn't in the army. If he were charged with sedition, he could be expected to document a case that Cromwell's "Rump" Parliament and Council of State violated well-established English law. Levellers taunted Cromwell:

"A Fig for the Rascals, whate'er they can do,

Though their plots are laid deep, yet John's are so too."

Lilburne Charged with High Treason

On September 14, 1649, Attorney-General Edmund Prideaux demanded to know if Lilburne had written *An Outcry of the Young Apprentices of London*, but Lilburne denied the government's right to question him. A warrant for his arrest was issued five days later, and at the Guildhall, London, he was charged with high treason.

"Dressed carefully in doublet buttoning down to the hips," wrote biographer Pauline Gregg, "with lace at the neck and cuffs, trousers slashed and decorated, good boots and spurs, there was nothing at first glance to indicate the struggle he had been through. It was apparent, however, that strife over the years had coarsened his features, that the delicacy of the young man's face had gone. The disfigurement caused by his eye injury many years before gave his face in repose a slightly saturnine look. He no longer curled his hair back from his ears, as he had done as a young man, but let it hang to his shoulders, slightly grizzled and somewhat unkempt. The expanse of forehead was more apparent than ever, and the profile still showed the high ascetic nose. It was perhaps in the eyes and the mouth that the greatest difference showed. At twenty-three Lilburne held the simple belief that the demonstration of an injustice led to its abrogation. Seven years later disillusionment and bitter struggle had left their mark in the set of his mouth and the challenge in his eyes."

As always, Lilburne handled his own defense. He caught the Attorney-General and judge by surprise. They had expected him simply to express general principles and deny that the court had jurisdiction. Instead, with Edward Coke's *Institutes* and other law books by his side, he tied up the proceedings with one technical objection after another. He demanded to see the indictment against him. He picked apart circumstantial evidence that he was the author of *An Outcry of the Young Apprentices of London*. He noted that the "Rump" Parliament's sedition law was enacted after he had already been imprisoned in the Tower of London. Despite the judge's

objections, he repeatedly told the jury that they were empowered to issue a verdict on laws as well as the facts in his case.

The trial was over in two days, and he won a stunning acquittal. Levellers struck a silver and copper-gilt medal in his honor. It showed his picture and was inscribed with these words: "John Lilburne saved by the power of the Lord and the integrity of his jury who are judge of law as well as fact. Oct. 26, 1649."

Unfortunately, he got into disputes while trying to collect rent from former royalist properties given him as compensation for his unjust imprisonments. One of the cases was judged by Parliament, which saw an opportunity to get even: in December 1661, Lilburne was fined £7,000, banished from England, and threatened with execution if he ever returned. In Holland he read books like Plutarch's *Lives* and John Milton's *Defense of the People of England*. He corresponded with friends in England and met with exiles, his every move watched by spies—royalists blamed him for the execution of King Charles I, while Cromwell's people suspected he was conspiring with royalists. Meanwhile, he wasn't earning any money, and Elizabeth Lilburne pawned household goods to make ends meet.

The only institution which conferred some legitimacy on Cromwell's regime, by now known as the Protectorate, was the Long Parliament, which had sat for a dozen years without an election. In 1653, Lilburne broke his discreet silence and wrote *L. Colonel John Lilburne Revived* which encouraged people to demand new Parliamentary elections. On April 20, 1653, Cromwell dissolved the "Rump" Parliament. Rather than take the risk of elections, he asked congregational churches to nominate worthy candidates from which the regime's Council of Officers would make selections.

Lilburne inquired if he could get a pass to return home but was asked if he would stop making trouble, and he replied: "I am as free born as any man breathing in England (and therefore should have no more fetters than all other men put upon me)." Weeks went by, but no pass arrived, and the impatient Lilburne crossed the English Channel on June 14. The

next day, he was captured by sheriffs and brought to Newgate prison. Awaiting a likely trial, he wrote another pamphlet, *Plea in Law*. He harangued the court about his right to see the indictment, and eventually he got a copy. He disrupted proceedings by raising technicalities and challenged the legitimacy of the law which was the basis for it. He played to the jury. He buttressed his case by reading from Edward Coke's *Institutes*. He countered allegations of his royalist ties by writing yet another pamphlet. Jury verdict: "John Lilburne is not guilty of any crime worthy of death."

He was returned to the Tower of London, then to the Castle Orgueil on the Isle of Jersey, and later to Dover Castle. He missed the birth of another child. At Dover Castle Lilburne became a Quaker and preached for Quakers when periodically he was let out on parole.

During August 1657, he was on parole in Eltham, visiting his wife. His health began to fail. On August 29, the day he was due back at Dover Castle, he died in her arms. He was only about 43. "I shall leave this Testimony behind me," he had remarked, "that I died for the Laws and Liberties of this nation." Some 400 people followed his plain wood casket for burial in a Bethlehem churchyard near Bishopsgate.

Oliver Cromwell died the following year, and his son Richard tried to hold the Puritan Protectorate together, but people had had enough of it. Factions within the Army began to fight one another. Fearing chaos, Parliament turned to the Stuart heir who became King Charles II. He didn't, however, regain all the obnoxious powers that his father had possessed. Royal prerogative courts like the Star Chamber never came back. Parliament, not the king, controlled taxation. This was part of John Lilburne's lasting legacy.

Many of his daring demands for criminal justice reform came true, too. Historian George Macaulay Trevelyan observed, "the Puritan Revolution had enlarged the liberty of the accused subject against the prosecuting Government, as the trials of John Lilburne had shown. . . . Questions of law as well as of fact were now left to the Jury, who were free to acquit without fear of consequences; the

witnesses for the prosecution were now always brought into court and made to look on the prisoner as they spoke; witnesses for the defense might at least be summoned to appear; and the accused might no longer be interpellated by the King's Counsel, entangled in a rigorous inquisition, and forced to give evidence against himself. Slowly, through blood and tears, justice and freedom had been advancing." Added historian H. N. Brailsford: "thanks to the daring of this stripling, English law does not aim from the first to last at the extraction of confessions. To Americans this right appeared so fundamental that they embodied it by the Fifth Amendment in the constitution of the United States."

A Forgotten Man

But Lilburne became a forgotten man. His pamphlets were unsigned and easily lost. His many stirring lines were buried amidst voluminous prose about specific legal cases which later generations didn't care about.

The next thinker to develop a bold vision of liberty was the philosopher John Locke, whose *Second Treatise on Government* presented a compelling case for natural rights, private property, representative government, a separation of powers—and the right of rebellion if government thwarted individual liberty. But Locke seems not to have read writings by Lilburne or any of the other Levellers. Oxford University scholar Peter Laslett did conclude, though, that it was "from conversation and casual contact, not from documentary acquaintance, that Locke inherited the fruit of the radical writings of the Civil War."

Under Charles II, vengeful Parliamentary royalists, eager to get even for their suffering during Cromwell's regime, enacted the "Clarendon Code." It barred religious dissenters (those who preached against the Church of England) from entering a town or city. It provided prison terms for anybody caught in a dissenting worship service. There were fears of intensified persecution when, in 1679, Charles II became seriously ill, because the

likely successor was his brother James, who was an ardent Catholic.

The Earl of Shaftesbury (Anthony Ashley Cooper) and his compatriots in London's Green Ribbon Club—the name recalled Leveller days—promoted the succession of the Duke of Monmouth (James Scott), the happy-go-lucky son of Charles II by one of his court mistresses. Monmouth gathered a military force and marched from town to town, greeted by bonfires and church bells. By 1682, Shaftesbury, Algernon Sidney, Richard Rumbold, and others in the Green Ribbon Club contemplated a general insurrection. Charles II struck back, and Shaftesbury fled to Holland, but at Rumbold's Rye house, remaining Green Ribbon rebels plotted the king's assassination. They were caught and executed. Rumbold, who had been a Leveller, delivered a famous scaffold speech affirming Leveller principles. "I am sure there was no man born marked of God above another," he declared, "for none comes into the world with a saddle upon his back, neither any bootied and spurred to ride him."

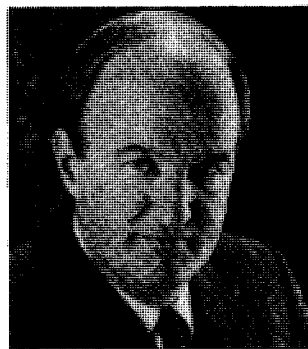
Thomas Jefferson adapted Rumbold's phrasing in one of his last letters, June 24, 1826: "All eyes are opened, or opening, to the rights of man. The general spread of the light of science has already laid open to every view the palpable truth, that the mass of mankind has not been born with saddles on their backs, nor a favored few bootied and spurred ready to ride them legitimately, by the grace of God."

English historian John Richard Green was among the few nineteenth-century authors to recognize the crucial importance of the Levellers. "For the last two hundred years," he wrote, "England has been doing little more than carrying out in a slow and tentative way the schemes of political and religious reforms which the army propounded at the close of the Civil War."

Behind many of our most fundamental civil liberties there stood John Lilburne, a mere apprentice who helped develop a bold new vision of liberty, took a principled stand, risked his life, defied tyrants, and got his story out. He suffered that we might be free. □

THE FREEMAN
MAY 1997

What's the Best Measure of Inflation?



"The Consumer Price Index overstates increases in the cost of living by about 1.1 percentage point a year."

—Michael Boskin, Stanford University¹

According to recent surveys, most professional economists believe that the Consumer Price Index (CPI) consistently overstates the cost of living in the United States by one percentage point or more. Even pro-market economists such as Michael Boskin and Milton Friedman assert that the CPI, which is prepared monthly by the Bureau of Labor Statistics, exaggerates changes in the living expenses.

As a result of these studies, the government hopes to establish a more accurate CPI and thus save Washington billions of dollars. The CPI is used to index federal taxes and Social Security payments. A lower CPI could increase tax revenues by \$70 billion and reduce Social Security checks by \$75 billion over a five-year period. It could substantially reduce the federal deficit.

The CPI is determined each month by a survey of prices of 364 items that compose a typical bundle purchased by urban consumers during the base period, 1982-84. Items include food, consumer goods and services, rent, and property taxes. Each month several hundred

survey workers visit approximately 21,000 stores in urban areas and collect prices on these items. The CPI is a market basket index of these items, valued according to a weighted average.

What's Missing in the CPI?

Unfortunately, the price-index methodology is defective in two ways. First, the current CPI fails to take into account quality improvements, new products, substitutes, and sale prices. As a result of these omissions, many economists argue that the CPI tends to *overestimate* the cost of living in the United States.

Second, the CPI does not include all items determining an individual's cost of living, and this fact may cause the CPI to consistently *underestimate* the cost of living. How many people buy a fixed market basket of goods and services that match in any way the government's survey for "an urban family of four"?

For example, I have two children in college. According to government surveys, college tuition and related expenses have risen at double-digit rates over the past decade or two. But the CPI doesn't cover college expenses.

My family and I also travel frequently outside the United States. Overseas the dollar has lost much of its purchasing power over the past 20 years. How does the CPI reflect the dollar's decline? It doesn't.

Crime has been a problem in our community, so we bought an expensive security protection plan for our home. The CPI

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doesn't include such an expenditure in its fixed basket of services.

What if interest rates rise? The CPI does not directly account for the costs of borrowed money or mortgage payments.

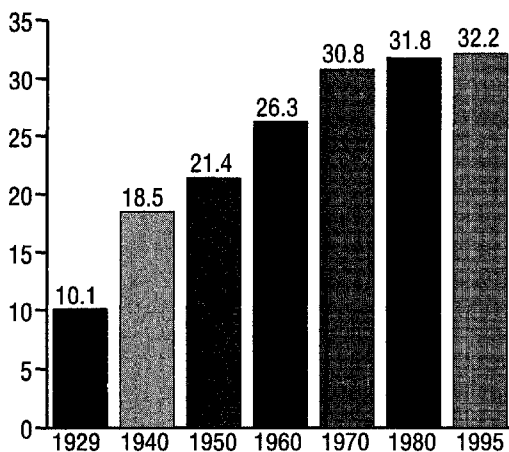
The Biggest Omission

But probably the most serious defect of the CPI is that it does not register the largest item in everyone's household budget—taxes. The CPI covers property taxes, but not sales taxes or income taxes. Today, government expenditures (the most accurate measure of total taxation) represent 32.2 percent of the economy (GDP). If the CPI is supposed to represent the *cost of living*, doesn't it make sense that it should include taxation, the cost of government?

Taxes and government spending have been rising rapidly throughout the twentieth century, as the following graph shows:

The Growth of Government Expenditures, 1929–1995

(as a percent of GDP)



Source: Economic Report of the President

Since 1982–84, the base period for the current CPI, total government expenditures have increased from \$1.1 trillion to \$2.5 trillion, a 127 percent increase. During this same period, the CPI has risen only 60 percent. Clearly, if taxes were included in the CPI, it would be rising at a much higher rate.

In short, you have two major deficiencies in the CPI, one that overestimates inflation and another that underestimates inflation. Which force is stronger? I don't know, but it would be national folly to include the former and ignore the latter.

Mises to the Rescue

In determining the best measure of inflation, we should remember the words of Ludwig von Mises. Mises refers to the "level" of prices as "inappropriate" and "untenable" because "changes in the purchasing power of money must necessarily affect the prices of different commodities and services at different times and to different extents." He goes on to say, "The pretentious solemnity which statisticians and statistical bureaus display in computing indexes of purchasing power and cost of living is out of place. These index numbers are at best crude and inaccurate illustrations of changes which have occurred."²

According to Mises, inflation (deflation) is defined as increases (decreases) in the supply of fiat paper money by government, not changes in the prices of individual goods and services. According to this definition, the cost of living and declining purchasing power of the dollar have been extraordinarily and unnecessarily high in modern times. If we use the monetary base (funds on deposit by the Federal Reserve) as a measure of fiat money, the money supply has increased 141 percent since the 1982–84 base period. If we use a broader definition, M2 (coins, currency, checking accounts, and money market funds), the money supply has increased 75 percent. Either way, monetary inflation has been significantly higher than the CPI's 60 percent. Perhaps increases in the money supply should be used as a better gauge of inflation. But it wouldn't make Washington happy—it would mean less tax revenue and higher Social Security checks. □

1. *Wall Street Journal*, February 25, 1997, p. A24. Professor Boskin headed a government panel investigating the CPI.

2. Ludwig von Mises, *Human Action*, 3rd ed. (Regnery, 1966), p. 222.

BOOKS

Capitalism: A Treatise on Economics

by George Reisman

Jameson Books • 1996 • 1,096 pages • \$95.00

Reviewed by Jim Powell

In this monumental work (8½ by 11-inch pages), Reisman offers the most comprehensive defense of capitalism ever written. He covers fundamental principles and a wide range of policy issues. He discusses controversies—especially environmentalism—which have emerged since Ludwig von Mises and Ayn Rand wrote their immortal books.

Reisman attempts something nobody else has done: combine some doctrines from classical economics, plus the free-market economics of the Austrian School and the pro-capitalist moral vision of Objectivism. He is perhaps in a unique position to pull this off, having long been a friend and intellectual compatriot of Ayn Rand, and having attended Ludwig von Mises's New York University graduate seminar for years. Reisman translated Mises's work on methodology, published as *Epistemological Problems of Economics*.

Reisman, now an economics professor at Pepperdine University, tells how this magazine helped him on his intellectual journey more than four decades ago. "It was one of the early issues of *The Freeman*," he recalls, "that I had my first exposure to the writings of Ludwig von Mises. . . . I could see that Mises knew the history of economic thought and that he was presenting a strong, self-assured position. . . . I bought *Socialism* and over the coming months had one of the very greatest intellectual experiences of my life, before or since. . . . Here at last was a great, articulate defender of the economic institutions of capitalism."

Although a thoroughgoing Austrian, Reisman believes that classical economists made some enduring contributions to the case for capitalism. "A leading application of the classical doctrines, of which I am especially proud," he says, "is a radically improved critique of the Marxian exploitation theory. In my judgment, classical economics makes possible a far more fundamental and thoroughgoing critique of the exploitation theory than that provided by Böhm-Bawerk and the Austrian School . . . [and] also provides the basis for greatly strengthening the refutation of the ideas of Keynes."

From classical economics, Reisman takes "the recognition of saving and productive expenditure, rather than consumption expenditure, as the source of most spending in the economic system. Closely related to this, I have brought back the wages-fund doctrine and have made clear the meaning of John Stuart Mill's vital corollary proposition that 'demand for commodities does not constitute demand for labor.' I have reinstated Adam Smith's recognition that in a division-of-labor society the concept of productive activity must incorporate the earning of money and that because of its failures to earn money, government is a consumer. . . . I have reintroduced Ricardo's insights that capital can be accumulated not only by saving but also by anything else that serves to increase wealth. . . . The main thing I have discarded in classical economics is any notion that wages are determined by the 'cost of production of labor.'"

Many Austrians will surely counter that Austrian economics already builds upon what was of enduring value in classical economics, but as noted, Reisman learned economics from Mises himself, and he labored some 18 years on this book, so his views aren't offered on a whim. *Capitalism* will be a stimulating read even if you disagree with him on some important theoretical issues.

Rand's influence is perhaps most apparent in Reisman's discussion of individual rights, liberty, competition, monopoly, and environmentalism. Like Rand, Reisman sees progress as "a self-expanded power of human reason to serve human life." He draws on her insights when he talks about philosophical influences which are essential for capitalist civilization—and philosophical influences which threaten to destroy it.

Capitalism climaxes with a radical agenda for liberty. Again reflecting Rand's influence, he presents a powerful moral and practical case for abolishing government schooling, minimum-wage laws, compulsory unionism, Social Security, Medicare, welfare, business subsidies, rent controls, income taxes, fiat money, and other types of government intervention which cause so much misery.

For instance, after explaining his proposal for cutting off the flow of taxpayer money to government schools—thus going far beyond the current debate over school vouchers—Reisman adds: "the public education system is inherently unsuited to teach any subject about which there is controversy. This is because teaching such a subject necessarily entails forcing at least some taxpayers to violate their convictions, by providing funds for the dissemination of ideas which they consider to be false and possibly vicious. On the basis of this principle,

the public schools should be barred from teaching not only religion, but also history, economics, civics, and biology. In the nature of things, only private schools, for whose services people have the choice of paying or not paying, can teach these subjects without violating the freedom of conscience. The fact that barring the public schools from teaching these subjects would leave them with very little to teach, and place them in a position in which they may as well not exist, simply confirms the fact that public education should be abolished." Amen!

Reisman does a fine job explaining the creative genius of capitalism, and the moral dimension really makes the book compelling. He articulates a rigorous defense of individual rights, open markets, free trade, hard money, and freedom of movement. *Capitalism* is a classic. □

Mr. Powell's biographical profiles of the heroes of liberty appear monthly in The Freeman.

The Pyramid

by Ismail Kadare

Arcade Publishing • 1996 • 161 pages • \$21.95

Reviewed by Richard A. Cooper

Albanian novelist Ismail Kadare unveils the mystery behind structures of statist tyranny in his perceptive fable *The Pyramid*. On the surface, it is a reconstruction, a retelling of the actions of the pyramid-building Pharaoh Cheops of Egypt. But, like the real pyramids, it has its own secrets to be revealed. It is a tale of tyranny of all times and places, wherever and whenever those who hold power seek to enshrine their power and their ideas on the lives and backs of the ruled. I rank *The Pyramid* among the great literary depictions of tyranny and its consequences.

The new pharaoh Cheops dismays his courtiers by dropping hints that he may not construct his own pyramid. They fret, but know not why they worry; they think the pyramid should be built, but only because it is traditional. Eventually, they find the answer in their ancient texts as a magic prescription for the health of state. "To launch works colossal beyond imagining, the better to debilitate its inhabitants, to suck them dry. In a word, something exhausting, something that would destroy body and soul, and without any possible utility. Or to put it more precisely, a project as useless to its subjects as it would be indispensable to the State."

Why is the pyramid indispensable to the State?

The pyramid is not just a physical construction, but a psychological structure that compels submission. Kadare, from Stalinist Albania, zeroes in on his target. "In the first place, Majesty, a pyramid is power. It is repression, force, and wealth. But it is just as much domination of the rabble; the narrowing of its mind; the weakening of its will; monotony; and waste. O my Pharaoh, it is your most reliable guardian. Your secret police. Your army. Your fleet. Your harem. The higher it is, the tinier your subjects will seem. And the smaller your subjects, the more you rise, O Majesty, to your full height."

Kadare gives us the myriad details which would accompany such a project, but with a peculiar resonance for the survivor of the twentieth century, our age of total war and the total state. The conscription of labor and other resources, the reports of police, and the plans of the master planners all give us a sense of eerie recognition in our more enlightened age of Hitler, Stalin, and Pol Pot.

The pyramid project drags the nation from one reported conspiracy to another. Arrests, tortures, and executions construct the pyramid just as much as granite, basalt, and alabaster. "Every morning people learned with a shudder of terror the names of those arrested during the previous night." This is an Egypt as police state, with its inhabitants to be molded to the whims of their rulers. But Egypt, of course, is a stand-in for its predecessors and successors in the sorry spectacle of state building.

From the Egypt of the Pharaoh Cheops, Kadare takes us on a strange excursion in time and place to the empire of Central Asian conqueror Timur the Lame (also known as Tamerlane), who erects another pyramid. This Central Asian pyramid is constructed of skulls of the conquered. From the distant past he transports us again, this time to Communist Albania's capital of Tirana for another state building exercise. Here again the pattern of State power underlies the "modern" structure.

Finally, from Enver Hoxha's Communist Albania, Kadare carries the reader to our own time. With the poet's insight and richness of image, Ismail Kadare exposes how the structures of Statism reveal their true nature if we but look. *The Pyramid* will no doubt be compared to George Orwell's 1984. I think it a superior book, with its combination of everyday realistic details and the voice of historical experience underneath the crushing burden of the structure. The details of the domination differ. The causes invoked differ. But the blueprints are telling in their similarities. □

Richard A. Cooper makes his living as an export-import manager while exploring ideas as a freelance writer.

Sovereign Nations or Reservations? An Economic History of American Indians

by Terry L. Anderson

Pacific Research Institute for Public Policy •
1995 • 202 pages • \$19.95

Reviewed by Bruce L. Benson

I took a couple of Prometheus-award-winning libertarian science fiction novels and Terry Anderson's *Sovereign Nations or Reservations?* along on a recent vacation. I chose to read the science fiction first, but that was a mistake—Anderson's book is better. Not only is it very well written, but it tells a compelling *true* story that provides a much more devastating critique of the state and a much more convincing case for basing a society on individual freedom and private property than any fictional story can. Economic history may not sound as exciting as science fiction, but Anderson's version is, as he debunks a large number of popular myths about Indians that have impeded a clear understanding of the lack of economic advancement on Indian reservations.

Among the myths that fall is the claim that prior to the arrival of Europeans, Indians lived in almost idyllic societies where everything was communally owned and shared, and where nature was so revered that Indians only took what they could consume. Anderson explains that in reality, North American Indians developed private property rights in resources whenever the benefits of privatization exceeded the costs. Furthermore, while Indians certainly had a great deal of respect for nature, as anyone trying to subsist in a harsh environment must, their techniques for harvesting common pool resources such as buffalo (where the cost of establishing private property rights were prohibitive) often led to tremendous waste (e.g., a large percentage of the meat from buffalo driven over buffalo jumps was simply left to rot, and large areas of prairie were burned to force buffalo into traps). It was only after the European introduction of the horse (a privately owned resource among Indians) that less wasteful hunting techniques developed.

Another politically correct myth is that Indians were continually coerced and exploited following the arrival of Europeans. The history of Indian-White relations in North America breaks roughly into two periods. Before the United States government began maintaining a standing army, negotiation dominated with relatively few violent confrontations. After the Mexican-American War

this began to change, and especially after the Civil War violence became the primary means of resolving disputes. Anderson convincingly attributes much of this change to the incentives facing the military bureaucracy—incentives to secure their jobs, to expand, and to create an environment conducive to promotions.

Similar bureaucratic incentives facing the Bureau of Indian Affairs (BIA) explain the almost total lack of effective economic development on Indian reservations since the Indian Wars, in opposition to the myth that there is something about Indians themselves which prevents them from adapting to market-based economic activities. The politically correct suggest that Indian culture and heritage, their love for nature and communal nomadic life-style, stand in the way of their assimilation into the modern market economy. Others see some inherent flaw in the Indian people. Both are wrong. American Indians have always adapted to changing conditions. When Indians were placed on reservations, they quickly began to adapt. Agricultural activity was developing quite rapidly until the BIA and Congress started meddling with the evolving property rights systems on reservations. Then, through a series of statutes reflecting the political demands of white and bureaucratic interest groups, the institutions and property rights on reservations were changed, undermining individual Indians' incentives to invest in productive economic activity while creating incentives to focus on group rent seeking.

The variation in productivity across reservations today reinforces Anderson's main point. Productivity is significantly higher on reservations where a relatively large portion of the land is privately owned as compared to land held in trust by the BIA or land that is tribally owned and administered. Furthermore, tribal governments that are constitutionally constrained support more economic growth than tribal governments that can arbitrarily change the rules of the game and redistribute wealth.

The story Anderson tells is not unlike the story that can be told about less developed economies all over the world. He tells it very well. Individuals everywhere adapt to the incentives and constraints that they face: secure private property creates incentives to produce and expand wealth, and centralized power creates incentives to pursue other peoples' wealth. □

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Jefferson's "Bible": The Life and Morals of Jesus of Nazareth

by Thomas Jefferson

American Book Distributors • 1996 • 140 pages • \$15.00 (plus \$3.50 shipping) paperback

Reviewed by William H. Peterson

"... the Laws of Nature and of Nature's God."

Those eight words and their underlying precepts in the Declaration of Independence, says Judd W. Patton, associate professor of economics at Bellevue University in Nebraska, in his introduction to this book, account for much of the success of the American Experiment in—savor the phrase—self-government. But what the Founding Fathers really meant by this phrase was government of self by American citizens and their leaders in accordance with a *strong moral code*. In Jefferson's *"Bible": The Life and Morals of Jesus of Nazareth*, we learn much about what Jefferson thought that moral code to be.

The background of Jefferson's Bible is interesting. In 1819–1820 he decided to set forth the "pure moral principles" of Christianity. Reproduced here are the title page and table of contents in Jefferson's own handwriting. He literally cut out and pasted verses from Matthew, Mark, Luke, and John into an 82-page book. In 1813 he had described their wisdom as "the most sublime and benevolent code of morals which has ever been offered to man."

This unpublished work was held in the Jefferson family until it was found by Cyrus Adler in 1886. Adler purchased it for the Smithsonian Institution in Washington in 1895, and it was published in 1904. For the next half-century, ending in the 1950s, a copy of Jefferson's "Bible" was presented to each new senator and representative at his swearing-in ceremony.

This is a handsome, well-thought-out edition. Fifty moral principles, including the Ten Commandments, are presented. Here are some of them:

- Be a peacemaker.
- Avoid anger.
- Be a light to the world.
- Don't be hypocritical.
- Be a forgiving spirit.
- Love your neighbor as yourself.
- Do not steal. (Eighth Commandment)
- Do not covet. (Tenth Commandment)
- Be diligent in all you do.

Do unto others as you would have others do unto you. (The Golden Rule)

In addition, 38 parables are offered. These include the parables of the lost sheep, the wedding feast, the talents and the three servants, Lazarus and the rich man, the hidden treasure, the lamp under the basket, and the instruction to build on rock and not on sand. All point up a key moral or truth.

The foreword by nationally syndicated columnist William Murchison of the *Dallas Morning News* is on target. Mr. Murchison finds our times "despiritualized" (or, to use the perception of Gertrude Himmelfarb, demoralized and *de-moralized*). He agrees wholeheartedly with the Jefferson premise that the practice of morality is essential for the well-being of society. He finds it ironic that use of this book in the classroom, even on the authority of Thomas Jefferson, will likely be prohibited—while, let me note, sex education and "free" condom distribution go merrily on.

This edition highlights moral precepts in red and indexes the precepts and parables by page and New Testament chapter and verse. Judd W. Patton deserves credit for republishing an important piece of American history. He hopes the practice of giving a copy to each representative and senator, beginning with the 105th Congress in 1997, can be revived.

I hope he is right and recall a relevant quotation inscribed in marble in the Jefferson Memorial in Washington, D.C.: "I have sworn upon the altar of God, eternal hostility against every form of tyranny over the mind of man." Jefferson's *"Bible"* is worth reading and contemplating. □

Dr. Peterson, a Heritage Foundation adjunct scholar, is Distinguished Lundy Professor Emeritus of Business Philosophy at Campbell University, Buies Creek, North Carolina.

Migrations and Cultures

by Thomas Sowell

Basic Books • 1996 • 516 pages • \$30.00

Reviewed by George C. Leef

It is an article of faith among egalitarian opponents of laissez-faire capitalism that the statistical discrepancies one finds in a free society are proof of its immorality. They note "abnormally" high concentrations of people with a certain characteristic among the poor or among the rich and

conclude that the state must step in to cure the apparent inequity. Hence, their strident demands for affirmative action and other policies to promote "equality."

The implicit assumption in this line of reasoning is that people ought to be randomly distributed throughout income groups and occupations. To the egalitarians, something is abnormal and wrong if people from Group A have a high poverty rate and people from Group B have a negligible poverty rate; if people from Group X tend to dominate in profitable businesses while people from Group Y are concentrated in menial labor. It is this assumption that Thomas Sowell has spent many years of his life refuting. After *Migrations and Cultures*, it lies exposed as sheer but dangerous nonsense.

The book concentrates on the migrations of six groups of people: Germans, Japanese, Italians, Chinese, Jews, and Indians. Sowell notes that these groups were far from homogeneous (northern and southern Italians are quite culturally different, for example), but took with them stocks of skills and, more importantly, habits wherever they went around the globe. Often, the newcomers brought skills and habits—a culture—that was markedly different from that of the indigenous population. Naturally, the natives and immigrants would not instantly and randomly mix, but rather each population would tend to concentrate in the fields where their respective cultures gave them comparative advantages.

Several traits stand out as common among the six groups: a willingness to engage in hard work, a propensity to save a great deal, even of meager earnings, and placing a high value on education. When people from cultures with these characteristics mixed with people from cultures without them, the results couldn't be statistical randomness. Indeed, Sowell points out, backward nations have at times eagerly sought immigrants from particular nations precisely because their cultures were expected to help advance economic development beyond what the natives could do. That is why, for example, Germans wound up in Paraguay. These days, nations beg for foreign aid, but luring skilled immigrants was much more productive.

The critical difference between the immigrant groups and the native populations into which they moved was that the immigrants were more *future-oriented*. Hard work, saving, education—these are all attributes of people who are thinking toward the future. Although the immigrants usually started out in extreme poverty, their tenacious pursuit of a more prosperous future led to rising incomes. In contrast, the more present-oriented natives remained economically stagnant. Sowell

shows this in case after case. The Chinese in Malaysia, for instance, were far more inclined to entrepreneurship, hard work, and investment than the more relaxed Malays, so it was not in the least "abnormal" that the Chinese became the business and plantation owners for whom the Malays worked.

Unfortunately, the ugly emotion of envy also appears in case after case. The economic success of the immigrant groups usually sparks resentment and violent backlash against them. The depressing thing about *Migrations and Cultures* is that it repeatedly highlights this deep flaw in human nature. Rather than either learning from and emulating the successful or at least conceding them their due, the natives usually claim that they have been "exploited" and seek to confiscate some or all of the wealth of the more future-oriented groups. Political demagogues thrive on these intergroup resentments and have a powerful interest in fanning the flames.

Besides confiscating and redistributing the wealth of the successful, politicians can advance themselves by promoting preferential policies to "solve" the "problem" of underrepresentation among the "disadvantaged" groups. Readers may be surprised to find out that "affirmative action" is neither new nor unique to the United States. The government of Thailand, for example, established employment quotas for Thais and enacted many laws designed to handicap the Chinese back in the 1930s. Similar policies have been followed in Malaysia and, most disastrously, in Sri Lanka, where a once-harmonious country has been transformed into a bloody battleground, thanks to governmental interference with the spontaneous order of the market. Americans should pay attention to the long-term damage that these policies do.

Cultures are not fungible. For all the beating of drums for "celebrating diversity" that we get in America, one thing we don't hear is that certain cultures tend to encourage productive behavior, harmony, and progress, whereas others encourage envy, sloth, and conflict. The multiculturalist insistence that all cultures are equally "valid" and must not be treated "judgmentally" crashes on the rocks of Sowell's meticulous (there are 2,431 footnotes) scholarship. It's fine for young Americans to learn about other cultures, but they also ought to learn that cultures have consequences.

Like Sowell's many other books, *Migrations and Cultures* is a strong antidote to an array of statist clichés. I recommend it highly. □

George C. Leef is book review editor of The Freeman.

THE FREEMAN

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Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
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E-mail: freeman@westnet.com
FEE Home Page: <http://www.fee.org>

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$30.00 or more receive a subscription to *The Freeman*. Student subscriptions are \$10.00 for the nine-month academic year; \$5.00 per semester. Additional copies of this issue of *The Freeman* are \$3.00 each. For foreign delivery, a donation of \$45.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

The Great Illusion

At present, the greatest problem is the citizen in the clutches of political power. . . .

To think of everything as political, to conceal everything by using this word (with intellectuals taking the cue from Plato and several others), to place everything in the hands of the state, to appeal to the state in all circumstances, to subordinate the problems of the individual to those of the group, to believe that political affairs are on everybody's level and everybody is qualified to deal with them—these factors characterize the politicization of modern man and, as such, comprise a myth. The myth then reveals itself in beliefs and, as a result, easily elicits almost religious fervor. We cannot conceive of society except as directed by a central omnipresent and omnipotent state. What used to be a utopian view of society, with the state playing the role of the brain, not only has been ideologically accepted in the present time but also has been profoundly integrated into the depths of our consciousness. To act in a contrary fashion would place us in radical disagreement with the entire trend of our society, a punishment we cannot possibly accept. We can no longer even conceive of a society in which the political function (on the part of the governmental authority) would be limited by external means: we have arrived at the monistic idea of power that stops power. We can no longer conceive of a society with autonomous "in-between" groups or diverging activities. The primary role of political affairs is one of the common sociological presuppositions shared by all and growing in all countries.

We consider it obvious that everything must be unreservedly subjected to the power of the state; it would seem extraordinary to us if any activity should escape it. The expansion of the state's encroachment upon all affairs is exactly paralleled by our conviction that things *must* be that way. . . . To repeat: it is not just the fact of the state being at the center of our lives that is crucial, but our spontaneous and personal acceptance of it as such. We believe that for the world to be in good order, the state must have all the powers. . . .

The conviction that the individual's inner conflicts, like the external realization of values, are a collective and social affair and will find their solutions in the political realm is only the mystifying aspect of every man's personal surrender with respect to his own life. Because I am incapable of doing good in my own life, I insist that the state must do it in my place, by proxy. Because I am incapable of discerning the truth, I ask the government to discern it for me; I thus free myself of an onerous task and get my truth ready-made. Because I cannot dispense justice myself, I expect a just organization to exist which I only have to join to safeguard justice. . . .

But, it might be objected, is the politically interested citizen not eager to see power controlled, rather than to see its growth further promoted? This is a great illusion. The more an individual has become politicized, the more he will see and think about all

problems as political problems, the more importance will he attach to political action, and consider it the only possible course and, by his attitude, endow that course with a maximum of power and effectiveness. At the same time, the more politicized he is, the more will he be focused on and oriented toward that basic political force and form: the state. The more he takes recourse to the state, the more power he gives it. . . . At each step, state power is increased. The people under the spell of politics seek less and less to control the state; politicizing everything, they consider it normal that the state should constantly expand its area of action and use ever more instruments of power. This is legitimate in their eyes, as they believe that all will be solved by political action.

—JACQUES ELLUL, *The Political Illusion*
(Alfred A. Knopf, Inc., 1967)

Donald J. Boudreaux Elected FEE President

We are pleased to welcome Dr. Donald J. Boudreaux as the new president of the Foundation for Economic Education. Dr. Boudreaux was elected at the Annual Meeting of FEE's Board on May 19, 1997.

At the May meeting we also bade farewell to retiring president Hans F. Sennholz, who did so much to revitalize FEE during his five-year tenure. The Board is grateful for the tireless dedication and service of Dr. Sennholz and his wife, Mary. We hope he will find time during his busy retirement in Pennsylvania to write for *The Freeman*.

Don Boudreaux continues FEE's tradition of excellence and energetic leadership. He earned an M.A. in economics from New York University, a Ph.D. in economics from Auburn University, and a J.D. from the University of Virginia School of Law. He has taught at George Mason University, and, since 1992, at Clemson University, as an associate professor in the Legal Studies Group. He was a John M. Olin Visiting Scholar at Cornell Law School for the 1996 spring term.

Don has an impressive list of scholarly publications, including articles in the *Cato Journal*, *Southern Economic Journal*, *The Independent Review*, and several law reviews. He is a long-time contributor to *The Freeman* and was guest editor of the July 1995 issue. Don's writings have also appeared in the *Wall Street Journal*, the *Washington Times*, *Reason*, *The Free Market*, and many other newspapers and magazines. In addition to his classroom teaching and his writing, he has found time to serve as an associate editor of *The Independent Review*, as book review editor of *Constitutional Political Economy*, and as a lecturer at many seminars for college students and high-school teachers and students.

We are enthusiastic about the future of FEE under Don's capable direction. To learn more about his vision for FEE, please see his inaugural *Notes from FEE* in this month's issue.

—SALLY VON BEHREN
Chairman of the Board

John Jacob Astor and the Fur Trade: Testing the Role of Government

by Burton W. Folsom, Jr.

What was the first industry in U.S. history to receive a federal subsidy? That dubious honor seems to go to the fur trade. If we study the story of the fur trade, we can see why government-supported companies so often fail and why entrepreneurs tend to provide better products at lower costs.

The buying and selling of furs was a major industry in America throughout its early history. The key animal in the fur trade was the beaver, whose pelt made hats that were in style all over Europe in the 1700s. The fur trade was a worldwide enterprise. It linked fashionable women in Paris to New York exporters, to frontier traders, to Indian trappers. The pelts of beavers, muskrats, otters, and minks went one way and kettles, blankets, axes, and muskets went the other.

At first, fur trading in the United States followed established patterns. The French and British had traded with the Indians for more than a century and the Americans

simply picked up where they left off. Trapping methods, river routes, and trading posts were all in place.

The man who confounded the normal development of private enterprise in furs was none other than President George Washington. Washington feared that the many British fur traders along the Canadian border might stir up the Indians, win their loyalties, and thwart U.S. expansion into its own territory.

Private American traders, Washington argued, were too small to compete with larger, more experienced British enterprises. The U.S. government itself was needed to build large trading posts, oust the British, "bring in a small profit, . . . and fix them [the Indians] strongly in our Interest." The Indians especially needed to see evidence of American strength, so Washington recommended that the government build and operate a series of fur factories throughout the American South and West. With Washington's support, Congress appropriated \$50,000 for the new factories in 1795 and raised it steadily in later years to a total of \$300,000. Such a subsidy was a large expense for a new nation, and one that tested government's ability to act as an entrepreneur.

Here is how the factory system worked. The government created a bureaucracy—the Office of Indian Affairs—to conduct the fur

Professor Folsom is senior fellow in economic education at the Mackinac Center for Public Policy in Midland, Michigan.

For readers interested in learning more about Astor and McKenney, the author recommends John Denis Haeger, John Jacob Astor: Business and Finance in the Early Republic (Detroit: Wayne State University Press, 1991); and Herman J. Viola, Thomas L. McKenney: Architect of America's Early Indian Policy, 1816–1830 (Chicago: Swallow Press, 1974).

trade. It used the \$300,000 from Congress to set up trading posts (usually near military forts), stock them with goods, and pay agents to buy, store, and transfer furs from the trading post to Washington, D. C., where they would be sold at auction. Once the factories were funded, they were supposed to be self-supporting, and perhaps, as Washington said, "bring in a small profit." Agents in the factories would use the first batch of goods to buy furs; then when the furs were sold, the agents could buy more goods and repeat the cycle.

Thomas McKenney and the Office of Indian Affairs

Almost from the start, however, the factory system struggled. Well into the 1800s, the British companies were trading actively throughout the Great Lakes area. So were private American traders. The factories were so poorly run that many Indians held them in contempt and refused to trade there. In 1816, President Monroe appointed Thomas McKenney, a Washington merchant, to take charge of the Office of Indian Affairs and help the factories expand their business.

McKenney worked hard and took his job seriously. He wrote long letters to Indians, invited them to Washington, and tried to expand his staff so he could deal with them more directly. Indians needed to be assimilated into American life, McKenney argued. Schools and farms, not trapping and hunting, were McKenney's vision for future Indian life. Therefore, he stocked the factories with hoes, plows, and other farm equipment. An active government, McKenney believed, was the best means to "amend the heads and hearts of the Indian."

McKenney's ideas proved to be a disaster. Indians wanted rifles and kettles, not hoes and plows. But since McKenney was funded regularly each year by government, regardless of his volume of trade, he had no incentive to change his tactics. Private traders, however, had to please Indians or go broke. As private traders grew in numbers and wealth in the early 1800s, one of them, John Jacob Astor, grew so rich he surpassed the government

factories in capital, influence, and volume of business.

John Jacob Astor: Risk-Taker and World Trader

Astor, the son of a German butcher, came to the United States in 1784 at age 20 to join his brother in selling violins and flutes. Soon, however, he changed his tune. He became fascinated with the fur trade and studied it day and night. He learned prices, markets, and trade routes for all kinds of pelts. The fur territory—New York, Montreal, and the American Northwest—he traveled and mastered. Astor bought and sold cautiously at first, then with more confidence as the profits rolled in.

He was an odd man to be such a risk-taker. He was quiet, almost secretive, in his business dealings. Astor had a keen mind for enterprise, but he spent years at a time out of the United States, estranged from his wife and fighting bouts of depression. He was both decisive and patient. He had a vision of how America would grow, how the fur trade fit into that growth, and how to market furs around the world. With commanding vision and masterful detail he could profitably buy furs in Michigan, pack them on a boat to New York, ship them to China, and bring tea back home.

Astor separated himself from others through his foresight and perseverance. If the matrons of France wanted beaver hats and otter coats, and if these animals roamed the forests of New York, that was all most traders cared to know. Astor, however, thought more of world trade. Europeans liked to fight each other and wars disrupted markets; why not expand and sell furs to the Chinese—not for fashion, but for warmth in their unheated houses? Besides, he could bring the tea back from China and profit at both ends.

The large market of the Far East prompted Astor to turn his sights west to Michigan. New York and the Atlantic Coast were depleted of furs by the early 1800s. The Great Lakes area—especially the Michigan Territory—then became the heart of the fur trade, and yielding thousands of skins for coats and rugs all over the world. Astor founded the Amer-

ican Fur Company in 1808 and made his move to challenge the government factories.

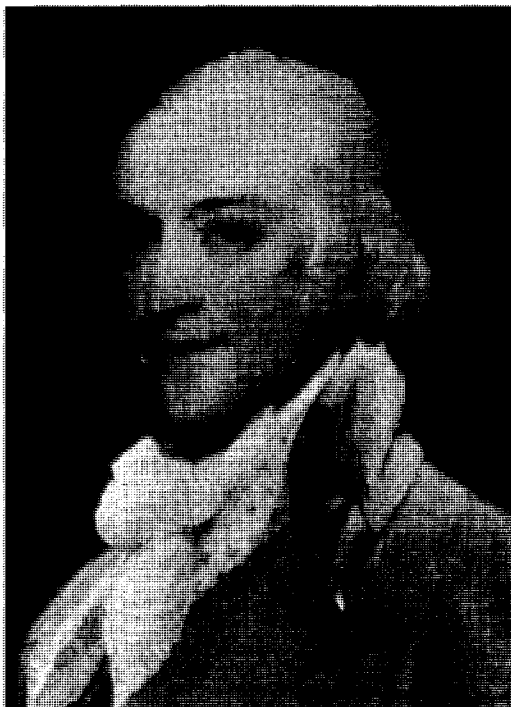
Under Astor, the American Fur Company resembled a modern corporation with specialists, division of labor, and vertical integration. Astor ran the company from his headquarters in New York. Mackinac Island was the center of the actual trading, where most furs were bought, packed on boats, and sent to the East Coast. Astor's agents dotted the rivers throughout the Northwest and they had log cabins well-stocked with goods. They supplied the company's fur traders, who would live with the different Indian tribes and supply them with goods and credit as needed.

Astor's Advantage

In conducting business this way, Astor differed from McKenney and the government factories. McKenney and his predecessors just built trading posts, stocked them with goods, and expected the Indians to come there to trade. Many Indians, however, lived hundreds of miles from a factory and had no supplies to trap with. Even if McKenney had given credit easily, and had known whom to trust, the Indians would have been hampered by distances. Under Astor's system, the fur traders lived with the Indians, learned whom to trust, and bought and sold on the spot. If an Ottawa brave capsized his canoe and lost his musket and powder, he could get replacements from Astor's local trader and avoid the 90-mile walk through swirling snow to see if the government agent in Detroit would give him replacements on credit.

Astor built on this advantage by trading the best supplies he could find at reasonable rates of exchange. Indians wanted guns and blankets, for example, and Astor supplied them at low cost. The best blankets he could find were British-made blue-striped blankets, and Astor bought them at 15 percent less than McKenney paid for lower quality blankets made in America. Astor bought British Tower muskets, the best on the market, for about \$10 apiece, but McKenney paid \$12.50 apiece for Henry Deringer's muskets made in Philadelphia.

One reason Astor succeeded was that he



John Jacob Astor (1763–1848)

accepted the Indians as they were, not as he wanted them to be. If they desired axes, kettles, and muskets, he tried to find the best available and sell to them at competitive prices. He respected Indians as shrewd traders and knew he had to have the best goods to get the most business. McKenney, as we have seen, squandered government resources on goods Indians didn't want.

McKenney refused to sell liquor in government factories and urged Indians to be sober, virtuous, and industrious. "The same devotion to the chase, and those irregular habits which have characterized the sons of our forests yet predominate," he lamented.

Liquor was also an item Astor preferred not to supply, even though he knew many Indians wanted it. Not that Astor was a moralist; he was a realist. Drunken trappers gathered no pelts, he discovered. If the factories had been his only competition he probably wouldn't have traded liquor at all. But the traders with Britain's Hudson's Bay Company carried so much liquor they could almost have created another Great Lake with it. Astor thus concluded that for him to be competitive he needed to have some liquor available for trade.

Motivation and Marketing

Trade was not the only area where Astor outmaneuvered the government factories. The motivating of men was another. Astor used a merit system and paid his chief managers good salaries plus a share of the profits. This guaranteed an attention to detail, which Astor needed to stay on top. McKenney and his staff, by contrast, received a standard salary from Congress with no bonuses given in profitable years or cuts given when trade fell.

One final area of Astor's genius was his marketing savvy. He sold his furs at auctions all over the world. If he didn't get the prices he wanted in New York he sent furs to auctions in Montreal, London, Hamburg, and Canton. McKenney, by contrast, had the furs collected in his factories sent to Washington. Then he sold them at auction in nearby Georgetown for whatever price they would bring. He didn't sell in different cities, nor did he withhold any from the market in bad years.

Sometime after 1808, John Jacob Astor surpassed the government factories and emerged as the leading exporter of furs in the United States. He widened his lead after the War of 1812. By the 1820s, the American Fur Company employed over 750 men, not counting the Indians, and collected annual fur harvests of about \$500,000, which made it one of the largest companies in America.

McKenney nervously watched the government's share of the fur trade decline year by year. "Why do the factories lose money?" Congress asked when McKenney came before them each year to renew his subsidy. He was embarrassed by Astor's dominance and perplexed at what to do about it. At one point, he urged his agents, or "factors" as they were called, to stir up Indians against private traders. "[A]ll correct means that may be taken to expel those traders," McKenney wrote, would be "of service to humanity and justice."

By 1818, McKenney had reached a dramatic conclusion: the best way to beat Astor was to influence Congress to ban all private fur traders. If this could be done, McKenney could monopolize the fur trade, sell the Indians what he wanted them to have, and

pursue his dream of amending their heads and hearts. "Armies themselves," McKenney argued, "would not be so effectual in regulating the native Inhabitants as would a state of dependence on the Government for their *commercial intercourse*." Sure, McKenney admitted, a monopoly "embraces the idea of compulsion." But "the power over the Indians is coveted [sic] only for their good—and also to prevent them from doing harm."

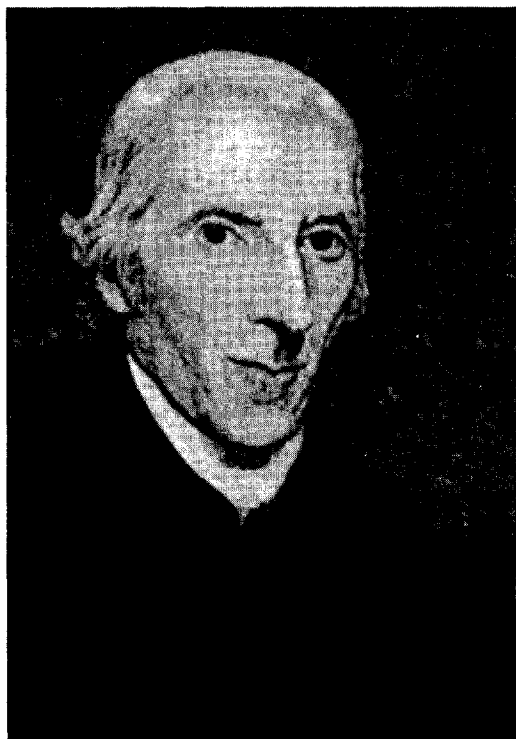
John C. Calhoun, Secretary of War and later vice president, was swayed by McKenney's ideas. "The trade should," Calhoun wrote, "as far as practicable, be put effectually under the control of the Government, in order that . . . [the Indians] may be protected against the fraud and the violence to which their ignorance and weakness would, without such protection, expose them."

Even with friends in high places, however, McKenney couldn't muster the support in Congress to ban private fur trading. He therefore presented two backup plans. First, the government should increase his subsidy from \$300,000 to \$500,000. Second, McKenney wanted to increase the license fees for his competitors. If he couldn't ban private fur traders by law, perhaps he could raise their costs of doing business, and thereby improve the competitive position of his factories.

Astor hated to play politics, but he believed he had to be politically shrewd to survive. He wrote President Monroe and explained how the American Fur Company helped the U.S. economy. Other politicians came to Astor's aid. Governor Ninian Edwards of the Illinois Territory challenged Calhoun: "For my part, I have never been able to discover, and I defy any man to specify, a solitary public advantage that has resulted from it [the factory system] in this country."

From 1816 to 1822, Congress heard from both sides and had frequent debates on the fur trade. For both sides, it was a fight to the death. When McKenney's factories showed a drop in fur sales from \$73,305 in 1816 to \$28,482 in 1819, his case began to weaken.

Astor then took the offensive and urged Congress to abolish the whole factory system. His first step was to get Congress to see how unpopular the factories were with Indi-



Jedidiah Morse (1761–1826)

ans. Calhoun, McKenney's ally, unwittingly cooperated when, as Secretary of War, he helped authorize Jedidiah Morse, a neutral observer and Congregational minister, to go into Indian country and report on the Indian trade.

Morse visited most of the government factories and interviewed the men who worked in them as well as the private traders nearby. In his report he came down clearly against the factories. "In the first place," Morse wrote, "I have to observe that the Factory system . . . does not appear to me to be productive of any great advantage, either to the Indians themselves, or to the Government." This conclusion was devastating because it revealed that the factory system had failed to do what Washington set it up to do—impress the Indians, gain their respect, and challenge the British in the Northwest Territory. Morse further wrote that "the Indians, who are good judges of the quality of the articles they want, are of the opinion that the Factor's goods are not so cheap, taking into consideration their quality, as those of private traders."

Morse was not completely pleased with private traders. They traded too much whiskey, he wrote, and they gave Indians too much on credit, which weakened their work ethic. But he couldn't deny their success or the "want of confidence in the Government . . . expressed by the Indians in my interviews with them."

Armed with the Morse report, Astor's allies in Congress moved to abolish the factories in 1822. Thomas Hart Benton, the new senator from Missouri, had been a lawyer for Astor and knew the fur trade well. On the Senate floor he ridiculed McKenney's purchases, particularly the eight gross (1,152) jew's harps he had recently sent to the factories. What use, Benton asked, could Indians have for jew's harps? "I know!" he said sarcastically. "They are part of McKenney's schemes to amend the heads and hearts of the Indians, to improve their moral and intellectual faculties, and to draw them from the savage and hunter state, and induct them into the innocent pursuits of civilized life."

The End of the Factory System

Not surprisingly, Benton urged Congress to end the factory system. Most Congressmen agreed. The Senate voted 17 to 11 to end the factories, and the House soon followed. On May 6, 1822, President Monroe signed Benton's bill.

The closing of the factories was a story in itself. The merchandise inside them was to be collected and sold at auctions around the country. The money received would then be returned to the government to offset the \$300,000 federal subsidy. The auctions themselves, which became the true test of the market value of the articles in the factories, brought grim news. The government, on its \$300,000 investment, received a return of only \$56,038.15. As Senator Benton had said, "The factory system grew out of a national calamity, and has been one itself."

Many Congressmen were astounded at the waste of government funds revealed by the auctions. If Astor could make millions of dollars trading furs, how could the government lose hundreds of thousands? Critics

demanded answers and Congress formed a committee to investigate the unprofitability of the factories. They sifted through mountains of records and interviewed lines of witnesses. McKenney was on the spot and had to testify, but the committee found no corruption, just "inexplicable" losses. The factory system just failed, the committee concluded, but it needed to be studied "not only as a matter of curious history, but for the lesson it teaches to succeeding legislators."

Astor, meanwhile, continued to expand and prosper. New companies entered the fur trade during the 1820s and existing ones continued to challenge Astor. The competition was keen and Astor's volume of business varied from place to place. The American Fur Company, however, remained the largest firm in the field after the factories were closed. Astor, better than any American before him, had mastered the complex accounting and organization needed to conduct a worldwide business.

Astor and McKenney: An Epilogue

By the late 1820s and into the 1830s, the fur trade began to decline. Astor always knew the trade couldn't flourish forever—furs were being collected faster than new animals were growing them. Changing tastes slowed down business even more than the scarcity of animals. As Astor noted from Paris in 1832, "they

make hats of silk in place of Beaver." Also, the Industrial Revolution and the popularity of cheap, mass-produced clothing shut down markets for furs. "[M]any articles of manufacture which are now very low can be used in place of deer skins & furs," Astor observed in 1823. "[T]hey receive of course the preference." Evidently it didn't occur to Astor to try to get the government to handicap or eliminate his competition.

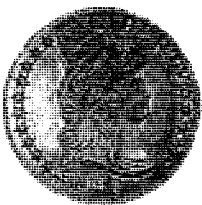
In 1834, three years before Michigan became a state, Astor quit the fur business and sold the American Fur Company. He was 71 years old and ready to do less strenuous work. The same skills that made him America's largest fur trader also made him profits in New York real estate. For many years, Astor had been buying lots in northern Manhattan, developing the property, and selling it at a profit. This he continued to do. He also invested in the Park Theatre, the Mohawk and Hudson Railroad Company, and the Astor House Hotel. By the time of his death in 1848, he had accumulated America's largest fortune, about \$10 million.

The last years of McKenney's life were not so pleasant. Outside of government, he struggled as a businessman, writer, and lecturer. His wife died, and his son became a wastrel. McKenney lived out of his suitcase, borrowing money and moving from city to city. In 1859 he died, at age 73, destitute, in a Brooklyn boarding house. □

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Three Fallacies of Rent Control

by Robert Batemarco

From New York to Boston to Toronto, rent control is under attack. Not surprisingly, beneficiaries of this legislated plunder of providers rental housing are sparing no effort to maintain their unmerited privileges. In so doing, they resort to a wide variety of fallacious arguments. Three in particular stand out and will be discussed here.

1. “Rent control may not be needed everywhere, but my city is a special case.”

Whole schools of “economic” thought have formed around the idea that all economic principles are special cases with no universal validity. This notion is actually an attack on the very status of economics as a science. As Ludwig von Mises noted, an attack on economics itself is the only way to undermine the irrefutable case that economic analysis makes against all kinds of interferences with the market. “If one tries to refute the devastating criticism leveled by economics against all these interventionist schemes, one is forced to deny the very existence . . . of a science of economics. . . .”¹

The “special case” argument has been used by partisans of rent control. New York City’s rent control regulations are actually codified in legislative enactments of New York State. Recent attempts to weaken, if not eliminate, rent control regulations have been spearheaded by upstate lawmakers. This led New York State Assembly Speaker Sheldon Silver, who represents a Manhattan district, to quip in reference to its housing situation: “I would

suggest that New York City is a lot different from Troy.”² The implication is that while rent control may not be necessary and effective in Troy, it works wonders for New York City. Yet one of the hallmarks of economic law is its universal validity. In this case, whenever government prevents the charging of prices high enough to clear the market, shortages will occur. This is true in New York, in Troy, or in Timbuktu, regardless of whether the market is for rental housing, gasoline, or medical care.

2. “A free market would make housing unaffordable for most people.”

The longevity of rent controls has worked to the advantage of its supporters. Most New Yorkers have lived with rent regulation for so long that they have no conception of how the market sets rents in the absence of controls. For the lack of both experience with a free housing market as well as theoretical understanding, they are willing to believe the most ludicrous “horror stories.” For instance, Speaker Silver suggests that repeal of rent stabilization laws would drive the middle class out of the city, asserting that “If the rents were tripled it would drive tenants out of the city.”³ My impression is that the period of rent controls has itself been characterized by a massive outflow of middle-class people from the city, which, as theory tells us, is no accident. The very logic of rent control is to make it possible for lower-income people to compete more successfully with the middle class for the limited stock of rental housing.

Furthermore, how can anyone know that rents would triple? There was no tripling of oil

Dr. Batemarco is director of analytics at a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York.

prices when petroleum was decontrolled. Indeed, the fact that rents are not triple in similar lodgings in neighboring Nassau or Westchester counties, or in New Jersey, or for uncontrolled units within the five boroughs would keep rents from rising to anywhere near those levels. Moreover, had all New York City rents been held to as little as one-third of market levels, the harm done would have been even greater than it in fact was.

In Toronto, where an entrenched rent control law is also under attack, the scare tactics are equally ludicrous. One advocate of Ontario's rent regulations went so far as to assert that a free market would make housing unaffordable for most citizens. If this were true, it would mean that landlords would rather let their property sit idle and generate no income at all than charge affordable rents which would yield them a return on their investment. In a normally functioning market affordable rents would be profitable. The only situation in which they would not be profitable would be if government provided massive subsidies for the construction and maintenance of rental housing and then suddenly cut those same subsidies off. Such subsidies actually would induce suppliers to make more housing services available than consumers could afford. Their cessation would permit consumers to reassert their preferences for less housing and more of other goods and services. As a result, the rents they would be willing and able to pay would no longer yield a profit to landlords. Clearly, however, this would be an example of *government* failure, not market failure.

The idea that there is something sacrosanct about current rents has also permeated the consciousness of most tenant advocates. This belief is predicated on the notion that there is a "just price" independent of all market considerations. Such a view, which reflects lack of understanding of the need for markets to adapt to change may have been understandable (if no more valid) during the Middle Ages when it was developed. However, given the dizzying pace of change in the twentieth-century United States, there is no excuse for it. If anything, its espousal is more

an emotional reaction against such change than a reasoned response to it.

3. "Tenants' wishes should be given precedence over landlords' rights."

"Tenants' rights" have often been invoked in support of rent control. The 1994 referendum abolishing rent control in Massachusetts was characterized by one rent control advocate as "the shattering of the tenant rights movement."⁴ Legitimate rights, whether those of tenants or of anyone else are all derived from the right of people to dispose of their property in any way they see fit that does not infringe upon the equal right of others to do the same.

An agreement to rent property is a voluntary exchange. Neither party to that exchange has a right to terms that the other does not agree to. Yet precisely such a right is constantly asserted by rent control advocates. Thus, we hear people such as tenant "activist" Bill Rowen saying that without regulation, "Any landlord in New York who doesn't want a tenant would immediately move to do something about it."⁵ While such action may not be fair in many cases, in a free society it would be well within the rights of any landlord not bound by contractual arrangements to the contrary. Tenants have no more right to stay permanently in an apartment of a landlord wishing to make a better deal with someone else than an employee has to be kept on the payroll by an employer who no longer finds his services necessary.

Another complaint which is supposed to be a persuasive argument in favor of rent control comes from tenants who say they, "couldn't live in Manhattan without rent control."⁶ Since when is living in Manhattan an inalienable right? If it is, do non-renters have a similar right? While I would not exercise an inalienable right to live in Manhattan if I had one, I would much prefer to live in Chappaqua or Irvington than Peekskill where I do live. Does that desire translate into a right? Hardly. In a market order, no one has the right to consume more than he produces. If I wish to consume more housing services by living in a more expensive area, I basically have two choices: consume less of something else or produce more, by taking a second job,

working hard enough to get promoted on my current job, or switching to a field where what I produce is more valuable to consumers. The frenzied insistence of so many that they deserve better accommodations without taking any of those steps shows how deeply ingrained the desire to get "something for nothing" is in our day and age.

The nature of reality is that we can't always have everything we want. Trade-offs must be made and markets, housing markets no less than others, make those trade-offs clear. Indeed, the fact that markets tell us that some of the trade-offs required mean that some things we want are unobtainable goes a long way toward explaining the antipathy of so many toward markets. Realizing that there is

no Santa Claus (who never requires trade-offs) is a big, if painful, step in the maturation process from childhood to adulthood. For believers in rent control, then, it's time to grow up. □

1. Ludwig von Mises, "The Historical Setting of the Austrian School of Economics," in Bettina Bien Greaves, ed., *Austrian Economics: An Anthology* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1996), p. 66.

2. Gregg Birnbaum, "Battle Pits City against Upstate," *New York Post*, December 6, 1996, p. 4.

3. Dan Jamison and Gregg Birnbaum, "Rent Laws Face Eviction Fight," *New York Post*, December 6, 1996, p. 4.

4. Lester Lee, "The Shattering of the Massachusetts Tenants Rights Movement," *New England Peacework*, 264, June 1996.

5. Jamison and Birnbaum, p. 5.

6. Frankie Edozien and Bryna Taubman, "Both Sides Have Their Horror Stories," *New York Post*, December 6, 1996, p. 30.

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Should Profits Be Shared with Workers?

by Dwight R. Lee

When most people argue that firms should share profits with workers, they are not interested in the general distribution of business receipts.¹ Rather, they are pointing to firms experiencing exceptionally high profits and claiming that fairness requires that most of those profits be passed on to workers. For example, management consultant Alfie Kohn states, "If a company has had a profitable year, I see no reason those gains should not be distributed to the employees; after all, their work is what produced the profits."²

At a superficial level, it may seem only right that when a firm is doing well, its good fortune should be shared with the workers who made it possible. And, indeed, workers do benefit when their firms are profitable and expanding because their jobs are more secure and opportunities for promotion are greater. But shouldn't firms making high profits directly share some of those profits with their workers by increasing their wages much more than in leaner times? Workers and their union representatives are frequently quick to use high profits as justification for demanding large wage increases, but is it wise to acquiesce?

It is generally true that those fortunate enough to work for highly profitable firms receive higher wages than those who work for barely profitable firms.³ But this is not the same as a firm giving its workers a large wage

increase whenever it experiences a large profit increase. Firms seldom do this for reasons of efficiency, fairness, and the best interests of their workers.

Efficiency

Consider first the efficiency of sharing profits with workers. Although many people see profits as nothing more than rich people accumulating more wealth, profits serve a vital function in creating wealth by allowing consumers to communicate how they want scarce resources allocated among competing productive activities. A firm earning a large profit is using resources to create more value (as measured by what it sells its output for) than those resources could create elsewhere in the economy (as measured by what the firm has to pay for its inputs). The total value of production can then be increased, with the same use of resources, by reallocating resources to highly profitable firms and away from less profitable firms elsewhere in the economy. And this is exactly the reallocation of productive resources financed and motivated by high profits. Firms typically reinvest high profits right back into the productive activity that generated them by bidding resources, both human and non-human, away from less profitable activities. Output expands in the high-profit firms (driving their rate of return down) and contracts in the low-profit firms (driving their rate of return up) until

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additional inputs are worth no more in the former than in the latter.

This efficient reallocation would be impossible if a firm that began making high profits, say because of an increase in the demand for its product, used those profits to increase the wages of its workers. Firms are forced by competition to pay their workers at least as much as they are worth in their best alternative employments. If a firm devoted its high profits to paying its current workers more than is justified by their productivity, it would be unable to attract the additional resources it needs to expand. The workers receiving the higher wages would be obviously better off in the short run, but their gains would be more than offset by the losses (forgone opportunities) suffered by others in the economy.

Fairness

Quite apart from the adverse effects on efficiency, paying workers higher wages when the profits of the firm they work for are high forces firms to behave in ways that will be widely seen as unfair. If, because of high profits, a firm offers wages well in excess of their opportunity cost (the amount needed to attract workers with the appropriate skills from other employments), more people will want to work for that firm than it can afford to hire. This creates a situation where firms find themselves having to choose workers on the basis of non-economic considerations. Regardless of how firms make those choices, they will be criticized for practicing favoritism and unfair discrimination by those who are not chosen, and maybe with justification. Certainly the fairest approach, and the one that penalizes discriminating on non-economic grounds, is to give all workers the opportunity to compete for jobs on the basis of their productive ability. This opportunity is denied to most workers when some are being paid more than their productivity warrants.

But even those who would get large wage increases because they work for firms creating high profits would probably not benefit from a policy of sharing in those profits, and certainly not if the policy were fairly implemented. If workers receive large wage in-

creases when their firm is making large profits, then fairness would require that they also receive wage cuts when profits decline. Indeed, if workers favored a consistent policy of sharing in the profits, then they should be prepared to give money back (receive negative wages) when their firm (as firms often do) loses money. But workers obviously would not be happy with such a policy. It would expose them to all the risks that confront the owners of the firm, risks that few workers are willing to bear. People willing to accept large risks typically start their own businesses, or invest in businesses that others start, in return for a higher average, but very uncertain, return. Workers are typically more risk averse, as evidenced by the fact that they choose to work for others for a lower average, but more certain, return in the form of a fixed salary or wage.

Of course, some firms have attempted to motivate workers to be more productive through arrangements that give them some ownership in the firm. But these plans are not what those calling for sharing high profits with workers have in mind, since they can impose losses on workers when profits decline. For this reason, these profit-sharing plans are not widespread. Furthermore, when they do exist, profit-sharing plans are typically rather limited because even under the best of circumstances they do little to motivate workers to be more productive.

The Free-Rider Temptation

Profit-sharing arrangements are easily frustrated by the free-rider temptation. Although it is *collectively* rational for all employees to work harder in response to profit sharing, it is not *individually* rational to do so. Each worker will recognize that if others work harder, that he will reap the benefits from higher profits without extra effort. Each worker also recognizes that if others don't work harder, then his share of the additional profit generated by extra effort is too small to be worth the effort.

For example, assume that there are 1,000 workers in a firm, each earning \$15.00 per hour. Also assume a profit-sharing plan is established that would increase total worker productivity, and therefore worker compen-

Unless workers are willing to take the losses that are inevitable in business activity, as well as the gains, the argument that fairness requires that workers share in the profits of their firms is an empty one.

sation, by \$40,000 per week if all workers reduce their shirking on the job by one hour per week. This is clearly a good deal for the workers, since each one stands to receive \$40 for putting in just one more hour of genuine effort. But consider the payoff each individual would realize from his decision to shirk an hour less. The individual who puts in one more hour of work would be responsible for increasing total compensation by \$40 (assuming that each individual's impact on productivity is the same as everyone else's, and independent of what others do). But since the additional \$40 is spread over all 1,000 workers, his share, in the form of higher wages is only \$.04. How many would be willing to give up an hour of on-the-job leisure for \$.04? At that hourly rate a person would have to work an entire 40-hour week to make enough to buy a small box of popcorn at the movies.

So having workers share consistently in the profits of their firm is not a policy many workers would find attractive. Such profit-sharing arrangements do little to motivate more productive effort, while imposing risk on workers that few are comfortable accepting. This explains why profit-sharing arrangements are often short-lived.

Consider the experience of Du Pont's fibers division. In 1988, Du Pont began an incentive pay plan for its fibers division workers. Workers were to commit some of their annual pay increases to an "at risk pot" until it contained 6 percent of their annual compensation. They were to share in the profits through bonuses based on how well the division did compared to a target of a 4 percent real growth in profits. If, for example, profits increased by 5 percent, then workers would be paid the 6 percent of the pay they contributed plus another 6 percent. If profits increased by 6 percent, workers

would be paid their 6 percent plus the maximum bonus of 12 percent. On the other hand, if the division just made its profit target of 4 percent, the workers would get just their 6 percent back, with no bonus. And if the division's profits fell to 80 percent or less of its profit target, then the workers lost the 6 percent of the pay they put at risk.⁴

Even though the risk the Du Pont plan imposed on its workers was less than a complete profit-sharing plan would have imposed, some workers expressed concern about gambling with a significant amount of their annual pay before the plan went into effect.⁵ This concern was temporarily disregarded, however, when in 1989 profits exceeded the target and workers received \$19 million in bonuses. Few people complain about the risk when they are holding a winning hand. But in the 1990 recession, the fibers division's profits were not meeting the target and workers were going to lose some of their at-risk pay under the incentive pay plan. The prospect of this loss did not sit well with the division's 20,000 workers, most of whom took something other than an entrepreneurial attitude toward the downside of risk. Faced with complaints and problems with worker morale, Du Pont canceled the incentive plan, letting the workers avoid the type of loss that those who want to share in profits have to be willing to accept.⁶

More recently, Wal-Mart Stores has experienced some difficulties with its profit-sharing plan. Probably no other U.S. company has used stock incentives more than Wal-Mart to motivate hard work and loyalty from its workers. And for years it worked as Wal-Mart stock steadily increased in value (100 shares of Wal-Mart stock, which cost \$1,650 in 1970 when it first went public, were worth \$3.5 million in February 1993). But then the stock

experienced a decline, going from \$34.125 a share in February 1993 to \$20.875 on the first trading day in 1995. During this decline, the profit-sharing plan became a source of worker complaints and demands for more pay and union representation. As reported in the *Wall Street Journal*, "The world's largest retailer is also discovering the risks in a profit-sharing plan heavily invested in its own stocks."⁷

Unless workers are willing to take the losses that are inevitable in business activity, as well as the gains, the argument that fairness requires that workers share in the profits of their firms is an empty one. Many workers, and their representatives who call for sharing profits with workers, seem to believe that fairness means "Heads I win, tails you lose." All workers are better off, and treated more fairly, when most profits are retained by firms to expand the production of goods and services that consumers are communicating with those profits that they want more of. □

1. At one level the answer to the question in the title of this paper is, of course profits should be shared with workers. The only durable source of compensation for any worker (whether in the private or public sector) is the revenue earned by profitable businesses. Indeed, by a wide margin, most of the national income goes to pay workers. In 1994, for example, employee compensation made up 73.4 percent of the national income, with corporate profits coming to 9.9 percent and proprietors' and rental income (not all of which can be counted as business profits) amounting to 9.2 percent. The rest of the national income in 1994, or 7.5 percent, went to net interest. These figures are found on page 39 of Herbert Stein and Murray Foss, *The New Illustrated Guide to the American Economy* (Washington, D.C.: The American Enterprise Institute Press, 1995).

2. See page 183 of Alfie Kohn, *Punished by Rewards* (Boston: Houghton Mifflin Company, 1993).

3. This does not necessarily mean, however, that highly profitable firms are more generous in sharing profits with their workers than are less profitable firms. More likely, highly profitable firms are paying higher wages to attract workers more skilled than those working for less profitable firms.

4. For more details on the plan, see Nancy L. Perry, "Here Come Richer, Riskier Pay Plans," *Fortune*, December 19, 1988, pp. 50-58.

5. See "All Eyes on Du Pont's Incentive Pay Plan," *Wall Street Journal*, December 5, 1988, p. A-1.

6. Richard Koenig, "Du Pont Plan Linking Pay to Fibers Profit Unravels," *Wall Street Journal*, October 25, 1990, p. B-1.

7. See Bob Ortega, "What Does Wal-Mart Do If Stock Drops Cuts Into Workers' Morale?" *Wall Street Journal*, January 4, 1995, p. A1.

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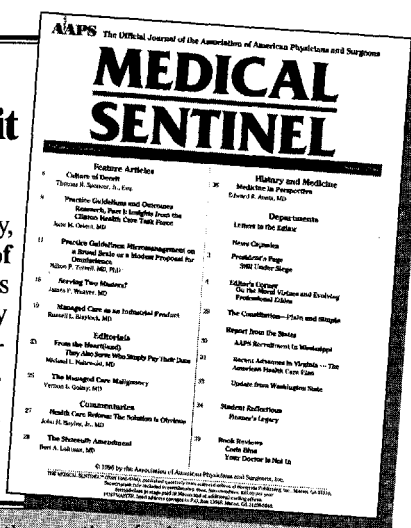
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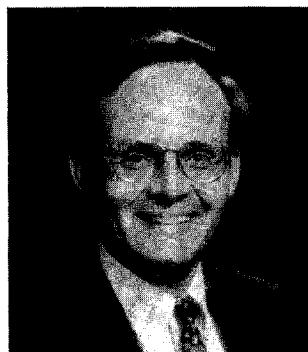


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1086-4784





The Futility of Class Warfare

With the collapse of socialism both as a theory and as a practical system of economic organization the world over, one might expect the rhetoric of class warfare to subside as well. But class warfare is alive and well in prominent academic circles and the mainstream national media.

It's a familiar refrain: capitalism is doing itself in by concentrating wealth in the hands of a few. Saving the system from its own sins requires an activist government to intervene to make sure more people get their share of the economic pie.

In a recent issue of *America* magazine, Jeffrey R. Gates bemoans the fact that too many Americans have too little wealth. The solution, he says, is for the government to devise a grand plan, a "national ownership strategy" that will spread the people's wealth around according to some centrally planned formula.

Imagine that. The same government that can't manage its own fiscal affairs, that squanders billions of other people's dollars in subsidies for corporations and foreign regimes, that wasted a trillion more in a counterproductive war on poverty, is now supposed to preside over what Mr. Gates calls a "national ownership strategy" for the American people.

Gates cites, among other sources, a 1995 study of New York University professor Ed-

ward Wolff, who argued that wealth is more concentrated in the hands of a few than at any time since the 1920s. Wolff's study was severely flawed, however, because of its false assumptions and many omissions. For example, it gave little attention to the shifting patterns within income categories.

In an economy with great mobility, people simply do not remain in the same top and bottom income categories over time. Treasury Department data show that of the U.S. households in the bottom one-fifth of incomes in 1979, only 14 percent remained there by 1988. Meanwhile, 35 percent of 1979's top one-fifth had fallen from the top by 1988.

Wolff's study found a widening gap in the distribution of wealth in part because, amazingly, it excluded the value of pension plans! When wealth is measured more broadly, as it should be, to include pension benefits, home equity, and autos, the "wealth gap" reduces to a tempest in a teapot.

Many recent economic studies refute the "rich are getting richer while the poor are getting poorer" scenario that Gates, Wolff, and others present as fact:

- John Weicher of the American Enterprise Institute has shown that the portion of the country's total wealth owned by the richest one percent of Americans remains virtually unchanged since 1963. Ownership of mutual funds and retirement accounts among average households has soared in the last 20 years.

- Kenneth Deavers of the Employment Policy Foundation has shown that between 1970 and 1990, the share of families with real

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income of less than \$35,000 fell about 9 percent at the same time the share making more than \$50,000 rose by more than 34 percent.

- Benjamin Schwartz in *World Policy Journal* recently reviewed the long-term history of income inequality in the United States. He found that income inequality, even of an extreme nature at times, has always been a feature of the U.S. economy, throughout its two centuries of producing an ever higher standard of living for the vast share of the total population. In fact, income inequality is lower today than it was in 1890, when 12 percent of the population owned about 86 percent of the country's wealth.

- W. Michael Cox and Richard Alm tracked a representative group of Americans to find out what happened to their incomes. The period they studied was 1975 to 1991—a wider span of time than that represented by the Treasury Department numbers cited above. Cox and Alm found out that the poor didn't get poorer at all. In fact, only 5 percent of the people whose income comprised the bottom fifth in 1975 were still in that bracket in 1991. Sixty percent of them rose all the way to the top 40 percent of all earners.

If inequality of wealth is a problem, there certainly is a far more fruitful solution than forcible redistribution of income. The answer, which free-market economists have persuasively championed, is to remove the endless barriers to entrepreneurship erected by all levels of government.

Government drains off more than a hundred billion dollars of productive capital each

year with its deficit spending, for instance. Onerous taxes, regulations, and bureaucratic red tape keep many aspiring entrepreneurs from getting a start and employing others who need work. Welfare policies pay millions to stay in poverty. The government education monopoly spends a fortune and all too often guarantees that children are ill-prepared for a productive future.

The fact is, when people have problems accumulating capital, it's not capitalism's fault. It's the fault of a system that puts political obstacles in the way of economic progress. Americans have erected so many roadblocks over the years that it is a great tribute to enterprise that so much wealth has been created anyway.

Interventionists, unfortunately, have a knack for refusing to take responsibility for their own handiwork. They propose **A** and when it fails, they propose **B** to deal with the problems that **A** created. **B**, of course, is yet another intervention and when it flops, they propose intervention **C**, and on and on. It seems that actual effects and results don't matter, that mere good intentions are sufficient to avoid culpability for bad advice and move on to the next reckless recommendation.

Class-warfare warriors are hung up on simplistic prescriptions for government action that reduce to redistribution of income. They should recognize the futility of that approach and embrace a fresh one—the approach that starts with the assumption that the way to foster broad-based economic progress is to clear the decks of counterproductive, government-erected barriers to progress. □

First, Let's Deregulate All the Lawyers

by George C. Leef

Organized groups—businesses, labor unions, professional associations—frequently lobby for laws and regulations to shield them from having to face wide open competition. “Competition is great everywhere else,” they say, “but our particular field is different. We need sensible controls and regulations to protect the public against incompetence and the evils of cutthroat competition.” What the group is really after, of course, is cartelization, backed up by the power of the government, without which cartels seldom work very well or last very long. In a free market, competition keeps breaking out, but if members of a group restrict competition, they enjoy exceptionally high profits or earnings for an extended period of time.

Occupational licensure is the technique most often used by professional groups that wish to restrict competition. Since the legal profession has always had a uniquely powerful position to influence the law, it is not surprising that it has been one of the most successful at the game of cartelization. Lawyers have maintained that their learned profession is somehow above ordinary marketplace competition, which is fine for plumbers and dry

cleaners, but undignified in so cerebral a calling as theirs. To suppress the indignity of competition, the legal profession erected internal barriers against it—mandatory fee schedules and prohibitions against advertising were long a part of the bar’s canons of “professional ethics”—and obtained protection against external competition from state legislatures in the form of “Unauthorized Practice of Law” statutes. These statutes, in effect in every state except Arizona, make it illegal for anyone who is not a licensed attorney to engage in the “practice of law,” thus protecting lawyers against competition from people who have some legal knowledge, but aren’t licensed.

For decades, this scheme worked beautifully—for the lawyers, anyway. But the legal profession’s fortress has been crumbling since the 1970s, when the Supreme Court ruled against both mandatory fee schedules and advertising prohibitions on antitrust grounds. Only the unauthorized practice of law (UPL) statutes still stand. The question I wish to explore here is whether there is any reason to retain these laws. I conclude, both on economic and moral grounds, that there is not.

Protecting the Public?

Supposedly, UPL statutes are necessary in order to protect the public against incompetent provision of legal services. The assumption upon which this rests is that no person

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who has not successfully completed the three years of law school and passed the bar exam (the obligatory rite of passage for aspiring attorneys) can be competent to assist another person with a legal problem. Or, to put it another way, the law assumes that the only way to acquire the knowledge necessary to help others with legal problems is by going through the very costly, time-consuming process of earning enough course credits in law school and then memorizing enough of the smattering of legal knowledge that is tested on bar exams to pass. Is this assumption true?

No, it is not true. A law school education is very broad, but shallow. A law graduate has some knowledge about quite a few, but by no means all, fields of the law, but usually is not ready to handle cases on his own. After entering legal practice, he will develop a specialty. The broad study of the law undertaken in law school is not necessarily a waste, but neither is it indispensable. People can learn as much about the law outside of law school as they can in one. Throughout much of our history, most lawyers learned the law as apprentices rather than as students; graduation from law school has been obligatory in most states only since the 1930s.

Some aspects of the law are exceedingly complex and require many years of study to master—the tax code for instance. Many accountants, however, are just as conversant with the IRS code as are the best lawyers and they are more conversant than lawyers whose expertise lies elsewhere. But there are other aspects of the law that are not particularly hard to learn. Drawing up a will, for example, is not necessarily difficult and can be competently done by someone who has invested less than three years' training.

By requiring that legal services be performed by (or at least "overseen" by) licensed attorneys, the price of those services is driven up. There would be a larger supply of people willing to provide relatively simple legal services if UPL statutes did not arbitrarily set such high standards for entry into the field. A larger supply of practitioners would mean lower prices and more options for consumers. Studies done by the American Bar Associa-

tion show that significant numbers of people, mainly the poor, are priced out of the market for legal help. That would occur less frequently if we didn't have UPL statutes.

But if we didn't have these laws, wouldn't that lead to a lot of incompetent, even dishonest, legal practitioners preying upon the poor? Might that not be even worse than getting no help at all? This counterargument seems to have some plausibility, but both theory and history collapse it.

Poor people are seldom foolish shoppers. They, like nearly all humans, try to protect themselves against bad contracting decisions by acquiring information about the other party before parting with any of their money. Reputation, references, location, advertising—these and other sources of information about a practitioner's honesty and reliability help the consumer to filter out questionable service providers.

But the self-interest of the consumer is not the only filter at work here. The self-interest of the provider is also important. It is very much in the interest of providers of services that they not fail at their tasks and leave dissatisfied, angry, even litigious clients in their wake. To enter into a field and then fail to live up to expectations is very costly. You are likely to lose what you have invested and harm your future business prospects if you undertake work that you are not capable of doing. Markets, therefore, do not just filter out incompetents after they have proven themselves so, but to a great extent also filter them out *prospectively*. So when you put these two self-interest filters in place, as the market does, you would expect to find very few instances of consumer harm due to incompetence.

Experience confirms this. In Arizona, which has had no UPL statute since 1986, there is a robust market for legal services. People who have (or think they have) simple legal needs can and do patronize legal clinics staffed by non-lawyers who know how to do certain kinds of legal work. They charge the market price, which is often significantly less than licensed attorneys charge for the same service. There is no indication that consumers who obtain help from non-lawyers

are more dissatisfied with the service they receive than are consumers who deal with lawyers. UPL statutes, the Arizona experience demonstrates, do not protect consumers; they simply take away from them the option of contracting with people who would like to serve them but haven't gone through the steps necessary for licensure. You don't make people better off by taking options away from them.

The question is not whether there will be competency standards or not. The question is how they will be established. UPL (and other occupational licensure statutes) work on the theory that government knows the optimal level of training. The market also sets standards, however. The standards of the market are not articulated as are legislated standards, but they are none the less real and far more useful than are arbitrary, politically driven standards. That is because the market's standards focus on *results* (can you do this to the satisfaction of customers?) whereas government standards focus on *credentials* (have you completed the required studies?). Attorney licensing evidently adds only to cost for consumers, not to their protection against incompetence.

If we allowed a free market in legal services, would every transaction with an unlicensed practitioner turn out satisfactorily? No. That is an impossibly high standard, one not attained by licensed attorneys or anyone else. What we can conclude, however, is that most would turn out satisfactorily and that many people would be able to obtain legal assistance for a lower price than they would be able to under the market-restricting status quo.

Pro Bono Work and Legal Subsidies

Spokesmen for bar organizations readily admit that there is a problem with affordability of legal services for poorer people, but rarely will they consider the solution of opening the market up to individuals who haven't gone through the proving grounds of law school. Instead, they usually suggest remedying the problem by increasing pro bono work

(i.e., work done by lawyers for free) and increasing governmental subsidies for legal services for the poor. Neither is a good solution.

If a lawyer wants to donate some of his time to doing work for poor people, there is nothing wrong with that, but the poor would be much better served if they could shop in a free market and contract for what they need. A practitioner with whom they contract is going to be more accountable and more motivated to do a good job than is a lawyer who is grudgingly putting in his pro bono time. He also will probably be more competent in that particular field. A paralegal who handles lots of landlord-tenant disputes, for example, is likely to do better work than is, say, a patent lawyer who remembers little if anything about this field of the law, if he ever learned about it at all.

Government-subsidized legal services (such as the Legal Services Corporation) are both questionable and morally objectionable. Subsidizing legal services is an inferior solution because the funds are apt to be (and clearly have been) drained away into left-wing advocacy, but even if that weren't true and every dollar appropriated actually went toward providing legal services for the poor, subsidies would still be objectionable. Taxpayers should not be forced to give up any of their money to subsidize anything. It is an abuse of governmental power to take money from Citizen A to give it, directly or indirectly, to Citizen B. Perhaps B does need legal assistance that he "can't afford" (read: regards as less important than other potential uses of his money). But his "need" does not justify taking money away from Citizen A, who has needs of his own and is *entitled* to it. Besides, once an entitlement to subsidized legal services is established, the level of "need" for them will rapidly rise. It is easy to see why the legal profession advocates legal subsidies! But, again, a free market would do poor people more good.

Certification

There is a noncoercive alternative to licensure that is far superior, namely, certification.

Certification is an informational device that helps consumers to find the practitioner they want more easily and also helps the practitioner market his services. Consider, for example, the designation "Certified Public Accountant." It is not mandatory that people who wish to do accounting work first obtain C.P.A. status. There is no Unauthorized Practice of Accounting law. But people who desire to establish themselves as having attained a high degree of competence in the field of accounting *voluntarily* take the C.P.A. exam. Earning this certification helps to differentiate them from accountants with a lesser degree of (demonstrated) knowledge. People who have accounting needs that are simple don't bother calling on a C.P.A., whose added expertise isn't worth the added cost of hiring him; those whose accounting needs are very complicated don't bother with non-C.P.A.s, who presumably aren't capable of handling the work.

Certification is widely used in other professional fields, such as insurance and investment counseling, and the legal profession relies upon it once an individual has obtained his license. If a lawyer wants to be known as a good trial attorney, he can (but does not have to) seek certification from the National Board of Trial Advocacy. There is no law against Unauthorized Trial Practice and a bad trial lawyer can do a client at least as much harm as, for example, an unlicensed will-drafter (usually a lot more), but the profession relies on incentive-driven voluntary action by lawyers to obtain the highly specialized knowledge they need to capably represent clients in court. Why, then, can't we rely upon incentive-driven voluntary action by non-lawyers to obtain the knowledge they need to assist their clients?

If we repealed UPL statutes, a system of voluntary certification would almost undoubtedly arise. Membership in the bar might survive the test of the market as a worthwhile certification, but so might others. Perhaps we would see phrases like "Certified by the National Association of Criminal Defense Advocates" by names in the yellow pages. Consumers would be guided thereby in narrowing their search for the right person to

handle their problem, but they would always have the option of contracting with whomever they wanted.

Legal Education

Repeal of UPL statutes would have a major impact on the market for legal education. These laws set in stone the existing mode of legal education, since you can't take the bar exam unless you first graduate from an "approved" law school. That requires three years of study covering a wide assortment of subjects. There is no other way of becoming a lawyer, so the law schools have, as Judge Richard Posner has put it, a captive market.

How do we know that three years of study is optimal as the minimum to enter the field of law? In the nineteenth century, before we had attorney licensing and law school accreditation, the number of years spent in law school ranged from zero to two. Many people who wanted to become lawyers learned the law as apprentices or read it on their own. Some chose to attend law schools, but the course of study was in almost all instances, between one and two years.

The American Bar Association's three-year standard is protected from the test of the marketplace. If we repealed the UPL statutes, people intending to enter the field would have to ask themselves, "Is the cost of an additional year (or semester) of study here worth it? Does the present value of my expected increase in earnings exceed my costs for this additional period of study, or not?" I surmise and am reasonably confident that many would answer no at some point short of three years.

The law's insistence that individuals must put in three years of law school to become a licensed attorney almost certainly leads to an overinvestment in legal education that increases both the cost of such education and, subsequently, the cost of hiring a licensed practitioner. It is impossible to say just what effects the market's discovery process would have if it were allowed to work in legal education, but it would certainly lead to a more efficient allocation of resources than currently.

Freedom

I have saved the most important issue for last. Even if UPL statutes did not interfere with efficiency in the market for legal services, they would still be objectionable because they entail coercion (or threats thereof) against individuals who have committed no violation of the rights of others. When an unlicensed person announces that he is able to assist others with legal problems and contracts with them to do so, he violates no right of theirs. The contract they make is voluntary and peaceful. Both parties expect to and usually do gain.

UPL statutes, however, unleash aggression against people who wish to earn a living by providing legal services, but have not run the gauntlet of law school and the bar exam. They can be subject to arrest, trial, and legal penalties simply for having contracted with other willing people. (They can be punished, incidentally, even if the work they did was perfectly satisfactory to the other party. The vast majority of UPL cases are brought by bar organizations, not aggrieved customers.) The law is supposed to protect the rights of individuals to peacefully pursue their goals in life, not to attack them. UPL statutes, however, do not protect rights—they infringe upon them.

Frederic Bastiat proposed this test for bad laws: "See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime." Let's apply that test here. If one or more licensed attorneys discovered that Smith was "practicing law" by, let us say, helping clients prepare divorce papers and they came to threaten him with harm if he didn't stop doing so, that would constitute criminal behavior on their part. Virtually everyone would condemn their aggression against poor Smith; it would be illegal. With UPL statutes, the attorneys have managed to get the state to commit their acts of aggression for them, but that doesn't in any way cleanse the acts of their wrongfulness.

If one person wishes to contract with another for a service, what credentials or experience the service provider has is a matter to be considered *by that person*. It is no business of the government's. But UPL statutes make it the government's business, threatening legal action against those whom the state has not approved to practice law. The purpose of government is not to make our decisions for us, not to "protect" us by restricting our options, not to tell us when we may offer to contract with others. UPL statutes must be seen as an immoral abuse of governmental power, violating the rights of people to pursue an honest livelihood and enter into contracts.

Conclusion

Consumers are best off if they can shop for the goods and services they want in a free market. By coercively interfering with the market for legal services, imposing a very high barrier to entry, UPL statutes make many consumers worse off.

Workers are best served when they can pursue their self-interest by making what they regard as optimal human capital investments and then selling their labor for the best price they can get in a free market. By threatening them with punishment if they attempt to sell legal services without having obtained governmental permission to do so, UPL statutes make those whose best option would have been selling "unauthorized" legal services worse off.

But UPL statutes aren't just objectionable on these utilitarian grounds. They are *morally* objectionable because they necessarily entail coercion against individuals who have committed no aggression against anyone else.

The legal profession would do both itself and the public a favor if it came out in favor of repeal of UPL statutes. Doing so could only improve the profession's image and that might be important. After all, have you ever heard anyone say, "First, let's kill all the accountants"? □

The Pervasive Duty to Rescue

Donald J. Kochan

As individuals, Americans may *choose* to act as Good Samaritans and come to the aid of those in need, but are not legally *obligated* to do so. Traditionally under American law, no general duty to rescue is imposed upon us. This, at least, was the classic common tort law of England and the United States. Whatever one might think of the morality of declining to rescue people in trouble, there was no legal penalty for merely going about your own business.

Classic tort law imposed no duty of rescue, and, consistent with that concept, government did not feel it had the power to coerce benevolence in public law either. With the creation of the modern welfare state, however, the government has abandoned its previous restraint. A citizen need only look at his paycheck each week to realize that he is indeed being forced to come to the aid of others.

The private law of torts illustrates one origin of the prohibition on coerced benevolence and is thereby helpful in understanding the injustice of redistribution. The rule accepted in the common law of torts holds that no one can be legally obligated to provide any level of help to another in need. Tort law expressly indicates that an individual cannot be forced to give up a portion of his liberty to benefit another, no matter how little the cost or how great the benefit. This protection against forced benevolence is a logical ex-

tension from the concept of negative liberty understood at the Founding and embraced in the Constitution: law exists to protect against intrusions on liberty and not as a means for compelling action.

James Madison, the father of the Constitution, was emphatic in his belief that the Constitution fails to grant the government power to redistribute resources for welfare programs of any kind. In an address to the floor of the House in 1794, Madison attacked a welfare bill stating that he could not “undertake to lay [his] finger on that article of the Federal Constitution which granted a right to Congress of expending, upon objects of benevolence, the money of their constituents.”¹ This statement reflects the enumerated powers doctrine, holding that the government cannot act outside of a specific granted power. The Founders did not believe that Congressional power was plenary, as it is often believed to be today.

Given Madison’s statement, it is impossible to believe that the Founders contemplated that Congress should have the power to compel assistance from one citizen to aid another. In private law, C never has a claim to take A’s property merely because he is in want of it due to his destitution. Such actions are rightly called theft and therefore outlawed. There is no reason to believe that the institution of government somehow transforms this principle and grants C (or others purporting to act on his behalf) the power to employ the state to these ends.

Thomas Jefferson’s thoughts on the proper role of government bear repeating here: “A

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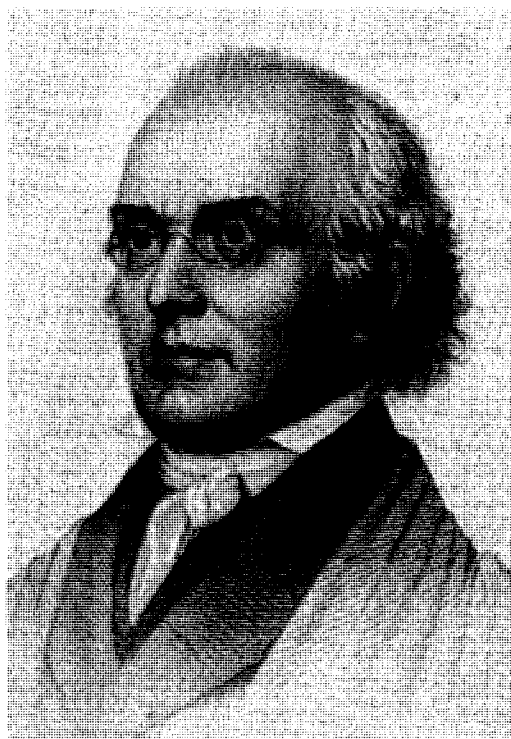
wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, *and shall not take from the mouth of labor the bread it has earned.* This is the sum of good government . . .” [emphasis added]. Taxation to support government welfare programs is clearly at odds with our third president’s philosophy.

Conscience and Constitution

Noted constitutional scholar and Supreme Court Justice Joseph Story wrote that “[A] man has a perfect right to life, to his personal liberty, and to his property; and he may by force assert and vindicate those rights against every aggressor. But he has but an imperfect, right to . . . charity . . . even if he is truly deserving it . . .” where these imperfect rights “may not be asserted by force of law, but are obligatory only on the conscience of parties.”²

Ironically enough, some key supporters of the New Deal also recognized that the emerging welfare state was unconstitutional. In 1935, Franklin Roosevelt wrote to the chairman of the House Ways and Means Committee saying, “I hope your committee will not permit doubts as to constitutionality, however reasonable, to block the suggested legislation.”³ In 1968, Rexford Guy Tugwell, a principal architect of the New Deal, observed, “To the extent that these [New Deal policies] developed, they were tortured interpretations of a document [i.e., the Constitution] intended to prevent them.”⁴

Social Security, unemployment benefits, corporate subsidies, farm subsidies, public housing, and countless other manifestations of the welfare state are all coerced transfers which impose an affirmative duty to “rescue” upon us. (Many of the beneficiaries, of course, are not in peril or even the least bit needy, but have learned to play the political game well enough to collect large amounts from the government.) This not only adversely affects individual liberty, but also increases the number of imperfect rescues. Government programs create dependency, create flawed incentives, and are too broad and generalized to



Joseph Story (1779–1845)

target resources effectively. They hurt more than they help. In tort law, an individual can be held liable for a failed rescue when his heroic attempts are beyond his capacity and actually do harm to the one in need of assistance.⁵ The government, however, is not liable for the harm its “rescue” programs do.

Only private charity can meet the requirements of those truly in need of assistance. Private funds can be targeted toward those in actual need. Moreover, private organizations are smaller and more localized, allowing them to address the specific problems that needy people have and apply specific solutions, instead of merely sending out impersonal checks drawn against government accounts. Finally, private charities must be more accountable, for they do not have the coercive power of taxation available to ensure continued funding.

Government programs, unfortunately, have co-opted this superior private approach. Many people believe that they need not get involved because of a flawed perception that the government is doing the job. Moreover, many cannot afford to assist privately, given

the drain on their budget from taxation. In tort law, a person can be held liable for preventing a needy individual from getting more effective assistance.⁶ That, essentially, is what the government does by its discouragement of private charity, but again, the government is not liable for the harm it does.

The rules of the common law, developed over many centuries, usually exhibit a profound wisdom in the ordering of human affairs. The rule against compulsory rescues is such a rule. If you were obligated to help everyone in need, the demands on your time and money would be almost endless. The only solution to the problem that protects the

individual's freedom of action and property rights is the one adopted by the common law: there is no legal duty to rescue. There may be a moral duty, but the law leaves that to the individual and his conscience. □

1. *The Cato Handbook for Congress: 104th Congress* (Washington, D.C.: Cato Institute, 1995), p. 19.

2. Joseph Story, *Natural Law*, unsigned article in *Encyclopedia Americana*, reprinted as an appendix in James McClellan, *Joseph Story and the American Constitution* (Norman, Okla.: University of Oklahoma Press, 1990 [1971]).

3. *Cato Handbook*, p. 19.

4. *Ibid.*

5. See, e.g., *Farwell v. Keaton*, 396 Mich. 281, 240 N.W. 2d 217 (1976).

6. See, e.g., *Lacey v. U.S.*, 98 F.Supp. 219, 220 (D.Miss. 1951).

A Moral Basis for Liberty

BY ROBERT A. SIRICO

Introduction by Edmund A. Opitz

The political edifice of liberty requires a firm moral foundation, but the moral terminology of contemporary political debate is often secretly at war with liberty. This represents more than linguistic confusion; it is a danger to the proper exercise of virtue in the context of freedom. While liberty's historical roots are found in Jewish and Christian religions, the moral principles of both are overlooked in modern discussion of such basic institutions as entrepreneurship and the welfare state. Modern discussion and evaluation of the two institutions are in need of radical correction. Advocates of capitalism and economic liberty can and should assume the moral high ground.

ISBN 1-57246-059-8 • 72 pages • paperback \$3.95



Published by
The Foundation for Economic Education, Inc.
 Irvington-on-Hudson, NY 10533
 To order, call (800) 452-3518 or fax (914) 591-8910

The Mont Pelerin Society's 50th Anniversary

by Greg Kaza

This year marks the 50th anniversary of the founding of the Mont Pelerin Society, one of this century's most important groups of free-market intellectuals.

The world was a quite different place when 36 free-market thinkers gathered in April 1947 at the Hotel Park at Mont Pelerin, near Vevey, Switzerland.¹ The Soviet Union, the world's leading Marxist-Leninist state, had erected an Iron Curtain across Eastern Europe. China, engulfed in a civil war, was on the verge of a communist takeover. In Western Europe, democratic socialist parties formed ruling coalitions; the electoral strength of the Communist Party reached double digits in several countries. The United States was awash in liberal Keynesianism—sound money had been abandoned for the Bretton Woods Agreement, which ushered in the age of inflation. The idea of “scientific” government economic planning and regulation was in fashion with most intellectuals.

It was against this backdrop of events that Austrian economist Friedrich Hayek organized the first meeting of the Mont Pelerin Society. In 1944, Hayek wrote a seminal book, *The Road to Serfdom*, which argued that government central planning inevitably led to the rise of the totalitarian socialist state. Marxists maintained that fascism was a form

of decaying capitalism, but Hayek's book also included a trenchant critique of Nazism as a form of socialism. After writing *The Road to Serfdom*, Hayek toured the United States. The trip contributed to his decision to issue a call to free-market advocates to meet at Mont Pelerin.

“I have been surprised,” Hayek said in his opening address to the Mont Pelerin Society, “by the number of isolated men whom I found in different places, working on essentially the same problems and on very similar lines. Working in isolation or in very small groups they are, however, constantly forced to defend the basic elements of their beliefs and rarely have opportunity for an interchange of opinion on the more technical problems which arise only if a certain common basis of conviction and ideals is present.”²

Hayek explained, “The need for an international meeting of representatives . . . seemed to me especially great as a result of the war which not only has for so long disrupted many of the normal contacts but also inevitably, and in the best of us, created a self-centredness and nationalist outlook which ill accords with a truly liberal approach to our problems.”³

The First Meeting

A visitor to Mont Pelerin is immediately struck by the breathtaking, panoramic view. A broad piazza overlooks Lac Léman (Lake

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The first meeting of the Mont Pelerin Society took place in breathtaking Alpine splendor, overlooking Lake Geneva.

Geneva) and the alpine Dents du Midi, which are visible in the distance. Across the lake is Evian-les-Bain, France, a spa world-renowned for its bottled water. One nearby resort town is Montreux, home of a well-known international jazz festival. From Vevey, a funicular railway travels up the mountainside to Mont Pelerin, a quiet, semi-rural setting conducive not only for reflection, but for hiking as well. One can hike ten minutes from the railway and stand in a rural field, surrounded by cows and lush green grass. In fact, many of the original Pelerinians, including Hayek, were accomplished hikers and mountaineers.⁴

Pèlerin is the French word for pilgrim. "Pilgrims," remarked American journalist John Davenport, one of the participants, "usually have an idea of the direction they wish to go, though not always agreed on how to get there. Nor is it given to them to know the adventures that will beset them on the road."⁵ So it proved to be here. The participants at the Society's first meeting were a

diverse group, a mix of American libertarian economists and European free-market moderates. Disagreements were apparent during the session. One was between Chicago School monetarists and adherents of the Austrian School, another between theists and agnostics. At the Society's 1984 meeting at Cambridge, England, Davenport elicited a laugh by observing that the original Pelerinians could agree on everything save the subjects of God and gold.⁶

The original participants included Hayek and Ludwig von Mises, the dean of the Austrian-school economists; Wilhelm Röpke, who played a key role in the great German currency reform of 1948, along with Walter Eucken, an anti-Nazi pursued by the Gestapo during the war. Others were philosopher Karl Popper, American journalist Henry Hazlitt, and Lionel Robbins of the London School of Economics. Participants from the newly established Foundation for Economic Education (FEE) were Leonard E. Read, F.A. "Baldy" Harper, and V. Orval Watts. The



F. A. Hayek at the first meeting.

emerging Chicago School was represented by Milton Friedman, his brother-in-law Aaron Director, Frank H. Knight, and George J. Stigler.⁷

The Apprentice Conservative

Stigler later devoted a chapter of his book *Memoirs of an Unregulated Economist* to the Society's first meeting.⁸ "The popularity of Hayek's book," he wrote, "led a conservative midwest foundation, the Volker Fund, to contribute to the support of a meeting he called in Switzerland. . . . I had never met Hayek but my Chicago teachers certified my eligibility for the coming totalitarian firing squads. It showed my lack of inner conviction of the imminence of totalitarianism that the thought never entered my mind."

"It was a revealing first visit," Stigler wrote, "for the younger participants, including Milton Friedman and me. En route we were depressed as much by the austerity of the

British economy as by their food (if an ersatz sausage is indeed food). We were instructed as well as embarrassed by the casualness of French life: We did not learn until we left France that we required food ration tickets. I concluded that the British obeyed all laws, the French none, and the Americans obeyed those laws that deserved obedience—in retrospect, something of a simplification. Indeed the black market was a boon to French economic life; it allowed prices to perform their functions."

Stigler continues, "I was instrumental, for the only time in my life, in instructing Friedman on monetary affairs. We sought to convert some dollars into francs at the unofficial exchange rate rather than the official rate that greatly overvalued the franc. I undertook the exchange and approached the clerk at the Grand Hotel, where we were staying. 'Could you direct me to the closest outlet for the black market in currency?' I asked. 'Go no further, gentlemen' was the response as he extracted a wallet from his jacket."⁹

The discussions at the meeting were at a high level, and were not always harmonious. "The protection of agriculture and of agricultural classes generally had strong supporters and opponents," Stigler wrote. "The gold standard was the cherished goal of the older members, but not of the younger economists. On the last day Hayek proposed a set of basic principles, not as a doctrinaire creed but as a common ground. The first was that we believed in the dignity and cherished the freedom of individuals. The second was that we believed in the institution of private property." Alas, Stigler wrote, "a viper in our midst protested!" French economist Maurice Allais believed at the time "that private ownership of land was untenable . . . [Allais's] fear turned on the fact that if the interest rate went to zero, as he feared it would, land would become infinitely valuable." Stigler noted, "Allais subsequently abandoned his capital theory and this fear."¹⁰

One of Stigler's fondest memories involved Eucken, who had opposed the Nazis and yet remained in Germany during World War II. "I remember," Stigler wrote, "the delight with which [Eucken] ate his first orange in five

years.”¹¹ Friedman also remembers Eucken’s “simple pleasure in eating the fruit.”¹²

The German Economic Miracle

Eucken and his fellow Germans were “to prove to be the surprise package of the conference,” according to Davenport. “Most economists present were theoretically committed to the free market and a civilized order in which the pricing system organizes economic activity and allocates physical and human resources. But few if any had tasted at first hand a situation where such a system had completely disappeared and where a once great economy had been reduced to primitive barter. The Germans had experienced such a catastrophe, and had a hair-raising story to tell.”¹³

The German currency was virtually worthless at the end of World War II, cigarettes having emerged as the preferred medium of exchange. In many cases, Eucken told the conference, farmers refused to sell their foodstuffs for any kind of currency. If you lived in a city and wanted food, you packed your furniture and carted it to a farm in search of potatoes. Barter was not merely theory in postwar Germany. The underground economy was economic fact. Moreover, the United States and British military authorities were not disposed to give West Germany a sound currency, or to let free prices and wages restore incentives and a free-market economic order. On the contrary, they attempted to run the nation through a flood of paper directives and allocations, which Eucken termed *Der Papier Krieg* (the paper war). The paper ordinances were no sooner promulgated than they were disregarded by the German people. In session at the first Society meeting, Eucken pled for sound currency and the lifting of wage and price controls.¹⁴

Eucken was no doctrinaire libertarian. The free-market partisans around him outlined a program for a return to free trade—“liberalism” in Europe—without its seeming political flaws. The terms “neo-liberalism” and “ordo-liberalism” (meaning support for a free economy operating within an “orderly structure”) were coined by the Freiburg University School around Eucken. In the totalitarian

climate of the Nazi period a small group of thinkers developed the doctrine of what became known as the *Soziale Marktwirtschaft*, or the socially conscious free-market economy. Under the Nazis the school was a kind of intellectual resistance movement, requiring great personal courage as well as independence of mind. The free-market doctrine rose in opposition to the dominant conditions of Hitler’s National Socialist regime. It sought to construct an ideal system that would embody the opposites of its authoritarianism and guard against relapses. But the world the Freiburg School painted was not of classical liberalism with its laissez-faire ideal. The Eucken group supported some government action.¹⁵

Another participant, Wilhelm Röpke, helped persuade Eucken’s pupil Ludwig Erhard, then economics minister in West Germany’s provisional government, to abolish price controls, and so make possible the famous German economic miracle of the postwar era. Erhard lifted regulatory controls over a weekend, only to be threatened with jail by the Allied military authorities. Erhard replied, “Ah yes, General, you may put me in prison, but you cannot imprison prices.”¹⁶

Ludwig von Mises at Mont Pelerin

The Austrian School was also represented at the Society’s first meeting. The dean of the Austrian economists was Ludwig von Mises, another refugee from Nazi totalitarianism. His views provided a sharp contrast to those of the Chicago School and the Freiburg School.

Mises was the first economist to demonstrate that socialism could not possibly work because of the absence of a price system. In “Economic Calculation in the Socialist Commonwealth” (1920), he had shown that without the guiding hand of the price system, there was no way to allocate scarce resources intelligently. Mises remained an implacable foe of government economic intervention; this steadfastness brought him into conflict with many of the other attendees, particularly over the role of gold in the monetary system.

To Mises, a monetary system based upon



FEE founder Leonard E. Read (foreground) and other Mont Pelerin conferees.

fiat paper currency under the control of the government was a dangerous and unnecessary concession to government economic intervention. He advocated, rather, a gold-based monetary system. This brought about a vigorous debate with the Chicago School monetarists. Having grown up under the gold standard and having seen the economic destruction brought by unrestrained issue of paper money in Germany after World War I, Mises, as Davenport puts it, was "not above snubbing those who doubted the efficacy of the yellow metal as a medium of exchange and more importantly as a store of value."¹⁷

Mises also clashed with participants who were willing to concede to the government some role in the redistribution of income. This topic led to some spirited discussions. According to Friedman, Mises walked out of one of the meetings, declaring, "You're all a bunch of socialists."¹⁸

Looking Back—and Ahead

The legacy of the Mont Pelerin Society is substantial. It helped to keep alight the lamp

of classical liberalism and free-market thought at a time when the damp winds of socialism and interventionism threatened to extinguish it. Pelerinians Hayek, Friedman, Stigler, and James Buchanan (and four others) have won the Nobel Memorial Prize in Economic Science. Many others have played key roles in advising governments worldwide on how to move their economies toward the free-market ideal. Asked to assess the Society's place in history, Milton Friedman answered, "That is an open-ended question we cannot answer. . . . It certainly played a part."¹⁹

Indeed it did. At age 50, the Mont Pelerin Society is still going strong, boasting as members some of the best minds working in the realm of economics. Inspired by their illustrious predecessors, they will, I am confident, continue to keep that lamp burning brightly. □

1. According to Milton Friedman, only three survive from the original group of 36: Friedman and Aaron Director of the United States, and Maurice Allais of France.

2. Friedrich Hayek, *Opening Address to a Conference at Mont Pelerin*. Hayek delivered the address April 1, 1947, the first day of the proceedings. Published in Hayek's *Studies in Philosophy, Politics and Economics* (Chicago: University of Chicago Press, 1967).

3. *Ibid.*

4. John Davenport, "Reflections on Mont Pelerin," *The Mont Pelerin Society Newsletter*, July 1981.

5. *Ibid.*

6. John Chamberlain, "Hayek Returns to Cambridge," *National Review*, January 11, 1985.

7. Others attending the original conference were Carlo Antoni, Rome; Hans Barth, Zurich; Karl Brandt, Stanford, Calif.; Stanley R. Dennison, Cambridge; Erick Eyck, Oxford; H. D. Gideonse, Brooklyn, N.Y.; F.D. Graham, Princeton, N.J.; T.J.B. Hoff, Oslo; Albert Hunold, Zurich; Bertrand de Jouvenel, Chexbres, Vaud; Carl Iversen, Copenhagen; John Jewkes, Manchester; Fritz Machlup, Buffalo, N.Y.; L. B. Miller, Detroit, Mich.; Felix Morley, Washington, D.C.; Michael Polanyi, Manchester; William E. Rappard, Geneva; Herbert Tingsten, Stockholm; François Trévoux, Lyon; and Miss C. V. Wedgwood, London.

8. George Stigler, *Memoirs of an Unregulated Economist* (New York: Basic Books, 1985). Chapter 9 ("The Apprentice Conservative") discusses the Society's first meeting.

9. *Ibid.*

10. *Ibid.*

11. *Ibid.*

12. Author interview with Friedman, March 1996.

13. Davenport, *op. cit.*

14. *Ibid.*

15. See, e.g., Henry Wallich, *Mainsprings of the German Revival* (New Haven: Yale University Press, 1955).

16. Davenport, *op. cit.*

17. *Ibid.*

18. *Ibid.*

19. Author interview with Friedman. Readers may also wish to consult R. M. Hartwell's *A History of the Mont Pelerin Society* (Indianapolis: Liberty Press, 1995), for additional information.

Do All Roads Lead to Avernus?

Russell Kirk's Conception of Decadence

by Gleaves Whitney

When the late Dr. Russell Kirk sought a publisher for *The Conservative Mind*, he approached a young Chicago firm run by Henry Regnery. Regnery seized on the significance of the manuscript and in 1953 published the book that would help launch the postwar conservative movement in the United States.

That same year, just a few blocks away, another publication was about to debut, and it too would launch a major American movement. Hugh Hefner's controversial magazine would become the vehicle for disseminating the "Playboy philosophy" in the United States.

There is high irony in the fact that the postwar conservative movement and the "Playboy philosophy" were launched within months and indeed within blocks of each other. But Kirk would not have been surprised by the juxtaposition. He warned readers: "It appears to me that our culture labors in an advanced state of decadence; that what many people mistake as the triumph of our culture actually consists in forces that are disintegrating our culture; that the vaunted democratic freedom of liberal society in reality is in servitude to appetites and illusions that attack religious belief, that destroy community

through excessive centralization and urbanization, and that efface life-giving tradition."

The Road to Avernus

If there was an allusion that Kirk believed best captured America's downward descent into decadence, it was the "road to Avernus." The allusion, frequently found in Kirk's later writings, comes from Book VI of Virgil's *Aeneid*. Avernus, according to Latin mythology, was the entrance to Hades. It happens to be a real place, a lake located in the crater of an extinct volcano about eight miles west of Naples. The word is derived from the Greek, "*a-ornis*," literally, "without a bird," because of the belief that its mephitic vapors would cause any bird that flew over it to fall out of the sky. Dryden's translation renders it thus:

Smooth the descent and easy is the way
(The Gates of Hell stand open night and day);

But to return and view the cheerful skies,
In this the task and mighty labour lies.²

According to the *Oxford English Dictionary*, the adjective "avernal" entered our language about 1578 as a synonym for "hellish." This is revealing, for it suggests the intent behind Kirk's repeated allusion to Avernus. Decadence is not so much about Right or Left as

Mr. Whitney is senior speech writer for Michigan Governor John Engler and the senior fellow at the Russell Kirk Center for Cultural Renewal.

about Above and Below; not so much about the choices we make in politics and economics as about the thousands upon thousands of decisions we make in matters of faith and morals. Decadence is not to be confused with sin, of course. They are not the same thing. But in a very real sense decadence is linked to a hellish existence, and in ways that become increasingly apparent as one ponders the many manifestations of cultural crisis. This link, this apprehension that decadence is hellish, is the key or "first principle" to apprehending whether we as individuals and as a people are in decline.

Symptoms of Decadence

But Kirk was no reductionist. He believed that, while the breakdown of faith and morals takes you down the *main* road to Avernus, there are many byroads headed in the same direction—byroads paved with the rubble of failed political and economic systems, with the erosion of civil and domestic society, and with the debris of the arts and higher learning.

The political road to Avernus, for example, has been paved with the ruins of countless ancient cities. At their worst, such cities as Babylon, Persepolis, and Rome illustrate the clinical symptoms of decline. They were Leviathans of unchecked power, overcentralized government, rampant overspending, crushing taxes, lethargic bureaucracies, and a spoils system that rewarded mediocrity.

These symptoms are hardly unfamiliar to readers of *The Freeman*. In 1996 the IRS—the agency most Americans would gladly dump into the crater at Avernus—sent out more than eight billion pages of forms and instructions, and Americans collectively devoted more than five billion hours to filling them out.³ Another statistic that says something about our culture is that, in Washington, D.C., alone, there are three times as many lawyers as are found in the entire nation of Japan. Moreover, if you walk the streets of our nation's capital, you are twice as likely to pass a law firm as a church.⁴ It seems we reward not compromise and consensus, but conflict and concupiscence.

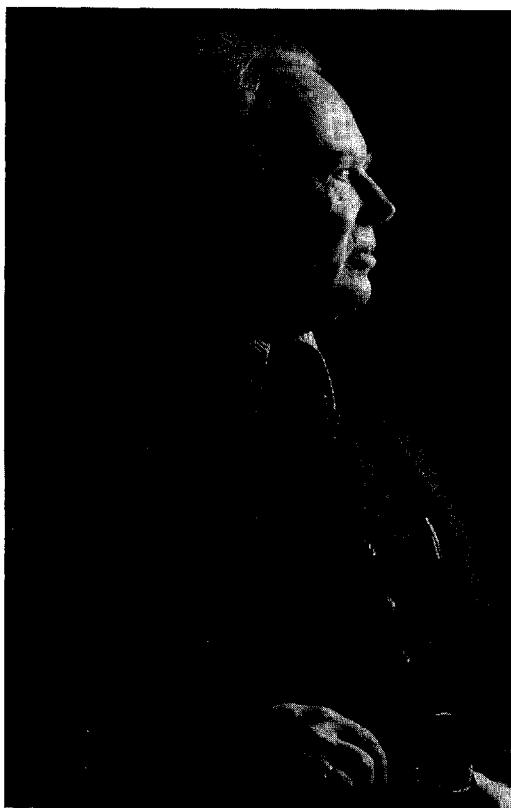
Another important byway to Avernus is

paved with the rubble of failed economic systems and policies. The decline of self-reliance and property holding, the shrinkage of opportunity and the middle class, an obsession with luxury and unearned wealth—these are true signs of the decadent. They certainly were the symptoms that plagued the closing decades of the Roman republic largely as a result of a great influx of slaves. Independent farmers and craftsmen could no longer compete in the marketplace with cheap slave labor, and the traditionally sturdy Roman populace became dependent on government welfare. Rome swelled with a proletariat that developed an appetite for violence, narcotics, and the hideous diversions of the Colosseum. One of the most spectacular gladiatorial contests was put on by the Emperor Trajan, who, even accounting for the exaggerations of Suetonius, pitted some 10,000 gladiators against one another over a period of four months. These mass exhibitions of state-sanctioned murder were just one way Trajan kept the mass of impoverished citizens from thinking about more important things—like how to get rid of him.

Kirk saw the signs of decadence along another well-traveled byroad to Avernus—the erosion of civil society and its institutions. Few could match Kirk's mordant wit when it came to exposing the follies of one terminally decadent institution—the academy. He called Michigan State University, his alma mater, "Behemoth U" because it regarded students as so many Model T's on the assembly line. Likewise he was a trenchant critic of our elementary and secondary schools, which have dumbed down curricula to build up self-esteem, apparently under the illusion that ignorance is bliss.

Modernism and Post-Modernism

Kirk frequently cited the work of C. E. M. Joad,⁵ a Platonist-turned-Christian who discerned signs of decline in all manner of modern and post-modern philosophy. Avant-garde thought was plagued by metaphysical disorientation, confused logic, à-la-carte morality, and the loss of any higher purpose in



Russell Kirk

human life. This century, these symptoms erupted spectacularly among the so-called Parisian intellocrats. These arbiters of intellectual fashion were in fact rampaging ideologues whose thought was distinguished by the failure to test ideas against reality.

With remarkable casuistry, a Sartre or a Merleau-Ponty could argue away the brutalities of Stalinism. A Derrida could vaporize the very concept of meaning—and philosophy and language departments have yet to recover. The Parisian intellocrats prove that ideas—alas, even bad ideas—have consequences.

Still another byway to Avernus can be seen in the debris of modern/post-modern art and humane letters. Peter Ustinov once remarked that if Botticelli were alive today, he'd be working for *Vogue*. But it's not just the trivialization of art that is so disturbing; it's the nastiness. In one of his finest essays, "The Perversity of Recent Fiction," Kirk wrote that contemporary literature had come "a great way . . . down the road to Avernus. And as

literature sinks into the perverse, so modern civilization falls into ruin." So many books and Hollywood scripts were "products of the diabolical imagination, in that they pandered to the lust for violence, destruction, cruelty, and sensational disorder." They were singularly lacking in the moral imagination.

The "moral imagination"—this term is one of the most frequently encountered in Kirk's work. It comes from Edmund Burke, and it refers to the human gift to see that we are more than naked apes; indeed, that we are made in the image of God. "The moral imagination," wrote Kirk, "aspires to the apprehending of right order in the soul and right order in the commonwealth." Without it, letters and learning are sterile. Worse, our whole life suffers, for we are cast forth, in Burke's words, "from the world of reason, and order, and peace, and virtue, and fruitful penitence, into the antagonist world of madness, discord, confusion, and unavailing sorrow."⁶

Another byroad to Avernus was lined with the victims of the breakdown of society's most basic institution, the family. Kirk was much impressed by the analysis of the ancient writer Polybius, who attributed the decline of Greece in large measure to the decline of domestic society. Young people were increasingly unwilling to marry; or if they married they were unwilling to have children; or if they had children, they were reluctant to bring them up, preferring instead to let them die of exposure or to give them up for adoption. As a result, a great many city-states lost their vitality and youth; they became easy targets for invasion because there were so few free-men defending the city walls. Again the parallels with contemporary America are ominous.

The Cause of Decadence: Decline of the "Cult"

All these byroads to Avernus deserve study in their own right. But if we only explore the byroads, we will never find our way to the main road, to the root cause of our predicament. We must go beyond the symptoms in politics, economics, civil society, philosophy,

and humane letters. Kirk tells us that the root of our problem is "The dismissal of the sacred: that rejection lies at the heart of our difficulty."⁷ That is the main road to Avernus.

Kirk held that our beliefs, our faiths, are central to our well-being as individuals and as a commonwealth. As the British historian Christopher Dawson frequently put it, a culture comes from the cult; it comes from what a people worship—be it God or mammon. "Cultus" is Latin for worship. People come together around the cult to try to apprehend some greater meaning in their individual and collective lives than grubbing for food and sexual release.

As Kirk used to point out, it is of immense practical importance that groups of families join together in a cult, for only then will they share a moral code. And only when they share a moral code can they begin to cooperate on a large enough scale to defend themselves against marauders while advancing against the brute forces of nature.⁸

Kirk tells us the precise moment when he realized that a culture comes from the cult. He was visiting the Chicago Institute of Art sometime back in the early 1950s, and strolled into a half-darkened corridor on both sides of which were miniature models of medieval buildings, making up a town. At the far end of the exhibit, in a case dominating the display, was the model of a great Gothic cathedral. The accompanying placard explained that the exhibition culminated in the church because it was the focus of all human activity, and the core and source of our civilization.

The experience was to have a lasting effect on the man who described himself, at the time, as a "thoroughgoing secularist." The encounter in that half-darkened corridor suddenly made him alive to the historic reality of Christian culture. And he became convinced

that "Civilization, the civilization we have known, is the child of the church."⁹

"But suppose," Kirk challenged us, "suppose that with the elapse of centuries, faith diminishes and the cult withers. What then of a civilization that has been rooted in the cult?"

He concluded: "... my own study of such concerns has led me to conclude that a civilization, a culture, cannot survive the dying of the belief in the transcendent order that brought it into being." "When belief in the cult has been wretchedly enfeebled, the culture will decay swiftly. . . . So it has come to pass, here in the closing years of the twentieth century."¹⁰

Hence America's decline on the road to Avernus.

Yet Kirk was not without hope. He used to quote a line from St. Gregory the Great, who lived in the wake of the collapse of the Western Empire. Rome lay about him in ruin. A dark age had descended upon the West. But Gregory, in one of his more famous sermons, said: "See how the world now withers in itself; yet still flowers in our heart."¹¹ □

1. *Brewer's Dictionary of Phrase and Fable*, 14th ed., s.v. "Avernus," p. 63.

2. Virgil, *The Aeneid*, Book VI, lines 128–31.

3. John Steele Gordon, "American Taxation," *American Heritage*, May–June 1996, p. 63.

4. Dick Armey, "How Taxes Corrupt," *Wall Street Journal*, June 19, 1996.

5. Cf. C. E. M. Joad, *Decadence: A Philosophical Enquiry* (London, 1948).

6. Russell Kirk, "The Perversity of Recent Fiction," address to the Heritage Foundation, Washington, D.C., May 21, 1981, p. 3. This essay appears in *Redeeming the Time*, a collection of Kirk's writings, edited by Jeffrey O. Nelson (Wilmington, Del.: Intercollegiate Studies Institute, 1996).

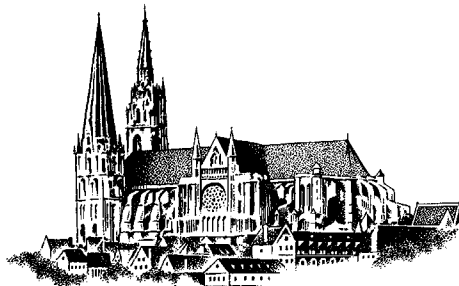
7. Russell Kirk, "A Culture's Road to Avernus," in *Essays on Our Times*, vol. 4 (July 1988), p. 4.

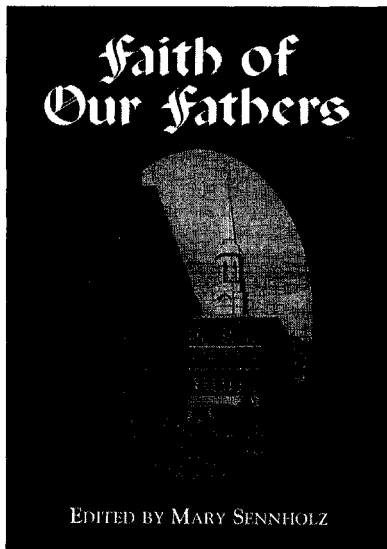
8. *Ibid.*, p. 7.

9. *Ibid.*, p. 8.

10. *Ibid.*, p. 8.

11. St. Gregory the Great, quoted in Kirk, *The Roots of American Order* (Malibu, Cal.: Pepperdine University Press, 1977), p. 172.





Father's Day Gift Suggestion

Faith of Our Fathers

Edited by Mary Sennholz

God-given natural rights were the guiding light of the Founding Fathers. The stirring closing paragraph of the Declaration of Independence was not only the formal pronouncement of independence but also a powerful appeal to the Creator of all rights: "We, therefore, the Representatives of the United States of America, in General Congress, Assembled, appealing to the Supreme Judge of the world for the rectitude of our intentions, do, in the Name, and by

authority of the good People of these Colonies, solemnly publish and declare, that these United Colonies are and of Right ought to be free and independent States." In the final sentence of defiance they appealed to the Almighty for His protection: "And for the support of this declaration, with a firm reliance on the protection of divine Providence, we mutually pledge to each other our Lives, our Fortunes and our Sacred Honor."

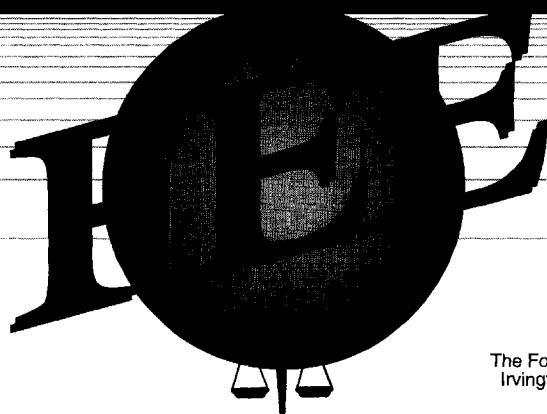
The moral precepts and the self-evident truths that guided our Founding Fathers may not be fashionable in our time, but they are as inescapable and inexorable as they have been throughout the ages. We are free to ignore and disobey them, but we cannot escape the rising price we must pay for defying them.

Faith of Our Fathers includes an incisive introduction by Mary Sennholz and powerful essays by Clarence B. Carson, John Wesley Young, Robert A. Peterson, Wesley H. Hillendahl, Gary North, Ridgway K. Foley, Jr., Hal Watkins, James C. Patrick, Hans F. Sennholz, George C. Roche III, F. A. Harper, Jarret B. Wollstein, Leslie Snyder, Bruce D. Porter, Benjamin A. Rogge, Paul L. Adams, Ken Ewert, Ben Barker, John K. Williams, Edmund A. Opitz, Erik von Kuehnelt-Leddihn, and Calvin D. Linton.



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June 1997

The Unique Role of FEE

by Donald J. Boudreaux

Succeeding Hans Sennholz as president of FEE is humbling enough, but attempting to fill shoes once worn by Leonard Read is downright intimidating. Leonard Read was one of this century's most eloquent and passionate champions of liberty, whose writings continue to inspire me — as they have inspired so many others for the past half-century or so. (I dare not try to count the number of times I've begun a lecture with the marvelous story told in "I, Pencil.")

I cannot begin to express my gratitude to FEE's Board for trusting me to meet the challenge of continuing Leonard Read's mission. I can only say that this challenge is one that I will strive to meet with every ounce of my energies.

When founded in 1946, FEE stood alone as an advocate of free markets and strictly limited government. Today, much to Leonard Read's credit, FEE is one among dozens of foundations dedicated to maintaining a free and open society. Such a proliferation of classical-liberal foundations might seem to place FEE at a disadvantage. With all the fine work done today by the Competitive Enterprise Institute, the Cato Institute, the Reason Foundation, Liberty Fund, the Political Economy Research Center, the Institute for Humane Studies, the Independent Institute, the Mackinac Center for Public Policy and other members of the State Policy Network,

and the many other such "think tanks," what role remains for FEE to perform?

Is FEE destined to become a victim of its own success in promoting classical-liberal ideas?

My answer is a resounding "No!" I would never have accepted the task assigned to me were I not convinced that FEE does indeed have a unique and important role to play as we enter the 21st century. Before identifying that role, let me clarify what FEE is not.

FEE is not a policy advocate. The job of analyzing and explaining policies consistent with liberty belongs to Cato, CEI, the Institute for Justice, and similar organizations. These organizations do a superb job alerting politicians, bureaucrats, judges, and business leaders to the details of sound alternatives to statist "solutions" for various real and imagined social ills.

FEE is not a surrogate graduate school aiming directly to expand the frontiers of academic research. The Institute for Humane Studies, the Center for Study of Public Choice, and other academic centers excel at identifying promising intellects and encouraging talented individuals to produce top-quality research.

FEE is emphatically *not* partisan. For both practical and ideological reasons, FEE supports no political party or candidate. Indeed, FEE's premier goal is a depoliticized society. FEE would be hypocritical in the extreme if it

were aligned with any political party or group of candidates. FEE — which lives by the motto "Ideas Have Consequences" — proudly stands apart from politics, recognizing that partisanship is the natural nemesis of truth.

FEE's immediate charge is continually to educate people in the moral and intellectual principles of liberty. And while FEE reaches out to all people, special effort must be directed toward the young — for it is the young who search most fervently for moral and intellectual guidance. By directing many of our efforts at high-school students and college undergraduates, we not only earn a long-term payoff from our successes — 20 year olds will live for an additional 60 years or longer — but we tap the impressive energies that young people bring to matters about which they are passionate. One fact I've learned from teaching at the university level since 1982 is that young people who are exposed to the intellectual case for the free society quickly see the truth in these ideas and appreciate the immeasurable moral superiority that a depoliticized society enjoys over a politicized one.

FEE's ultimate goal is to remove the burden of proof from those who oppose government intervention and to place this burden where it belongs — namely, upon those who endorse political means. Although today's intellectual climate is more hospitable to free-market ideas than it was in 1946, the burden of proving our case remains on those of us who oppose political means. The popular mind is distressingly oblivious to the amazing capacities of a free people to create all manner of institutions that promote peaceful and productive cooperation under myriad circumstances. Too many people still impulsively believe that government should commandeer tax dollars to pay for, say, flood relief and scientific research; too many people impulsively believe that government health and safety regulations are worthwhile; too many people impulsively believe that discretionary government control over the money supply is necessary . . . the list goes on and on. In short, too many people continue mistakenly to believe that government coercion is generally superior to voluntary exchange and interaction as a means of engendering civil society.

Because we proponents of a depoliticized, private-property-based society still bear the



Donald J. Boudreaux

burden of proving our case against political action, policy-oriented think tanks such as Cato and PERC must struggle ceaselessly to hold back the tide of the Leviathan state. To the extent that FEE succeeds in shifting the burden of proof to advocates of active government, the work of free-market policy shops will be much more effective.

Through *The Freeman*, through our op-ed distribution program, through our seminars, and through our various outreach programs, FEE complements our sister free-market foundations. FEE's efforts to spread widely the timeless truths of fundamental economics and the principles of liberty work as a lever for organizations at other stages in the educational process. By changing the underlying presumptions and attitudes held by most citizens — by making people generally more receptive to private property and free markets — FEE helps to fashion an intellectual and political climate that is much more congenial to policies that promote individual liberty.

Again, the single most effective means of re-establishing the primacy of classical-liberal ideas is to introduce these principles to young people. We must be aware that competition for the attention — and for the hearts and minds — of the young is today more intense than ever. I will do my very best to ensure not only that FEE's message remains true to Leonard Read's ideals, but also to his insistence that these ideals be conveyed clearly, crisply, and creatively.

A handwritten signature in dark ink that reads "Don Boudreaux". The signature is fluid and cursive, with a large initial "D".

President

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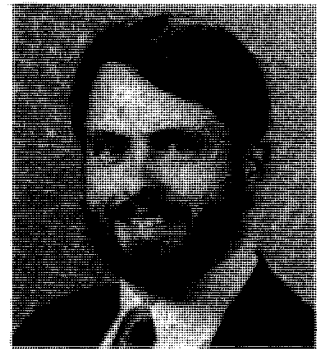
*President, The John Locke Foundation, and author of
The Heroic Enterprise: Business and the Common Good (Free Press, 1996)



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The Liability Lottery: Politics by Other Means



Liability law, no less than war, has become a continuation of politics by other means. When defeated at the ballot box, interest groups dedicated to income redistribution and social engineering now turn to the courtroom. The result is a liability lottery that is simultaneously subverting the market and imposing a de facto tax on all Americans.

The purpose of liability law—reflected in negligent and intentional torts of all sorts—is to support the market by holding people accountable for their actions. Indeed, the principle is fundamentally a moral one: if you, or a product manufactured or sold by you, hurts someone, you are responsible for making that person whole. One can, of course, argue about a lot of legal details. For instance, should the fact that the victim's negligence contributed to the accident bar any recovery or merely reduce the judgment? But no one seriously disputes the basic precept that someone at fault should pay for the harm he or she caused.

Unfortunately, government has distorted this simple principle almost beyond recognition. One tactic has been to create faux rights, the "violation" of which make one liable for enormous damages. The most obvious examples are the civil rights laws, which bar private discrimination for any number of reasons, including disabilities that hamper job performance.

*Mr. Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author and editor of several books, including *Tripwire: Korea* and *U.S. Foreign Policy in a Changed World*.*

Good people in a good society do not discriminate for malevolent reasons, such as race. But the fact that some bad people do doesn't mean the government should proscribe such conduct. Indeed, in the case of race discrimination the government has transformed the moral principle of nondiscrimination into invidious discrimination. Since it proved very difficult to prove that subjective hiring decisions were animated by racism, the government has made the process a numbers game, imposing liability for failure to meet an arbitrary quota, not for actual discrimination. Agencies like the Equal Opportunity Employment Commission have actually advertised for people to step forward and claim that they might have been discriminated against, even if they never applied to work for the company charged with discrimination.

In other cases discrimination is rational, rather than malign. Companies that depend on responsible employees will naturally shun an alcoholic or drug addict—yet to do so now risks liability under the Americans with Disabilities Act. There are also rational reasons to consider age and sex in hiring decisions. For instance, some jobs create greater health risks for pregnant workers. People might prefer that employers not take such factors into account, but that doesn't justify government imposing liability on them for doing so.

Equally serious is the steady subversion of more traditional liability rules, eliminating the necessity of both requiring the plaintiff to act responsibly and finding the defendant to be at fault. Attorneys, judges, and juries have

ranged throughout society looking for deep pockets from whom to transfer cash to perceived victims. As the risk of large, meritless judgments has risen, so has the incentive to settle, rewarding plaintiffs who merely file suit in hopes of being bought off.

Cases involving irresponsible plaintiffs abound—the burglar who injured himself by falling through a school skylight (the California education district settled); the drunk who stumbled in front of a New York Subway train (he exclaimed “what a great country” after winning a multi-million dollar jury award); the cigarette smokers suing the tobacco companies (the government has become a plaintiff, too). In all of these cases liability law is being used to reward irresponsible conduct, rather than to hold blameworthy people and companies accountable for their actions.

The pervasive belief in victimhood has led to excessive judgments even when defendants are genuinely at fault. Millions for hot coffee burns and millions more for a mispainted BMW evidence juries acting like politicians, promiscuously giving away other people's money. Many jurors apparently believe that their job is not to assess fault and harm, but to redistribute wealth—in this case from consumers rather than taxpayers.

More mundane but equally troublesome are cases where courts simply impose liability on the deepest pocket around, irrespective of the evidence regarding fault. This area has been enormously profitable for creative legal minds. Shareholder suits seek to hold liable a company's board of directors for falling stock prices; medical malpractice suits blame doctors for birth defects. Indeed, lawyers once sued—and won judgments—claiming that bumps from a fall caused cancer. Equally bizarre have been massive lawsuits involving asbestos, Bendectin, electromagnetic fields, and so-called multiple chemical sensitivity. The point is not that plaintiffs in such cases sometimes aren't hurting. But they too often fail to prove that the person or company being sued is responsible for their ills.

This is evident in the case of silicone breast implants. They came onto the market in the 1960s and were used by a million women—one percent of America's adult female pop-

ulation. For years there was no evidence of harm, but some women, suffering from various ailments, eventually blamed their implants and sued. Bad publicity followed, along with a power grab by the Food and Drug Administration, which ordered implants off the market in 1992 even though it acknowledged there was no evidence that they caused harm. Panic, inflamed by the trial bar, set in. The result was a deluge of lawsuits, more than 21,000 encompassing nearly a half million women.

The liability surge, not surprisingly, destroyed the silicone breast implant industry. Even manufacturers of other silicone-based products, like cardiac pacemaker wires and artificial joints, became wary of their own businesses. But the primary victims are patients, especially women who've suffered from mastectomies. (The American Cancer Society and eight other cancer groups have petitioned the FDA to lift the ban, contending that the agency's “basis for restricting access to silicone breast implants no longer exists.”)

All of this havoc has resulted from minimal evidence. (In fact, roughly eight out of ten verdicts have gone for the defense.) Federal District Court Judge Robert Jones recently found that the case purporting to show a link between implants and “systemic” illnesses did not meet the scientific threshold justifying its presentation to a jury and dismissed 70 claims.

Overall, the research suggests that implants generate something between no and minimal risk. For instance, a 1994 Mayo Clinic study reported “no association” between implants and connective-tissue diseases. Similar were the results of a Harvard review the following year. In 1996 another Harvard study found no “large hazard” of disease. It noted a “small” increased risk, but the researchers emphasized any effect is “very small,” and acknowledged that this conclusion might reflect women overreporting disease simply because of the massive publicity surrounding implants; the researchers are now attempting to screen out this possible impact.

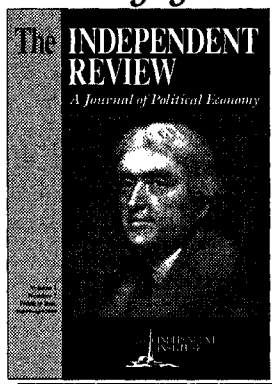
This is not to denigrate the plaintiffs' fears. Explains Dr. Marcia Angell, executive editor of the *New England Journal of Medicine*, and author of the new book *Science on Trial*,

many women have "developed symptoms that any woman over 25 could develop." The drumbeat of publicity convinced many of them that breast implants were to blame.

Additional research on the issue is warranted, but it should be carried out in the laboratory, not the courtroom. Damages should be awarded based on probabilities, not possibilities, especially when those are highly disputed. Moreover, evidence needs to be screened to ensure that it reflects science, not sympathy.

A market system will work only if people who've been injured by the negligence of others are able to receive redress. But that doesn't mean turning American courtrooms into legal lotteries, where neither injury nor fault need be shown for the big prize to be won. Then the overall market economy suffers, along with the defendants wrongly held liable. Whether it's the creation of fake rights or abandonment of traditional standards of negligence, law has increasingly been turned into a tool of politics. □

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The Gift of a Child: The Promise of Freedom

by Clark Durant

A child. What a blessing. Laughter. A sense of discovery and curiosity. Faith—at first—that the world will be a good place. Certain without seeing. Persistent. Resilient. Imperfect. Bold. Dependent. Active. Unrefined possibilities. A heart waiting to be nurtured.

How does a child unlock life's possibilities? There are so many questions along the way: Who am I? What am I to do? What is a good and productive life? What do I need to know? Who will teach me?

Learning begins the moment we're born. We try. We fail. We succeed. We seek. We find. We look and listen. We seek to know or to do something better, until at last we either abandon the effort or reach a point of success and satisfaction—often learning more in our failures than what we first had set out to know or to do. But whether we fail or succeed, our imagination is stirred. We ask (and even the smallest child will), "What else is possible?" Learning, then, is first about being free to seek, question, and own. Yes, *own*. Ultimately, we must own what we learn so that we may be accountable for what we learn, and that it may take shape in our minds, hearts, and actions.

There are two preconditions to learning and knowing: freedom and responsibility. The

freedom to know, to own, to choose, and to fail. The responsibility for making the choices. Unfortunately, freedom and responsibility are not what we have in public education for our children today, and without them, we must fall short in teaching, learning, and knowing. Without them, our teachers and learning enterprises will not have the tools, the capital, or the incentives to perform at the highest level. Further, until we inject freedom and responsibility, we will continue to suffer all manner of ills: student boredom, violence, dropping out, parental dissatisfaction, academic mediocrity, teacher burnout, and a decline in personal behavior and standards.

This is not because bad people work in our educational system. Thousands of committed teachers, principals, superintendents, and school board members work hard in the field of education. They till the soil, plant seeds, and labor diligently to bring forth a bountiful harvest. Enormous resources, material and of the heart, are committed to the task, but the crop never fully matures, its growth stunted. Why? It is because the tools, methods, and organizational structure of our public educational enterprises are poorly suited to their task. There is no accountability for results, no financial incentives, no coupling of results and rewards, and no competition. The preconditions for the optimum performance in learning are simply not present in public education as we know it today . . . and this is not just my observation.

Clark Durant currently serves on the State Board of Education in Michigan and is the immediate past president of the Board. He is also the chairman of the Cornerstone Schools. He and his wife, the former Susan Sparks, have four children.

The late Albert Shanker, former president of the American Federation of Teachers, pointed out that our public education system more resembles the failed command-and-control economies of Eastern Europe than our own free-market system. Command-and-control organizations are neither free nor accountable. Many people in politics, academia, business, and labor recognize this and have therefore called for educational reform. But I contend that most of these calls are misdirected and doomed to failure. Merely to *reform* a fundamentally flawed system—because it lacks freedom and responsibility—is inadequate.

No matter how hard we try; how many standards we impose; how many professional credits we earn; how much money we spend—we will fall short *unless we get at the root of our problem*. As Louis Gerstner, the Chairman of IBM, said to the National Governors Conference in 1995, “We need a 100 percent revolution that discards the old and replaces it with a totally new, performance-driven system.” He’s right, but successful revolutions just don’t happen. They require vision, understanding, and patience.

“Immediately, Exclusively Controlled by the State”

How do we achieve high performance in undertakings other than education? Think about the responsibilities that parents have toward their children. They must provide food, clothing, shelter, communication, transportation, energy, health, love, and an education. To do these things, one or both of the parents must have a job or a business, not just to earn the money needed, but also to set a moral example of how to live a good and responsible life. Now let us ask: Which one of these basic responsibilities to our children would we want provided through a monopoly political enterprise *immediately, exclusively controlled by the state*? Most likely none of them. Yet, the language, “immediately, exclusively controlled by the state,” is the definition that our legislature and courts have used to define public education in Michigan. Other state legislatures and courts have done

much the same. Local public schools are defined not by their mission, but instead by political control, money, and geography.

Normally, before we define something, we first decide what it is that we are about: our goals and objectives. Then we decide the best way to organize ourselves to achieve them. But in public education, we do it backwards. We pre-empt our mission and focus; instead, we *begin* by defining public education by its local geography, organizational attributes, political power and control. We do not look at the mission and standards. This is just the opposite of what we do with other enterprises, particularly ones to meet our basic responsibilities as parents. Is having an enterprise “immediately, exclusively controlled by the state” the best method to fulfill our responsibilities as parents and citizens to educate our children? If we insist on this system by law, how can we ever find out what method or methods are truly best?

Food, Shelter, and Transportation

Let’s look again at some of those responsibilities to our children. Feeding them. Can you imagine food being produced in enterprises that are “immediately, exclusively controlled by the state”? Can you imagine having to shop only at a government grocery store? Or if you decided that you would rather shop at a non-government grocery store, would you be willing first to pay the government for food you did not use before being allowed to shop in a store of your own choosing? Can you imagine food being produced on government farms? Does anyone believe that a government monopoly enterprise could provide the best food in all of its variety and quality and distribute it at the lowest possible price to the people? Either we’d starve, or at best have a bland and not very nutritious diet. More than half the world has tried a system of providing food through enterprises immediately, exclusively controlled by the state and we know it doesn’t work. You need real owners who are accountable and who have a stake in the success or failure of their enterprises if you want the

highest level of performance, achievement, and service to all people.

Consider shelter. We also have an enterprise "immediately, exclusively controlled by the state" here—public housing. Does it meet the shelter needs of our citizens very well, or even adequately? Hardly. Public housing projects are dangerous and depressing. Most parents with children want to escape from public housing.

What about transportation? My home state of Michigan is the car capital of the world, but there is much competition around the globe. In fact, competition improves the product, performance, service, and price. Can you imagine, however, what cars would be like if they were produced in a system without competition, in an enterprise "immediately, exclusively controlled by the state"? It has been done. East Germany produced the Trabant; Yugoslavia produced the Yugo. Do you drive one? Would you do so if you had a choice? I prefer to buy from Ford, General Motors, Chrysler, or from a host of other companies that succeed—or fail—based on how well they satisfy the consumer. So does virtually everyone else.

One hundred and fifty years ago, travel from New York to California and back took at least four weeks, cost an enormous amount of money, entailed considerable risk, and was very uncomfortable. Today, however, you can fly from New York to Los Angeles and back within one day, for a very reasonable fee (even free with Frequent Flyers), with very low risk, while enjoying the comforts of a meal and a movie. Why is it that transportation today is so much faster, cheaper, safer, and more comfortable than it was a century and a half ago? It is because the transportation industry operates in a market—a consumer-focused, innovation- and service-driven, owner-accountable system—not in an enterprise "immediately, exclusively controlled by the state." Here, as elsewhere, the market has produced spectacular results.

So why do we let a government-owned monopoly system educate our precious children? Enterprises "immediately, exclusively controlled by the state" undermine freedom, responsibility, performance, and community.

A politically enforced monopoly does not and *cannot* produce the highest quality standards and results.

We need to de-monopolize and depoliticize our public education enterprises to raise standards, re-energize teachers, strengthen communities, permit wider innovation, and bring down costs, and to allow them to meet the particularized and sometimes unanticipated needs of children. A public school should be a school *the public chooses to have*. Universal access should mean *universal opportunities and choices*.

Peter Drucker has referred to our time as a post-capitalist age, a time of great transformation. No longer is it sufficient to identify the means of production as simply capital, labor, and land. In the post-capitalist age, it is *knowledge* and the application of knowledge to a myriad of transactions that will shape our future. Self-organizing enterprises will offer the strength and capacity to solve problems. Those who understand this will be the leaders in the coming century. This period will require different skills—but classic virtues—from our children if they are to be good and productive citizens. Yet our government education system is rooted in the fixed and bureaucratic framework of a bygone age.

Wanted: New Kinds of Schools

Our schools are more important today than ever before, but they must be different kinds of schools than in the past. We need schools that have the capacity not only to particularize skills and excellences, but also to nurture character and virtue. As Drucker has pointed out, the knowledge society is a society in which many more people than ever before can be successful. But this knowledge can only be acquired through different understandings of teaching, learning, and knowing. Knowledge is portable. It will be created everywhere, quickly and cheaply. It is also changing. Because knowledge is the key resource—more so than land, labor, and capital—self-directed learning and knowledge ownership requires personal responsibility and freedom in order to flower in the garden of opportunity.

Many people currently in public education cringe at the idea of introducing the concepts of the market into their domain. Why? Primarily because markets are perceived as chaotic and impersonal. Some people win, but others lose, they claim. "Schools should be for children, not marketed like products," they say. But markets are just people coming together to trade, giving up something of theirs in return for something else they desire more. There is no loser in a voluntary transaction free of force or fraud. Everyone wins—otherwise the trade wouldn't take place. Free exchange makes possible most everything that makes life easier to bear and enjoy, from the meals we eat, the houses we live in, and the clothes we wear, to the cars we drive, the books we read, and the hospitals that save our lives. We have learned from bitter experience that enterprises "immediately, exclusively controlled by the state" are not good at providing any of these things.

Exchange in the market is characterized by win-win results. Billions of these two-sided victories take place each day all over the world, involving matters of material comfort and also things of the heart. Be glad. Be grateful. Yes, sometimes mistakes are made, the workmanship is poor, or fraud is committed. We may encounter racism. But moral conduct, free exchange and legal protection regarding, among other things, force and fraud, corrects these things best. The occasional imperfection in market exchange is no reason to discard it and its enormous power for satisfaction and innovation.

Many people in public education also object to an educational marketplace because they say the market treats children as if they were just products. Public educators frequently say, however, that children are their raw materials, but unlike businesses, public schools cannot sort and reject imperfect raw materials. They must take them all. Let's set the record straight. Children are not products . . . and they are not raw materials either. They are human beings with a capacity to choose, to discern, and to grow. They are seeking those who can enable them and teach them to fulfill their purpose and build their future.

The market best helps the family or responsible adult to find the people and institutions who will do that for children.

Children are at once the same and yet so different. It is precisely this fact that requires educational freedom. There is a basic platform level of skills (reading, writing, math, and communications), as well as the development of virtue and character necessary in the education of every child. But children learn differently and have different interests and aptitudes. Unfortunately, our politicized education system gives us products, services, and methods that are developed by a command-and-control bureaucracy. Do we choose such a system to provide universal access for any of our other basic responsibilities?

Freedom, Ownership, and Leadership

Leadership is the key to a good school. Leadership in the classroom, in the principal's office, and at home. Real leadership and personal responsibility ultimately depend on freedom and ownership. Ownership leads to accountability for success and failure where people are free to make choices. We need to ask how we can make that ownership possible. Let's do what Lincoln did for the development of the West. He let the taxpayers be true owners of the public lands.

Some may try to sidestep this and say that the taxpayers are the owners of the local public education system. They are not the *owners*. They are the *payers*. Keep in mind, however, that collective ownership really means no ownership at all. It merely shifts power to political bureaucracies. Our new understanding of public schools must include *real* ownership. We will need broad-based funding sources to ensure that no child is denied an education, but we must also have multiple educational providers who have the motivation of ownership and accountability.

Let's have public corporations for a new kind of public education. Let's allow educational entrepreneurs to raise capital in the public markets. If you have a good idea and can produce results, enormous resources are

available. A tremendous variety of educational enterprises, non-profit and, yes, for-profit, will emerge. Community learning centers. Reading clinics. Math outlets. Banks and financial service companies might start a school of business and finance. Automobile makers and their suppliers might start a school for engineers and other related professions. Our houses of faith can create and/or expand existing schools to offer a program to touch the heart and not just the mind. Teachers, principals, parents, and others may start schools. When we let freedom work, we will discover what best serves the educational needs of different families and children.

Innovations invariably result from the creativity of pioneers who develop a product or service that meets a need we might not even have known before. Competition and the innovation that it fosters will bring down the cost and time of education, while increasing the rewards to those who best succeed in providing educational products and services.

Teaching and learning are starved for capital, both personal and financial. Yet, the statutory framework for public education artificially limits (1) the number and type of public learning enterprises and owners, (2) makes it impossible for existing public providers to tap billions of dollars in financial, knowledge and human capital, (3) restricts the capacities and rewards of teachers, and (4) impedes our ability to create new tools for learning for our children. Freedom, responsibility, and ownership are the keys to unlocking the capital we need to make education flourish as never before.

It is crucial that people purchase public

education directly, when and for only as long as they or their children need it. Sovereign consumers have a greater impact on quality and efficiency than a political bureaucracy ever could. Furthermore, if you only pay for education when you use it—like those other parental responsibilities—you will be able to save, invest, and spend according to personal—rather than bureaucratic priorities.

The teachers, principals, and others in our public schools today may and can lead the transformation to our public learning enterprises of tomorrow. There will be others of great creativity to help support and reward these teachers if we open up the system. Traditional schools offering a classic curriculum will have their market, too. They will benefit, as the others will, from innovation, higher investment in technology, distance learning—all bringing lower costs and higher rewards. What is critical for the success of any of these public education enterprises? Freedom, true ownership, and personal responsibility.

Our schools and our children are trapped in the tentacles of an educational establishment “immediately, exclusively controlled by the state.” Separate them. Let our children, families, teachers, principals, superintendents, and communities breathe the fresh air of freedom and the challenges of ownership and self-government. When we permit educational freedom, true universal access, and multiple providers, we will not only get the higher performance we all seek in schools for the public, but also stronger communities rooted in a profound sense of love and personal responsibility. □



Insurance “Redlining” and Government Intervention

by Gary Wolfram

Redlining has been a topic of public policy debate and action for several years. Figuring most prominently in the provision of real estate and mortgage services, it has now spilled over into the provision of insurance. Unfortunately, policy recommendations have generally resulted in attempts to further regulate insurance. The solution to the problem of redlining lies not in further regulation, but in removal of governmental barriers to entry in insurance and other markets, enforcement of property rights in areas with high concentrations of poor people, and reduction or elimination of barriers to economic growth in these areas.

What Is Redlining?

Redlining is generally taken to mean the practice of refusing to provide a product or service within a given geographical region. The term comes from the image of an owner of a service firm drawing a red line around a portion of a map and deciding not to provide any service within that area. This could be a bank official declaring that the bank will not make any loans in the area, a retail drugstore chain declaring it will not put any stores in the area, or an insurance company deciding not to insure any risks in the area.

Two obvious policy questions are: does redlining occur, and if it does, why does it

occur? To answer these questions we must first ask what we mean by redlining. Does redlining exist if ABC Insurance Company decides it will not sell homeowners' insurance in four census tracts in the city of Baltimore, but three other insurance companies all offer such policies? Does redlining exist if ABC Insurance Company only offers certain types of policies in a section of the city, or charges a higher price for insurance in that area than it does elsewhere?

If redlining does exist, is it the result of a market process or simply prejudice? Business decision-makers ordinarily try to obtain business, so a deliberate decision to abstain from it is remarkable. We need to explore the decision-making process to see if it can be explained as something other than irrational discrimination.

Why Discriminatory Redlining Cannot Last in a Market System

The Austrian school of economic thought, as begun by Carl Menger, and developed by Eugen Böhm-Bawerk, Ludwig von Mises, and Friedrich Hayek, has presented in detail how the market system operates. According to Austrian analysis, no firm can long pursue economically inefficient actions without going out of business. Even ignoring opportunities to improve efficiency will result in other firms

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entering, attracting market share, and eventually eliminating those firms that fail to innovate. Because the market system offers sufficient rewards to those who see and pursue new markets, when profitable opportunities arise, firms will enter.

Suppose that my firm decides not to sell insurance in neighborhood A because the managers of my firm are prejudiced against Catholics, who make up a substantial portion of the population of this neighborhood. Suppose also that it is economically feasible to sell insurance in this neighborhood; that is, the potential customers are willing to pay an amount for insurance that covers the marginal cost of selling the insurance. The latter would include such things as the expected losses from those events that are insured against, administrative costs, retailing costs, rental costs for offices, labor costs, and so on. As long as the government has not set up barriers to entering the market for insurance in neighborhood A, other insurance companies that already exist, or new insurance companies—perhaps run by Catholics—will enter that market. The possibility of making profits will ensure that insurance will be provided as long as there are no government-imposed barriers to entering the market.

Nobel Laureate Gary Becker used a slightly different approach to analyze discrimination in his classic work *The Economics of Discrimination*. His point was that one can view a taste for discrimination as part of the production function of firms and the consumption function of purchasers. If we apply this to the insurance example, we see that my firm is giving up profits by not selling insurance to Catholics. My taste for discriminating against Catholics is costing me the amount of profit to be made from serving that market. What will happen is that those firms that have lower tastes for discriminating will enter the Catholic neighborhood and sell insurance, perhaps at a higher price than non-discriminatory firms. But then, the high profits being made in the Catholic neighborhood will attract firms that have even a lower taste for discrimination, say a Catholic-owned firm, and eventually the market will provide insurance at a rate which results in no discrimination in the

insurance market. As long as there are no barriers to entry and the production function for insurance is such that a non-discriminatory firm can supply the market for the neighborhood, then there will be no difference in the provision of insurance in the Catholic neighborhood and non-Catholic neighborhoods that is based upon discrimination against Catholics.

The Cost of Providing Insurance in Urban Areas

The differences in premiums and quantity of insurance written between inner-city areas and the rest of a metropolitan region is likely to be due to differences in the cost of providing insurance. Consider, for example, a 1992 study of insurance availability and affordability in California.¹ The authors present evidence of auto insurance claim frequency, claim severity, and average loss-per-insured vehicle for Los Angeles and three other large California cities and compare it to the statewide average. They also look at claim costs and premiums for 20 California counties and six Los Angeles County cities. The evidence is clear that losses are much higher in Los Angeles than the rest of the state, and there is “a strong positive correlation between claim-costs and average premiums, indicating that the prices insurers charge in different areas are closely related to claim-costs.”²

A study of 18 large cities in 13 states conducted by the National Association of Independent Insurers found similar results: high-premium cities had a frequency of claims much higher than their statewide averages.³ It found that high-premium cities were generally the most congested as measured by population and vehicle densities, that a relatively high number of personal injury claims was a major factor in explaining the difference between high-premium and low-premium cost cities, and that most high-premium cities had significant losses attributed to uninsured motorists.

Cost considerations also explain premium differentials for homeowners' insurance. Underwriting costs are higher in inner cities for several reasons. Buildings tend to be older in

inner cities, with less adequate wiring. They are closer together and more susceptible to fires. Theft and arson rates are higher in these neighborhoods. They are more at risk for civil disorders, such as the Los Angeles riots, which resulted in more than \$200 million in losses. The replacement costs of homes in inner cities may far exceed their market value. When this occurs, there is less incentive to take precautions against fire, since the insured would financially benefit from destruction of the property. Given these facts, it is not at all surprising that insurance companies charge more for insurance in inner-city areas, if they offer it at all.

Forcing Firms to Sell at Regulated Prices

The preferred "solution" to redlining of many who see themselves as champions of the poor is for the government to force insurance companies to sell in all areas of the state, including "redlined" areas, and to sell at regulated, "non-discriminatory" rates. Is this a good solution?

Ludwig von Mises wrote extensively about the effects of government interference in the market process.⁴ The thrust of his argument is that, since the market system is made up of many interrelated industries, interference in one industry will have multiple effects on other industries. These effects will permeate the economic system, causing unintended consequences which will have an overall result detrimental to all. Government intervention, in short, will prove to be counterproductive. While the interested reader can examine Mises's writings, along with those of Hayek,⁵ we can briefly make the point using the insurance example.

Suppose that the government requires firms to sell insurance in given markets at prices below those which they are currently charging. If the market for insurance is open, so that firms can enter the "redlined" neighborhood, then we can presume that the prices for which companies are selling insurance in the neighborhood are sufficient to cover costs and a competitive return on investment, but no more; otherwise other firms would enter

and bid away profits. When the government requires firms to sell at a lower price, they will do one of two things. They will either try to reduce the quality of the product charging the same premium for less coverage, or they will decide that doing business in that state is too costly and exit the market. Neither option is beneficial to consumers.

In an effort to solve the problem of declining quality of insurance, the government will probably be driven to regulate it, specifying what types of policies can or must be offered and at what price. More firms will then decide that it is too expensive to serve the state and will exit. The more the government tries to force insurers to behave in ways that are contrary to their interest, the more it creates a state-wide insurance "crisis."

The mandate to sell insurance at unprofitable rates in "redlined" areas will have further repercussions. If insurance companies can increase prices elsewhere, residents of the state will find their rates rising. But since the precedent has been established that the government intervenes in insurance markets when prices are "too high," there will be more demands for government regulation to drive rates back down. If politicians accede to these demands, we will again see declining insurance quality and/or the departure of firms from the market. The spiral of intervention continues.⁶

The reduced availability of insurance will result in calls for the government to directly supply insurance, which it may eventually do. Of course, the government will be faced with the same dilemma that confronted private firms—that is, it will have to subsidize its losses through other means. In the end, the taxpayer will be paying for losses of the government insurance company, which will have its prices and policy set through the political process, rather than through the market process. All firms that use insurance will now become involved in the political process for setting rates and types of insurance, and the government will eventually bog down in an inefficient, high-cost insurance environment.⁷

Attempts by the government to force firms to sell insurance at certain prices in given

areas will result in inefficiencies and unintended consequences, the most likely of which will be an abandonment of the targeted areas altogether and loss of availability of insurance not only in the targeted areas but throughout the rest of the market. Government will be forced to have all firms, regardless of their specialty, participate in the losing market for insurance in the targeted neighborhoods. Yet, as Adam Smith pointed out in the first sentence of *An Inquiry into the Nature and Causes of the Wealth of Nations*, it is *specialization* that leads to economic growth. Some firms are better able to take on certain risks than others. Some may not be capable of correctly analyzing and underwriting risks in urban areas. Government mandates and controls inhibit specialization and lead to a less efficient use of resources than would be the case on the free market. The more the government interferes with specialization and trade, the poorer the society will be.

There is nothing in principle that distinguishes insurance from any other product. If we accept the right of the government to determine at what prices and in what amounts a product must be sold in a given neighborhood, then what is true for insurance must be true for new cars, used cars, groceries, hardware items, dry-cleaning services, and so on. This idea is entirely repugnant, as it sounds the death knell for private property and the market order. Can we require every car dealer to sell its cars for the same price in every neighborhood? Can we require every hardware store to operate at a certain number of locations in every neighborhood? Can we require every dry cleaner to service a certain number of customers in every neighborhood? As we extend the principle to other goods and services, the fallacy of the proposition that the government can and should intervene in the insurance market and force equal premiums and equal amounts of insurance in every neighborhood becomes obvious.

Solving the Real Problem

The real problem is that people in the areas where redlining is a concern have low

incomes. Because they have low incomes, their housing is older and less safe, and they are concentrated in areas where crime rates are high. Attempting to lower insurance rates through coercion will only aggravate their problems. Insurance companies will be reluctant to enter the market and there will be a true shortage of insurance as the price is held below the market-clearing price. There will be less insurance provided and fewer jobs created by the insurance industry.

The ultimate solution to the problem is to increase the incomes of people who live in "redlined" areas. This can only be done by increasing the amount of capital that each person has to work with,⁸ including *physical capital*, such as machinery and equipment, and *human capital*, for example, training and formal education. Job opportunities and wages will increase for residents of low-income areas once greater capital investment raises their productivity. This will then allow them to increase the quality of their housing, reduce the threat of fire and theft, and generally improve their living conditions. When this happens, the probability of theft or fire decreases and they become more attractive customers for insurance companies. Insurance rates will decline due to the force of free-market competition, not because of coercive government intervention.

Reduced regulatory costs and lower taxes, would improve the job opportunities of urban dwellers, giving them a chance to upgrade their housing stock and reduce insurance costs. This would also stabilize neighborhoods, thus providing more certainty to insurance companies and improving their ability to forecast losses, again resulting in lower insurance premiums.

Increased quality of education for inner-city dwellers is perhaps the primary way of improving the circumstances of residents there. There is a large and growing literature on how to improve schools. This is not the place to provide an answer to the problems of inner-city schools. However, improved educational opportunity for those living in so-called redlined areas would do more for the

housing stock than a thousand statutes purporting to deal with insurance redlining.

Stronger enforcement of property rights in urban areas would also have a salutary effect on the cost of insurance. If the police could reduce the probability of theft and arson, then insurance rates to protect against loss by theft and arson would decline. If fire departments were able to respond more quickly and efficiently to fires, then homeowners' and renters' insurance rates would be reduced.

Since insurance is regulated by states under the McCarran-Ferguson Act,⁹ each state must look to its insurance code in order to examine barriers to entry that may preclude persons from forming insurance companies to compete in urban areas, or preclude existing companies from competing in urban areas. As an example, the formation of community-based financial cooperatives have made useful contributions to the credit problems of low-income areas in Britain.¹⁰ States might alter their insurance codes to provide incentives for the creation of community-based insurance companies that can service urban areas more efficiently than larger companies that may have to rely on less specific data to set rates.

Conclusion

It is unlikely that redlining, in the sense of insurance companies deliberately not selling to certain areas because of racial discrimination, or selling at rates that create high profits, exists. In the absence of government barriers to entry, insurance companies would enter markets where profits could be made, increasing the supply of services and driving down prices.

Poor people suffer from a number of maladies. They live in areas which have a high concentration of other poor persons, standard housing, high incidence of fire, theft, and other crimes, unstable family conditions, and so on. Government intervention in the provision of any good or service, whether it be insurance, food, or medical care, in order to

improve the living conditions of the poor will only result in creating problems that exceed those which they try to correct. Attempts to set the price of anything below the market-clearing price will create shortages and aggravate the problems of inner-city residents. This will then require the government to force the provision of the good or service to the area. This will in turn lead to further government regulation and use of the political process to allocate scarce resources. Since markets are the most efficient way of organizing society's resources, everyone will be made worse off.¹¹

Instead of pointing to "redlining" and making it an excuse for interference with the insurance market, we should focus on the real problems, which are the low incomes of persons in the inner cities and the high cost of providing insurance. The reduction of crime, better fire protection, lower taxes, better schools, and reduced occupational licensing and zoning regulations, are the real solutions to the problems of inner-city life. □

1. S. Harrington and G. Niehaus, "Dealing with Insurance Availability and Affordability Problems in Inner Cities: An Analysis of the California Proposal," *Journal of Insurance Regulation*, Vol. 10, No. 4, 1992, 564-584.

2. *Ibid.*, p. 569.

3. *Factors Affecting Urban Auto Insurance Costs*, December 1988.

4. See, for example, *Economic Policy: Thoughts for Today and Tomorrow* (South Bend, Ind.: Gateway, 1979), chp. 3.

5. See, for example, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

6. Hayek points out how government action on an *ad hoc* basis will result in its being driven to further actions that were not contemplated nor desired. See *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 111.

7. For those who feel this scenario is far-fetched, look at the various proposals for state insurance companies, FAIR plans, insurance codes, etc. We now are discussing a national disaster protection act which would create a national government insurance company. For more of this see, G. Wolfram, "The Natural Disaster Protection Act: A Disaster Waiting to Happen," *The Freeman*, August 1994.

8. See Ludwig von Mises, *Planning for Freedom*, 4th edition (South Holland, Ill.: Libertarian Press, 1980), p. 4.

9. 59 Stat. 33, 15 U.S.C. Sec. 1011 et seq.

10. See A. McArthur, A. McGregor, and R. Stewart, "Credit Unions and Low-income Communities," *Urban Studies*, Vol. 30, No. 2, 1993, pp. 399-416.

11. For a detailed discussion of the problems created by government intervention in insurance markets, see Harrington and Niehaus, *op. cit.*

Frederic Bastiat, Ingenious Champion for Liberty and Peace

by Jim Powell

Frederic Bastiat ranks among the most spirited defenders of economic freedom and international peace.

Nobel Laureate F.A. Hayek called Bastiat “a publicist of genius.” The great Austrian economist Ludwig von Mises saluted Bastiat’s “immortal contributions.” Best-selling economics journalist Henry Hazlitt marveled at Bastiat’s “uncanny clairvoyance.” Said intellectual historian Murray N. Rothbard: “Bastiat was indeed a lucid and superb writer, whose brilliant and witty essays and fables to this day are remarkable and devastating demolitions of protectionism and of all forms of government subsidy and control. He was a truly scintillating advocate of an untrammelled free market.”

The Provisioning of Paris

Witness the eloquence with which Bastiat expressed the seeming miracle of free-market prosperity and predicted the failure of government intervention: “On coming to Paris for a visit, I said to myself: Here are a million

human beings who would all die in a few days if supplies of all sorts did not flow into this great metropolis. It staggers the imagination to try to comprehend the vast multiplicity of objects that must pass through its gates tomorrow, if its inhabitants are to be preserved from the horrors of famine, insurrection, and pillage. And yet all are sleeping peacefully at this moment, without being disturbed for a single instant by the idea of so frightful a prospect. On the other hand, eighty departments have worked today, without co-operative planning or mutual arrangements, to keep Paris supplied.

“How does each succeeding day manage to bring to this gigantic market just what is necessary—neither too much nor too little? What, then, is the resourceful and secret power that governs the amazing regularity of such complicated movements, a regularity in which everyone has such implicit faith, although his prosperity and his very life depend upon it? That power is an *absolute principle*, the principle of free exchange. We put our faith in that inner light which Providence has placed in the hearts of all men, and to which has been entrusted the preservation and the unlimited improvement of our species, a light we term *self-interest*, which is so illuminating, so constant, and so penetrating, when it is left free of every hindrance.

“Where would you be, inhabitants of Paris, if some cabinet minister decided to substitute for that power contrivances of his own inven-

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The author thanks long-time FEE senior staffer Bettina Bien Greaves for making available the Dean Russell Collection, quite possibly the world's most extensive archive of Bastiat material.

tion, however superior we might suppose them to be; if he proposed to subject this prodigious mechanism to his supreme direction, to take control of all of it into his own hands, to determine by whom, where, how, and under what conditions everything should be produced, transported, exchanged, and consumed? Although there may be much suffering within your walls, although misery, despair, and perhaps starvation, cause more tears to flow than your warm-hearted charity can wipe away, it is probable, I dare say it is certain, that the arbitrary intervention of the government would infinitely multiply this suffering and spread among all of you the ills that now affect only a small number of your fellow-citizens."

Bastiat's work offers an enormous wealth of such gems. For instance: *"The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else."*

- "Nothing enters the public treasury for the benefit of a citizen or a class unless other citizens and other classes have been forced to put it there . . . heavy government expenditures and liberty are incompatible."

- "War, slavery, imposture, inequitable taxation, monopoly, privilege, unethical practices, colonialism, the right to employment, the right to credit, the right to education, the right to public aid, progressive taxation in direct or inverse ratio to the ability to pay—all are so many battering rams."

- "If nations remain permanently in the world market; if their interrelations cannot be broken without their peoples' suffering the double discomfort of privation and glut; they will no longer need the mighty navies that bankrupt them or the vast armies that weigh them down."

- "To be free, on one's own responsibility, to think and to act, to speak and to write, to labor and to exchange, to teach and to learn—this alone is to be free."

Bastiat was a blazing light of French classical liberalism, which developed awesome intellectual firepower. The most illustrious names include Baron de Montesquieu (1689–1755), François Quesnay (1694–1774), Anne Robert Jacques Turgot (1727–1781), Marquis de Condorcet (1743–1794), Gabriel-Honoré

Mirabeau (1749–1791), Marquis de Lafayette (1757–1834), Germaine de Stael (1766–1817), Benjamin Constant (1767–1830), Jean Baptiste Say (1767–1832), Victor Hugo (1802–1885), and Alexis de Tocqueville (1805–1859). Bastiat stood on the shoulders of his predecessors, helped keep alive a vision of natural rights, inspired his compatriots, and won new converts. He reached out to free trade crusader Richard Cobden in England, and he inspired John Prince Smith, who launched the free trade movement in Germany. Bastiat's influence extended into Belgium, Italy, Spain, and Sweden as well.

He certainly didn't look impressive. In 1845, his friend Gustave de Molinari recalled: "With his long hair, his small hat, his large frock coat and his family umbrella, he could have been easily mistaken for an honest peasant who had come to Paris for the first time to see the sights of the city." Another friend, Louis Reybaud, added: "under the country costume and good-natured attitude, there was a natural dignity of deportment and flashes of a keen intelligence, and one quickly discovered an honest heart and a generous soul. His eyes, especially, were lighted up with singular brightness and fire."

Biographer George Roche noted that "the Bastiat of 1848 was far more cosmopolitan, arriving dressed in the styles of the time. More important, though his emaciated face and hollow voice betrayed the ravages of disease within him, there was something about the glitter of his dark eyes which made immediately clear to all his associates that Bastiat now possessed both the worldly experience of Parisian society and a strong sense of mission."

Claude Frederic Bastiat was born on June 30, 1801, in Bayonne, a seaport in the department of Landes in southwestern France. Bayonne was a quiet medieval town, a political backwater. His father, Pierre, worked with the family banking and export firm, which did business in Spain and Portugal. His mother, Marie-Julie Frechou, died when he was seven. After his father died two years later, Frederic moved in with his aunt Justine Bastiat and his paternal grandfather, Pierre Bastiat.

They sent him to schools in Bayonne, then to the Benedictine college of Sorèze, which attracted students from Britain, Greece, Italy, Holland, Poland, Spain, and the United States, contributing to his cosmopolitan outlook. He learned English, Italian, and Spanish. He read literature and philosophy, and he played the violoncello.

When Bastiat was 17, he left Sorèze to join his uncle Henry de Monclar in the same banking and export firm where his father had worked. While he didn't want a commercial career, he was interested in the civilizing influence of commerce and the many ways that laws hurt people. He observed, for instance, how the 1816 French tariff throttled trade, resulting in empty warehouses and idle docks around Bayonne. In 1819, the government put steep tariffs on corn, meat, and sugar, making poor people suffer from needlessly high food prices. High tariffs on English and Swiss cotton led to widespread smuggling.

Jean Baptiste Say

Bastiat explored books about political economy, as economics was called. "I have read the *Traité d'économie politique* by Jean Baptiste Say, an excellent and methodical study," he wrote a friend. Say descended from Protestants who had fled France during religious persecution. He worked for a while in Britain before joining a Paris insurance company. There his boss suggested that he read Adam Smith's *Wealth of Nations*. The book thrilled him, and he resolved to learn more about how an economy works. His first literary work was a 1789 pamphlet defending freedom of the press. He co-founded a republican periodical, *La Décade philosophique*, which published many of his articles about economic freedom. He embraced the ideals of the French Revolution and in 1799 became a member of the governing Tribunal.

The *Traité d'économie politique*, Say's major work, appeared in 1803. He reintroduced free-market views to France and Europe generally. Back before the French Revolution, Turgot and other intellectuals known as "physiocrats" had done much to promote economic freedom—and coined the immortal

phrase *laissez-faire* ("let us be"), which became a battle cry—but these intellectuals all accepted royal absolutism. Moreover, early physiocrats thought land was the most important source of wealth, which suggested support for the landholding aristocracy. These were major reasons why they fell out of fashion after the French Revolution. As a republican, Say was in a position to help convince future generations about the importance of economic freedom. "He held that the most productive economy must rest on private property, private enterprise, and private initiatives," noted Princeton University historian Robert R. Palmer in his recent intellectual biography of Say.

Say discarded Smith's labor theory of value, insisting that value was determined by customers. Say recognized the creative role of entrepreneurs. He rejected the dark pessimism of British economist T.R. Malthus, who feared that population growth would outstrip the capacity of private food producers. Say believed free-market capitalism could achieve unlimited progress.

He viewed taxation as theft. Consider these comments: "The moment that value is parted with by the tax-payer, it is positively lost to him; the moment it is consumed by the government or its agents, it is lost to all the world, and never reverts to, or re-exists in society. . . . It is a glaring absurdity to pretend, that taxation contributes to national wealth, by engrossing part of the national produce . . . seized on and devoured by taxation . . . the act of levying is always attended with mischief."

Among other things, Say's *Traité d'économie politique* condemned wild government spending, military conscription, and slavery ("the most shameful traffic in which human beings have ever engaged"). Since Napoleon had reintroduced slavery in French Caribbean colonies, pursued imperial conquest, and spent money at a ruinous rate, it's no wonder that Say's book was censored. In addition, he was dismissed from the Tribunal. He turned to business and started a cotton-spinning mill which grew to employ more than 400 people.

It was Napoleon Bonaparte who popularized the word *idéologue* as a derisive term aimed at defenders of freedom like Say. "All

the misfortunes that our beautiful France has been experiencing,” Napoleon declared, “have to be ascribed to ideology, to that cloudy metaphysics which goes ingeniously seeking first causes.” Not until after Napoleon’s downfall was it possible to bring out a revised edition; all together, there were a half-dozen editions during his life, the last in 1829. Say gave up cotton-spinning, became a professor at the Collège de France, and Thomas Jefferson reportedly wanted to hire him for the University of Virginia.

After meeting Say in Paris, the English philosopher and economist John Stuart Mill called him “the ideal type of French republican.” The radical republican publicist Louis Auguste Blanqui (1805–1881) remarked that Say “detested at the same time the Bourbons [French royal dynasty] and Bonaparte, an apparent contradiction which filled me with astonishment.”

Say inspired a new generation of French liberals devoted to laissez-faire principles. Among these was Say’s lively son-in-law Charles Comte, who, with the scholarly Charles Dunoyer (1786–1863), founded and edited *Censeur européen*, the most important libertarian periodical in the decade after Napoleon’s downfall. Dunoyer wrote *De la liberté du travail* (*Freedom to work*, 1825), and Comte’s *Traité de législation* (*Treatise on legislation*) came out the following year. Comte went on to contribute articles for *Revue Americaine*, established by the Marquis de Lafayette, hero of the American and French revolutions. Dunoyer and Comte attacked the socialist doctrines of Comte de Saint-Simon (Claude Henri de Rouvroy) and his followers. Dunoyer and Comte opposed government interference with private property, labor markets, or trade, and they strongly believed that voluntary association and market competition were absolutely essential for human progress. Wary of violent revolution, they did their best to change the world by educating people. They discussed issues with the leading French liberals of their day, including philosopher Benjamin Constant, novelist Stendhal (Marie Henri Beyle, 1783–1842), historian Augustin Thierry (1795–1856), and Belgian-born economist Gustave de Molinari (1819–1912).

From Say, Bastiat learned that economic freedom works better than government intervention and that he might gain influence by explaining fundamental principles. Bastiat surely must have been cheered to discover a growing community of French liberals. They displayed much deeper understanding of freedom than the better-known English economists who embraced Jeremy Bentham’s Utilitarianism and subsequently succumbed to socialism.

“Solitary Studies”

In 1824, Bastiat dreamed of going to Paris and somehow making a difference, but his ailing grandfather asked him to live on the 617-acre family property near Mugron, a small town, and that’s what he did. “I am putting aside all ambitious projects and am returning again to my solitary studies,” he remarked. His grandfather died the following year, and he inherited the property. Like the early physiocrats, Bastiat promoted better farming techniques among the tenants who worked his property, but they weren’t much interested. “What would you have if you had a philharmonic society composed of the deaf?” he lamented. He spent most of his time with books.

Bastiat came across a copy of *Poor Richard’s Almanack* in 1827. He wrote a friend: “I have discovered a real treasure—a small volume of the moral and political philosophy of Franklin. I am so enthusiastic about his style that I intend to adopt it as my own.”

For a sounding board, he turned to his neighbor Félix Coudroy, a young lawyer who shared his passion for ideas. Coudroy, however, revered Jean Jacques Rousseau and favored socialism. Coudroy frequently read books, marked telling passages, passed the book to Bastiat, and then they talked about it. Bastiat learned a great deal about biography, history, politics, religion, and philosophy this way. Eventually, he converted Coudroy to classical liberalism. They were to be close friends for two decades.

Around 1830, Bastiat decided “I would like a wife.” He married one Marie Hiard but, as biographer Louis Baudin noted, “He left the

bride at the church after the wedding and continued to live as a bachelor." Somehow, a son was born, but his wife continued to live with her parents.

On July 26, 1830, King Charles X suspended freedom of the press, dissolved the French Chamber of Deputies, took away the right to vote from middle-class people, and called for new elections in which only aristocrats could participate—a scheme to restore royal absolutism. This triggered a revolution, and after three days of upheaval, he abdicated. The revered Marquis de Lafayette threw his support behind Louis Philippe, who, though related to the long-ruling Bourbon dynasty, agreed to serve as a "Citizen King." He stood astride a moderate, middle-class regime which was corrupted by power as the aristocracy had been corrupted before. Louis-Philippe's chief minister François Guizot encouraged people to "Enrichissez vous, enrichissez vous" ("enrich yourselves").

Bastiat began to play a minor role in public affairs. Soon after the 1830 Revolution, he was appointed a justice of the peace in Mugron, and he was elected to the General Council of Landes. While traveling through Spain and Portugal, he again witnessed the folly of trade restrictions, which kept people poor.

Bastiat submitted an article to the *Journal des économistes*, and although the editors had rejected his previous submissions they published this one in October 1844. The article made a case that tariffs were bad for both Britain and France, and it caused a sensation. The article inspired congratulatory letters from Charles Dunoyer and from Michel Chevalier (1806–1879), who was an economics professor at the Collège de France. Chevalier had favored the ideas of the socialist Saint-Simon and the authoritarian Joseph de Maistre. As Chevalier biographer Marlis Steinert noted, "He read Bastiat, and he was converted."

Cobden and Bright

While going through some London newspapers, Bastiat was thrilled to read about how textile entrepreneurs Richard Cobden and John Bright led the Anti-Corn-Law League, a

crusade for free trade. Bastiat began gathering material for a book on the Anti-Corn-Law League, and he started corresponding with Cobden. The Englishman was then about 40, and according to a friend, he could often be seen "half skipping along a pavement, or a railway platform, with the lightness of a slim and dapper figure, and a mind full bent upon its object."

In July, Bastiat crossed the English Channel to see Cobden. "They told me that Cobden was on the point of starting for Manchester," Bastiat wrote a friend, "and that he was most likely preparing for the journey at that moment. . . . I hurried to Cobden's house, where I found him, and we had a conversation which lasted for two hours. He understands French very well, speaks it a little, and I understand his English. I explained the state of opinion in France, the results that I expect from my book, and so on."

According to biographer John Morley, Cobden told Bastiat "that he ought to take up his quarters at the hotel of the League, and to spend his evenings there in listening to the fireside talk of [Cobden's compatriot] Mr. Bright and the rest of the band. A day or two afterwards, at Cobden's solicitation, Bastiat went down to Manchester. His wonder at the ingenious methods and the prodigious scale of the League increased with all that he saw. His admiration for Cobden as a public leader grew into hearty affection for him as a private friend, and this friendship became one of the chief delights of the few busy years of life that remained to him."

Bastiat's book *Cobden et la Ligue* scooped all other French journalists. He was the first Frenchman to talk about the English free trade movement that soon reached a climax when Parliament, in June 1846, approved a bill to begin repealing grain tariffs. This marked a dramatic departure from traditional tariff negotiations based on the principle of "reciprocity": one nation would cut tariffs only if another nation would make comparable "concessions." Tariff negotiations tended to be slow, unproductive, and acrimonious. Cobden and Bright persuaded Parliament to *unilaterally* abolish grain tariffs without asking "concessions" from any nation, including

France, which had fought England through many bitter wars. Cobden and Bright had made a compelling case that free trade would benefit England, especially poor people who needed access to cheap food, even if other nations kept their borders closed. Moreover, they maintained, unilateral free trade would contribute to international peace by taking politics out of trade, reducing the risk that economic disputes might escalate into political and military conflicts. Unilateral free trade was a bold gesture for goodwill among nations.

Economic Sophisms

Bastiat wrote a series of articles for *Journal des économistes*, attacking the fallacies of protectionism. For instance, the fallacy that tariffs would mean high living standards, that labor-saving machinery destroys jobs, that tariffs are needed to maintain economic independence and national security. Bastiat viewed everything from the standpoint of consumers. His essays were lucid, dramatic, insightful, often amusing satires. He gathered 22 of the essays in a book, *Sophismes économiques* (*Economic Sophisms*), which appeared in late 1845. A second volume of 17 essays appeared three years later. They were translated into English and Italian.

Bastiat's wit is on display in "An Immense Discovery": "There are men lying in wait along the whole length of the frontier, armed to the teeth and charged with the task of putting difficulties in the way of transporting goods from one country to another. They are called *customs officials*. They act in exactly the same way as the mud and the ruts. They delay and impede commerce; they contribute to the difference that we have noted between the price paid by the consumer and the price received by the producer."

Bastiat's most famous satire was his "A Petition," in which candlemakers appealed to the French Chamber of Deputies for protection against an insidious competitor. "We are suffering from the ruinous competition of a foreign rival who apparently works under conditions so far superior to our own for the production of light that he is flooding the domestic market with it at an incredibly low

price; for the moment he appears, our sales cease, all the consumers turn to him, and a branch of French industry whose ramifications are innumerable is all at once reduced to complete stagnation. This rival, which is none other than the sun, is waging war on us so mercilessly that we suspect he is being stirred up against us by perfidious Albion [England]. . . .

"We ask you to be so good as to pass a law requiring the closing of all windows, dormers, skylights, inside and outside shutters, curtains, casements, bull's eyes, deadlights, and blinds—in short, all openings, holes, chinks, and fissures through which the light of the sun is wont to enter houses. . . ."

In late 1845, the Bordeaux Chamber of Commerce took a step toward free trade by urging that France and Belgium form a customs union, and Bastiat was asked to help. He wrote articles for a Bordeaux newspaper and he delivered speeches aimed at encouraging France to go beyond a customs union and pursue free trade with people everywhere.

Mindful that the English free trade movement had been launched in a regional city—Manchester—Bastiat helped form the *Association bordelaise pour la liberté des échanges* (Bordeaux Association for Free Trade) on February 23, 1846. Cobden had gone national after a regional free trade association was underway, and Bastiat adopted the same strategy. He went to Paris and launched the *Association pour la liberté des échanges* (Free trade association) on May 10, 1846. Among those who helped Bastiat were Auguste Blanqui, Michel Chevalier, Charles Dunoyer, Gustave de Molinari, and Jean Baptiste Say's son Horace. On August 18, they kicked off their campaign with a dinner featuring Richard Cobden. The French free trade association held a succession of public meetings in Paris at Montesquieu Hall, named after the eighteenth-century French philosopher who had advocated a separation of government powers.

"I cherish all forms of freedom," Bastiat subsequently wrote Cobden, "and first among them that freedom which is the most universally beneficial to all men, which they enjoy every minute of the day and under all cir-

cumstances of their lives—freedom of labor and freedom of exchange. I realize that the right to possess the fruits of one's toil is the keystone of society and even of human life. I realize that exchange is implicit in the idea of property, and that restrictions on exchange shake the foundations of our right to own anything."

In another letter to Cobden, Bastiat made clear he recognized how much was at stake in the fight for free trade: "Rather than the fact of free trade alone, I desire for my country the general philosophy of free trade. While free trade itself will bring more wealth to us, the acceptance of the general philosophy that underlies free trade will inspire all needed reforms."

Bastiat encouraged others to organize free trade associations in Marseilles and Lyons. He reported to Cobden: "Unquestionably, we are making progress. Six months ago, we didn't have even one newspaper for us. Today we have five in Paris, three in Bordeaux, two in Marseilles, one in Le Havre, and two in Bayonne."

Le Libre-Échange

On November 29, Bastiat began publishing *Le Libre-Échange*, a four-to-eight-page weekly free trade newspaper. "Free trade!" Bastiat exulted, "It is a phrase that will level the mountains. . . . Do you imagine that we have organized ourselves to get some small reduction in tariffs? Never. We demand for all of our fellow citizens, not only freedom to work but also freedom to exchange the fruits of their work."

Bastiat was an inspiration for people who organized free trade associations in Belgium, Spain, and Italy. He also had an impact on intellectuals in Germany. The Englishman John Prince Smith (1809–1874), who had gone to Prussia and become a citizen, was influenced by Bastiat, and widely promoted free trade ideas. As historian Ralph Raico notes, Prince Smith worked at "disseminating good translations of the works of Frédéric Bastiat and in gathering about him a circle of like-minded enthusiasts."

During 1847, Bastiat advised Cobden that

free trade was only the first step toward promoting solid peace with France. "The policy taken by you and your friends in Parliament will have an immense influence on the course of our undertaking. If you energetically disarm your diplomacy, if you succeed in reducing your naval forces, we shall be strong. If not, what kind of figure shall we cut before our public? When we predict that Free Trade will draw English policy into the way of justice, peace, economy, colonial emancipation, France is not bound to take our word for it. There exists an inveterate mistrust of England, I will even say a sentiment of hostility, as old as the two names of French and English. . . . England ought to bring her political system into harmony with her new economic system."

Cobden and Bastiat collaborated on many things. On one occasion, for instance, Cobden wrote: "My first speech . . . cost me a good deal of time with the aid of Bastiat to write and prepare to read it. My good friend Bastiat has been two mornings with me in my room, translating and teaching, before eight o'clock."

Bastiat continued to do the lion's share of organizing work in France. He wrote Coudroy: "My friend, I am not only the Association, I am the Association entirely. While I have zealous and devoted collaborators, they are interested only in speaking and writing. As for the organization and administration of this vast machine, I am alone."

Unfortunately, while entrenched interest groups aggressively defended French tariffs and import prohibitions, there wasn't any interest group willing to back free trade. "I am losing all my time," he wrote Coudroy, "the association is progressing at a turtle's pace." The lack of money and social connections discouraged Bastiat, as he admitted to Cobden: "I suffer from my poverty; yes, instead of running from one to the other on foot, dirtied up to my back, in order to meet only one or two of them a day and obtain only evasive or weak responses, I would like to be able to unite them at my table in a rich salon, then the difficulties would be gone! Ah, it is neither the heart nor the head that I lack, but I feel that this superb Babylon is not my place and that it is necessary that I return to my solitude."

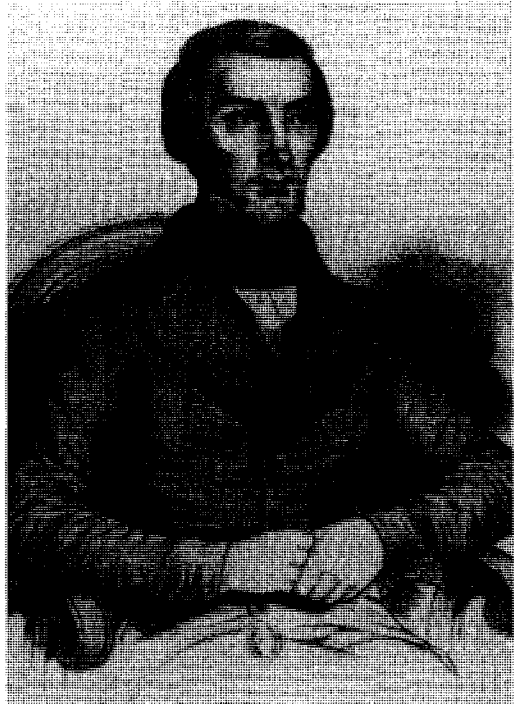
In 1847, the French government debated a bill which would abolish about half of the French tariffs, but protectionist lobbyists killed it, and the free traders never recovered. Bastiat wrote Cobden: "Our adversaries are full of audacity and ardor. Our friends, on the contrary, have become discouraged and indifferent. What good does it do to be a thousand times right if we can't get anyone to listen. The tactics of the protectionists, concurred in by the newspapers, are to ignore us completely." The French free trade association held its last public meeting on March 15, 1848, and *Le Libre Échange* ceased publication after the April 16 issue.

Reform of the corrupt government had become the hottest political issue, and the situation had reached a climax on February 21, 1848, when National Guards shot about 20 republican demonstrators in Paris. Suddenly, the city exploded into revolution. The king abdicated three days later, and the Chamber of Deputies proclaimed France a republic. Ten republican leaders, including the socialist Louis Blanc, headed a provisional government that would run things until the election of a Constituent Assembly. Blanc demanded a "Ministry of Progress," nationalization of industry, and "national workshops." The "workshops," a make-work scheme for socialists and the unemployed, were set up, and by mid-June they had some 120,000 people working mostly on roads.

Amidst the upheaval, Bastiat published about a dozen issues of *La République française*, a two-page periodical defending libertarian principles. He insisted that people must be secure in "all rights, those of the conscience as well as those of intelligence; those of property, like those of work; those of the family as those of the commune; those of the country as those of humanity. I have no other ideal than universal justice; no other banner than that of our flag: Liberty, Equality, Fraternity."

Election as Deputy

Just as Cobden had become convinced that he would be more effective working within Parliament and stirring up popular support



Frederic Bastiat

for libertarian principles, Bastiat concluded he must try to influence the Constituent Assembly. In April 1848, with universal manhood suffrage, he was elected a Deputy from Landes. Then on May 15, disgruntled welfare recipients from the "national workshops" invaded the hall where the Constituent Assembly met and drove out the deputies. National Guards crushed the rebels, and the Constituent Assembly declared martial law and proceeded to dismantle the "national workshops." During the "Bloody June Days" (June 24–26), an estimated 20,000 armed socialists from the "national workshops" fought for power, but backed by the National Guards, the Constituent Assembly got tough. Some 10,000 people were killed or wounded, and another 11,000 were imprisoned.

For several weeks, Bastiat issued a two-page revolutionary paper, the daily *Jacques Bonhomme*, edited by Charles Coquelin and Gustave de Molinari. Bastiat recognized that revolutionary violence occurred not because there was too much freedom but because there wasn't enough. "Can we imagine citizens, otherwise completely free," he wrote to Félix Coudroy, "moving to overthrow their

government when its activity is limited to satisfying the most vital, the most keenly felt of all social wants, the need for justice? We have tried so many things; when shall we try the simplest of all: freedom?"

Bastiat produced articles for the *Journal des Économistes*, *Journal des Débats*, *Courrier français*, *Journal du Havre*, *Courrier de Marseille*, *Sentinelle des Pyrénées* and others. He contributed two essays to the *Dictionnaire de l'Économie politique* (*Dictionary of Political Economy*), which Ambrose Clement, Charles Coquelin, Horace Say, Gustave de Molinari, and others developed as a means to popularize free-market ideas. Moreover, Bastiat wrote letters for the opposition press, including *l'Époque*, *Journal de Lille*, *Minoteur industriel*, *la Presse*, and *Voix de Peuple* (where, through 14 remarkable letters, Bastiat debated the bombastic socialist Pierre Joseph Proudhon). Professor Dean Russell is convinced that Bastiat took the lead exposing the fallacies of socialism.

Bastiat ridiculed claims that government could increase the total number of productive jobs. "The state opens a road, builds a palace, repairs a street, digs a canal; with these projects it gives jobs to certain workers. *That is what is seen*. But it deprives certain other laborers of employment. *That is what is not seen*. . . . do millions of francs descend miraculously on a moonbeam into the coffers of [politicians]? For the process to be complete, does not the state have to organize the collection of funds as well as their expenditure? Does it not have to get its tax collectors into the country and its taxpayers to make their contributions?"

When, in the name of compassion, socialists demanded more powerful government, Bastiat fired away with tough questions: "Is there in the heart of man only what the legislator has put there? Did fraternity have to make its appearance on earth by way of the ballot box? Does the law forbid you to practice charity simply because all that it imposes on you is the obligation to practice justice? Are we to believe that women will cease to be self-sacrificing and that pity will no longer find a place in their hearts because self-sacrifice and pity will not be commanded by the law?"

Bastiat warned socialism must mean slavery, because the state "will be the arbiter, the master, of all destinies. It will take a great deal; hence, a great deal will remain for itself. It will multiply the number of its agents; it will enlarge the scope of its prerogatives; it will end by acquiring overwhelming proportions."

The Constituent Assembly decided France must have a strong president—even before it had finished drafting a new constitution! The candidates included a vague idealist, a watered-down socialist, a tough law-and-order man, and Louis Napoleon Bonaparte, who mainly traded on his name as conqueror Napoleon Bonaparte's nephew. Twice Louis Napoleon had attempted to seize power (Strasbourg in 1836 and Boulogne in 1840), for which he spent some time in prison. He wrote an anticapitalist tract and appealed to people who looked back nostalgically on Napoleon Bonaparte's wars. In December 1848, he easily won election as French President.

Legislative Assembly

The Constituent Assembly concluded its business in May 1849 and was succeeded by the Legislative Assembly. Bastiat was elected a deputy. As member of the Budget Commission and vice president of the Assembly's powerful Finance Committee, he urged lower government spending, lower taxes, and free trade.

The following month there was an attempted socialist rebellion which brought widespread support for repressive measures. Again and again, Bastiat voted to defend civil liberties. He opposed a bill banning voluntary labor unions. He voted against imposing martial law. When his socialist enemy Louis Blanc was charged with inciting an insurrection, Bastiat voted to acquit him. Even Proudhon had to acknowledge that Bastiat "is devoted, body and soul, to the Republic, to liberty, to equality, to progress; he has clearly proved that many times with his vote in the Assembly."

Bastiat was discouraged. He remarked that "while the French people have been in advance of all other nations in the conquest of their rights, or rather of their political guar-

antees, they have nonetheless remained the most governed, regimented, administered, imposed upon, shackled, and exploited of all."

"Here I am in my solitude," he lamented. "Would that I could bury myself here forever, and work out peacefully this economic synthesis which I have in my head, and which will never leave it! For, unless there occur some sudden change in public opinion, I am about to be sent to Paris charged with the terrible mandate of a Representative of the People. If I had health and strength, I should accept this mission with enthusiasm. But what can my feeble voice, my sickly and nervous constitution, accomplish in the midst of revolutionary tempests?"

Diagnosed with tuberculosis, Bastiat needed a lot of rest to preserve his health, but he kept at it. "I rise at six o'clock, dress, shave, breakfast, and read the newspapers," he told Felix Coudroy. "This occupies me till seven, or half-past seven. About nine, I am obliged to go out, for at ten commences the sitting of the Committee of Finance, of which I am a member. It continues till one, and then the public sitting begins, and continues till seven. I return to dinner, and it very rarely happens that there are not after-dinner meetings of Sub-Committees charged with special questions. The only hour at my disposal is from eight to nine in the morning, and it is at that hour that I receive visitors. . . . I am profoundly disgusted with this kind of life."

The Law

In June 1850, Bastiat returned to Mugron and produced one of his most beloved works, *The Law*. He affirmed the natural rights philosophy, the most powerful intellectual defense of liberty which, except for the American abolitionist movement, had virtually vanished from the English-speaking world. "It is not because men have passed laws that personality, liberty, and property exist," he declared. "On the contrary, it is because personality, liberty, and property already exist that men make laws. . . . Each of us certainly gets from Nature, from God, the right to defend his person, his liberty, and his property, since they are the three elements con-

stituting or sustaining life, elements which are mutually complementary and which cannot be understood without one another. For what are our faculties, if not an extension of our personality, and what is property, if not an extension of our faculties? . . . Law is the organization of the natural right to legitimate self-defense."

Bastiat went on to attack what he called "legal plunder"—laws which exploit some people to benefit politically connected interests. He described how such laws tend to politicize private life: "It is in the nature of men to react against the inequity of which they are the victims. When, therefore, plunder is organized by the law for the profit of the classes who make it, all the plundered classes seek, by peaceful or revolutionary means, to enter into the making of the laws." And once again, Bastiat demonstrated vivid understanding of what socialism was all about: "socialists consider mankind as raw material to be fitted into various social molds . . . inert matter, receiving from the power of the government life, organization, morality and wealth."

In *The Law*, Bastiat celebrated "liberty, whose name alone has the power to stir all hearts and set the world to shaking . . . freedom of conscience, of education, of association, of the press, of movement, of labor, of exchange; in other words, the freedom of everyone to use all his faculties in a peaceful way; in still other words, the destruction of all forms of despotism, even of legal despotism, and the restriction of the law to its sole rational function, that is, of regulating the right of the individual to legitimate self-defense."

Bastiat plunged into his next work, *Les Harmonies économiques* (*Economic Harmonies*). He expanded on a cherished theme, that free people cooperate peacefully and gain the benefits of voluntary exchange. "Men's interests," he wrote, "left to themselves, tend to form harmonious combinations and to work together for progress and the general good."

The book reflected both his deep pessimism and fervent optimism. "We see plunder usurping the citizens' liberty in order the more

readily to exploit their wealth, and draining off their substance the better to conquer their liberty," he wrote. "Private enterprise becomes public enterprise. Everything is done by government functionaries; a stupid and vexatious bureaucracy swarms over the land. The public treasury becomes a vast reservoir into which those who work pour their earnings, so that the henchmen of the government may tap them as they will."

Yet Bastiat never gave up. "Oh liberty!" he cried. "We have seen thee hunted from country to country, crushed by conquest, high unto death in servitude, jeered at in the courts of the mighty, driven from the schools, mocked in the drawing room, misinterpreted in the studio, anathematized in the temple. . . . But if thou shouldst surrender in this last haven, what becomes of the hope of the ages and of the dignity of man?" The first volume of *Harmonies économiques* was published in late 1850, and he never finished the work.

By August 1850, Bastiat's tuberculosis worsened. He wrote Cobden lamenting "these unfortunate lungs, which are to me very capricious servants. I have returned a little better, but afflicted with a disease of the larynx, accompanied with a complete extinction of voice. The doctor enjoins absolute silence; and, in consequence, I am about to pass two months in the country, near Paris."

Doctors ordered Bastiat to Italy. In his last letter to Félix Coudroy, from Rome, he wrote: "Here I am in the Eternal City, but not much disposed to visit its marvels. . . . I should desire only one thing, to be relieved of the acute pain which the disease of the windpipe occasions. This continuity of suffering torments me. Every meal is a punishment. To eat, drink, speak, cough are all painful operations. Walking fatigues me—carriage airings irritate the throat—I can no longer work, or even read, seriously. You see to what I am reduced. I shall soon be little better than a dead body, retaining only the faculty of suffering." When he was too ill to write, he asked his friend P. Paillottet to tell Michel Chevalier "how grateful I am for his excellent review of my book (*Harmonies économiques*)."

On Tuesday, December 24, 1850, Bastiat was in bed, and Paillottet remarked that "his eye sparkled with that peculiar expression which I had frequently noticed in our conversations, and which announced the solution of a problem." Bastiat uttered two words: *la vérité* ("the truth"). He took his last breath a few minutes after five in the afternoon. He was only 49. His cousin, the priest Eugène de Monclar, was at his side. Two days later, there was a funeral service at Rome's Saint-Louis des Français church, and he was buried in the adjacent cemetery.

He had done much to expand the ranks of French classical liberals. "The Paris group," as intellectual historian Joseph Schumpeter called them, "controlled the *Journal des économistes*, the new dictionary, the central professional organization in Paris, the Collège de France, and other institutions as well as most of the publicity—so much so that their political or scientific opponents began to suffer from a persecution complex."

Bastiat's Influence on Michel Chevalier

Bastiat's most important single influence was probably on Michel Chevalier. "Until 1845," noted historian J.B. Duroselle, "Michel Chevalier was a moderate protectionist. Then in April of 1846, he published his profession of faith as a free trader in an article in the *Journal des Débats*. How can that evolution be explained? I believe it can be attributed almost entirely to the intellectual influence of Frédéric Bastiat."

In 1852, Chevalier published *Examen du système commercial connu sous le nom de système protecteur* (*Examination of the Commercial System known as Protectionism*). He often drew from Bastiat. For instance, he noted that "To demonstrate the evil effects of protectionism, I will cite an argument by Bastiat. . . . In one of his excellent pamphlets, Bastiat proposed to show that the principle of protectionism and communism is the same."

Chevalier gained influence in the French government and used it to promote free trade. After the 1855 Industrial Exposition, he declared that French industry was so competi-

tive it didn't need tariff protection anymore. He persuaded the Emperor and the Council of State to introduce a free trade bill in the national assembly, but it was shot down. In 1856, Cobden offered Chevalier some encouragement: "I am pleased indeed that you are carrying on the defense of the principles of free trade, for since the untimely death of our dear friend Bastiat, it is you whom we regard as the champion of free trade."

Chevalier began thinking that trade might be liberalized via the French emperor's treaty-making power. In 1859, he visited England to seek Cobden's support for a trade treaty between England and France. He talked with Chancellor of the Exchequer William Ewart Gladstone. Cobden took the lead in negotiations. Although the resulting treaty left many tariffs at 30 percent, it abolished all French import prohibitions, and many tariffs were cut. The treaty marked a momentous breakthrough. Despite the predictable outrage from special interests, France went on to negotiate trade liberalization treaties with Austria-Hungary, German states, Italy, Norway, Portugal, Spain, Sweden, and Switzerland. Moreover, the most-favored-nation principle became widely adopted—whenever a nation negotiates lower import barriers in a new treaty, the benefits will be extended to everyone else with whom that nation has a trade treaty.

Biographer P. Ronce remarked that "If the free trade campaign [which Bastiat spearheaded from 1845–1850] did not bring an immediate result, at least it accustomed people to the idea of free trade, and it brought serious doubts about the benefits of protection; it prepared the way for the 'qualified' free trade system represented by the Treaty of Commerce of 1860."

Richard Cobden offered this tribute: "My enthusiasm for Bastiat, founded as much on a love of his personal qualities as on an admiration for his genius, dates back nearly twenty years. . . . The works of Bastiat, which are selling not only in France, but throughout Europe, are gradually teaching those who by their commanding talents are capable of becoming the teachers of others; for Bastiat speaks with the greatest force to the highest

order of intellects. At the same time, he is almost the only Political Economist whose style is brilliant and fascinating, whilst his irresistible logic is relieved by sallies of wit and humor which makes his *Sophisms* as amusing as a novel. His fame is so well established that I think it would be presumptuous to do anything to increase it by any other means than the silent but certain dissemination of his works by the force of their own great merits."

Bastiat's seven-volume *Oeuvres complètes* (complete works) appeared between 1861 and 1864. There continued to be French interest in classical liberalism, as evidenced by a succession of books about Bastiat: A.B. Belle's *Bastiat et le Libre-Echange* (*Bastiat and Free Trade*, 1878), Edouard Bondurand's *Frédéric Bastiat* (1879), Alphonse Courtois's *Journal des Economistes* (1888), A. D. Foulville's *Frédéric Bastiat* (1888), C.H. Brunel's *Bastiat et la reaction contre le pessimisme économique* (*Bastiat and the reaction against pessimistic economics*, 1901) and G. de Nouvion's *Frédéric Bastiat, Sa Vie, Ses Oeuvres, Ses Doctrines* (*Frédéric Bastiat, his life, work and doctrines*, 1905). The glorious French laissez-faire tradition passed into history with the death of Bastiat's friend Gustave de Molinari on January 28, 1912, although Molinari influenced American individualists like Benjamin Tucker, whose radical ideas persist to this day.

Bastiat in the Twentieth Century

Most twentieth-century academics banished Bastiat's name from serious discussion. Economist Joseph Schumpeter, for instance, wrote that he "might have gone down to posterity as the most brilliant economic journalist who ever lived"—were it not for Bastiat's *Les Harmonies économiques*, which ventured into economic theory. "I do not hold that Bastiat was a bad theorist," Schumpeter sniffed, "I hold that he was no theorist." In their *History of Economic Doctrines*, Charles Gide and Charles Rist remarked that "It is easy to laugh . . . and to show that such supposed harmony of interests between men does not exist."

A few scholars did acknowledge Bastiat's

contributions. Economist John A. Hobson called Bastiat "the most brilliant exponent of the sheer logic of Free Trade in this or any other country." The respected economic historian John H. Clapham hailed Bastiat for "the best series of popular free trade arguments ever written . . . the text-book for controversialists of his school throughout Europe." The scholarly 11th edition of the *Encyclopedia Britannica* (1913) offered these stirring words: "He alone fought socialism hand to hand, body to body, as it were, not caricaturing it, not denouncing it, not criticizing under its name some merely abstract theory, but taking it as actually presented by its most popular representatives, considering patiently their proposals and arguments, and proving conclusively that they proceeded on false principles, reasoned badly and sought to realize generous aims by foolish and harmful means. Nowhere will reason find a richer armoury of weapons available against socialism than in the pamphlets published by Bastiat. . . ."

In 1946, former Los Angeles Chamber of Commerce General Manager Leonard E. Read established the Foundation for Economic Education and resolved to make Bastiat's work better known. He persuaded economics scholar Dean Russell to prepare a new translation of *The Law*. Over the years, it has sold several hundred thousand copies. Russell went on to earn his Ph.D. under famed free-market economist Wilhelm Röpke at the University of Geneva, writing his dissertation on Bastiat. Russell adapted this into *Frederic Bastiat, Ideas and Influence* (1965), which remains the best single book on him.

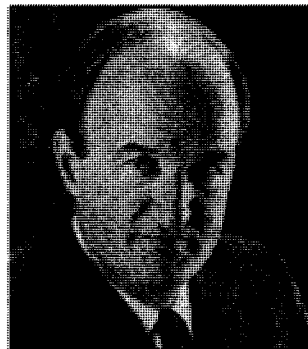
Meanwhile, *New York Times* editorial writer Henry Hazlitt produced a book with the audacious title *Economics in One Lesson* (1946). "My greatest debt," Hazlitt acknowledged, "is Frederic Bastiat's essay, 'What Is Seen and What Is Not Seen,' now nearly a century old. The present work may, in fact, be

regarded as a modernization, extension and generalization of the approach found in Bastiat's pamphlet." *Economics in One Lesson* has sold an estimated one million copies.

Recent evidence dramatically affirms Bastiat's most fundamental view that government is the primary source of chronic violence and that a free society tends to be peaceful. Respected political scientist R.J. Rummel, who was nominated for a Nobel Peace Prize, analyzed almost 8,200 estimates of deaths from domestic violence, war, genocide, and mass murder. In his 1995 book *Death by Government*, he reported that throughout history, governments have murdered more than 300 million people—not counting war deaths. In his 1997 book *Power Kills*, Rummel surveyed experience of the past 180 years and reported that he didn't find a single case of war between two democratic governments with limited power. Moreover, there were decidedly fewer civil wars and other types of domestic violence in nations with limited-power democratic governments.

And so that frail Frenchman whose public career spanned just six years, belittled as a mere popularizer, dismissed as a dreamer and an ideologue, turns out to have been right. Even before Karl Marx began scribbling *The Communist Manifesto* in December 1847, Frederic Bastiat knew that socialism is doomed. Marx called for a vast expansion of government power to seize privately owned land, banks, railroads, and schools, but Bastiat warned that government power is a mortal enemy, and he was right. He declared that prosperity is everywhere the work of free people, and he was right again. He maintained that the only meaningful way to secure peace is to secure human liberty by limiting government power, and he was right yet again. Bastiat took the lead, he stood alone when he had to, he displayed a generous spirit, he shared epic insights, he gave wings to ideas, and he committed his life for liberty. He earned his place among the immortals. □

THE FREEMAN
JUNE 1997



Wards of the State?

"Skeptics focus on the drawbacks to [Social Security] privatization . . . its potential for unraveling support for a social safety net."

—*New York Times*, March 21, 1997

"No ordered community has callously allowed the poor and incapacitated to starve. There has always been some sort of institution designed to save from destitution people unable to sustain themselves. As general well-being has increased hand in hand with the development of Capitalism, so too has the relief of the poor improved."

—Ludwig von Mises, *Socialism* (1932)

The recent debates over the future of Social Security and Medicare raise a fundamental question about almost all social programs in industrial nations. Why is the government involved in financing and distributing benefits to virtually *all* its citizens? The original intent of national welfare programs may have been to provide a "social safety net" for the needy, but instead they cover the entire population, rich and poor. (Of course, the only moral safety net is the one that depends on voluntary charity—not coercive transfer payments.) In the industrial world, the vast majority of workers make mandatory payments into a government retirement sys-

tem, which will provide monthly income to these same workers when they retire. Millions are involved in a government retirement program which significantly restricts their freedom to save and invest on their own. Medicare works the same way. All U.S. workers pay Medicare taxes (now 2.9 percent on unlimited income), qualifying these same workers to receive benefits when they reach 65.

Everybody pays in, everybody benefits, no matter whether he's John Doe or David Rockefeller. That's the underlying philosophy of the modern welfare state.

Defenders of the Welfare State

Such a ubiquitous system leads to a pernicious effect: It makes virtually every citizen a ward of the state. Even the most diehard critic of government becomes a defender of the welfare state if and when he signs up for Medicare and Social Security. There are, of course, those who have the courage to follow the example of Leonard E. Read, FEE's founder, who refused to take a penny of government money. May their tribe increase.

For many years, my uncle, W. Cleon Skousen, author of several conservative best-sellers (*The Naked Communist*, *The Miracle of America*) and known for his strong anti-government views, said he would never take Social Security. But he could not resist when he turned 65. (Social Security never comes automatically—you must declare your allegiance.)

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, and editor of Forecasts & Strategies, one of the largest investment newsletters in the country. The third edition of his book Economics of a Pure Gold Standard has recently been published by FEE.

From time to time, I've written in my investment letter arguing that Social Security is a welfare program. I always get several irate letters from subscribers vehemently denying it. "I paid in, I deserve it," they say. "And don't try to change it!"

Forcing all of us to become part of a social welfare system weakens our resistance and our self-reliance. We become benefit-corrupted. Social Security and Medicare are articles of faith—we are "entitled" to them. Is it no wonder that Congress will not touch these entitlement programs?

Recently a broker told me a story that confirmed my fears. One of his clients complained bitterly about efforts in Congress to fix Medicare. "I don't care what they do, but don't touch my Medicare," he yelled. The broker looked at the man's account while he was talking. It was worth \$750,000. If anyone could afford his own hospital insurance plan, it was this man.

The Solution

As Milton Friedman wrote over thirty years ago, "The 'social security' program is one of those things on which the tyranny of the status quo is beginning to work its magic. Despite the controversy that surrounded its inception, it has come to be so much taken for granted that its desirability is hardly questioned any longer. Yet it involves a large-scale invasion into the personal lives of a large fraction of the nation without, so far as I can see, any justification that is at all persuasive, not only on liberal principles, but on almost any other."¹

There's simply no reason why the vast

majority of citizens should rely on Social Security for retirement or Medicare for hospital and medical expenses. Most people have enough in company and private pension plans to finance their own retirement. Most have sufficient resources to pay for their own medical bills or buy their own medical policies. Private charity can assist those who cannot help themselves.

An example at our church demonstrates this point: On the first Sunday of each month, each member of the congregation is asked to donate the cost of two meals as a "fast offering" to the poor. The fast offering is used to pay for the welfare needs of members of our congregation needing assistance—food, utilities, and rent if necessary. Each family usually contributes \$20 to \$50 a month, depending on family size. It's not a burden, but it's sufficient to handle normal emergency needs.

Now suppose our church leaders required all of us to obtain *all* our basic food supplies from the church storehouse. Not only would we have to donate much larger amounts of money to the "fast offering" fund, but we would all demand our fair share of food. It would be a nightmare.

Limiting social programs would not solve our welfare problem, but it would be a step in the right direction.² It would sharply reduce our tax burden and give people the freedom to choose where to spend or invest their money. □

1. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), pp. 182–183.

2. Charles Murray has advanced a number of proposals to resolve social problems in his book, *Losing Ground: American Social Policy, 1950–1980* (Basic Books, 1984) and *What It Means to Be a Libertarian* (Broadway Books, 1997).

BOOKS

What It Means to Be a Libertarian: A Personal Interpretation

by Charles Murray

Broadway Books • 1997 • 192 pages • \$20.00

Reviewed by Doug Bandow

Charles Murray has long been one of America's most important social scientists. His book *Losing Ground* touched off a debate over welfare policy by challenging widely held misconceptions of government programs. With *In Pursuit of Happiness and Good Government*, Murray challenged readers to think about the purpose of government.

Now he has written his most radical work yet—*What It Means to Be a Libertarian*. In it, he offers an unapologetic case for liberty. As he explains, “freedom, classically understood, is the stuff by which we live satisfying lives. It is as indispensable to happiness as oxygen is to life. Much of it has been taken from us. We must reclaim it.”

Murray's elegantly written book is dedicated to helping us do just that. His premise is simple: “Force is bad, and cooperation is good.” The reason force is bad, he explains, is that we own ourselves. The reason cooperation is good is that “a voluntary and informed exchange benefits both parties.”

Thus, government should intervene only sparingly. First, to protect people from harm committed by others. Most obviously, this is done through criminal and tort law. Second, to enforce contracts. As Murray explains: “The right of contract and the edifice of law that goes with it is what enables us to do business with people we do not know or have no reason to trust.”

Third, government should provide “public goods.” He acknowledges that not everyone agrees there are such things and that there is a slippery slope—after all, what government depredation is not proclaimed to be in the public interest? But he devotes a chapter to

explaining the “more thoughtful, legal and philosophical tradition” that lies behind the concept. Perhaps the most important characteristic of genuine public goods is nonexclusivity—they cannot be provided to some but not others (e.g., military spending). Moreover, consumption by some does not reduce the supply (say, of clean air) available to others. These tests are relatively uncontroversial.

More problematic is his notion of public goods as functions that yield benefits to the public. Here, he acknowledges, is the slippery slope at its steepest. To set limits, Murray asks three critical questions. Can the good or service be provided by individuals themselves? (Not, notably, will it be provided as quickly or exactly how we prefer.) Next, are we forcing fellow citizens to pay for services that they don't want? And finally, are we expecting them to pay for something that benefits us much more than them?

Even if one wants the government to act, he adds, it should do so at the level closest to the problem. This does not guarantee the protection of freedom, but it preserves a greater opportunity to achieve freedom. As he puts it, “Keeping the definitions as local as possible acts as a brake. When the mistakes become too egregious, people can leave town.”

The result might be a government larger than that preferred by some *Freeman* readers, but it would still be dramatically smaller than that which exists today. As Murray points out: “If everyone applied the classic criteria for defining a public good plus the three questions I just listed to the current inventory of government activities, a huge proportion of them would be so disgracefully out of bounds that they would have no chance of qualifying as public goods.”

Still, the core of *What It Means to Be a Libertarian* is its discussion of liberty, not government. Freedom has obvious practical advantages, of course, but Murray sees the benefits of liberty running far deeper. People, he argues, “require freedom and personal responsibility to live satisfying lives.” That is, the good life requires the liberty to associate with others, choose one's work, own property, and make personal decisions. This is not, he

emphasizes, a call to licentiousness or irresponsibility. To the contrary, "freedom and responsibility are as inseparable as opposite sides of the same coin."

Murray does not ignore or sugarcoat the tough side of liberty. Actions have consequences, and free people must bear the consequences of their actions. But Murray's sterling insight is that this accountability is a positive value. As he puts it: "Responsibility is not the 'price' of freedom but its reward. Responsibility is what keeps our lives from being trivial."

This is a critical point. Freedom is not something that can be appreciated and enjoyed only by a person of good character. Rather, freedom is necessary to *become* a person of good character. It is the opportunity to live up to one's potential. This doesn't mean great achievements in the eyes of others. Emphasizes Murray: "Millions of people find satisfaction every day in doing something well by their own standards."

Thus, the benefits of freedom "are embedded in the very meaning of being human." Men and women must have choice, for choice gives them the opportunity to live full lives. For this reason, liberty is a moral imperative. As Murray puts it, "limited government leaves people with the freedom and responsibility they need to mold satisfying lives both as individuals and as members of families and communities."

Murray goes on to sketch his vision of a limited government. At the federal level, he would maintain the Departments of Defense, Justice, and State, as well as the Environmental Protection Agency. He would drop all regulation of employment, products, and services; he would kill agricultural, art, business, energy, housing, and technology subsidies. He would end the great transfer programs: Medicaid, Medicare, Social Security, and welfare.

Nor does Murray shrink from the tough issues: drugs, pornography, and the like. As he explains, "The question of whether people should be allowed to harm themselves is [simple]. *They must.* To think it is right to use force to override another person's preferences 'for his own good' is the essence of the totalitarian personality." At the same time,

families and communities must be free to protect themselves, but through voluntary, not coercive, means.

Murray's is a radical vision to be sure, but he senses political stirrings in a libertarian direction. Whether he's right or not will become evident in the years ahead.

What It Means to Be a Libertarian is a gem, a wonderfully written, thoughtful, and accessible argument for freedom. Indeed, at a time when many books catalog the failure of government and the efficacy of markets, Murray emphasizes the central moral role of liberty in the human experience: "only freedom enables human beings to live fully human lives." □

Mr. Bandow, a senior fellow at the Cato Institute, is a monthly columnist for The Freeman.

1997 Index of Economic Freedom

by Kim R. Holmes, Bryan T. Johnson, and Melanie Kirkpatrick

The Heritage Foundation and Dow Jones & Company • 1997 • 486 pages • \$24.95

Reviewed by George C. Leef

This is one of the most useful reference works that an advocate of economic freedom can own. What the authors have done, continuing and expanding on a project begun in 1994, is to provide a detailed look at the economies of 150 countries of the world. Only a small number, mainly in Africa and southwestern Asia (recently independent nations formerly part of the Soviet Union), are not analyzed.

The authors have compiled data allowing them to assess each nation's degree of economic freedom in ten categories: trade policy, taxation, government intervention, monetary policy, capital flows and foreign investment, banking policy, wage and price controls, property rights, regulation, and black markets. Based on their analysis, they then categorize each nation as being free, mostly free, mostly unfree, or repressed. Color maps enable the reader to see at a glance where freedom is to be found and where it is not. Alas, you don't

see much blue (representing “free” nations) on the maps. Only eight nations merit that designation. More than half (78) are classified as mostly unfree or repressed.

That most of the world has little or no freedom is unsettling if not startling news. Also disturbing is a trend identified by the authors: “Wealthy and economically free countries tend to reintroduce restrictions on economic freedom over time. As they become wealthy, countries begin adding welfare and other social programs that were not affordable when they were poorer. Thus, after they have become economically ‘liberated,’ countries like Germany and France tend to fall back down the scale of economic freedom, getting worse scores than newly emerging free economies like Hong Kong or Singapore” (p. xiv).

We know that this has been happening in the United States for many decades. (The United States now ranks fifth—tied with Switzerland—in the overall ranking. The pre-New Deal United States would certainly have been number one.) The authors are correct in saying, “the seeds of destruction can exist in the fruits of success.” Prosperity has usually brought along with it politicization of society that throws economic progress into reverse. Believers in freedom everywhere need to pay attention to this phenomenon and think ahead to the problem of preserving economic freedom once it is attained.

The major, inescapable conclusion of the *Index* is that there is a direct relationship between prosperity and the degree of economic freedom. The authors present the “Curve of Economic Freedom,” plotting nations on a graph, where the vertical axis is the degree of freedom and the horizontal axis is the per capita Gross Domestic Product. The resulting curve slopes upward to the right—that is, high income correlates with freedom, low income correlates with repression. You find *no* nations that are free, yet poor, and you find *no* nations that are repressed, yet wealthy. If anyone can think of a way to get this information into classrooms across America, please speak up.

The country-by-country analyses are very interesting. For example, which of the nations

that were formerly part of the Soviet Union’s “prison house of nations” have done the best at throwing off the yoke of statism and establishing the conditions necessary for economic growth? The Czech Republic has done the best (tied for 11th freest; the Slovak Republic, its former partner in nationhood, is much less free, at 75th), followed by Estonia, which at 25 is freer than France, at 31. Russia has done poorly in making the transition from communism (ranking 115th), but some of its old allies have done even worse. Ukraine, for example, ranks 123rd, Belarus 129th, and Azerbaijan a repressive 142nd.

I hope The Heritage Foundation and the *Wall Street Journal* will keep this project up to date. It will be useful to be able to look at changes over time. It might, I believe, help to demonstrate the Hayekian point that once governments start interfering with freedom, they are apt to continue to do so.

Someone should undertake a similar study of the United States. It would be nice to have an *Index of Freedom in the United States* on the shelf next to this excellent volume. □

Mr. Leef is the book review editor of The Freeman.

The Welfare State: No Mercy for the Middle Class

by John McKay

Liberty Books • 1995 • 298 pages • \$22.00

Reviewed by Murray Sabrin

If policymakers want to learn about the debilitating effects of the welfare state, John McKay’s readable and passionate defense of limited government is a good place to begin. McKay’s book is sprinkled with the kind of rhetoric that is bound to drive “liberals” (I prefer “statists”) up a wall. For example, on page three he states: “An entitlement beneficiary is a person or special interest group who didn’t earn your money, but demands the right to take your money because they *want* it” (original emphasis). On page 14, McKay puts a stake in the heart of so-called compassionate proponents of the

welfare state: "*It's easy to be noble with other people's money*" (original emphasis).

In *The Welfare State*, McKay tackles such issues as discrimination, regulation, health care, taxation, and entitlements. He shows how the free market has been hampered by government intervention, and makes the moral case for free enterprise an integral part of his argument. McKay sums up his case against the welfare state with the following: "Entitlement programs violate our property rights. They confiscate what we earn and give our money to total strangers without our consent. Government assumes it has the right to steal, because it does so by majority rule. It does not have that right. As individual citizens, we don't have the right to steal from our neighbors. We therefore can't delegate such a right to a government who is simply our agent."

To end the welfare state McKay proposes a constitutional amendment that would protect individual rights and restrict government depredations on the American people. In addition, he virtually calls for a tax-free America by advocating fees to be paid by citizens to maintain the courts, police, and armed forces.

Overall, *The Welfare State* is a welcome addition to the growing literature of freedom. However, some repetition of phrases and statements should have been edited for redundancy. In addition, the factual material is abundant, but one error stands out; the population of Canada is cited on page 123 as around 15 million. According to the latest data, our neighbor to the north has a population of approximately 25 million. Also, McKay blames the welfare state for higher prices. Yes, if we assume the monetary authorities crank up the printing presses. A brief overview of the welfare state's necessary ally, the central bank—our Federal Reserve—would have been welcome.

The welfare state is in retreat around the world—ideologically, financially, and culturally. Unfortunately, U.S. proponents of the entitlement philosophy will be fighting tooth and nail to postpone the inevitable. If the Berlin Wall can come down, if the Soviet Empire can disappear, then America's welfare state is living on borrowed time.

Leonard Read, Ludwig von Mises, Henry

Hazlitt, Murray Rothbard, and the other giants of liberty are not alive to see the vindication of their lifetime work. But today's cohort of conservatives and libertarians are gallantly carrying the torch of liberty into the 21st century. A free and prosperous America is on the horizon. John McKay's *The Welfare State* will help us reach that destination. □

Dr. Sabrin is professor of finance, Ramapo College of New Jersey, and author of Tax Free 2000: The Rebirth of American Liberty.

The Political Racket: Deceit, Self-Interest and Corruption in American Politics

by Martin L. Gross

Ballantine Books • 1996 • 263 pages • \$12.50 paperback

Reviewed by William H. Peterson

Martin Gross, whose title here tells it all, sifts through a lot of political dirt. He names names—including ethically challenged politicians and special-interest PAC contributors.

Mr. Gross also devotes many pages to the problem of pork—Congressional vote-trading on federal spending projects for favored spots and favored Congresspeople, including:

- \$3 million for an Orlando, Florida, street-car project
- \$5 million for a *third* golf course at Andrews Air Force Base near Washington, D.C.
- \$96 million for a courthouse in Portland, Oregon
- \$120 million for a courthouse in Phoenix, Arizona

Impressive stuff all right, but if anything the Gross work is too parochial, too present-minded. Yes, smelly deals are cut all the time in that den of iniquity, Washington, D.C. But couldn't that charge also be levied against Ottawa, Rome, Moscow, Nairobi, Brasilia, and virtually all other capitals? Or, for that matter, against Ancient Athens and Ancient Rome?

Hear Socrates, for example, c. 399 B.C.: "If I had engaged in politics, O men of Athens, I should have perished long ago, and done no good either to you or to myself." Or hear Quintus Cicero, author of *Handbook on Politics* (c. 50 B.C.), which he prepared as an electioneering aid for his brother, Roman senator Marcus Cicero: "One has great need of a flattering manner which, wrong and discreditable though it may be in other walks of life, is indispensable in seeking office. Human nature being what it is, all men prefer a false promise to a flat refusal."

I also wonder about the author's multifaceted solution, what he calls a "Middle-Class Manifesto," to America's political mess. Some of his ideas merit consideration—for instance, term limits, a balanced budget amendment, elimination of \$86 billion in annual corporate welfare through 127 federal subsidies to business, cutting back one-third of the federal civilian labor force to save \$50 billion a year, and revamping Social Security along the privatizing lines of Chile with individual retirement accounts.

But Mr. Gross gums up a generally sensible book by complaining about high CEO salaries of "\$4, \$5, even \$10 or \$15 million a year." CEO compensation is not a political problem. It is not a problem at all and bringing it up just encourages the redistributionists who constantly play on envy. He also objects to imports from "low-wage" countries such as Mexico and China, and thinks the United States should restrict Japanese imports "at exactly the same level they do ours." The ideas of consumer sovereignty and unilateral free trade seem foreign to him.

Still, this informative and provocative work can instruct the wary reader who is so often the fellow pushed out of the loop, who is forced to pick up the tab for the Interventionist State, busily dispensing concentrated benefits over diffused costs. Yale economist William Graham Sumner in 1883 called this fellow the Forgotten Man. I call him Every Man. □

Dr. Peterson is Heritage Foundation adjunct scholar and Distinguished Lundy Professor Emeritus of business philosophy at Campbell University in North Carolina.

The Road to Hell

by Michael Maren

The Free Press • 1997 • 302 pages • \$25.00

Reviewed by Laurence M. Vance

The old cliché says: "The road to hell is paved with good intentions." That is, the best of intentions often result in the worst of consequences. Yet, although everyone would certainly agree that feeding starving children is one of the best intentions that anyone could have, few would ever imagine that such noble humanitarianism could have disastrous consequences.

The Road to Hell, by Michael Maren, is a brutal indictment of the whole business of humanitarian intervention and the industry of aid. And for most of the participants it is just that: a business. Just as war is big business for defense contractors, the purveyors of food to starving children likewise gorge themselves at the public trough.

Maren is well qualified to make such an indictment, having spent much of the last 20 years in Africa both as an aid worker and a journalist. And just as Maren has written for *Harper's*, *The Village Voice*, and *The New Republic*—not exactly known for their advocacy of free markets and limited government—so *The Road to Hell* is not a polemic against the welfare state and foreign aid. But therein lies the strength of the book. It is a brutally honest personal account of what the book's subtitle calls "the ravaging effects of foreign aid and international charity."

The focus of the book is on Africa in general and Somalia in particular. According to Maren, the countries of Africa are much worse off today than when he first arrived in Kenya as a Peace Corps worker in 1977. In fact, after billions of dollars were dumped into Africa, the countries that received the most aid "have slid into virtual anarchy." So if the problem is not money, then what is it? Maren hits the nail on the head when he relates that "famines always occur in authoritarian states, when the government mismanages the economy." So, as usual, corrupt, heavily bureaucratic governments are the root

of the problem. This should come as no surprise to proponents of limited government and students of history. For just as the War on Poverty in the United States ended up subsidizing illegitimacy, so foreign aid creates chronically hungry countries that are dependent on foreign food.

In recounting his experiences as an aid worker in Africa, Maren makes some statements that will astound many who have answered heart-tugging appeals to sponsor children. He claims that humanitarian aid "could be positively evil" and that it "was probably killing as many people as it was saving." He asserts that 90 percent of all the food aid handed out is not for starving people at all—it is for "sustainable development." "Food aid," says Maren, "attracts people to refugee camps, where they die from dysentery or measles or other diseases they wouldn't have contracted in the bush." And many times the starving people don't get any food at all.

So what happens to all the donated food? Maren notes several destinations. The first is the corrupt governments of these countries. He claims to have seen military warehouses "packed to the ceilings with refugee food." Donated food, complete with "NOT TO BE SOLD" signs, was openly sold by the government for a huge profit. But even when food

slipped through the hands of the government it still never made it into the mouths of starving refugees. Maren contends that many refugees got so much food that they were able to sell it. In fact, several refugees actually opened shops to market the food to merchants from the city of Mogadishu.

In *The Road to Hell*, Maren boldly names the groups that have contributed to the paving of the road. Big names like World Vision, Childreach, Save the Children, Christian Children's Fund, UNICEF, CARE, Catholic Relief Services, and USAID. Indeed, Maren holds nothing back, indicting farmers, grain companies, the news media, the U.N., agribusiness giants, the Peace Corps, the USDA, and our spendthrift congressmen—even the shippers that transport food overseas. Throughout the book Maren makes the case that "aid distribution is just another big, private business that relies on government contracts."

The Road to Hell is the story of corruption, murder, theft, vandalism, lies, and greed—all a direct result of foreign aid and international charity. It is certain to forever change the way we look at pictures of starving children. □

Mr. Vance is an instructor at Pensacola Bible Institute and a freelance writer living in Pensacola, Florida.

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A few years before Leonard E. Read authored this book, he created The Foundation for Economic Education. He was convinced that every generation must defend its freedom anew against the intellectual forces that seek through ever new devices to enslave it. Therefore, he dedicated his great strength and ability to the study and dissemination of freedom ideas. He managed the Foundation from its beginnings in 1946 until his death in 1983.

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Published four times a year by
Blackwell Publishers Limited
108 Cowley Road, Oxford OX4 1JF, UK *and*
350 Main Street, Malden, MA 02148, USA

1997 Subscription prices are as follows:
(Canadian customers/residents please add 7% for GST)

	Europe	N.America	Rest of World
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Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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A Salute to Bettina Bien Greaves

Bettina Bien Greaves is an extraordinary, unsung resource for liberty. Now FEE's Resident Scholar, a FEE Trustee, *Freeman* Contributing Editor, and two-time Guest Editor, she has done so many things for so many people for so long, it's past time to publicly acknowledge her myriad contributions. If you ask Bettina, she says she has only done her job, tried to answer questions people ask, and learned a good bit herself along the way.

With her late husband, Percy L. Greaves, Jr., she attended Ludwig von Mises's fabled economics seminar at New York University for nearly two decades. She took notes in those seminars and she helped make arrangements for the "Mises Dinner Circle" which, during the 1950s and 1960s, gave libertarian speakers a rare respectful forum in New York. She did practically everything, even humble chores, to help make Ludwig and Margit von Mises comfortable during their last years.

Along the way, Bettina made herself into the world's foremost Mises authority. She amassed hundreds, perhaps thousands of articles by and about Mises—in Chinese, Dutch, French, German, Italian, Japanese, Polish, Portuguese, Spanish, and Swedish, as well as English. She translated some of these articles. She checked facts about Mises firsthand in Austria and Switzerland where he had lived. The material she gathered became the basis for her authoritative two-volume *Mises: An Annotated Bibliography* (1993, 1995), which provides generous selections from articles and books, illuminating the intellectual history of the twentieth century. Bettina's scholarship revealed that Mises's influence extended much farther than anybody had imagined.

Bettina made herself perhaps the premier archivist of the postwar libertarian movement. She could always be counted on to squirrel away worthwhile documents and publications virtually impossible to find later. Her files include a remarkable collection of articles by Rose Wilder Lane. She has Henry Hazlitt's 20 years of *Newsweek* columns. She has what is probably the world's largest col-

lection of material on Frederic Bastiat—plus material on Frank Chodorov, Murray Rothbard, and many other important thinkers.

Long before mainstream publishers began to run articles and issue books by libertarian authors, there were lively debates in libertarian publications such as *Plain Talk*, *American Affairs*, *Books for Libertarians*, *Christian Economics*, *Inquiry*, *Journal of Libertarian Studies*, *New Individualist Review*, *Libertarian Review*, *Liberty*, and *Reason*. Most of these are gone, and even the ones still going can't be found at most libraries, but they're in Bettina's office.

She has material from many of the early libertarian organizations which became landmarks in the movement, including the National Economic Council, Joint Council on Economic Education, National Committee for Monetary Reform, National Committee for Constitutional Government, America's Future, and the American Economic Foundation. She has a collection of the papers presented to the Mont Pelerin Society, the international society of classical liberal scholars.

Bettina's personal library, which exceeds 5,000 books, is a major resource. It includes extensive holdings on American history, civil liberties, philosophy, economic theory, money, the Industrial Revolution, the Great Depression, the New Deal, Pearl Harbor, and other subjects related to liberty. She smiles, "I come by this naturally. I'm a third-generation bibliophile."

Bettina recognized the vital importance of reaching young people at an age when they are embracing ideas they would likely hold for the rest of their lives. Accordingly, she spearheaded FEE's pioneering program to provide libertarian material for high school debaters—information which wouldn't be found in local libraries. For almost two decades, she assembled sophisticated yet easy-to-understand packets on foreign aid, government regulations, medical care, subsidies, the media, and many other issues. These mailings

went out to as many as 1,200 high schools and several hundred colleges each year. Bettina helped students further by writing *Free Market Economics: A Syllabus* (1975) and editing *Free Market Economics: A Basic Reader* (1975) with 81 choice selections by such authors as Mises, Hazlitt, Chodorov, Davy Crockett, Jean Baptiste Say, FEE founder Leonard E. Read, and FEE president emeritus Hans F. Sennholz. Countless people have visited FEE and expressed heartfelt thanks to Bettina for helping them find their way.

Born in Washington, D.C., Bettina grew up the daughter of homebuilder-architect Van Tuyl Hart Bien; he lost practically everything in the Great Depression, and the family then moved to a log cabin in Bethesda, Maryland. At Wheaton College (Norton, Mass.), where she majored in botany, Bettina learned some French and German. When World War II came she accepted a government secretarial job with the Board of Economic Warfare. This took her to South America, where she learned Spanish, and to Europe where, among other things, she improved her German.

She joined FEE as a correspondence secretary in March 1951. That fall she began attending Mises's New York University economics seminar. Since then, she has given lectures across the United States and around the world. On her travels, she has helped maintain vital contacts with libertarians in such far-flung places as Australia, the Bahamas, Japan, Guatemala, Italy, Finland, the Czech Republic, Poland, Romania, and Russia.

This month marks Bettina's 80th birthday, something that she doesn't really want to be reminded of. But so many people have expressed gratitude for what she has done that we're glad to report she continues to enjoy good health—she regularly drives nearly 60 miles to participate in discussions about liberty. Please feel free to send your best wishes to her at FEE.

—JIM POWELL, *Guest Editor*

An Exclusive *Freeman* Interview:

Rudolph Rummel Talks About the Miracle of Liberty and Peace

Since the late nineteenth century, most intellectuals have embraced the illusion that government could somehow be tamed. They promoted a vast expansion of government power supposedly to do good.

But the twentieth century turned out to be the bloodiest in human history, confirming the worst fears of classical liberals who had always warned about government power. Perhaps nobody has done a better job documenting its horrors than University of Hawaii political science professor emeritus Rudolph J. Rummel.

Little known outside the academic community, he suddenly received much attention when he wrote *Death by Government* (Transaction, 1994). In the book, Rummel analyzed 8,193 estimates of government killings and reported that throughout history governments have killed more than 300 million people—with more than half, or 170 million, killed during the twentieth century. These numbers don't include war deaths!

Rummel went on to identify keys for peace, noting which kinds of governments engaged in wars during the past 200 years. In his latest books, *Power Kills* (Transaction, 1997) and *The Miracle That Is Freedom* (Martin Institute, University of Idaho, 1997), he reported his finding that liberal democracies are far less warlike than authoritarian or totalitarian regimes. Indeed, he could not find a single case of a war between two liberal democracies. He presented compelling evidence that the most effective way to secure peace is to secure

liberty by limiting government power. Last year he was nominated for a Nobel Peace Prize.

To be sure, classical liberals always knew that liberty and peace go together. Classical liberalism blossomed after centuries of brutal war. Mindful of how casually kings had launched so many senseless wars, America's Founders gave the war-making power to Congress, not to the chief executive. Peace was a primary passion of Richard Cobden and John Bright as they launched the successful movement for free trade. By giving people on both sides of a border easy access to resources, they believed free trade would eliminate major provocations for war and strengthen the self-interest of nations to get along. The international movement for liberty was a peace movement. But during the late nineteenth century, statist relentlessly attacked classical liberalism, promoted a vast expansion of government power and imperialism—and blamed escalating conflicts on capitalism. The dynamic link between liberty and peace was forgotten.

Rummel's personal experience led him to explore these great themes. Born in Cleveland, he endured parents who never seemed to get along. This experience, he says, "made me hate conflict—the bickering, the emotion, the yelling, the irrationality." He joined the army during the Korean War as a way of escaping the slums. He was stationed in Japan, he saw firsthand the horrifying destruction of war, and he found the Japanese

friendly. It led him to ask why we had made war on each other and to study war later when he went to college.

Meanwhile, he recalls, "I became thoroughly captured by science fiction. It occupied my free time, being to me what rock, movies, and television are to contemporary youth. I got my hands on whatever science fiction pulp magazines or books I could find to read; and unbeknownst to me at the time, not only got something of an education in basic science, but also developed scientific norms. I simply fell in love with science and took it as axiomatic that truth came from science, and that to be a scientist one had to learn mathematics."

After the Korean War, Rummel enrolled at Ohio State University—even though he hadn't been to high school. A year later he transferred to the University of Hawaii because he had become fascinated with Asian culture. "There I discovered that I could actually, as a student and later as a professor, study war. I was elated. From that time on, I never had any doubt this was what I must do."

He earned his master's degree at Hawaii, then went to Northwestern University. After teaching stints at Indiana University and Yale University, he returned to Hawaii, where he has been ever since.

During the 1960s, he wrote articles for *Peace Research Society Papers*, *Journal of Conflict Resolution*, *American Political Science Review*, *World Politics*, *Orbis*, and other journals, and he contributed chapters to many edited books. He wrote the five-volume *Understanding Conflict and War* (1975–1979). Then came *In the Minds of Men: Principles Toward Understanding and Waging Peace* (1984), *Lethal Politics: Soviet Genocide and Mass Murders 1917–1987* (1990), *The Conflict Helix: Principles and Practices of Interpersonal, Social, and International Conflict and Cooperation* (1991), *China's Bloody Century: Genocide and Mass Murder since 1900* (1991), and *Democide: Nazi Genocide and Mass Murder* (1992).

Despite his voluminous writings, Rummel's findings were ignored because, among other things, they posed an unacceptable challenge to statist dogmas that dominated the intellectual world. But after the collapse of so many

communist regimes, he could no longer be denied.

Now retired from teaching, Rummel works mostly at his Kanoehohe, Hawaii, home, which is filled with books and Asian art. Recently we talked with him about war, peace, and liberty, issues which thinkers have grappled with for thousands of years.

The Freeman: Could you tell us what your research has revealed about government power?

Rummel: Concentrated political power is the most dangerous thing on earth.

During this century's wars, there were some 38 million battle deaths, but almost four times more people—at least 170 million—were killed by governments for ethnic, racial, tribal, religious, or political reasons. I call this phenomenon democide, and it means that authoritarian and totalitarian governments are more deadly than war.

Many people are aware that some 60 million people died during World War II. What's much less well known is that only about 16 million of the World War II deaths involved combatants.

When you have a very powerful dictatorship, it doesn't follow automatically that a country will be violent. But I find the most violent countries are authoritarian or totalitarian.

Lord Acton insisted government officials be judged by the same moral standards you apply to ordinary people, and I do that, often to the discomfort of my political science colleagues. For instance, at one conference where I delivered a paper, I could see people wince when I referred to the late North Korean dictator Kim Il-sung as a murderer. He was responsible for about 1.7 million deaths. A lot of us can talk about an individual killer as a murderer—somebody like "Jack the Ripper," who killed about a half-dozen people—but in polite society you don't usually hear a famous "statesman" described as a murderer.

The Freeman: Who were the biggest murderers of the twentieth century?

Rummel: Soviet Communists top the list, having killed almost 62 million of their own people and foreign subjects. I figure Stalin was

responsible for nearly 43 million deaths. Most of them, about 33 million, were the consequence of lethal forced labor in the gulag.

Chinese Communists were next, murdering about 35 million of their people. More than a million died during Chairman Mao's "Cultural Revolution" alone. In addition to all these killed, 27 million died from the famine resulting from Chairman Mao's insane economic policies.

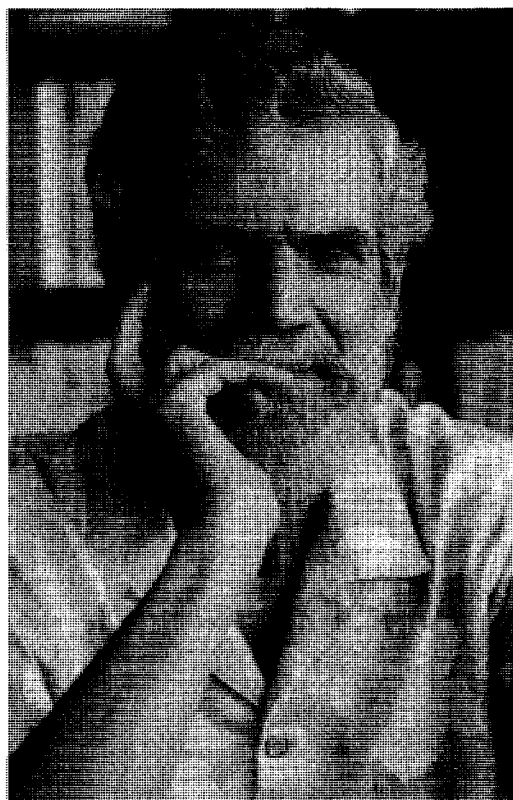
Percentage-wise, communist Cambodia was the worst. Pol Pot's Khmer Rouge murdered about 2 million people, almost a third of the population, between 1975 and 1979. They murdered Muslim Chams, Cambodian-Vietnamese, Buddhist Monks, military officers, anybody who was fluent in a foreign language, anybody who had a college education or professional training, and certainly anybody who violated their regulations. The odds of an average Cambodian surviving Pol Pot's regime were about 2 to 1.

Millions more people were murdered by communist regimes in Afghanistan, Albania, Bulgaria, Cuba, Czechoslovakia, Ethiopia, East Germany, Hungary, Laos, Mongolia, Mozambique, Nicaragua, Poland, Romania, Vietnam, and Yugoslavia. All told, I estimate communist regimes murdered more than 110 million people.

Another 30 million people died during wars and rebellions provoked by communist regimes.

There were plenty of other murderous twentieth-century regimes, too. Between 1900 and 1920, Mexico murdered about a million poor Indians and peasants. After World War II, the Polish government expelled ethnic Germans, murdering about a million. Pakistan murdered about a million Bengalis and Hindus in 1971. Japanese militarists murdered about 6 million Chinese, Indonesians, Koreans, Filipinos, and others during World War II. Chiang Kai-shek's Nationalist Chinese murdered nearly 10 million people between 1928 and 1949.

Although most people have heard that Hitler murdered almost 6 million Jews, few people seem to be aware that Hitler murdered a total of 20 million people—including gypsies, homosexuals, Dutchmen, Italians,



Rudolph Rummel

Frenchmen, Balts, Slavs, Czechs, Poles, Ukrainians, and others.

The Freeman: Your research ought to give one renewed appreciation for the greater peace of the nineteenth century, the heyday of classical liberalism.

Rummel: Yes. During earlier eras, whenever power has been unlimited, savagery was horrifying.

Ancient histories abound with accounts of cities being sacked and all inhabitants slaughtered. In 1099 A.D., Christian Crusaders seized Jerusalem and massacred between 40,000 and 70,000 men, women, and children. During the twelfth and thirteenth centuries, the Sultan of Delhi reportedly murdered hundreds of thousands of his subjects. The Turkic conqueror Tamerlane slaughtered some 100,000 people near Delhi.

Mongols were the most monstrous murderers before the modern era. In 1221, a Mongol army captured Merv and slaughtered some 1.3 million inhabitants. That same year, the Mongol Tului slaughtered as many as 1.3

million more in Meru Chahjan. Soon afterward, Jinghiz Khan slaughtered about 1.6 million around Herat. To acquire and maintain his political power, Khubilai Khan reportedly slaughtered as many as 18 million people. I estimate Mongols slaughtered about 30 million Arabs, Chinese, Persians, Russians, and others.

China has been bathed in blood. During the eight years [221–207 B.C.] that the Qin dynasty struggled for supremacy, the estimated population of China dropped from 20 million to 10 million. In the Three Kingdom period [222–589 A.D.] the population dropped from something like 50 million to about 7 million. After the Ming emperor Chang Hsien-chung conquered Szechwan province, he ordered scholars, merchants, officials, wives, and concubines murdered. He had their feet cut off and gathered into huge piles. In 1681, following the Triad Rebellion, an estimated 700,000 people were executed in one province alone. The great peace of the nineteenth century didn't touch China where, during the 15-year Teiping Rebellion, perhaps 600 cities were reportedly ruined, and as many as 40 million people were killed. Moslem rebellions in Yunnan province resulted in some 5 million deaths.

There were atrocities in Western Europe. Jews were blamed for the Black Death of 1347–1352, and thousands were slaughtered. The Spanish Inquisition killed between 100,000 and 200,000 people who were branded "heretics." Fanatical Protestants killed perhaps 100,000 women as "witches" during the Reformation. On August 24, 1572—St. Bartholomew's Day—the French King Charles IX or his officials ordered assaults on French Calvinists, and an estimated 35,000 were killed. During the Thirty Years War [1618–1648], perhaps 7.5 million people were killed. An estimated 137,000 people were murdered during the French Revolution and the ensuing civil war.

And, yes, there were horrors in the Americas. Aztecs killed people as part of their religious rituals, and Spanish conquistadors claimed to have counted 136,000 skulls outside Tenochtitlan. The Incas killed thousands for their religion, too. Between the sixteenth

and nineteenth centuries, an estimated 1.5 million slaves died while they were being transported across the Atlantic. Between 10,000 and 25,000 North American Indians were killed as the United States expanded westward.

These are just some of the worst horrors. Before the twentieth century, I estimate that governments were responsible for at least 89 million deaths and possibly as many as 260 million. My best guess is around 133 million.

Again, these numbers don't count battle deaths. I estimate that before the twentieth century, those amounted to some 40 million.

I want to caution readers about the misleading precision of these numbers. They represent the totals of many estimates. I analyzed the estimates as best I could. Obviously, the farther back one goes in history, it's harder to verify numbers. Which is why I tried to establish a range and then indicate a magnitude which seems best supported by evidence. Although the numbers shouldn't be taken literally, I believe they do help identify the worst murderers and the circumstances.

I conclude that nobody can be trusted with unlimited power. The more power a regime has, the more likely people will be killed. This is a major reason for promoting freedom.

The Freeman: What were the biggest surprises to emerge from your research?

Rummel: First of all, the unprecedented magnitude of mass murder. Nobody had tried to estimate it before. We have many books about demographics, like total population, the number of people who own telephones and cars. There's data on the number of people who die from heart attacks, strokes, cancer, and accidents. But until recently, there hasn't been any reliable information on the number of people killed by governments. Even though many of us were aware that governments were major killers, the numbers still come as a shock.

During the twentieth century, 14 regimes murdered over a million people, and it would be hard to find a scholar who could name half these regimes.

I was shocked to find that governments kill people to fill a quota. For instance, in the

Soviet Union under Stalin and China under Mao, the government would set execution quotas. They would decree that perhaps 5 percent of the people are counterrevolutionaries, so kill 5 percent of the people. Writers, entrepreneurs, you name it—kill 5 percent. In retrospect, I can see that murder by quota was the natural thing for these regimes to do, because they had central planners direct production of iron, steel, wheat, pigs, and almost everything else by quota.

I was shocked to discover how officials at the highest levels of government planned mass murder. The killing they would delegate to humble cadres. So much for the notion of government benevolence. Powerful governments can be like gangs, stealing, raping, torturing, and killing on a whim.

Another shocking thing, for me as a political scientist, was to see how political scientists almost everywhere have promoted the expansion of government power. They have functioned as the clergy of oppression.

The Freeman: What was difficult about estimating the magnitude of government killing?

Rummel: There's a vast literature, but it's widely scattered, it comes in many different forms, and it isn't indexed or otherwise organized. There are only a few scholarly books, such as Robert Conquest's work on Stalin's Great Terror, estimating the number of people murdered by government. It took me about eight years to go through all the relevant books, reports, articles, chapters, clippings, and the like and sort the information I found.

I then determined the lowest estimates and the highest estimates of democide, and arrived at what I call a "prudent" figure depending on various factors. I concluded that during the twentieth century governments killed at least 80 million people and possibly as many as 300 million, but the most likely number is about 170 million.

Even if it turned out that the low estimates were correct, it's more than twice as many people as have been killed in all the wars before the twentieth century.

From a moral standpoint, I doubt it matters much whether the number is 80 million or 170

million or 300 million. It's an unprecedented human and moral catastrophe.

The Freeman: Since authoritarian and totalitarian regimes suppress their records, how did you develop estimates for their murders?

Rummel: Well, among the principal sources, there are usually those sympathetic to a regime and those hostile to it.

The low estimate for twentieth-century mass murders, 80 million, comes mainly from sources sympathetic to the regimes carrying out the murders!

In a few cases, regimes have publicized their murders, often to intimidate people. For instance, Communist Chinese government newspapers would report speeches by officials in which one might boast, "We killed 2 million bandits in the 10th region between November and January." The term "bandit" was standard lingo for presumed "counterrevolutionaries."

After Vietnam invaded Cambodia in 1979, the Vietnamese justified the invasion by releasing data about Cambodian mass murders. They let Westerners see evidence of Khmer Rouge horrors.

Many people who escaped totalitarian regimes brought data about mass murders. They were unsympathetic sources, of course. For instance, Aleksandr Solzhenitsyn's volumes documenting the murderous Soviet gulag. I might add that he had an enormous impact undermining the moral claims of socialism. Many intellectuals, especially in Europe, remained socialists, but they turned against Soviet communism—and the Soviet Union, remember, was long touted as the place where socialism had achieved industrial power and social justice.

The Freeman: Tell us about your findings on peace.

Rummel: First, long-established democracies don't wage war on each other, and they rarely commit other kinds of violence against each other, either.

Second, the more democratic two countries are, the less likely they will go to war against each other.

Third, the more democratic a country is, the lower the level of violence when there's a conflict with another country.

Fourth, the more democratic a country, the less likely it will have domestic political violence.

Fifth, the bottom line: democratic freedom is a method of nonviolence.

The Freeman: What do you mean by “democratic”?

Rummel: People have equal rights before the law. Fundamental civil liberties like freedom of speech, freedom of the press, freedom of religion, freedom of association. Free markets. Constitutional limitations on government power. Policies and leaders are determined through open, competitive elections where at least two-thirds of adult males have the franchise. Countries like the United States, Canada, Denmark, France, Great Britain, Sweden, and Switzerland.

The Freeman: Tell us about your evidence that freedom promotes peace.

Rummel: I reviewed the evidence and historical studies going back to the classical Greeks.

For example, if one counts as a war any conflict in which 1,000 or more people were killed since 1816, the end of the Napoleonic wars, then there were 33 wars involving 353 pairs of nations—such as Germany versus the Soviet Union. None were between two democracies. There were 155 pairs involving a democracy versus a non-democracy and 198 pairings of two non-democracies.

The period between 1946 and 1986 involved the largest number of democracies—the toughest test for the link between democracy and peace. During this period, 45 countries qualified as democracies, and 109 as non-democracies. Consequently, these countries could be paired 6,876 ways, of which 990 were democracy-democracy combinations. Without going into detail, I applied the binomial theorem to show that the odds were 100 to 1 against the absence of war occurring by chance.

When you analyze other periods, qualify countries with various definitions of democracy, and estimate the impact of other factors such as geographic distance, economic development, military alliances, trade, and so on—democracy always comes out as the best explanation for the absence of war.

This is an incredible finding. It’s like discovering a cure for cancer. We have a solution for war. It is to expand the sphere of liberty.

The Freeman: Why do you think liberal democracies tend to be peaceful?

Rummel: Power is dispersed through many different families, churches, schools, universities, corporations, partnerships, business associations, scientific societies, unions, clubs, and myriad other associations. There’s plenty of competition, and people have overlapping interests. The social order isn’t controlled by anybody—it evolves spontaneously.

Democracy is a culture of political compromise, free exchange, peaceful negotiation, toleration of differences. Because time is needed for a democratic culture to develop and gain widespread acceptance, I stress that a peace dividend is achieved as a democracy becomes well-established.

Even though there might be a lot of government interference in daily life through minimum-wage laws, environmental laws, drug prohibition, government schools, and other policies, as long as a democratic culture remains strong, government officials must still negotiate with each other as well as with private interests.

By contrast, as Hayek explained in *The Road to Serfdom*—in his famous chapter “Why the worst get on top”—centralized government power attracts aggressive, domineering personalities. They are the most likely to gain power. And the more power they have, naturally the less subject they are to restraint. The greater the likelihood such a country will pursue aggressive policies. The highest risks of war occur when two dictators face each other. There’s likely to be a struggle for supremacy.

Another important reason why democracies tend to be peaceful is that people have a say in whether their government goes to war. They don’t want to die, they don’t want to see their children become casualties, they don’t want the higher taxes, regimentation, inflation, and everything else that comes with war.

When democracies do enter a war for reasons other than self-defense, politicians often find it necessary to deceive the public. In

1916, this was the case when Woodrow Wilson campaigned on a promise to keep the United States out of World War I, then maneuvered the country into it. And again in 1940, Franklin Roosevelt campaigned on a promise to keep out of World War II, then conducted foreign policy not as a neutral but as an ally of Great Britain and an enemy of Germany. My point is that in the United States, a liberal democracy, there was considerable popular opposition to entering foreign wars, and both presidents deceived the public, which wanted to remain at peace.

The Freeman: Some people suggest there are big exceptions to your claim that democracies don't make war against each other, like the War of 1812 and the American Civil War.

Rummel: The War of 1812, of course, was between the United States and Great Britain, but the franchise in Great Britain was then severely limited. Parliament was dominated by members from "rotten boroughs," districts that aristocrats controlled. Booming regions like Manchester had little, if any, representation. Serious electoral reforms didn't begin to come until 1832, and major extensions of the franchise came decades later.

As for the Civil War, I don't consider the South a sovereign democracy. Only about 35 percent or 40 percent of the electorate—free males—had the franchise. President Jefferson Davis was appointed by representatives of the Confederate states, not elected. There was an election in 1861, but he didn't face any opposition. . . .

There are other possible exceptions people sometimes mention, but none of them involve established democracies.

The Freeman: If democracies tend not to wage war against each other, they sometimes promote coups, assassinations, and other forms of violence abroad.

Rummel: Such violence tends to be the work of covert agencies like the U.S. Central Intelligence Agency, which have considerable discretionary power and aren't subject to detailed scrutiny by democratically elected representatives.

The Freeman: What about Western colonialism, which involved violence?

Rummel: Democracies committed less violence than other types of governments.

For example, compare the way the United States and Britain treated their colonial subjects with what Imperial Germany did. In Africa, the Germans conducted a murderous campaign against the Hereros tribe, and some 65,000 people were murdered. Far worse was the Soviet Union which murdered millions of people in territories it conquered.

Democracies have given up their colonies with less violence than authoritarian or totalitarian regimes. Recall how the British gave independence to Canada, Australia, New Zealand, India, Pakistan, and Sri Lanka. The most tragic fighting was between local rivals such as Moslems and Hindus. Hawaii, which the United States acquired by force, voted overwhelmingly to become a state, and Puerto Rico voted to remain a U.S. territory.

It's true some democracies did worse. France waged long wars in Indochina and Algeria. But the exceptional situation for democracies is the norm for authoritarian and totalitarian regimes like militarist Japan, fascist Italy, the Soviet Union, and Communist China.

The Freeman: Some people might say that although the United States is a liberal democracy, there's plenty of domestic violence.

Rummel: It's true the United States has the highest murder rate among Western democracies, but there's decidedly more violence in other countries like Brazil, Burundi, Colombia, India, Peru, Rwanda, Sri Lanka, and Uganda. The United States is well below the world average in domestic violence.

More to the point, I'm talking about how to minimize political violence. While it certainly isn't the only source of violence, it's the worst. I say that securing liberty is the only reliable way of minimizing political violence—revolution, assassination, civil war, military coups, guerrilla war, violent anti-government riots, and so on.

The Freeman: Did your research influence your personal views?

Rummel: It helped convert me from socialist to libertarian.

If somebody had given a speech three decades ago, saying freedom is what promotes

peace, and tyranny promotes violence, I would have said that was a simplistic explanation which couldn't possibly hold up. Much of my career, I had believed that complex social behavior requires many variables to explain and a complex theory. The surprise was that when I did the research, freedom came out as the single most important factor for peace and nonviolence. That freedom so preserves and secures life I now call the miracle of freedom.

The Freeman: What's your outlook for liberty and peace?

Rummel: Our challenge is to extend the sphere of liberty which, in turn, will extend the sphere of peace.

There has been some heartening progress in recent decades. For instance, while there are many disputes in Western Europe, where democracy is securely established, they're routinely handled through diplomatic channels, the European Community, or other peaceful means. France and Germany even have been considering a common army. This would have been inconceivable to people during the 1930s.

Closer to home, there's the border between

the United States and Canada. It's one of the world's longest borders, and it's unarmed. People in North America take it for granted, but it's quite an amazing phenomenon when you consider all the wars still being fought over territory. These examples involve liberal democracies, and peace is the norm.

Markets are strong influences for democracy. For instance, foreign direct investment, which now exceeds \$1.5 trillion, transfers technology to host countries. It provides jobs. It trains local people in business. It helps nations develop their resources and human capital. Most important, foreign direct investment promotes economic development and a civil society independent of government, and this promotes democracy. America should cut its own trade barriers and encourage freer trade everywhere.

America should apply nonviolent pressure aimed at persuading nondemocratic elites to improve the human rights of their people and gradually move toward democracy. I envision a nonviolent crusade by the democracies, the most important one since the great crusade against slavery.

The Freeman: Thank you very much. ☐

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The Amazing Creative Power of One

by Stanley I. Mason, Jr.

Large organizations may have enormous influence, but only individuals think. Only individuals develop ideas. Better ideas enable new products to gain market share from famous brands—and small companies to beat big companies by overcoming such competitive disadvantages as limited capital, low brand recognition, weak distribution, poor location, and late entry into a market. Perhaps nothing levels a playing field like a better idea. Without good new ideas, progress stalls and civilizations perish.

I see the enormous impact of ideas everyday. With more than 60 patents, I've helped develop over 100 products and improvements for companies like American Hospital Supply, Chesebrough-Pond's, Colgate-Palmolive, Frito-Lay, General Electric, Johnson & Johnson, S.C. Johnson, Kimberly-Clark, Lipton, McDonald's, Nestlé, Neutrogena, Nike, Pepperidge Farms, Playtex, Procter & Gamble, Reebok, Richardson-Vicks, Schick, Scott Paper, Tetley, Tupperware, and Velcro. Al-

though these companies have multi-million-dollar budgets and plenty of bright people on staff, they report that innovative ideas are always in short supply.

Early on, I learned the power—and profit potential—of ideas. My first invention dates back to when I was seven years old. I had asked my father for 15 cents to buy minnows so I could go fishing in the canal behind our house in Trenton, New Jersey. He turned me down because he thought fishing was a waste of time. My mother suggested I might make a fishing lure that would last a long time. She gave me a wooden clothespin, and I whittled it roughly into the shape of a minnow. I added a hook at one end and an eye at the other. I tried it, but I could see fish weren't interested. I looked through an encyclopedia to see what colors might attract fish, and the answer seemed to be green, black, and white. I whittled another lure, painted it, gave it a trial, and within about 20 minutes I caught a nice bass.

Neighborhood kids were excited by how easily I caught fish, and soon I was in business making lures. I could make one every 15 minutes and sell it for 25 cents. I developed a whole product line with lures aimed at attracting different kinds of fish. I learned I could create a product people wanted, and its benefits could be demonstrated.

My next enterprise involved boomerangs because I had become fascinated with birds, gliders, and airplanes. I made boomerangs by

Mr. Mason, Inc. Magazine Entrepreneur of the Year, has been inducted into the Entrepreneur Hall of Fame (University of North Carolina). Based in Weston, Connecticut, he has lectured at more than 20 colleges and universities across the United States and Canada. He has been the University of Connecticut's Director of Entrepreneurship Development, and he is regent for the Sacred Heart University, Fairfield, Connecticut. He is on the Board of the National Congress of Inventor Organizations and serves as a trustee of the National Council for Industrial Innovation.

sawing “L” shapes out of plywood. I sandpapered the edges so they became airfoil sections on the front and rear of each wing. They flew beautifully, and I could get \$1 for each boomerang that cost me only 12 cents to make. I soon learned I could hire my friends to saw out the pieces and sandpaper the edges. I could make money simply by drawing the lines.

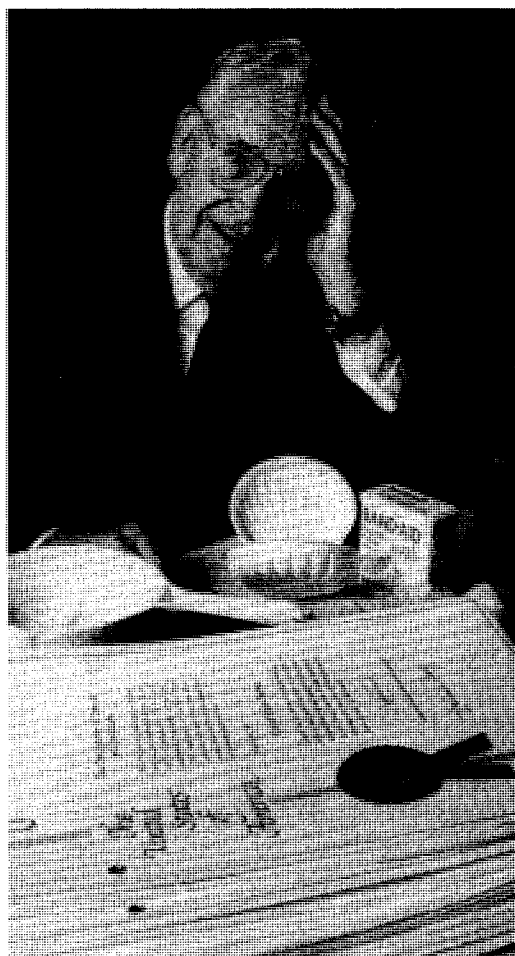
When I was eight, my mother arranged for me to take drawing lessons. Every Saturday for five years, I walked to class. I spent a year working with pencil, a year with watercolor, a year with oil paints. I was asked to draw common things like knives and forks. Then houses and people. Gradually I became obsessed with observing the world around me.

My father, an electrician, was a great help. He showed me how to use his shop, which had a drillpress, power saw, lathe, vise, and a foundry. He emphasized the potential dangers of the tools and let me work with them as long as I cleaned up afterward. I designed and built dollhouses, which I sold. I also sold model yachts that kids could sail in the canal.

Public schools I attended just weren’t set up to nurture creativity and independence. I recall being locked in the principal’s office for having refused to color within the lines of a third-grade workbook. My uncle had taught me how to read before I entered school, and I learned how to write not by taking an English course, but by joining the high school newspaper and seeing how news and feature articles were put together. I did have a ninth-grade math teacher who talked in terms of the projects that interested me, and my math grades soared.

One day I went to the Trenton Public Library and I talked to the librarian. She hired me to work as a page from 4:00 p.m. until 9:00 p.m., for 25 cents an hour, reshelving books. Then I worked in the circulation department and was sent to get books from the shelves. I spent a year with the reference department, then worked in the technology department. I learned that everything had a name and that numbers were important. I learned there were all kinds of subjects. I learned more in the library than I ever did in high school.

I attended a local college on a scholarship



Stanley Mason

and then worked for a variety of big companies. I observed that one of the hardest things for people to do is to create better ideas—especially within the confines of a large organization. New ideas require the freedom to see things from a fresh point of view—and the courage to take action. When people are worried about their mortgages and other family expenses, they are often afraid to risk their corporate careers by promoting new ideas that might not pan out. I understand, because I’ve been fired by some of the best companies. In 1973, I started my own firm, Simco, to use the talents that got me fired.

Competition and Innovation

An invention is usually a modification of an existing product, so the more products there

are out there, the more opportunities for inventors. I try to invent a product that replaces something a company already has. I make the next model and get a patent on it. Then I call the product manager and say, "I have developed a product that makes yours obsolete. It's patented. It doesn't cost any more than yours, and it uses the same machinery. I'd like to license it to you." And the product manager pays me a visit, because he or she knows that competition spurs everybody to improve.

Many of my most successful inventions began with observations that anybody could have made. For example, years ago when I was changing my son's diapers, I noticed that a baby's bottom was round, but the cloth diapers were square. And a squirming baby made it difficult to work with the safety pins needed to hold a cloth diaper together. Later, I was asked to generate new product ideas for a major paper company. Research revealed there was a disposable paper diaper on the market (from Sweden), but it was square, and leaks were a problem. I thought a diaper shaped for a baby's anatomy would work better.

How to produce a form-fitted disposable diaper efficiently? After a number of experiments, I took a roll of paper and cut it into a long series of back-to-back hourglass shapes. Cut these where the broad part of each hourglass join, and you have individual diapers. Put two sticky tabs at one end of each diaper, and you don't need safety pins. Insert an absorbent pad into the middle part. The pad is thicker on one end. Because of the way a boy urinates, the thicker end goes on top, and it goes the other way around in a girl's diaper. As you undoubtedly know, disposable form-fitted diapers took over the market.

In the early days of microwave ovens, I bought one. It came with directions for cooking a chicken: put a large glass dish in the microwave, then put two upside-down saucers in it. Lay the chicken in the saucers and cook for a few minutes. Well, chicken fat got all over the inside of the microwave. I thought this was a terrible way to cook a chicken.

Since more and more people were using

microwave ovens, I figured there would be a need for appropriate cookware. But designing it required knowing how energy was distributed within a microwave oven. Some special equipment could have given me answers, but it cost a lot of money. I hit on a simple solution. I laid out rows of popcorn on a plastic tray, put the tray in the microwave and turned on the oven. I could determine where the energy was most intense by observing which popcorn popped first. I raised the plastic tray, put more popcorn on it, and repeated the process until I had diagramed the mushroom-shaped pattern of most intense energy.

I designed microwave cookware to take advantage of this pattern. Generally, the microwave cookware was oval or round, and it was raised up from the floor of the oven by about an inch. Microwave energy would cook the food as it bounced up and down through the food. I made prototypes out of clay and plastic, and they were tested. Eventually, we had about 20 utensils for various kinds of food. They have gone into thousands of stores, including Sears and J.C. Penney.

Hunt Foods asked me what might be done about the gallon bottles they used for their cooking oil. The bottles were manufactured at one factory, then shipped to the oil-processing factory. This was expensive, and there was some breakage during shipment.

I thought polyethylene would be a better material, because polyethylene pellets could be shipped to the oil-processing factory and molded into gallon jugs with equipment that didn't take a great deal of room. I came up with a jug design that addressed the "glug-glug" complaint about gallon bottles (as you pour, the flow of air into the bottle disrupts the flow of oil out, and spills are common). I designed a hollow handle and a contoured overall shape which makes for smoother air flow and smoother liquid flow, eliminating the tendency to spill. This design has become standard in billions of gallon jugs used for milk, water, and other things.

Opportunities for better ideas are all around us. To help get ketchup out of a bottle faster, I developed squeezable bottles. I developed flower pots that protect against over-

watering and yield 30 percent to 50 percent bigger plants. I designed a full-face, disposable surgical mask that enables a doctor to wear glasses within the mask. To provide work for a food factory in the winter, I developed a product line of snacks and desserts. I developed a unique room-fragrance-generating system that turns itself on and off automatically—ideal for home bathrooms, for instance.

Burglars commonly go around a house and try every door, hoping to find one that's unlocked, so I developed an "early warning" burglar alarm that can alert you as somebody outside touches a doorknob. When the market for plain gelatin was withering away because so many people preferred flavored Jello, I set up a series of tests which showed how plain gelatin can work as a great fertilizer. Gelatin is almost 100 percent protein. Watering once a week with a gelatin solution can double the size of many popular plants in just six weeks, and it doesn't hurt if you use too much gelatin. This idea, which actually came from the wife of a Knox Gelatin marketing executive, was credited with helping to save the brand.

Individual Creativity

What I try to teach is that everything around us was invented, designed, or developed by some individual. The creative process is never an accident.

I believe that no matter what the product is, there is something better. I gain pleasure from the unknown, earning profits by making improvements.

Most ideas don't work, so my "secret" is to keep trying. Sometimes a solution that doesn't work today is the solution to a problem in eight months. You never really lose the information. The nice thing about failure is that it gives you new ideas.

One must make education a lifetime pursuit. I am a voracious reader. I subscribe to about 250 publications. I spend about two-thirds of my waking time reading. I believe in creative procrastination: putting off a chore so you'll have a few minutes to think.

My hobby is visiting factories—old and new—to find out how things are done. The problem with many companies is that the people who do the thinking don't know how to make the thing they're thinking about. The actual chemistry and physics of these things and how people interact with them are terribly important.

A lot of beginning inventors think they need money. I don't believe that's a big issue. What they need are *ideas*. They need to travel, talk to all kinds of people, and experience lots of different things.

Never underestimate the power of a small idea. For example, a safety pin is simply a straight pin bent in a different way.

Where do you find financing for a start-up venture? Mortgage your house. I've done it several times. Or you could see if somebody in your family could provide some financing. Banks can't be counted on to help. I've lost my shirt two or three times—but I find other shirts.

Private workspace is important. I'm reminded of a study done by Bell Labs. They asked computer programmers why some were more productive than others. It didn't matter where the most productive ones were born, where they lived, or who their parents were. The only thing they all had in common was that they had their own workspace, they could control their own heat, and they had an outside view.

You can come up with better ideas, too, if you really observe things around you and free your mind to see the unlimited possibilities. □

A Victim of Wetlands Regulations

by Marisa Manley

Since 1968, James J. Wilson's Interstate General Co., L.P., has been developing a 9,100-acre planned community in Maryland, called St. Charles. It is located about 20 miles from Washington, D.C., and some 33,000 people live there.

Recently, the *Washington Post* reported, Maryland Governor Parris N. Glendening cited St. Charles, with its clustered houses, apartments, townhouses, and commercial buildings, as an example of his policy initiative called "Smart Growth." The Maryland Department of the Environment awarded St. Charles a "Certificate of Appreciation" for "contributions to the improvement and strengthening of Maryland's sediment, storm-water and nonpoint source programs."

Interstate General has been following the development plan cleared by the Environmental Protection Agency, Fish and Wildlife Service, Soil Conservation Service, Army Corps of Engineers, and state regulators more than 20 years ago. The company's *Draft Environmental Impact Statement for St. Charles Communities, Charles County, Maryland*, prepared with the Department of Housing and Urban Development, covered the development of 9,100 acres, or 14 square miles, which could eventually accommodate 80,000 people.

Now for doing what all these officials ap-

proved, Wilson faces four felony counts, multi-million-dollar penalties, and jail time. This has depressed the market value of the company by \$100 million. Federal bureaucrats have done their best to destroy his reputation and torment his family. Wilson's wife and six children were devastated to see U.S. attorneys grab headlines by portraying him as an environmental criminal.

Trouble began when an Army Corps of Engineers inspector visited the company on April 18, 1990. The inspector had noticed that the company had deposited between 19 and 40 inches of soil on two-and-a-half acres of a property called Parcel L, adjacent to Route 925 and Smallwood Drive, in Charles County, Maryland. He claimed the property was a wetland. He insisted the Army Corps of Engineers had jurisdiction over wetlands, and declared nobody could put soil on a wetland without a permit from the Army Corps of Engineers.

Wilson, who is chairman and CEO of Interstate General, told the inspector that the property didn't have any water on it. In the past, the property had been seasonally wet and had been lawfully drained. It was one of the highest pieces of land in the county, about 200 feet above sea level.

Wilson told the inspector that Interstate General had received the necessary permits and approvals from Charles County and the Maryland Department of the Environment, which had approved the company's proposed

Marisa Manley's articles have appeared in the Wall Street Journal and Harvard Business Review.

system of drainage channels and sediment lakes to control any pollution and prevent sediment runoff. "We played by the rules and got all the permits we thought were required," Wilson said.

The Clean Water Act (1972) outlawed the dumping of dredged or fill material into a navigable waterway unless the Army Corps of Engineers issued a "section 404" permit. But Parcel L was nine miles from a navigable waterway, so in 1976 the Army Corps of Engineers reported that Wilson's plans "do not have a clear connection to interstate commerce." Consequently, the chief of the Planning Division told Wilson: "The construction of St. Charles Communities will have no impact on our area of responsibility." In other words, no section 404 permit was needed.

Since then, environmentalist litigation required the Army Corps of Engineers to draft regulations asserting jurisdiction over wetlands. But for years essentially all they could say was that a "wetland" was a swamp or marsh. They couldn't point to a spot on somebody's property where a "wetland" ended—and would be free from bureaucratic interference. But in 1987 the Army Corps of Engineers issued *Delineation and Identification of Jurisdictional Wetlands*, a 150-page manual which defines wetlands in terms of soils, water saturation, and other factors, and claimed federal government jurisdiction over wetlands adjacent to navigable waterways of the United States. Congress, however, didn't see fit to amend the Clean Water Act. You still won't find the word "wetland" in it. Interstate General has long developed properties using drainage channels and sediment lakes. The amended Clean Water Act didn't give the Army Corps of Engineers any more jurisdiction than they had before.

No Appeal

The Army Corps inspector issued a cease-and-desist order against depositing any more soil, and he issued an order demanding that Wilson remove the soil from Parcel L. (Wilson wanted to know what the legal basis was for the order, but the inspector wouldn't say.)

Wilson was shocked to discover there wasn't any appeal process within the Army Corps of Engineers, any way a citizen could appeal a decision rendered by a rank-and-file bureaucrat. Even the Internal Revenue Service has an appeals process. At the Army Corps of Engineers, you could request an interview with a higher-up, but they didn't have to see you, and they certainly weren't obliged to give you a hearing or weigh evidence from both sides. Short term, Wilson had no choice, and he had the soil removed, at a cost of \$160,000.

But Wilson had long developed properties that were environmentally correct, and he was outraged at the Corps' high-handed tactics. "We had played by the rules—which we had nothing to do with making—and now the Army Corps of Engineers was changing the rules. It wouldn't cost them a penny, but it would throttle our plans, which had taken years to develop and on which millions of dollars of commitments had been made."

Wilson figured that if he—who could afford to mount a legal counterattack—did not fight the Army Corps of Engineers, then how could anyone else be expected to fight? In the spring of 1991, he filed a suit charging that the cease-and-desist order amounted to a taking for which just compensation was due under the Fifth Amendment of the U.S. Constitution. They stalled for two years, refusing to identify the legal basis for their claims. Without retreating, they told the court in 1993 that they still hadn't identified wetlands on their property. The court dropped the case, but Interstate General was still prohibited from further developing its property.

Three months later, U.S. Attorneys in Baltimore began a grand jury investigation that took months. In October 1993, the grand jury indicted Interstate General, its subsidiary St. Charles Associates, and Wilson. They were accused of clearing, ditching, draining, and filling a wetland on Parcel L and three other sites—50 acres altogether. Yet the Army Corps of Engineers had never once suggested there was anything wrong with what they did on those sites. All of them are more than six miles from the Potomac River and hundreds of yards from the nearest creeks, none of which is navigable. Moreover, the company



For turning a wetland into a lake, Maryland businessman James Wilson faces federal fines and imprisonment.

ended up filling 20 of the 50 acres with water to make lakes, and much of the remaining property became open space.

Wilson Fights On

U.S. Attorney Lynne A. Battaglia offered Wilson a settlement. They wouldn't prosecute him if he agreed to pay a \$1-million fine and admit to having committed four felonies. Wilson knew that defending himself against the charges would cost more than \$1 million, and the settlement would have protected him and his family from further prosecution. "But I come from stubborn Irish stock—my father had fought for Irish independence back in 1922. I declined the offer." Extortion is extortion even if it's practiced by the United States government.

The case went to trial in January 1996. The government prosecutors told the judge that the Army Corps of Engineers has jurisdiction over the property because rain falling on our land ultimately drains via "intermittent streams" into navigable waterways. The theory here amounts to claiming federal jurisdiction over virtually every piece of ground in the entire United States—everywhere it rains. In any event, none of the "intermittent streams" she alluded to are depicted on official quad maps published by the Army Corps of Engineers and the U.S. Geological Survey. Nor do the maps show any wetlands in the disputed areas. Nor was any evidence presented that Wilson's filling of four parcels affected interstate commerce.

The prosecutors repeatedly claimed Interstate General was "destroying" wetlands, al-

though the government's own expert agreed that "if you're there in June, especially July or August, September or October, they tend to be dry." The government expert added the properties retain water for only "a short period of time." Other government experts disclaimed any specific environmental harm that might have resulted from draining these properties or prior development of nearby properties. Elsewhere big projects have been canceled because of alleged potential harm to animals, fish, or plants, but this wasn't an issue.

In any case, no federal statute required that wetlands be protected. The closest thing was the Clean Water Act, which prohibited the "discharge of any pollutant" into certain waters without a permit. The Corps was authorized to issue permits only for "the discharge of dredged or fill material into the navigable waters." The Supreme Court case, *U.S. vs. Riverside Bay View*, extended Corps jurisdiction to wetlands immediately adjacent to navigable waters, but St. Charles is six miles from navigable waters (the Potomac River). Interstate General's case presents a direct challenge to government power over millions of acres deemed to be "jurisdictional wetlands," and this outrages environmental extremists.

The Corps also claimed that Interstate General's draining of wetlands violated the "Tulloch rule," which they had adopted in an attempt to make lawful draining of wetlands virtually impossible. The government's star witness against the defendants conceded that their regulations effectively required one to use a helicopter for digging a drainage ditch.

The government claimed it was a crime to dig a ditch and leave the dirt alongside the ditch—a practice known as "sidecasting." But no federal statute mentions "sidecasting," nor is there any statute or regulation which in other terms describes the placing of excavated dirt alongside a drainage ditch. Nor had any court ever ruled that "sidecasting" is a crime. (In January 1997, U.S. District Judge Stanley S. Harris subsequently ruled that the "Tulloch rule" went beyond what was authorized in the Clean Water Act. "The appropriate remedy for what the agencies now perceive to be an

imperfect statute is congressional action," Judge Harris wrote.)

In accordance with the prosecutor's wishes, U.S. District Court Judge Alexander Williams, Jr., had instructed the jury that they must return a guilty verdict if they believed Interstate General had drained wetlands and deposited dirt alongside drainage ditches, which Wilson had always acknowledged doing. Judge Williams disregarded all requests to show where in the law these things were prohibited. On February 29, 1996, the jury came back with a guilty verdict.

Judge Williams announced the sentence on June 17, 1996: 21 months' imprisonment and a \$1 million fine for Wilson, a \$3 million fine for Interstate General and St. Charles Associates. This was the first time in American history anybody was ever prosecuted for depositing dirt alongside a drainage ditch.

Wilson appealed to the Fourth Circuit U.S. Court of Appeals, and they stayed his prison sentence pending appeal, which was heard on March 3, 1997. There were three judges, and rather than take the prosecutor's word that the Army Corps of Engineers had jurisdiction over property which wasn't anywhere near a navigable waterway, they actually looked at the statute and noted it didn't grant any such jurisdiction.

One of the judges asked the prosecutor how one would lawfully drain a wetland. The prosecutor talked about laying mats alongside a ditch as it was being dug, so that the dirt could be put there and not directly on the ground—thereby seeming to concede Wilson's contention that it is lawful to drain a wetland. The judges didn't seem to buy the prosecution claim that one should be branded a polluter for digging dirt that had always been there and depositing it a few feet away on other dirt. This didn't leave much of a case for the prosecution.

Thus far, Wilson's legal bills have soared over \$5.7 million, and the Army Corps of Engineers has impeded further development until the issues are resolved. How can a small property owner possibly defend himself or herself against the Army Corps of Engineers? It's intimidating to face the prospect of ruinous legal costs, the tremendous time required

for a proper legal defense, the agony of a long, drawn-out legal proceeding.

What kind of signals is the government sending developers who are interested in building environmentally sensitive projects? For their trouble, they are treated like common criminals.

Moreover, requiring people to obtain Army Corps of Engineers permits invites corruption because it gives bureaucrats the power of life and death over multi-million-dollar projects. Power corrupts police. Power corrupts Congressmen. Power corrupts White House officials. Power corrupts.

What this case illustrates is bureaucracy run amok. Congress had an open debate on a law which became the Clean Water Act. Among other things, it added to the jurisdiction that the Army Corps of Engineers had over navigable waterways. Then the Army Corps of

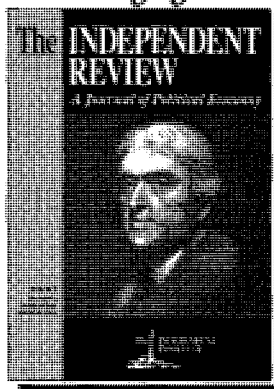
Engineers issued regulations which—without any Congressional authorization—extended its jurisdiction far beyond navigable waterways to practically the entire United States on the theory that some rain might ultimately find its way into a navigable waterway.

In its commentary on the case, *Wall Street Journal* deputy features editor Max Boot remarked that "It's bad enough to think that prosecutors twisted the law and hounded an innocent man into prison. What's even more frightening is to suppose that the law was applied correctly in this case. That means many more can expect to suffer Jim Wilson's fate."

As Washington attorney Nancie Marzulla remarked recently, "That's environmental law, 1990s-style. The ease with which a prosecutor can obtain a conviction for a wetlands violation is shocking." □

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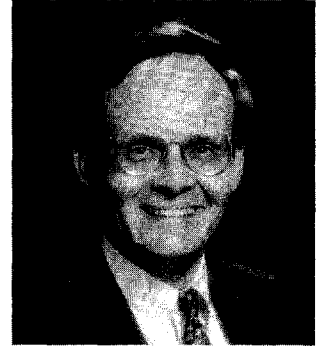
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The Predatory Bogeyman



In the literature of anti-capitalism, the dominant bogeyman is unquestionably the big, private, profit-seeking company. Is there a sin imaginable that hasn't been laid at the doorstep of those who own or manage large firms?

Defenders of capitalism have produced powerful arguments and voluminous evidence exposing much of the anti-capitalist literature as mythology—attacks that seem plausible on the surface but which dissolve when set against either economic principles or practical experience.

One of the more common attacks concerns a strategy that, according to the mythology, big companies employ often and successfully against their smaller competitors. It is known as predatory price-cutting, commonly understood as the practice of underselling rivals to bankrupt them, and then raising prices to take advantage of the absence of competition.

Recently, when an anti-capitalist professor raised this issue, I asked him if his state-subsidized university was engaging in this very thing by charging tuition that did not cover its instructional costs. Private colleges, I pointed out, can't combat this competition by relying on taxes to level the playing field. My professor friend responded by arguing that predatory price-cutting assumes an evil intent, and no government really intends to drive private colleges from the market by establishing its

own universities. Besides, he said, we must look at the *actual effects*: private colleges indeed exist and even thrive, in spite of the subsidized competition.

In referring to actual effects, the professor was unwittingly making a point that undermined his case. Predatory price-cutting is a theory that, more often than not, falls apart when it leaves the classroom and enters the real world. The fact is, in a free market, large firms rarely attempt it and when they do, they usually fail at it. Even large firms that have the power of government on their side find it much harder to succeed as predators than the theory at first suggests.

The early experiences of a company that is celebrating its 100th anniversary this year provide an interesting case in point. The Dow Chemical Company—an industrial giant famous for its aspirin, chlorine products, and plastic wrap—was once a “prey” that many expected would not survive.

Herbert Dow, the founder, had already started two other chemical companies by 1897: one went broke, and the other fired him. “Crazy Dow” was what the folks in Midland, Michigan called him. Like David fighting Goliath, he did battle head-on with large German chemical monopolies and eventually toppled them from world dominance. It was hard to tell, in the end, who was really the predator and who was really the prey.

Dow's key product was bromine, which he could sell as a sedative or as a chemical to develop photographs. He invented a process to separate bromine from the sea of brine

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underneath the city of Midland. With gusto, Dow sold his bromine inside the United States, but not outside—at least not at first.

The Germans had been the dominant supplier of bromine since it first was mass-marketed in the mid-1800s. No American dared compete overseas with the powerful German cartel, *Die Deutsche Bromkonvention*, which fixed the world price for bromine at a lucrative 49 cents a pound. Customers either paid the 49 cents or they went without. Dow and other Americans sold bromine inside the United States for 36 cents. The Bromkonvention made it clear that the Americans were lucky to be allowed to sell at all, and that if they tried to sell outside America the cartel would flood the American market with cheap bromine and drive them all out of business.

By 1904, Dow was ready to break the rules: He moved to sell bromine in Europe and Japan at a price well below that of the cartel. Before long, the Bromkonvention went on a rampage. It poured bromides into America at 15 cents a pound, well below its fixed price of 49 cents, and also below Dow's 36-cent price.

Was Dow the helpless little guy, about to be smashed by the evil German capitalists just like the predatory price-cutting theorists would have predicted? Quite the contrary, he was the quintessential entrepreneurial genius who gives capitalism its cutting edge. He had his agent in New York discreetly buy hundreds of thousands of pounds of German bromides at the cartel's 15-cent price. Then Dow repackaged the German bromides and sold them in Europe—including Germany—at 27 cents a pound. "When this 15-cent price was made over here," Dow said, "instead of meeting it, we pulled out of the American market altogether and used all our production to supply the foreign demand. This, as we afterward learned, was not what they anticipated we would do."

Indeed, as historian Burton Folsom reveals

in his forthcoming book, *Empire Builders: The Vision and Influence of Michigan's Early Entrepreneurs*, the Germans were befuddled. They expected to run Dow out of business; and this they thought they were doing. But why was U.S. demand for bromine so high? And where was this flow of cheap bromine into Europe coming from? Was one of the Bromkonvention members cheating and selling bromine in Europe below the fixed price? The tension in the cartel was dramatic. According to Dow, "the German producers got into trouble among themselves as to who was to supply the goods for the American market."

The confused Germans kept cutting U.S. prices—first to 12 cents and then to 10.5 cents a pound. Dow meanwhile kept buying these cheap bromides and reselling them in Europe for 27 cents. By the time the Bromkonvention finally caught on to what Dow was doing, it had lost the price-cutting war. Dow had secured new markets for his own company with his competitors' product, and he was now in a position to build a chemical giant. He went on to beat foreign, government-subsidized cartels in dyes and magnesium. Consumers of ever cheaper and better products were the biggest winners.

The predatory price-cutting charge is most commonly applied to the early history of John D. Rockefeller's Standard Oil Company. But here, too, the record departs from the rhetoric. Professor John S. McGee, writing in the October 1958 *Journal of Law and Economics*, showed conclusively that Rockefeller did not engage in the practice because he was smart enough to know that other entrepreneurs weren't helpless nitwits who would take it lying down. (For a more complete explanation, see either McGee's article or my own in the March 1980 issue of *The Freeman*, "Witch-Hunting for Robber Barons: The Standard Oil Story.")

Anti-capitalist literature is rife with demons, monsters, and other assorted bogeymen, but so are fairy tales. □

How We Privatized Social Security in Chile

by José Piñera

Social Security is the single largest government program in the United States, spending \$350 billion a year—more than the defense budget during the Cold War.

The bad news is that Social Security is approaching bankruptcy. It won't be able to pay all the benefits everybody has been promised. This is because any pay-as-you-go social security system has a structural flaw: it destroys the link between work and reward, personal responsibilities and personal rights. Whenever that happens for a large number of people over a long period of time, disaster is almost inevitable.

If nothing is done for another decade, the problems in the United States will be overwhelming. And it is not only experts who know this. A recent poll suggests twice as many young Americans believe in flying saucers than believe Social Security will make good on its promises.

The good news: there is an alternative that works. It was developed in Chile where a pay-as-you-go social security system had been started in 1925, more than a decade before it was enacted in the United States. Instead of paying a payroll tax, every Chilean worker

sends his monthly contribution—between 10 percent and 20 percent of wages—to a tax-deferred pension savings account. This is the individual's private property. An individual can easily find out how much is in his or her pension savings account. Now the biggest asset of Chilean workers isn't their used car or their mortgaged home. Their biggest asset is the capital accumulated in their pension savings account. These contributions are invested in capital markets through private investment managers, yielding real positive rates of return. There are some interventions, including guidelines to exclude highly risky investments from pension savings accounts, but there aren't any compulsory investments, certainly not government securities. Chilean workers have become a nation of business owners—capitalists.

In Chile, if you aren't satisfied with the way your pension savings account funds are being managed, you can switch to another investment company, known in Chile as an AFP. When you change jobs, you take your pension savings account with you. It's as portable as your bank account.

Moreover, Chileans can now decide when they wish to retire. A worker figures how much he has accumulated thus far in his pension savings account and what additional percentage must be deducted from each paycheck so that when his chosen retirement date arrives, he will be able to buy an annuity yielding 50 percent of his last wages.

José Piñera, former Minister of Labor and Social Security of Chile, is president of the International Center for Pension Reform and co-chairman of the Cato Institute's Project on Social Security Privatization. He is author of Empowering Workers: the Privatization of Social Security in Chile (Cato Institute).

To those who express concern about the compulsory element of the Chilean privatization, I say this: we didn't introduce compulsion. It was already there. We reduced it, gave people far more choice than they had before. Moreover, since the very beginning, contributions have been based on the first \$25,000 of income, while wages have soared, which means the compulsory element becomes less onerous each year.

Taking Politics Out of the Pension System

The Chilean Constitution protects pension savings accounts from government expropriation, because we know that whenever politicians see a huge amount of money accumulated, they become greedy. Taking politics out of the pension system means that pressure groups can't lobby legislators to siphon a worker's money for somebody else. Pension savings accounts cannot be touched even during war. In that event, the government could issue war bonds, but they have no business taking private pension savings accounts. It's private property.

The Chilean investment-management industry is competitive—with free entry—as in the United States. We have 15 AFPs, two of them owned by U.S. firms. Competition is important because it spurs companies to improve investment returns and to minimize commissions.

What about poor people? I don't believe anybody should be barred from having a private pension account just because they're poor. That somebody might be poor at, say, age 25, doesn't mean they'll be poor at 40. With the Chilean system, everybody goes through life contributing at least 10 percent of their earnings. If by the time a man reaches 65, or a woman 60, an individual can't afford to buy an annuity yielding a minimum income, then the government supplements their accumulated capital to reach that level.

But we retained the vital link between work and reward. The more you put into your pension savings account, the more you will be able to take out. This is in dramatic contrast with Chile's government-run pension system.

Workers paid up to 25 percent of their salaries into it, yet by 1980 it was broke. Like U.S. Social Security, the government-run Chilean system paid out often meager benefits which weren't related to individual effort and contributions, so there was a lot of discontent. And like U.S. Social Security, the government limited the ability of people to collect—with any pay-as-you-go government pension system, free choice about retirement age isn't allowed, because somebody else would be forced to finance your early retirement.

Moreover, politics had resulted in special privileges concerning when people could collect from their government-run pension. Factory workers couldn't collect until after age 65, white-collar workers, after 55. Bank employees could begin collecting after 25 years of work, members of Congress, after only 15 years!

Why give government such incredible power over your life? Working or not working has a lot to do with human happiness. There are some people who enjoy working well into their 80s. Others want to collect pension income and go fishing at 50.

How to handle the transition from a government-run system to a private pension saving system? In Chile, we had three rules, which entailed a degree of compulsion.

First, we continued paying the elderly who had become dependent on the government-run system. We didn't touch those benefits. Second, we offered every worker the freedom to stay in the government-run system at his own risk. Or the worker could leave the system completely and begin his or her own pension savings account. Third, we required new entrants to the labor force to join the pension savings account system, because we believed it was irresponsible to go on burdening our children and grandchildren with an unfunded debt.

Before we introduced a law for pension savings accounts, I spent six months explaining how they would work. Every week, I went on prime-time TV and spoke for three minutes. Sometimes I had a clock right beside me, because everybody knows that politicians promise to be brief, then go on and on. Viewers could see when three minutes were up.

I said "I'm the Secretary of Labor and Social Security, and I don't know how much money I have in the Social Security system. Do you know how much money you have?"

Next week, I came back and said, "Would you like to have your money in a passbook like this?" I held one up to the TV camera. I said, "You can keep it at home and look it up. Next week, I will tell you how it will work."

Next week, I asked, "Are you worried about safety?" I talked about how your pension contributions would go into a diversified mutual fund of your choosing, whose assets would be kept apart from the assets of the investment manager. The bankruptcy of an investment manager, if that occurred, wouldn't touch your pension savings account.

And so on, explaining one aspect of the proposed pension savings accounts at a time.

Initially, I encountered skepticism. Many were against the proposed new system. It meant radical change and seemed risky. Nobody else in the world had done anything like this. "Why not be the first?" I suggested. "Someone has to be first."

At the end of each three-minute TV segment, I had always emphasized that if you don't like the proposed new system, you don't have to join it. People became intrigued with this government official who spoke passionately about an idea but offered the freedom to turn it down. People began to say there must be something very good about the idea.

After a while, people everywhere were talking about the proposed pension savings account. They began asking when a new law would come.

While popular support was growing for it, there were formidable interest groups against it. Labor union bosses declared that pensions must not be based on individual choice. They were opposed to having pension contributions managed by private investment managers. The bosses demanded power to control where pension contributions went. I was offered perks, such as the free use of a beautiful beach resort. The bosses made clear they would do everything they could to make my life difficult if I didn't yield to their demands.

The new law was approved on November 4,

1980—the day, as it turned out, when Ronald Reagan was elected president of the United States.

The law was to take effect six months later, May 4, 1981. But it occurred to me, though, that since May 1 is Labor Day in Chile, as well as most other countries, there would be enormous symbolic significance if pension savings accounts began on Labor Day. Traditionally, this had been celebrated as a day of class struggle, with parades displaying the red flags of those who hated private employers.

I took the liberty of changing the starting date of the new law to May 1. Afterward, Labor Day was celebrated as the day Chileans were able to free themselves from big government and take control of their pension contributions.

An Enormous Response

Despite critics who warned people not to trust the private sector, the response was enormous. During the first month, 25 percent of Chilean workers—about 500,000—opted out of the government-run system. By the end of the first year, 70 percent of Chilean workers chose to open tax-deferred pension savings accounts. By the end of the second year, 90 percent had.

Individuals opting for private pension savings accounts received a "recognition bond" (zero coupon, indexed to inflation with 4 percent interest), which recorded their contribution to the government-run system. Upon retirement, this bond was cashed and added to their assets available to purchase an annuity.

As I mentioned earlier, after the new law took effect, people who started working for the first time made payroll contributions to their own pension savings accounts, not the government-run system. There hasn't been anybody entering the government-run system.

Yes, moving away from a pay-as-you-go system was a challenge. There was a transition gap: the amount of money we ceased to collect from workers who opted out of the system, yet had to pay current and future retirees. The transition gap was around 3 percent of our

gross national product. We paid a substantial portion by reducing wasteful government spending and by using debt financing. As a consequence, we went to private pension accounts without increasing taxes, inflation, or interest rates. During the last six years, we have had government budget surpluses equal to 1 percent or 2 percent of GNP.

Going to pension savings accounts helped boost the economy, because it has raised the saving rate—now about 27 percent of GNP—and people's contributions became available for private capital markets. Since pension savings accounts got started, they have generated capital equivalent to 40 percent of Chilean GNP. During the past dozen years, annual growth has been about 7 percent, double our historic growth rate. Faster economic growth made it easier to handle the transition gap.

The real rate of return on private pension accounts has been about 12 percent. Pensions are already 50 percent to 100 percent higher than with the government-run system.

Chile has eliminated the payroll tax, which, by making it more expensive for employers to create jobs, put a damper on employment.

Chilean unemployment is around 5 percent—and without the disguised unemployment of government make-work jobs. By contrast, in the Western European welfare

states, unemployment is generally between 10 percent and 25 percent.

To be sure, Chile embraced many other free-market reforms which helped accelerate economic growth. We went to free trade, cut income taxes, privatized state-owned companies, and so on, but according to many observers, the most important reform has been the pension reform.

I believe that the way to cut the size of government is not only to reduce government programs but to abolish them. I long for the day, fast approaching, when the last person in Chile's government-run system retires and 100 percent of workers are making contributions into their own pension savings accounts.

Just imagine how this idea could energize the U.S. economy. More people would see their own efforts, not the government's, as offering the key to their future. Trillions of dollars would become available to help finance economic growth. Payroll taxes would be cut and ultimately eliminated, contributing to higher employment, higher wages, or both. Individuals would gain freedom to control their pension savings. They would almost certainly have more retirement income and greater peace of mind. It would be hard to think of a single economic reform that would do more good for everyone. □

The power of one.

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Only individuals can think creatively.

Only individuals can cooperate.

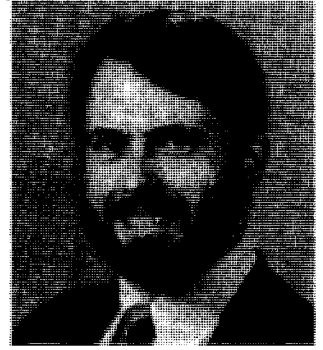
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Taxing Time



Income Tax Day is three months past, but only now are Americans finally finished paying for government. The Washington-based Tax Foundation reports that Tax Freedom Day, when people stop turning their earnings over to government, was May 9, the latest ever. Since 1992, reports the Foundation, “the tax burden borne by the average American has risen rapidly,” going from 121 days to 129 days.

Taxes are only the most visible form of government’s burden, however. Deficit spending, too, costs people. On top of that comes government regulation of all sorts. Americans for Tax Reform, an activist taxpayers’ group, estimates that it is the first week of July before people start laboring for themselves instead of government. In short, we spend more than half of our working lives financing government.

For believers in limited government, then, there is probably no more important task than constraining the growth of government spending, and that is most achievable by reversing the increase in taxes. What is needed is a threefold strategy of tax reform: reduction, accountability, and simplification.

Most important, Congress should lighten the tax burden, and the best means of doing so is to cut income tax rates across the board. The reason is simple—taxpayers deserve relief.

Mr. Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author and editor of several books, including Tripwire: Korea and U.S. Foreign Policy in a Changed World.

According to a recent Harris poll, 30 percent of Americans say that their taxes are “much too high.” Another 40 percent believe they are “somewhat too high.” And this huge majority is right.

At the beginning of the century, reports the Tax Foundation, Tax Freedom Day came on January 31. It bounced around March and April during the 1940s, gradually moved to the end of April by the 1970s, hit May the following decade, only to recede for a time, before starting its steady increase in 1993.

In many states the burden is even higher. New Yorkers work for government until May 23. Residents of Connecticut start earning money for themselves only a couple of days earlier. The luckiest taxpayers live in Louisiana, where Tax Freedom Day comes on April 26.

Taxes are the largest single component of the average American’s budget. People spend nearly two hours out of an eight-hour day to pay just Uncle Sam’s levies. Another hour of labor is consumed by state and local taxes. Only housing, at an hour and twenty minutes, comes close to the tax burden. (The costs of deficit spending and regulation are largely hidden from view, raising prices and interest rates.)

Of course, defenders of the expansive and expensive state argue that Americans receive a good return on their money. But today’s welfare/warfare state operates primarily for the benefit of select interest groups rather than the general public. Nearly one-quarter of

every tax dollar goes to Social Security, Uncle Sam's faltering retirement system that is delivering an increasingly negative return while heading toward fiscal collapse.

One-fifth of the federal tax dollar covers health care, particularly Medicare and Medicaid. These programs are not only unnecessarily expensive, but have fueled price inflation in the private sector. Neither is sustainable over the long term. Another fifteen cents goes to interest, the price of past federal extravagance.

The biggest program that is truly a federal responsibility is national defense, which accounts for fifteen cents. But much of that goes to protecting other countries, particularly America's populous and prosperous allies. Beyond that are a potpourri of programs that either aren't government's responsibility or are more expensive than need be. Some value for the tax dollar!

The fairest means to reduce the tax burden would be to slash tax rates for all Americans. Given a decade worth of tax hikes after the Reagan Administration's early tax cuts, the reductions should be substantial—a third at least. Other good ideas include reducing capital gains and estate levies, which perversely punish the capital accumulation that is necessary for economic growth.

Reductions are not enough, however, for the 1980s proved that the pressure to hike levies is almost irresistible. Thus, the tax burden needs to be made more visible to people.

For instance, withholding, under which workers never see their earnings grabbed by government, should be eliminated. If taxpayers had to scramble to come up with the thousands of dollars necessary to satisfy Uncle Sam, they would realize just what a burden taxation had become. At the very least, the current withholding system should be replaced by a system of quarterly tax payments like that now used by the self-employed. In either case, workers would receive their full income, and only then pay the IRS.

At the same time companies should voluntarily implement the Right to Know Payroll as proposed by Michigan's Mackinac Center. For each employee firms would list the overall payroll benefit level and subtract expenses

that the employee never sees (payroll taxes, administrative costs), yielding the traditional gross pay number. If politicians won't voluntarily subject their handiwork to public scrutiny, business should help expose it.

Moreover, election day should be moved to the first Tuesday after the second Monday of April. Then taxpayers would see how much of their income had been seized by government before voting. They would feel the real cost of the supposed benefits being provided by spendthrift politicians, enabling them to make a truly informed electoral choice. In contrast, elections now fall seven months after tax day.

Finally, Congress should move toward either a flat income tax or a national sales tax. The first would greatly simplify the task of figuring out what was due. The second would essentially eliminate the individual compliance burden, along with intrusive IRS enforcement practices.

The latter is particularly important. The income tax imposes more than a financial burden. A *People* magazine poll found that the most frightening words Americans imagined hearing over the phone were "This is the IRS calling." Evidence continues to emerge on how various presidents have used the tax agency against their political enemies. Only slightly less obnoxious are the 1500-plus (currently admitted) instances of freelance snooping. A free people should not live in fear of virtually unaccountable bureaucrats who can delve into the most intimate details of their finances.

Indeed, Dan Mitchell of the Heritage Foundation has come up with 577,951,692,634 reasons for tax reform. He points to the 136,000 federal employees who enforce the tax law and the \$13.7 billion they spend doing so. There are 8 billion pages of forms and instructions issued by the IRS, 5.5 million words in the tax code, and 33 million penalty notices sent out annually. There are 8.5 million wrong answers given to taxpayers calling the IRS for help. There's the \$31 billion spent and to be spent by the IRS to modernize its computer system. The \$157 billion in compliance costs for individuals and businesses. And much, much more.

Serious tax reform is not an ivory-tower dream. Former IRS Commissioner Fred Goldberg opines that tax reform is "the only way to liberate the American people from a system that is grotesquely burdensome and monstrous." A recent survey of 275 IRS workers found overwhelming support for tax simplification. If the bureaucratic beneficiaries of the current system support real change,

why not the supposed representatives of the American people?

Every tax season seems to end up the same. People pay too much in taxes. People spend too much money and time trying to comply with the tax laws. Congress does nothing. The President does nothing. Change will come only if the American people demand that something be done. □

A Roundup:

Taxation Without Justice

by Dean Stansel

How much justice is in our tax codes? Consider this sampling of some goods and services taxed in the United States today:

- 2 percent on the lease or rental of linens and garments. (Alabama)
- 5 percent on entertainment and information services provided by telephone. (New York State)
- 41.3 percent on imported grapefruit juice. (U.S.)
- 1 percent on the mortgage to finance a building, when the amount is less than \$500,000; 1.125 percent when the amount is over \$500,000—this in addition to similar taxes imposed by the state. (New York City)
- 7 percent on admission fees to movies, plays, and other "amusements." (Chicago)
- 1 percent on urine-testing materials, syringes, insulin, needles for diabetics, and medical appliances for human use. (Illinois)

Dean Stansel is a fiscal policy analyst at the Cato Institute, Washington, D.C.

Thanks to CCH Inc. (formerly Commerce Clearinghouse) for their assistance gathering data on city taxes.

- 3.75 percent on gross receipts earned by retailers licensed to sell Christmas trees. (Los Angeles)
- 9.5 percent on imported pimentos. (U.S.)
- \$4 per employee per month, paid by companies employing 50 or more full-time people who earn over \$900 per quarter. (Chicago)
- 0.3 percent of taxable gross income generated by water-softening and -conditioning businesses. (Indiana)
- 1 percent on semen used for artificial insemination of animals. (North Carolina)
- 9 percent on drinks sold at soda fountains. (Chicago)
- Up to 38 percent on imported soda-lime glasses. (U.S.)
- 0.08 percent on oysters; 2.1 percent on food fish generally; 3.15 percent for pink and sockeye salmon; 5.25 percent on chinook, coho, and chum salmon. (Washington)
- 151.2 percent on imported parts for inexpensive watches. (U.S.)
- 38 cents per ton on asphalt manufactured for one's own use. (Florida)

- 50 percent on the cost of repairing a U.S.-registered ship in a foreign port. (U.S.)

- \$2 per gas pump for a company's first 50 pumps, and up to \$10 per pump when a company has more than 600 pumps. (North Carolina)

- 36.3 percent on imported in-shell peanuts. (U.S.)

- 15 cents per bale of cotton ginned. (Mississippi)

- 25 percent on fees for mooring or docking a boat. (Chicago)

- 0.5 percent of U.S. government sugar subsidies received by a sugar producer. (Hawaii)

- 33 percent on imported wool-blend fabric. (U.S.)

- 21 cents per gallon of gasoline. This is on top of state and federal gasoline taxes. (Cook County, Illinois)

- 4.5 percent of gross receipts from the sale of any motor vehicle to a member of the U.S. Armed Forces who is on full-time active duty in the state but a permanent resident of another state. (Connecticut)

- 41.9 percent on cheap imported brandy, selling for less than \$2.38 per liter. (U.S.)

- \$2 per day per hotel room costing over

\$40 a day, added to a guest's bill (on top of city and state sales taxes). (New York City)

- 3 percent on the sale of food through coin-operated vending machines. (Alabama)

- \$25 per year plus \$150 per amusement device (like a video game), paid by amusement businesses. (New York City)

- 3.75 percent of gross income earned by individuals licensed to work as an auctioneer and conduct business at antiques shows. (Los Angeles)

- \$10 for each store which is part of a chain with fewer than ten stores, and \$550 per store which is part of a chain with over 500 stores. (Louisiana)

- 50 percent of gross income of urban mass transportation companies. (Wisconsin)

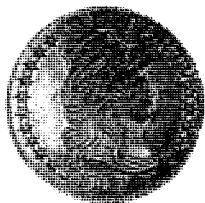
- 4.5 percent of base rent, due from companies which pay more than \$40,000 per year to lease office space in Manhattan below 96th Street. (New York City)

As the randomness of these examples suggests, taxes seldom reflect any principles of justice that people can understand. Rather, taxes are the consequence of intense lobbying to gain special privileges and push as many burdens as possible on other taxpayers. The less of this, the better! □

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Communitarians and Slavery

by Tibor R. Machan

A recent report in the *New York Times* tells how in Ghana many preteen girls are subjected to slavery, supposedly to atone for their parents' or other family members' sins.

What usually happens is that a priest keeps a girl as a sexual servant until she no longer satisfies him, after which the family has to replace her with a new virgin—on and on until the atonement is completed.

A Ghanaian priest, cited as defending the practice, says that “the practice stems from a world view that sees justice and punishment in communal rather than individual terms; an individual who has no connection to a crime may be punished to spare others.”

Some Western intellectuals claim there is no way to judge such practices because each community sets its own standards for justice. These intellectuals view reform efforts as “corrosive” individualist imperialism.

By this reasoning, the forced female circumcision in Africa, the censoring of objectionable literature in some Muslim cultures, and the killing of unwanted wives in India are okay, too.

*Dr. Machan, who teaches political philosophy and business ethics, is the author of *Private Rights and Public Illusions* (Transaction Books, 1995). He is at work writing books on generosity, individualism, and business-bashing.*

Individualists counter that there are basic human rights which must be protected. Any form of slavery is a violation of justice. The common good is secured when individual rights are secured. Organizations like Amnesty International and Human Rights Watch are properly invoking universal principles.

Many widely published communitarians claim justice is a matter of balancing individual rights and the common good, while expressing horror at the Ghanaian practice. Yet it is difficult to see how a communitarian could object. After all, if “the community” has accepted a practice, what could be wrong with it?

Communitarians say that everyone ought to respect the different traditions of varied human communities around the globe. But if there are no basic principles that apply to all, why should we respect everything a community might do?

Of course, there aren't any easy remedies for victims of human rights violations around the world. Barging into a society with zealous enthusiasm for reform has seldom done much good. Education and the art of diplomacy are important when it comes to changing bad community practices.

But we must be clear that violating human rights is wrong wherever it happens. □

Who Said What About Liberty?

(a quiz)

The literature of liberty offers double pleasure. You can often enjoy both dynamic ideas and great eloquence.

Just for fun, see if you can match the following unforgettable quotations with their authors. The quotations are representative views of many of the greatest thinkers in the history of liberty:

- A. Lord Acton
- B. Benjamin Franklin
- C. Milton Friedman
- D. Legendre and Jacques C.M. Vincent de Gournay
- E. F.A. Hayek
- F. Henry Hazlitt
- G. Thomas Jefferson
- H. John Locke
- I. Ludwig von Mises
- J. Albert Jay Nock
- K. P.J. O'Rourke
- L. James Otis
- M. Thomas Paine
- N. Ayn Rand
- O. Leonard E. Read
- P. Murray N. Rothbard
- Q. Adam Smith
- R. Thomas Sowell
- S. Mark Twain
- T. Mary Wollstonecraft

1. "Whenever the Legislators endeavor to take away, and destroy the Property of the People, or to reduce them to Slavery under Arbitrary Power, they put themselves into a state of War with the People, who are thereupon absolved from any farther Obedience...."

2. "Laissez faire, laissez passer."

3. "Taxation without representation is tyranny."

4. "Society in every state is a blessing, but Government, even in its best state, is but a necessary evil; in its worst state, an intolerable one."

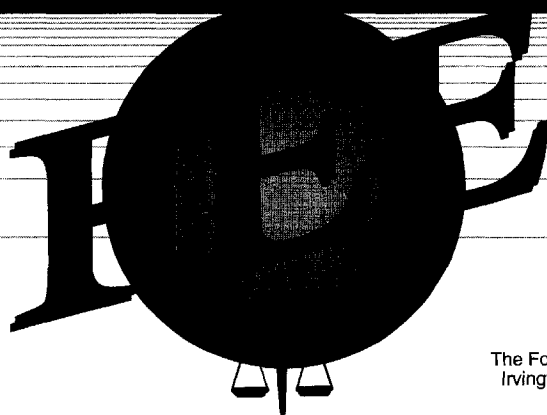
5. "The tree of liberty must be refreshed from time to time with the blood of patriots and tyrants. It is its natural manure."

6. "Liberty is the mother of virtue, and if women be, by their very constitution, slaves, and not allowed to breathe the sharp invigorating air of freedom, they must ever languish like exotics, and be reckoned beautiful flaws of nature."

7. "The State, both in its genesis and by its primary intention, is purely anti-social. It is not based on the idea of natural rights, but on the idea that the individual has no rights except those that the State may provisionally grant him. It has always made justice costly and difficult of access, and has invariably held itself above justice and common morality whenever it could advantage itself by so doing."

8. "God helps them that helps themselves."

9. "It is the highest impertinence and presumption, therefore, in kings and ministers to pretend to watch over the economy of private people, and to restrain their expense.... They are themselves always, and without any



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July 1997

The Market: The Only Trustworthy Pollster

Under the heading "What People Really Want," the May 3 issue of *The Economist* reports results of a recent British poll. Among the allegedly genuine desires of British citizens are higher taxes ("to keep down inflation") as well as greater government expenditures on health, education, and welfare. Most Britons apparently also want to ban fox hunting, but few wish to legalize marijuana.

Hogwash. Even the most scrupulously conducted poll cannot discover "what people really want." I don't doubt that this *Economist* poll is as sound a poll as has ever been conducted. But polls by their nature cannot uncover what people want in an economically relevant sense.

The verb "to want" has two different meanings. This difference is linguistically slight but economically weighty. Insensitivity to this difference in meaning causes confusion—including being misled into thinking that polls elicit reliable information on what people want.

Let me illustrate this dual meaning of the verb "to want" with a personal example.

I want a new Lexus automobile. No lie; I really want a new Lexus. As used here, the

verb "to want" means nothing more than a fancy or a whim. If I tell you in idle conversation that I want a new Lexus, all this pronouncement means is that if I could acquire a Lexus at little or no cost to myself, I'd happily acquire one.

This first meaning of the verb "to want" refers to unconstrained wanting. It refers to the wishes and dreams that we each have, not only for material possessions, but for all manner of worldly and spiritual outcomes. (In addition to wanting a Lexus, I also genuinely want world peace, universal free trade, an end to human suffering, good weather, a Super Bowl victory for the New Orleans Saints, . . . my list is endless.) We all want lots of things if they are available to us personally at a zero or near-zero price—that is, if there are no constraints on our acquiring these things. Similarly, we all want lots of good things that are simply unobtainable in unlimited quantities.

While linguistically sound, using the word "want" in its unconstrained meaning risks profound economic misunderstanding. The second and more reliable meaning of "to want" is its economically relevant meaning. To want something in an economically relevant sense is to be willing to

pay full price for that something. I'm unwilling to pay the \$50,000+ necessary to acquire a new Lexus. Under the economically relevant ("constrained") definition of the verb "to want," I do *not* want a Lexus. While I (like most Americans) could afford a Lexus if I dramatically reduced my spending on food, clothing, entertainment, etc., I prefer to drive a less luxurious car so that I can eat something other than cabbage soup at every meal. In fact, I *actually* want a 1992 Toyota Camry—for that is what I drive. The Camry is not as nice a car as the Lexus, but it is priced right for me and my family.

What has all this parsing of the meaning of "to want" to do with citizen polls? Plenty.

When someone is asked by a pollster if he wants, say, more welfare payments, this person responds free of charge. No matter what response he gives, he bears no material consequences of that response. Of course, the person might understand that greater welfare payments would mean higher taxes for him, but he also understands that his response to a poll question does not alone determine government welfare policy. Because government's welfare policy is not determined by the opinion of any individual, no individual incurs any personal cost in answering a question about such policies one way or another.

In other words, polls uncover only unconstrained wants—wants that people have independent of the costs of expressing these wants.

Compare the following two scenarios. First, you're asked in a poll whether or not you want your city to build a subway system. Second, you're asked by a Lexus dealer if you want to purchase a new Lexus. Your answer to the first question changes nothing. Whether or not the subway system is built is independent of your answer. Therefore, you will likely be much more cavalier in answering such a question. Your answer is without consequence.

But you bear significant personal consequences when answering the question posed by the Lexus dealer. If you say "yes, I'd like to buy this new Lexus," you com-

mit yourself contractually to buy an expensive automobile. If you say "no," you do not commit yourself. Either way, your answer has immediate and personal consequences for you. Your answer matters; it determines directly whether or not you purchase the car. As a result, you answer the Lexus dealer's question carefully and prudently. If you're not wealthy, you likely will say "no." You might tell the Lexus dealer that you really like the car, and that if it were less expensive you might buy one. But at its current high price, you do not now want a new Lexus.

So when British citizens claim in a poll to "want" such things as greater welfare disbursements and continued police efforts to prevent adults from smoking pot, these answers do not mean that British citizens "want" these things in the same way that I want my 1992 Toyota or the bag of groceries that I just purchased. Such poll results reveal only Britons' *unconstrained* wants, not their economically relevant ("constrained") wants.

Because opinion polls do not reveal people's *constrained* wants, it is illegitimate to use polls to guide government policy-making.

But what are elections if not polls? In elections as in polls, no individual's vote determines policy outcomes. Therefore, voters typically vote with far less prudence and shrewdness than they use when buying groceries or choosing a plumber. What people really want—in an economically meaningful sense—is revealed only through private market transactions where each person directly confronts the full costs of expressing his desires. In contrast, no poll or election reveals genuine wants constrained by costs. Only the market reveals genuine wants; therefore, only the market can be trusted to respond to people's real demands.



Donald J. Boudreaux
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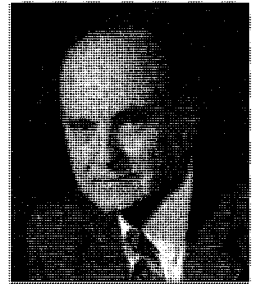
An Anthology of Notes from FEE

by Hans F. Sennholz

“**T**his book is based on a collection of *Notes from FEE* which appear in the centerfold of every issue of *The Freeman*. The welcome which my *Notes* have received encouraged me to compile this collection. It seeks wisdom preaching no scheme or doctrine, but drawing on knowledge from all branches of the social sciences, from economics, history, sociology, political science, and psychology. Although most *Notes* are introductory in reflection and message, striving to entice laymen to read and enjoy *The Freeman*, some *Notes* offer new insights which may challenge even the scholars. The style of presentation was meant to be simple yet elegant.

Another important feature of the book is its search for eternal, inexorable principles that speak to us today as they will tomorrow. They make the book a living store of knowledge which should grow better and wiser as it grows older. At least, this compiler intended to make it so.”

—Hans F. Sennholz (from the Introduction)



Readers will find many treasures among the more than 50 messages in this collection. Popular favorites include: "Knowledge and Wisdom," "Beware of Despair," "A Good Education," "Jobs and Trade," "Social Security," "A \$5 Trillion National Debt," and "Counting Our Blessings." Also among the selections: "Onward Still," written to commemorate FEE's 50th anniversary in 1996, and "A Farewell," published in May 1997.

HANS F. SENNHOLZ was educated in both his country of birth, Germany, and his country of choice, the United States. In 1949, he earned a Doctor of Political Science degree at Cologne University and, in 1955, a Doctor of Philosophy degree at New York University. In Cologne, he studied with the eminent social philosopher, Ludwig Heyde; in New York, he was the first graduate to earn a degree with the dean of Austrian economics, Ludwig von Mises. In the footsteps of his great teachers, Dr. Sennholz published a dozen books and booklets and more than 600 essays and articles in journals and newspapers. Flying his own plane, he visits and entertains college classes and adult audiences throughout the country. He believes that only the educated can be free.



Published by **The Foundation for Economic Education, Inc.**
Irvington-on-Hudson, NY 10533

ISBN 1-57246-066-0 • 258 pages • paperback \$14.95

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exception, the greatest spendthrifts in the society."

10. "Power tends to corrupt and absolute power corrupts absolutely."

11. "Nothing so needs reforming as other people's habits."

12. "There's no such thing as a free lunch."

13. "The system of private property is the most important guaranty of freedom, not only for those who own property, but scarcely less for those who do not."

14. "Capitalism is the only system that can be defended and validated by reason."

15. "In the political democracy only the votes cast for the majority candidate or the majority plan are effective in shaping the course of affairs. The votes polled by the minority do not directly influence policies. But on the market no vote is cast in vain. Every penny spent has the power to work upon the production processes. The publishers cater not only to the majority by publishing detective stories, but also to the minority reading lyrical poetry and philosophical tracts. The bakeries bake bread not only for healthy people, but also for the sick on special diets. . . . The rich cast more votes than the poorer citizens. But this inequality is itself the outcome of a previous voting process. To be rich, in a market economy, is the outcome of success in filling best the demands of the consumers."

16. "The art of economics consists in looking not merely at the immediate but at the

longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."

17. "So-called 'social justice' should never be confused with humanitarianism. From a humanitarian viewpoint, it is infinitely more important to have a prosperous economy, in which the great masses of the people are beyond the reach of hunger and malnutrition, and beyond the reach of poverty-related diseases, than to stifle a relative handful of specially skilled or talented people who might be envied."

18. "Anything that's peaceful."

19. "Freedom is not empowerment. Empowerment is what the Serbs have in Bosnia. Anybody can grab a gun and be empowered. It's not entitlement. An entitlement is what people on welfare get, and how free are they? It's not an endlessly expanding list of rights—the 'right' to education, the 'right' to health care, the 'right' to food and housing. That's not freedom, that's dependency. Those aren't rights, those are the rations of slavery—hay and a barn for human cattle. There's only one basic human right, the right to do as you damn well please. And with it comes the only basic human duty, the duty to take the consequences."

20. "For the libertarian, the main task of the present epoch is to cast off his needless and debilitating pessimism, to set his sights on long-run victory and to set about the road to its attainment . . . proceed in the spirit of radical long-run optimism."

Answers appear on page 455.

A Mises Gallery

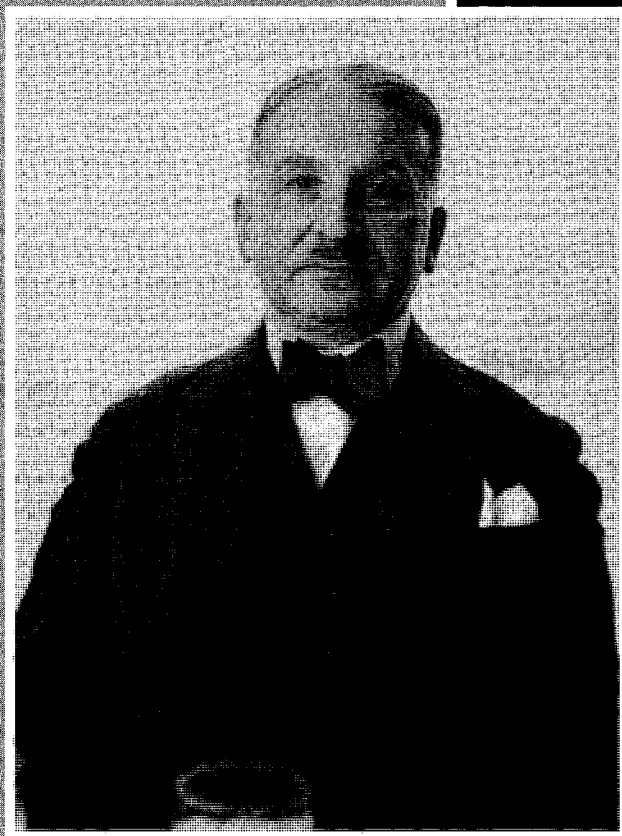
Editor's Note: The Austrian economist Ludwig von Mises (1881–1973) was the first to reveal why socialism must mean mass misery. He went on to explain with unparalleled clarity, why only free-market capitalism would enable millions everywhere to dramatically improve their lives.

What was Mises like? To help give you a better sense of this intellectual giant, Bettina Bien Greaves kindly agreed to share some photographs—many never before published—from her remarkable collection of material on Mises. She offers her commentary in the accompanying captions.



When the Mises boys were young, the family often summered in the Austrian Alps, where this photo was probably taken. Ludwig is in the center, his brother Karl (who died as a boy) to his right and his brother Richard (later a noted mathematician) to his left.

This 1926 photo, taken in Vienna, shows Ludwig von Mises as he appeared when he taught his famed private economics seminar attended by F.A. Hayek, Fritz Machlup, Gottfried Haberler, and others.



Early on, Mises recognized that Hitler spelled tyranny. He warned his associates to get out of Europe if they could. The year after Hitler seized power in Germany, Mises left Vienna himself and accepted a position at the Graduate Institute of International Studies, Geneva. This 1936 photo was taken there.

To illustrate the dramatic differences in living standards between the two world wars, Mises observed that Americans who drove Ford cars weren't considered to be very well off. But it was said of a European who owned a Ford, "He must be wealthy—he drives a genuine Ford!" Here is Mises behind the wheel of his car, during the 1940s when he was living in New York. His wife, Margit, is with him.

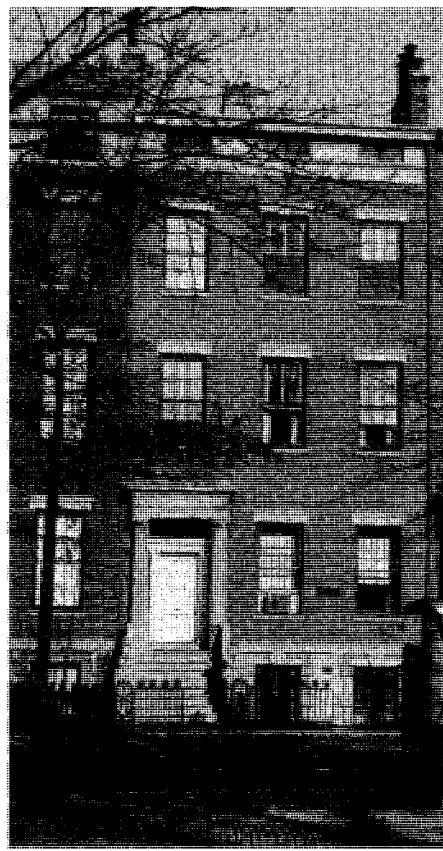


The Mont Pelerin Society was founded in 1947 so that classical liberals from all over the world could meet and discuss issues of common interest. This photo shows Mises in 1957 during an outing between Mont Pelerin Society sessions at St. Moritz, Switzerland.



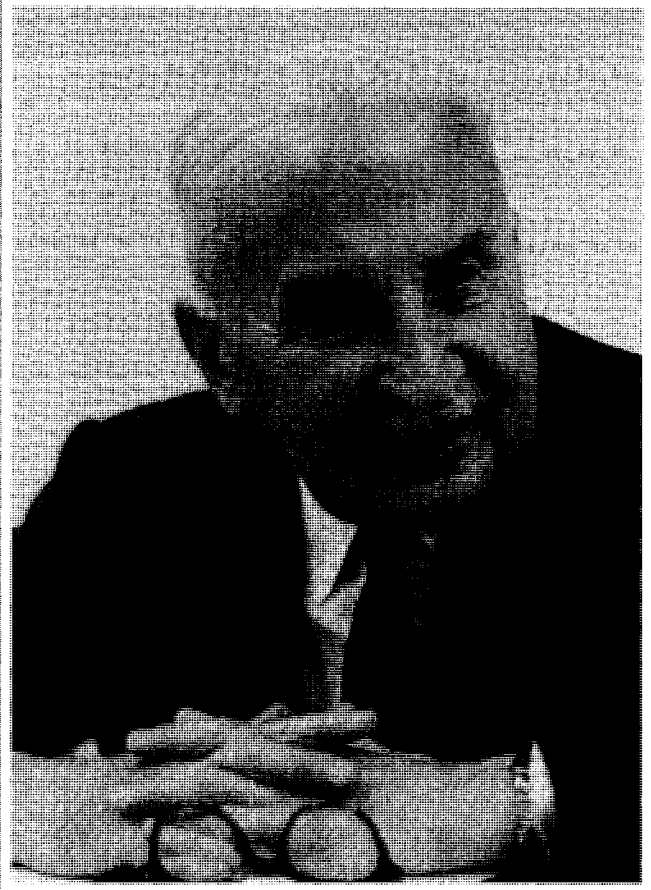
Ludwig and Margit von Mises decked out for the "Festschrift Dinner," March 7, 1956, honoring Ludwig on the occasion of the 50th anniversary of his doctorate. At that dinner, held at the University Club in New York City, he was presented with *On Freedom and Free Enterprise*, a *Festschrift* edited by Mary Sennholz. The list of contributors reads like an honor roll for liberty: Carlo Antoni, Faustino Ballvé, Louis Baudin, Percy L. Greaves, Jr., F.A. Harper, F.A. Hayek, Henry Hazlitt, W.H. Hutt, Bertrand de Jouvenel, Ludwig Lachmann, Fritz Machlup, William H. Peterson, William Rappard, Leonard E. Read, Wilhelm Röpke, Murray N. Rothbard, Jacques Rueff, Hans F. Sennholz, and Louis M. Spadaro.

Mises conducted a graduate seminar in economic theory at New York University from 1948 to 1969. Between 1959 and 1964, the seminar was held at Galatin House, shown here, on Washington Square North. Otherwise, the sessions were held downtown at NYU's Graduate School of Business Administration on Trinity Place.



Back in Vienna, after Mises's economics seminar, participants would walk to a nearby restaurant and continue their discussion over dinner and coffee. Mises maintained this tradition in New York, going to nearby Childs restaurant. Mises gave his final seminar of the 1958 spring term at a dinner meeting. This photo shows me on that occasion, flanked by Henry Hazlitt, on my left, and Mises, on my right.

David Jarrett took a wonderful series of photos during one of Mises's fall 1964 seminars at NYU. Each one reflects Mises's intense and vital interest in free-market economics.



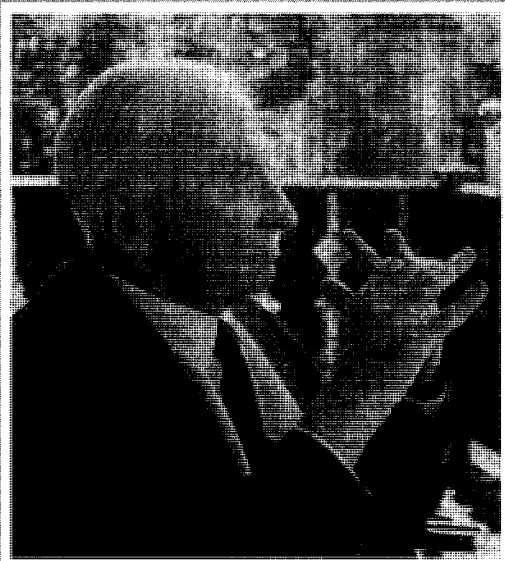
From January 1959 through January 1972, in New York, there was a remarkable discussion group called the "Mises Dinner Circle." It was a forum for speakers whom Mises thought should be given a hearing. The dinners were usually held at the New York University Faculty Club on Washington Square North. I sent out the mailings and kept the records. Expenses were picked up by delicatessen owner Isidor Hodes. He was a great fan of Mises and attended Mises's NYU economics seminars regularly for years. When he asked Mises how he could help nurture Austrian ideas, Mises suggested he might arrange the dinners. This forgotten man made possible many extraordinary evenings.

F.A. Hayek, shown here with Mises, spoke at a 1959 "Mises Dinner Circle." This particular gathering was held in New York University's Loeb Student Center.





When Mises married Margit Sereny, she was a widow with two almost grown-up children: a son, Guido, and a daughter, Gitta. Here you see Mises in London, 1962, with Gitta's daughter Mandy.



Mises was a thoughtful man, as you can sense in this 1967 photo which I took at Mittersill, a summer resort near Franconia, New Hampshire.



As interest grew in Mises's ideas, he was invited to lecture widely across the United States and South America. This 1970 photo of Ludwig and Margit was taken in Plano, Texas, just north of Dallas.



This 1972 photo, taken by Margit in the Austrian Alps, is one of the last photographs of Ludwig von Mises. Here we see him—alone, his life work done.

Robert A. Heinlein's Soaring Spirit of Liberty

by Jim Powell

A pioneering master of speculative fiction, Robert Heinlein has captured the imagination of millions for liberty.

Five of his novels chronicle rebellion against tyranny, other novels are about different struggles for liberty, and his writings abound with declarations on liberty. For instance, in "Requiem" (1939): "It's neither your business, nor the business of . . . paternalistic government, to tell a man not to risk his life doing what he really wants to do." "If this goes on—" (1940): "I looked up Tom Paine, which led me to Patrick Henry and Thomas Jefferson and others—a whole new world was opened up to me. . . . Very inspiring stuff." "Coventry" (1940): "You are free to seek danger and adventure if you wish . . . but you are not free to expose us to the violence of your nature." *Beyond This Horizon* (1948): "The private life and free action of every individual must be scrupulously respected." *The Puppet Masters* (1951): "The price of freedom is the willingness to do sudden battle, anywhere, any time and with utter recklessness." *Double Star* (1956): "free trade, free travel, common citizenship, common cur-

rency, and a minimum of imperial laws and restrictions." *Citizen of the Galaxy* (1957): "slavery . . . the most vicious habit humans fall into and the hardest to break." *The Moon Is a Harsh Mistress* (1966): "no circumstances under which State is justified in placing its welfare ahead of mine." *Time Enough for Love* (1973): "The purpose of my government is never to do good, but simply to refrain from doing evil." *To Sail Beyond the Sunset* (1987): "unlimited spending on 'social' programs ends in national bankruptcy."

Heinlein is the world's most celebrated science fiction author. In July 1969, as Apollo 11 astronaut Neil A. Armstrong set foot on the moon, Heinlein was a guest commentator with CBS-TV anchorman Walter Cronkite, speaking to millions around the world. "When the Science Fiction Writers of America began to hand out their Grand Master Awards in 1975, Heinlein received the first by general acclamation," noted Isaac Asimov, himself the respected author of more than 300 books, including much science fiction. Heinlein is the only author to have won four "Hugo" awards for best science fiction novel—for *Double Star*, *Starship Troopers* (1959), *Stranger in a Strange Land* (1961), and *The Moon Is a Harsh Mistress*. He was the first science fiction author to make the *New York Times* bestseller list (*Stranger in a Strange Land*), and his last five books made it, too. Heinlein's work—56 short stories and 30 novels—have been variously translated into Bulgarian, Croatian,

Mr. Powell is editor of *Laissez Faire Books* and a senior fellow at the *Cato Institute*. He has written for the *New York Times*, the *Wall Street Journal*, *Barron's*, *American Heritage*, and more than three dozen other publications. Copyright © 1997 by Jim Powell.

The author thanks Virginia Heinlein for making corrections and suggestions on this article.

Czech, Dutch, Farsi, Finnish, French, German, Greek, Hebrew, Hungarian, Italian, Japanese, Lithuanian, Portuguese, Romanian, Russian, Spanish, and Swedish. They've sold over 30 million copies in the United States and 100 million worldwide.

The "Best Science Fiction Writer in Existence"

Isaac Asimov, whose astonishing career began at the same time as Heinlein's got underway, disagreed with many of Heinlein's views but declared: "From the moment his first story appeared, an awed science fiction world accepted him as the best science fiction writer in existence, and he held that post throughout his life." Best-selling fantasy writer Stephen King declared, "Following World War II, Robert A. Heinlein emerged as not only America's premier writer of speculative fiction, but the greatest writer of such fiction in the world. He remains today as a sort of trademark for all that is finest in American imaginative fiction."

The *New York Times Book Review* hailed Heinlein as "One of the most influential writers in American literature." Gene Roddenberry, creator, writer, and producer of the hugely popular *Star Trek* TV series, acknowledged that Heinlein was among the few authors "at whose feet I'd gladly sit." Robert Silverberg, author of over a hundred science fiction books, explained: Heinlein's "belief that a story had to make sense, and the irresistible vitality of his storytelling, delighted the readership of *Astounding*, who called for more and even more of his material. John Campbell had found the writer who best embodied his own ideals of science fiction: In one flabbergasting two-year outpouring of material for a single magazine Heinlein had completely reconstructed the nature of science fiction, just as in the field of general modern fiction Ernest Hemingway, in the 1920s, had redefined the modern novel. No one who has written fiction since 1927 or so can fail to take into account Hemingway's theory and practice without seeming archaic or impossibly naive; no one since 1941 has written first-rate science fiction without a

comprehension of the theoretical and practical example set by Heinlein."

Added best-selling thriller writer Tom Clancy: "What makes Mr. Heinlein part of the American literary tradition is that his characters do prevail. His work reflects the fundamental American optimism that still surprises our friends around the world. As Mr. Heinlein taught us, the individual can and will succeed. The first step in the individual's success is the perception that success is possible. It is often the writer's task to let people know what is possible and what is not, for as writing is a product of imagination, so is all human progress."

Heinlein holds a special place in the hearts of millions who discovered him during their teenage years. Before he emerged as a best-selling author of adult books, he had established his reputation with more than a dozen classic "juveniles"—*Rocket Ship Galileo* (1947), *Space Cadet* (1948), *Red Planet* (1949), *Farmer in the Sky* (1950), *Between Planets* (1951), *The Rolling Stones* (1952), *Starman Jones* (1953), *Star Beast* (1954), *Tunnel in the Sky* (1955), *Time for the Stars* (1956), *Citizen of the Galaxy* (1957), *Have Space Suit—Will Travel* (1958), and *Starship Troopers* (1959). Author J. Neil Schulman spoke for many when he confided that "If Robert Heinlein hadn't written the books he wrote, and I hadn't read them, I doubt very much that I would have had the intellectual background necessary to climb out of the hole I was in between the ages of fifteen and eighteen. He wrote about futures that were worth living for. He wrote about talented people who felt life was worth living and made it worth living, no matter what the breaks that fell their way. His characters never had an easy time of it, but they persevered."

Teacher and Benefactor

Heinlein's work has inspired readers around the world. For instance, Tetsu Yano: "I had lost all my books during the war and had little money then to buy new ones. I wanted to and had to read something. Despite my lack of proper education in English, I found science fiction magazines quite read-

able. I became particularly inspired by the stories written by Robert Heinlein and Anson McDonald [one of Heinlein's pseudonyms]. His exhilarating tales gave me the will, hope, and courage to go on living in the devastations of the postwar Japan. Robert Heinlein was my teacher and benefactor. I learned English reading his stories and became a translator. It has been an honor to translate many of Heinlein's books into Japanese."

Science fiction critic Alexei Panshin described Heinlein as "about five feet eleven inches tall, with brown hair and brown eyes. He is solidly built and carries himself with an erect, almost military bearing. He has worn a trim moustache for years and is reputedly the sort of man who would always dress for dinner, even in the jungle. . . . His voice is a strong, very even, somewhat nasal baritone with a good bit of Missouri left in it." As Isaac Asimov remembered, "In some ways, my most important friendship was with Robert Anson Heinlein . . . a very handsome man . . . with a gentle smile, and a courtly way about him that always made me feel particularly gauche when I was with him. I played the peasant to his aristocrat."

Robert Silverberg recalled Heinlein as "a delightful human being, courtly, dignified, with an unexpected sly sense of humor. I met him first . . . at the 1961 World Science Fiction Convention in Seattle, where he was Guest of Honor. He amazed everyone there by holding an open-house party in his suite and inviting the entire convention to attend. That would be unthinkable today, when five or six thousand people go to such conventions. The attendance in 1961 was only about two hundred, but it was still a remarkable gesture. . . . I remember telling him that I had already published seven million words of fiction . . . to which he replied, 'There aren't that many words in the language. You must have sold several of them more than once.'"

Early Life

Robert Anson Heinlein was born July 7, 1907, in a two-story frame house at 805 North Fulton Street, Butler, Missouri, about 65 miles south of Kansas City. His father, Rex

Ivar Heinlein, the son of a plow salesman, had a series of jobs as clerk and bookkeeper. His mother, Bam Lyle, was a doctor's daughter. The Heinlein family descended from German, Irish, and French people.

In 1910, his 10-year-old brother Lawrence took him to see Halley's Comet streak across the sky, and it was a sight he would never forget. He became fascinated with astronomy, and by the time he was a teenager, he had read all the astronomy books in the Kansas City Public Library. He built himself a small telescope and mounted it on the roof of his parents' home.

He became an avid reader of adventure stories, science fiction in particular. He bought secondhand copies of the *Frank Reade Weekly*, which serialized adventure stories. He read stories about the young inventor Tom Swift. He got *Electrical Experimenter*, a magazine put out by pioneering science fiction editor Hugo Gernsback. He relished such authors as Mark Twain, Rudyard Kipling, Jules Verne, H.G. Wells, Edgar Rice Burroughs, and H. Rider Haggard.

After graduating from local schools, he spent a year at the University of Missouri, then transferred to the U.S. Naval Academy, Annapolis, where he became a champion swordsman. He graduated in June 1929, 20th in a class of 243, as a mechanical engineer. Soon after his graduation, he married Leslyn McDonald. He served in destroyers and aircraft carriers until he contracted tuberculosis and was retired from the Navy in 1934, a lieutenant junior grade. He enrolled at the University of California at Los Angeles, for graduate study of physics and mathematics, but frail health forced him to drop out. Following doctors' orders to recuperate, he acquired an interest in the Shively & Sophie Lodes silver mine in Silver Plume, Colorado, but he couldn't make a go of it. He tried selling real estate. He entered the Democratic primary to run for state representative, but he lost.

"The beginning of 1939 found me flat broke," Heinlein recalled. "I was highly skilled in ordnance, gunnery, and fire control for Naval vessels, a skill for which there was no demand ashore—and I had a piece of

paper from the Secretary of the Navy telling me that I was a waste of space—"totally and permanently disabled" was the phraseology. I 'owned' a heavily-mortgaged house.

"About then THRILLING WONDER STORIES ran a house ad reading (more or less): GIANT PRIZE CONTEST—Amateur Writers!!!! First prize \$50 Fifty Dollars \$50." In 1939 one could fill three station wagons with fifty dollars worth of groceries. . . . So I wrote the story LIFE-LINE. It took me four days—I am a slow typist. But I did not send it to THRILLING WONDER. I sent it to ASTOUNDING, figuring they would not be so swamped with amateur short stories."

"Life Line" was about a man who invented a machine which could tell people how long they would live. Editor John W. Campbell, Jr., bought it for \$70 and published it in the August 1939 issue. Heinlein was 32. "There was never a chance that I would ever again look for honest work," he wrote.

He appeared on the scene as science fiction was bursting into the modern era. The month before his debut, *Astounding Science-Fiction* had published the first story by an emerging star named A.E. Van Vogt, and the following month it published the first story by Theodore Sturgeon, another emerging star. Earlier that year, *Thrilling Wonder Stories* published the first story by Alfred Bester, and *Amazing Stories* magazine had introduced the world to Isaac Asimov.

Heinlein's Juvenile Novels

Heinlein thought writing science fiction was an easy way to make a living, but his next several stories were rejected. His second story to be published was "Misfit," in the November 1939 *Astounding Science-Fiction*. This was about some teenage troublemakers relocated by the government to an asteroid and how one of them became a mathematical genius who saved their spaceship. While this was generally considered a minor work, it was the first of Heinlein's many "juveniles," aimed at young readers.

In January 1940, *Astounding Science-Fiction* published "Requiem." The hero, an entrepreneur named Delos D. Harriman,

recalling the nineteenth-century American railroad entrepreneur Edward Harriman, built a company that developed communities on the moon. He fights "damn persnickety regulations" issued by a government bureaucracy which, because of his frail health, opposes his planned trip to the moon. But he goes anyway and dies happy.

"If This Goes On—" (*Astounding Science-Fiction*, February, March 1940) is the story of the Second American Revolution, against twenty-first-century tyranny. Narrator John Lyle tells how he developed a philosophy of freedom. "I began to sense faintly that secrecy is the keystone of all tyranny. Not force, but secrecy, censorship. When any government, or any church for that matter, undertakes to say to its subjects, 'This you may not read, this you must not see, this you are forbidden to know,' the end result is tyranny and oppression, no matter how holy the motives. Mighty little force is needed to control a man whose mind has been hoodwinked; contrariwise, no amount of force can control a free man, a man whose mind is free. No, not the rack, not fission bombs, not anything—you can't conquer a free man; the most you can do is kill him."

"Coventry" (*Astounding Science-Fiction*, July 1940) shows how a reasonably free society might be based on a voluntary social contract called the "Covenant." As Heinlein explains: "Citizens were forbidden by the Covenant to damage another. Any act not leading to damage, physical or economic, to some particular person, they declared to be lawful . . . social offenders were examined and potential repeaters were given their choice of psychological readjustment, or of having society withdraw itself from them—Coventry." The story focuses on one individual, David Mackinnon, who comes to terms with the "Covenant."

In "Sixth Column" (*Astounding Science-Fiction*, January, February, and March 1941), written under Heinlein's pseudonym "Anson McDonald," Free Nations were conquered, and America stood alone. Freedom fighter Jefferson Thomas everywhere "found boiling resentment, a fierce willingness to fight against the tyranny, but it was undirected,

uncoordinated, and, in any modern sense, unarmed. Sporadic rebellion was as futile as the scurrying of ants whose hill has been violated. PanAsians could be killed, yes, and there were men willing to shoot on sight, even in the face of the certainty of their own deaths. But their hands were bound by the greater certainty of brutal multiple retaliation against their own kind. As with the Jews in Germany before the final blackout in Europe, bravery was not enough, for one act of violence against the tyrants would be paid for by other men, women, and children at an unspeakable compound interest. Even more distressing than the miseries he saw and heard about were the reports of the planned elimination of the American culture as such. The schools were closed. No word might be printed in English. There was a suggestion of a time, one generation away, when English would be an illiterate language, used orally alone by helpless peons." Fortunately, a secret weapon is developed by a half-dozen scientists holed up in the Rocky Mountains, the conquerors are repelled, and freedom is regained.

"Logic of Empire" (*Astounding Science-Fiction*, March 1941) tells how Sam Houston Jones exposes slavery on Venus. His adversary is lawyer Humphrey Wingate, representing the authorities who control Venus. Wingate insists that people on Venus "are a damn sight better off than most people of their own class here on earth. They are certain of a job, of food, and a place to sleep. If they get sick, they're certain of medical attention. The trouble with people of that class is that they don't want to work." Jones counters: "I know human slavery when I see it. That's what you've got on Venus." Jones helps see that Wingate was taken as a slave to Venus, and he is assigned work in the swamps. He witnesses brutal conditions, and after Jones secures his release, he writes a book about the horrors.

In "Methuselah's Children" (*Astounding Science-Fiction*, July, August, and September 1941), Heinlein chronicles the adventures of Americans who had interbred to achieve longevity three times greater than average. As their presence becomes widely known, they are subject to envy, hatred, and perse-

cution. Heinlein tells how they board a spaceship and seek a place where they can be free. The story introduces Lazarus Long, a character who reappears in Heinlein's later work.

In "Beyond This Horizon" (*Astounding Science-Fiction*, April and May 1942), the story goes in several directions, but what's most interesting is Heinlein's vision of a libertarian society with highly sophisticated social cooperation. Among other things, people carry guns and protect themselves. "I describe a utopia—largely anarchistic," he told interviewer J. Neil Schulman. "There isn't enough government to matter."

"Future History"

Heinlein described many of his stories as "future history," aimed at working out the implications of various developments during the next couple of hundred years, especially the struggle for freedom. He got a lot of attention when he published a time chart relating these stories to a general background, although they actually had little relationship with one another. He conceded "these stories were never meant to be a definitive history of the future (concerning which I know no more than you do), nor are they installments of a long serial (since each is intended to be entirely independent of all the others). They are just stories, meant to amuse and written to buy groceries."

The stories did, however, reflect Heinlein's passion for freedom. "Almost any sect, cult, or religion will legislate its creed into law if it acquires the political power to do so," he explained, "and will follow it by suppressing opposition, subverting all education to seize early the minds of the young, and by killing, locking up, or driving underground all heretics. This is equally true whether the faith is Communism or Holy-Rollerism; indeed, it is the bounden duty of the faithful to do so. The custodians of the True Faith cannot logically admit tolerance of heresy to be a virtue."

In just a few years, Heinlein had "changed the face of science fiction," as critic Alexei Panshin put it. "His narrative technique eliminated a lot of stodgy writing, and this faster, smoother writing coupled with Heinlein's

wide range of interests meant a new sophistication that spread quickly through science fiction writing."

Surprisingly, by September 1941 Heinlein was pondering his future. "At the present time," he wrote Campbell, "I am the most popular writer for the most popular magazine in the field and command (I believe) the highest word rate. Where is there for me to go but down? I can't go up in this field; there is no place to go. . . . Frankly the strain is wearing on me. I can still write, but it is a terrific grind to try each week to be more clever than I was the week before. And if I do, to what purpose. First is the highest I can stand; a cent and a half a word is the most I can hope to be paid.

"I will not attempt to pep up my stories by introducing a greater degree of action-adventure. It is not my style. It seems to me that the popularity of my stuff has been based largely on the fact that I have continually enlarged the field of S-F and changed it from gadget motivation to stories more subtle in their themes and more realistically motivated in terms of human psychology. In particular I introduced the regular use of high tragedy and completely abandoned the hero-and-villain formula."

Campbell replied, "Science fiction is normally read as light, escape literature. The reader does not expect or seek heavy philosophy; particularly, he does not expect or prepare himself for heavy philosophy when he reads a story that shows every sign of being action-adventure. . . .

"So far as going up goes, I'll agree you can't very well. I can agree with your desire to retire, under your circumstances. But look—when you don't have to, writing's a lot of fun. When you have to fill magazines as I do, good manuscripts are godsend. Be god for a little while longer and send more, willya?"

After the December 7, 1941, Japanese attack on Pearl Harbor, Heinlein tried to enlist in the Navy, but they rejected him because he had had tuberculosis and was quite nearsighted. So he went to Philadelphia where he served as an engineer at the Naval Air Experimental Station's Materials Laboratory. He helped arrange for science fiction



Robert and Virginia Heinlein on the set of "Destination Moon."

writers Isaac Asimov and L. Sprague de Camp to work there, too.

Heinlein resolved to expand his horizons when the war was over. He asked science fiction writer L. Ron Hubbard about literary agents and was referred to Lurton Blassingame, who helped him sell "Green Hills of Earth" to the *Saturday Evening Post*, which paid the highest rates for fiction. That weekly magazine appeared on newsstands throughout the country and it was famous for its Norman Rockwell covers. It was the premier market for short stories as well as serialized novels. "My first reaction had been of miser-

able envy," recalled Isaac Asimov. "Bob could make the *Post* and I couldn't even make *Thrilling Wonder*. It didn't take much thought, however, for me to see that Bob had done us all a terrific favor, and that there was reason to rejoice. Every science fiction writer would find the world easier for him because Heinlein had made the field more respectable and, sooner or later, we would all profit as a result. Between Heinlein and the atom bomb, it became difficult to think of science fiction as childish and silly anymore."

In 1946, Heinlein told Blassingame that friends "had convinced me that my own propaganda purposes will be served best by writing a series of boys' books in addition to the adult items previously described. I have purchased several of the popular boys' series novels and feel confident that I can produce salable copy—copy which can be sold to one of these markets: Westminster, Grosset and Dunlap, Crown, or Random House." His first effort was *Rocket Ship Galileo*, about three boys who cobble together a rocket, fly to the moon, and encounter a nest of Nazis determined to win back the earth. Blassingame sold it to Scribner's, the same firm which had published work by mainstream novelists like Ernest Hemingway, F. Scott Fitzgerald, and Thomas Wolfe.

Heinlein was divorced in 1947, and the following year, on October 21, he married Virginia Doris Gerstenfeld, whom he had known from his days in Philadelphia. "My wife Ticky is an anarchist-individualist," he exulted. She was, explained science fiction author Poul Anderson, "his full partner, as strong and intelligent in every way as himself. He remarked once with a grin that during World War II, when they were both in naval service, she was his superior officer."

The Heinleins honeymooned in the Colorado Rockies and decided they'd like to live there. They bought property between 1700 and 1800 Mesa Drive, Colorado Springs and picked the address they wanted: 1776. Out front they had a brass house sign which evoked the famous Archibald Willard painting *Spirit of '76*—three marchers, a man playing a fife, and a man and a boy with drums. The Heinleins were to live in Colorado

Springs for the next 17 years. Among their friends was Freedom School founder Robert M. Lefevre.

Heinlein turned to motion pictures. In 1948, he adapted *Rocket Ship Galileo* into a script for a movie, *Destination Moon*. It showed how private entrepreneurs might arrange the first trip to the moon and take care of all the things that might go wrong. Although he didn't anticipate developments like the multistage rocket, *Destination Moon* nonetheless has been described as the first modern science fiction movie, and it was reasonably successful.

Writer versus Editor

Heinlein scrapped with his Scribner's editor, Alice Dagliesh, who didn't know much about science fiction except that there was a demand for it. Her view goes "something like this," he explained to Blassingame in March 1949: "Science fiction consists of stories about the wonderful machines of the future which will go striding around the universe, as in Jules Verne. Her definition is all right as far as it goes, but it fails to include most of the field and includes only that portion of the field which has been heavily overworked and now contains only low-grade ore. Speculative fiction (I prefer that term to science fiction) is also concerned with sociology, psychology, esoteric aspects of biology, impact of terrestrial culture on the other cultures we may encounter when we conquer space, etc., without end. However, speculative fiction is not fantasy fiction, as it rules out the use of anything as material which violates established scientific fact, laws of nature, call it what you will."

"Lurton," he went on, "I'm fed up with trying to work for her. She keeps poking her nose into things she doesn't understand and which are my business, not hers. . . . I'm tired of trying to educate her diplomatically. From my point of view she should judge my work by these rules and these only: (a) will it amuse and hold the attention of *boys*? (b) is it grammatical and as literate as my earlier stuff? (c) are the moral attitudes shown by the author and his protagonists—not his vil-

lains—such as to make it suitable to place in the hands of minors?”

And Dagliesh seemed to sneer at the humble origins of science fiction. “She asked me to suggest an artist for *Rocket Ship Galileo*,” he told Blassingame. “I suggested Hubert Rogers. She looked into the matter, then wrote me that Mr. Rogers’ name was ‘too closely associated with a rather cheap magazine’—meaning John Campbell’s *Astounding S-F*. To prove her point she sent me tear sheets from the magazine. It so happened that the story she picked to send me was one of my ‘Anson MacDonald’ stories, ‘By His Bootstraps’—which at the time was again in print in *Crown’s Best in Science Fiction*! I chuckled and said nothing. If she could not spot my style and was impressed only by the fact that the stuff was printed on pulpwood paper, it was not my place to educate her. I wondered if she knew that my reputation had been gained in that same ‘cheap’ magazine and concluded that she probably did not know and might not have been willing to publish my stuff had she known.”

Heinlein had ideological disagreements with her, too. For instance, he wrote her in April 1949 that “I have one of my characters say that the right to bear arms is the basis of all human freedom. I strongly believe that, but you required me to blue-pencil it. The second point concerns licensing guns. I had such licensing in the story, but I had one character strongly object to it as a piece of buttinsky bureaucracy, subversive of liberty—and I had no one defending it. You required me to remove the protest, then build up the licensing into a complicated ritual, involving codes, oaths, etc.—a complete reversal. . . . I have been writing from reasons of economic necessity something that I do not believe. I do not like having to do that. . . .

“I am opposed to all attempts to license or restrict the arming of individuals, such as the Sullivan Act of the State of New York. I consider such laws a violation of civil liberty, subversive of democratic political institutions, and self-defeating in their purpose. . . . France had Sullivan-type laws. When the Nazis came, the invaders had only to consult the registration lists in a district. Whether the

authorities be invaders or merely local tyrants, the effect of such laws is to place the individual at the mercy of the state, unable to resist. . . .

“As to such laws being self-defeating, the avowed purpose of such laws as the Sullivan Act is to keep weapons out of the hands of potential criminals. You are surely aware that the Sullivan Act and similar acts have never accomplished anything of the sort? That gangsterism ruled New York while this act was already in force? That ‘Murder, Inc.’ flourished under this act? Criminals are never materially handicapped by such rules; the only effect is to disarm the peaceful citizen and put him fully at the mercy of the lawless.”

Despite such backstage disagreements, Heinlein made dazzling contributions to juvenile literature—he is among the few major literary talents who took the trouble to write many works for young readers. Fellow science fiction author Jack Williamson marveled that “Juvenile science fiction, as a labeled category, begins with Heinlein. . . . The Heinlein series was a pioneer effort, quickly imitated . . . Heinlein never writes down. His main characters are young, the plots move fast, and the style is limpidly clear.” And here, as in Heinlein’s other work, the theme of liberty runs strong.

Citizen of the Galaxy (1957) is perhaps Heinlein’s most outstanding juvenile. It’s about a ragged boy named Thorby, who, brought in chains to Sargon, is sold as a slave. The buyer turns out to be Baslim, a one-legged undercover agent for the Hegemonic Guard, reporting on the slave trade. Before he’s caught and beheaded, he gives Thorby an education. The boy ventures from one place to another, struggling to find a place for himself. Slavery, Hegemonic Guard Colonel Brisby declares, “starts up in every new land, and it’s terribly hard to root out. After a culture falls ill of it, it gets rooted in the economic system and laws, in men’s habits and attitudes. You abolish it; you drive it underground—there it lurks, ready to spring up again, in the minds of people who think it is their ‘natural’ right to own other people. You can’t reason with them;

you can kill them but you can't change their minds."

Thorby turns out to be the heir of Rudbek, a giant trading company which operates throughout much of the universe—and trades slaves. Thorby is determined to get his company out of this wretched business: "It means being so devoted to freedom that you are willing to give up your own, be a beggar, or a slave, or die—that freedom may live."

"I've taken great pride in these juveniles," Heinlein told Blassingame. "It seemed to me a worthwhile accomplishment to write wholesome stories which were able to compete with the lurid excitements of comic books. But I am really very weary of being required to wipe my feet and straighten my tie before being allowed in the house by those who stand between me and my juvenile readers."

Other Novels

Besides juveniles, Heinlein wrote *The Puppet Masters* (1951), which tells how the earth is invaded by flying saucers loaded with parasitic collectivist slugs which enslave millions. They get on people's backs, gain control of their bodies and minds, wiping out their individuality. U.S. security forces put a slug on the back of secret agent Sam Cavanaugh, so it could be observed closely, and during the experiment he becomes a slug voice. He promises "Peace and contentment—and the joy of surrender." With the slug removed, he remarks: "I could not stand the thought of dying while possessed by a parasite. Somehow I felt that to die would be to die already consigned to an endless and unbearable hell. Even worse was the prospect of not dying once the slug touched me." In the name of fighting these slugs, government assumes enormous power to monitor the population, and Cavanaugh says: "Everybody watching everybody else. Might as well be behind the [Soviet Iron] Curtain." Fortunately, a disease is discovered which is fatal to the slugs, and they are infected and killed. But Cavanaugh warns there surely will be more invasions in the future. Eternal vigilance, he says, "is our legacy to free human beings."

In *Double Star* (1956), John Joseph Bonforte, leader of the minority Expansionist Party, wants native populations of Venus and Mars to have the same rights as earthlings, and he's kidnapped by the ruling Humanists who want earthlings to dominate those populations. Since the disappearance of Bonforte could cripple the Expansionist cause, an actor, Lorenzo Smythe, is asked to serve as a stand-in for Bonforte. Although he despised Martians, he soon embraces Bonforte's libertarian views. "I suddenly got a glimpse of what Bonforte was driving at," Smythe reflects. "If there were ethical basics that transcended time and place, then they were true both for Martians and for men. They were true on any planet around any star—and if the human race did not behave accordingly they weren't ever going to win to the stars because some better race would slap them down for double-dealing." Resignation of the Humanist government—it works like British parliamentary democracy—means that Smythe/Bonforte must function as the majority leader. He promotes tolerance, peace, and freedom. He must continue in this role after Bonforte dies of a stroke. Smythe/Bonforte becomes a better person and helps make a better world.

Heinlein plunged ahead with a new kind of science fiction novel that he had worked on periodically for years. "The novel is really giving me a lot of trouble," he wrote Blassingame. "This is the one I told you about long ago, I believe—a Man-from-Mars job, infant survivor of first expedition to Mars is fetched back by second expedition as a young adult, never having seen a human being in his life, most especially never having seen a woman or heard of sex. He has been raised by Martians, is educated and sophisticated by Martian standards, but is totally ignorant of Earth. What impact do earth culture and conditions have on him? What impact does he have on Earth culture?"

"Such success as I have had," Heinlein continued, "has come from being original, not from writing 'safe' stuff—in pulps, in movies, in slicks, in juveniles. In pulp SF I moved at once to the top of the field by writing about sociology, sex, politics, and religion at a time (1939) when those subjects were all taboo.

Later I cracked the slicks with science fiction when it was taken for granted that SF was pulp and nothing but pulp. You will recall that my first juvenile was considered an experiment by the publisher—and a rather risky one.

"I have never written 'what was being written'—nor do I want to do so now. Oh, I suppose that, if it became financially necessary, I could imitate my own earlier work and do it well enough to sell. But I don't want to. I hope this new and different book sells. But, whether it does or not I want my next book to be still different—neither an imitation of *The Man from Mars*, nor a careful 'mixture as before' in imitation of my juveniles and quasi-juveniles published as soi disant adult SF books. I've got a lot of things I'd like to write about; none of them fits this pattern."

The book tells the story of Valentine Michael Smith, descended from earthlings who went to Mars and was brought up by Martians. He comes to the earth after World War III. Liberty is lost, and the United States is just a small part of the World Federation of Free States. Smith arrives as a helpless child and is protected by a crusty individualist named Jubal Harshaw. Smith reveals magical powers acquired from the Martians. Harshaw encourages him to profit from his powers by establishing a religion, and he does. It involves "grokking" (empathizing with others) and free love. Heinlein aims a good deal of satire at conventional ways of thinking. *Stranger in a Strange Land* popularized waterbeds, acquired quite a following, made national bestseller lists, and sold some two million copies. Heinlein won his third Hugo Award for the book.

In *Glory Road* (1963), former football star and soldier Evelyn Cyril "Oscar" Gordon responds to an advertisement for an adventure, and he's off on a rousing "sword-and-sorcery" fantasy. Among other things, he grumbles about taxes: "Do you know how much tax a bachelor pays on \$140,000 in the Land of the Brave and the Home of the Free? \$103,000, that's what he pays. That leaves him \$37,000. . . . But suppose I wangled some way to beat the tax. . . . I wouldn't be 'cheating' Uncle Sugar; the USA had no more moral claim on that money (if I won) than on the Holy Roman Empire. What had Uncle Sugar

done for me? He had clobbered my father's life with two wars, one of which we weren't allowed to win—and thereby made it tough for me to get through college quite aside from what a father may be worth in spiritual intangibles to his son (I didn't know, I never would know)—then he had grabbed me out of college and had sent me to fight another unWar and damn near killed me." And when he finds himself in another universe, Gordon says "places are so crowded that the privilege of staying alive is subject to tax—and delinquents are killed out of hand by the Department of Eternal Revenue. . . ."

By 1965, Virginia Heinlein had begun to suffer the effects of high altitude in Colorado Springs, and they moved to Bonny Doon, a lovely rural area about 16 miles north of Santa Cruz, California. He described their place to interviewer J. Neil Schulman: "It's circular because Mrs. Heinlein wanted a circular house. I did the design work on it, but I did very largely what she wanted to accomplish. Got a big atrium in the middle of it—twelve feet across, open to the sky—which has a tree and flowers. And it has all sorts of things I put in to make housekeeping easier. We're getting old enough, and neither one of us cares too much for servants. Everything is either built-in or on wheels, with the exception of her baby grand."

In *The Moon Is a Harsh Mistress* (1966), Heinlein offers perhaps his most well-developed libertarian vision. The story is narrated by computer expert Manuel O'Kelly Davis. The moon, referred to as Luna, is a colony of the Earth which uses it as a place to keep convicts and political dissidents. They resent the Earth's trade monopoly, which means selling Earth products at steep prices, buying Luna products for little—and ultimately starving people on Luna. They don't like laws, but they respect customs. They cherish individual initiative and enterprise. They tolerate other people's lifestyle choices and mind their own business. They resolve to take charge of their own destiny and declare Independence on July 4, 2076. The conspirators recruit Mycroft Holmes, or Mike, the computer who runs Luna to help the revolution.

Wyoming Knott, an individualist feminist, says: "Here in Luna, we're rich. Three million hardworking, smart, skilled people, enough water, plenty of everything, endless power, endless cubic. But . . . what we don't have is a free market. We must get rid of the Authority!" And Professor Bernardo de la Paz ("Prof"), revolutionary philosopher replies: "You are right that the Authority must go. It is ridiculous—pestilential, not to be borne—that we should be ruled by an irresponsible dictator in all our essential economy! It strikes at the most basic human right, the right to bargain in a free marketplace."

Asked to expand on his views, Prof says: "I'm a rational anarchist. . . . A rational anarchist believes that concepts such as 'state' and 'society' and 'government' have no existence save as physically exemplified in the acts of self-responsible individuals. He believes that it is impossible to shift blame, share blame, distribute blame . . . as blame, guilt, responsibility are matters taking place inside human beings singly and *nowhere else*. But being rational, he knows that not all individuals hold his evaluations, so he tries to live perfectly in an imperfect world. . . . In terms of morals, *there is no such thing as 'state.'* Just men. Individuals. Each responsible for his own acts."

TANSTAAFL

The Moon Is a Harsh Mistress sounds one of Heinlein's favorite philosophical themes: "tanstaaf." Means "There ain't no such thing as a free lunch" . . . anything free costs twice as much in long run or turns out worthless. . . . One way or other, what you get, you pay for." *The Moon Is a Harsh Mistress* depicts a free society where private individuals, not government, do what needs to be done, including education, insurance, security, and conflict resolution. The book sold almost a million copies.

The violence of the 1960s discouraged Heinlein, and this was reflected in *I Will Fear No Evil* (1970). It's the story of a terminally ill 94-year-old multibillionaire named Johann Sebastian Bach Smith who's determined to survive a world gone wrong. He reflects on the

time "before the government gave up trying to guarantee safety in the streets . . . now we are under . . . an elected dictator even though we still have laws and legislatures and Congress." Smith arranges an operation to transplant his brain into the first healthy young body available, which turns out to be that of his black female secretary. Smith maintains his free will and explores the meaning of sexuality. While many of Heinlein's fans didn't care for the book, it was a huge commercial success.

The same year, Heinlein nearly died of peritonitis. His life was saved by many blood donations. He was especially appreciative because he had a rare blood type (A2 negative). He urged people with rare blood types to make donations and soon realized that all types of blood were badly needed. He used science fiction conventions as forums for promoting blood donation and rewarded people who gave blood there with autographed books.

Time Enough for Love (1974): Lazarus Long refuses to stop loving life and he becomes his own ancestor. The book includes wise and witty sayings from "the Notebooks of Lazarus Long." For instance: "The human race divides politically into those who want people to be controlled and those who have no such desire. . . . The greatest productive force is human selfishness. . . . A committee is a life form with six or more legs and no brain. . . . Of all the strange 'crimes' that human beings have legislated out of nothing, 'blasphemy' is the most amazing—with 'obscenity' and 'indecent exposure' fighting it out for second and third place. . . . Throughout history, poverty is the normal condition of man. Advances which permit this norm to be exceeded—here and there, now and then—are the work of an extremely small minority, frequently despised, often condemned, and almost always opposed by all right-thinking people. Whenever this tiny minority is kept from creating, or (as sometimes happens) is driven out of a society, the people then slip back into abject poverty. This is known as 'bad luck.'"

Heinlein, approaching 70, continued to travel as he and his wife had done for years. "We went around the world four times,"

recalled Virginia. "One of the most interesting, but not to be repeated trips was to the Soviet Union. . . . We visited Antarctica and went through the Northwest Passage to Japan. When China opened up to travel, we went there, among other parts of the East."

In late 1978, while traveling near Tahiti, Heinlein experienced double vision and had trouble walking—warning signs of a stroke. Back in the United States, he had an operation to relieve blockage of the carotid artery to the brain. Fortunately, Virginia had already taken over management of his affairs. "By assuming most of the time-consuming, spirit-consuming burdens of their business," Poul Anderson observed, "she made it possible for him to write unhampered; and so we are all in her debt."

Late Novels

In *The Number of the Beast* (1980), Zeb and Deety, Jake and Hilda fight alien Black Hats out to vaporize them. The book features an admirable American individualist named Grandpa Zach. He "hated government, hated lawyers, hated civil servants . . . public schools. . . . He once threw an agent out of his office and required him to return with a search warrant . . . supported female suffrage. . . . Grandpa Zach ducked into Canada, applied for Swiss citizenship, got it, and thereafter split his time between Europe and America, immune to inflation and the confiscatory laws that eventually caused us to knock three zeros off the old-dollar in creating the new dollar. . . . His will was probated in Switzerland and the U.S. Revenue Service could not touch it . . . with over half this country's population living on the taxes of the lesser number it is not as easy to get rich as it was in Grandpa's day."

In *Friday* (1982), a heroic courier named Friday carries out dangerous missions throughout North America, which has become a tangle of contentious states. She says: "with all governments everywhere tightening down on everything wherever they can, with their computers and their Public Eyes and ninety-nine other sorts of electronic surveillance, there is a moral obligation on each free person to fight back wherever possible—keep

underground railways open, keep shades drawn, give misinformation to computers. Computers are literal-minded and stupid; electronic records aren't really records . . . so it is good to be alert to opportunities to foul up the system. If you can't evade a tax, pay a little too much to confuse their computers. Transpose digits. And so on . . . all public employees have larceny in their hearts or they wouldn't be feeding at the public trough. These two facts are all you need—but be careful!—a public employee, having no self-respect, needs and demands a show of public respect."

In *Job: A Comedy of Justice* (1984), Heinlein explores the shocks of moving suddenly from one era to another. Among other things, he talks about money. "I had figured out," the narrator says, "that while paper money was never any good after a world change, hard money, gold and silver, would somehow be negotiable, as bullion if not as coin. So, when I got a chance to lay hands on hard money, I was stingy with it and refused to take paper money in change for hard money." Later, he adds that "We'll buy some heavy gold jewelry for each of us, then I'm going to try to find a coin dealer—buy some silver cartwheels, maybe some gold coins. But my purpose is to get rid of most of this paper money."

The Cat Who Walks Through Walls (1985) tells the tale of philosopher/rogue Colonel Colin Campbell, who embarks on whirlwind adventures and among other things explores the free-enterprise zones of the moon. One dreary character is described like this: "Bill has the socialist disease in its worst form; he thinks the world owes him a living. He told me sincerely—smugly!—that of course everyone was entitled to the best possible medical and hospital service—free, of course, unlimited, of course, and of course the government should pay for it. He couldn't even understand the mathematical impossibility of what he was demanding. But it's not just free air and free therapy. Bill honestly believes that anything he wants must be possible . . . and should be free. . . . In all seriousness he explains how things should be, then it's up to the government to make it happen. Just pass a law."

Heinlein's farewell was *To Sail Beyond the Sunset* (1987), which, inspired by his own experiences growing up, became a family reunion for many of his most beloved characters. He tells how the father of the narrator (a woman named Maureen Johnson) loved Mark Twain's work and corresponded with him. She affirms the principles of personal responsibility and individualism. "I don't steal," she says, "because I'm too stinkin' proud!" And her father exclaims: "For the same reason you don't cheat in school, or cheat in games. Pride. Your own concept of yourself. 'To thine own self be true, and it must follow, as the night the day.'"

"I Am Proud to Be a Human Being"

During the fall of 1987, Heinlein's frail health forced him and Virginia to move away from Bonny Doon. They had to be closer to a major hospital—twice in 1987 he suffered hemorrhages and was rushed to San Francisco. They bought a home at 3555 Edgefield Place, in the hills above Carmel, with a spectacular view of the Pacific.

Heinlein radiated optimism even as his health declined. "I believe in my whole race," he declared. "Yellow, white, black, red, brown. In the honesty, courage, intelligence, durability, and goodness of the overwhelming majority of my brothers and sisters everywhere on this planet. I am proud to be a human being. I believe that we have come this far by the skin of our teeth. That we always make it just by the skin of our teeth, but that we will make it. Survive. Endure. I believe this hairless embryo with the aching, oversize brain case and the opposable thumb, this animal barely up from the apes will endure. Will endure longer than his home planet—will spread out to the stars and beyond, carrying with him his honesty and his insatiable

curiosity, his unlimited courage and his noble essential decency."

But overwhelmed by heart ailments and emphysema, Heinlein died of heart failure, in his sleep at home, Sunday, May 8, 1988. About ten days later, Virginia Heinlein boarded a U.S. Navy ship in Monterey, sailed into the Pacific and committed his ashes to eternity.

Tributes came from all over. For instance, Isaac Asimov said: "He had kept his position as greatest science fiction writer unshaken to the end." Tom Clancy: "We proceed down a path marked by his ideas." British science fiction author Arthur C. Clarke: "Goodbye, Bob, and thank you for the influence you had on my life and career. And thank you too, Ginny, for looking after him so well and so long." Catherine Crook de Camp, wife of Heinlein's friend L. Sprague de Camp: "The last telephone call I made to Robert Heinlein was about a month before he died, while he was at home between two hospital stays. His voice seemed resonant and almost young that evening as we recalled the many happy times we'd shared. He described the splendid vistas from the windows of his new home as he looked towards his beloved sea. Finally, Bob and I said how much we'd always loved each other and always would. It was a heart-to-heart recap of forty-six years of tender friendship. And when there was nothing left to say, I sat beside the silent phone and wept."

Today Robert Heinlein inspires young people much as he inspired their parents and grandparents, an extraordinary phenomenon. *Tunnel in the Sky* is a popular CD-ROM game. In 1994, Disney released the movie *Puppet Masters*. Later this year, Disney and TriStar will release the movie *Starship Troopers*. Major studios currently have movie options on *Glory Road*, *The Moon Is a Harsh Mistress*, *Orphans of the Sky*, and *Stranger in a Strange Land*. Robert Heinlein, now and forever—a great soaring spirit for liberty. □

The Mysteries of the Great Depression Finally Solved



“The depression . . . was endemic to the system: the economy was not self-regulating and needed to be controlled.”

—David Colander and Harry Landreth¹

The Great Depression of the 1930s may be a dim memory now, but its impact is still being felt in policy and theory. The prolonged depression created an environment critical of laissez-faire policies and favorable toward ubiquitous state interventionism throughout the Western world. The depression led to the Welfare State and boundless faith in Big Government. It caused most of the Anglo-American economics profession to question classical free-market economics and to search for radical anti-capitalist alternatives, eventually converting to the “new economics” of Keynesianism and “demand-side” economics.

Prior to the Great Depression, most Western economists accepted the classical virtues of thrift, limited government, balanced budgets, the gold standard, and Say’s Law. While most economists continued to defend free enterprise and free trade on a microeconomic scale, they rejected traditional views on a macroeconomic level in the postwar period, advocating consumption over saving, fiat money over the gold standard, deficit spending over a balanced budget, and active state interventionism over limited government. They bought the Keynesian argument that a

free market was inherently unstable and could result in high levels of unemployed labor and resources for indefinite periods. They blamed the Great Depression on laissez-faire capitalism and contended that only massive government spending during World War II saved the capitalist system from defeat. In short, the depression opened the door to widespread collectivism in the United States and around the world.

Fortunately, free-market economists have gradually punctured holes in these arguments and the pendulum has slowly shifted toward a re-establishment of classical free-market economics. Three questions needed to be addressed: What caused the Great Depression? Why did it last so long? Did World War II restore prosperity? Economic historian Robert Higgs had dubbed these three arenas of debate the Great Contraction, the Great Duration, and the Great Escape.

The Cause of the Great Contraction

Many free-market economists had attempted to answer the first question, including Benjamin M. Anderson and Murray N. Rothbard,² but none had the impact equal to Milton Friedman’s empirical studies on money in the early 1960s. His was the first effective effort to destroy the argument that the Great Depression was the handiwork of an inherently unstable capitalistic system. Friedman (and his co-author, Anna J. Schwartz) demonstrated forcefully that it was

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not free enterprise, but rather government—specifically the Federal Reserve System—that caused the Great Depression. In a single sentence underlined by all who read it, Friedman and Schwartz indicted the Fed: “From the cyclical peak in August 1929 to a cyclical trough in March 1933, the stock of money fell by over a third.”³ (This statement was all the more shocking because until Friedman’s work, the Fed didn’t publish money supply figures, such as M1 and M2!)

Friedman and Schwartz also proved that the gold standard did not cause the depression, as some Keynesian economists have alleged. During the early 1930s, the U.S. gold stock rose even as the Fed perversely raised the discount rate and allowed the money supply to shrink and banks to collapse.⁴

The Prolonged Slump

Economic activity and employment stagnated throughout the 1930s, causing a paradigm shift from classical economics to Keynesianism. Friedrich Hayek, the Austrian economist who challenged Keynes in the thirties, was so disheartened about the state of the free-world economy that he abandoned the study of economics in favor of political philosophy.

Why did the depression last so long? Many free-market economists have picked up where Murray Rothbard’s *America’s Great Depression* left off, at the time Franklin Delano Roosevelt took office in 1933. Gene Smiley (Marquette University) attempted an “Austrian” perspective on the perverse role of fiscal policy in the 1930s. I summarized the causes of stagnation and persistent unemployment, such as the Smoot-Hawley Tariff, tax increases, government regulation and controls, and pro-labor legislation.⁵

More recently, Robert Higgs of the Independent Institute has made an in-depth study of the 1930s’ malaise and focused on the lack of private investment during this period. According to Higgs, private investment was greatly hampered by New Deal initiatives that

destroyed investor and business confidence, the key to recovery.⁶ In short, the New Deal prolonged the depression.

What Got Us Out?

In another brilliant study, Higgs attacked the commonly held view that World War II saved us from the depression and restored the economy to full employment. The war gave only the appearance of recovery, when in reality private consumption and investment declined while Americans fought and died for their country. A return to genuine prosperity—the true Great Escape—did not occur until after the war ended, when most of the wartime controls were abolished and most of the resources used in the military were returned to civilian production.⁷ Only after the war did private investment, business confidence, and consumer spending return to form.

In sum, it has been a long and hard-fought war to restore the case for free-market capitalism. Finally, through the pathbreaking work of Friedman, Rothbard, Smiley, Higgs, and other scholars, we can now say the battle has been won. □

1. David C. Colander and Harry Landreth, eds., *The Coming of Keynesianism to America* (Edward Elgar, 1996), p. 16.

2. Benjamin M. Anderson, *Economics and the Public Welfare* (Indianapolis: Liberty Press, 1979 [1949]) and Murray N. Rothbard, *America’s Great Depression* (Princeton: D. Van Nostrand, 1963).

3. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton: Princeton University Press, 1963), p. 229.

4. Friedman and Schwartz, *Monetary History*, pp. 360–361. See also my May 1995 *Freeman* column, “Did the Gold Standard Cause the Great Depression?”

5. Gene Smiley, “Some Austrian Perspectives on Keynesian Fiscal Policy and the Recovery of the Thirties,” *Review of Austrian Economics* (1987), 1:146–79, and Mark Skousen, “The Great Depression,” in Peter Boettke, ed., *The Elgar Companion to Austrian Economics* (Edward Elgar, 1994), pp. 431–439.

6. Robert Higgs, “Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed After the War,” *The Independent Review* (Spring 1997), 1:4, pp. 561–590.

7. Robert Higgs, “Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s,” *Journal of Economic History* 52 (March 1992), pp. 41–60. See also Richard K. Vedder and Lowell Gallaway, “The Great Depression of 1946,” *Review of Austrian Economics* 5:2 (1991), pp. 3–31.

BOOKS

Libertarians and Liberalism—Essays in Honour of Gerard Radnitzky

edited by Hardy Bouillon

Avebury; Aldershot, England • 1996 • 359 pages
• \$76.50

Reviewed by George C. Leef

Gerard Radnitzky is a name little known in America, but he is a prominent figure in European liberal (using the word, of course, in its original meaning) circles. A native of Germany, he defected from the German military in April 1945, flying his airplane to Sweden. After acquiring Swedish citizenship, he became interested in politics and philosophy, thanks largely to socialists like Gunnar Myrdal, whose views Radnitzky found abhorrent. He met and befriended F. A. Hayek, absorbing much from him. As the editor writes of him, "[T]here is a leitmotif that runs through the history of his intellectual life, namely, the love of freedom and the quest for a state—if we must have one—that leaves it to individuals to shape their own lives and lets them take the responsibility for it." This collection of essays has been compiled in honor of Radnitzky, a redoubtable advocate of liberty.

The writers include many of the sharpest critics of statism today: Walter Block, Hans-Hermann Hoppe, Arthur Seldon, Hans Sennholz, Anthony de Jasay, Gordon Tullock, and Antony Flew. The editor has grouped the essays into three sections. First, "Libertarianism and Liberalism: of Laps, Links and Lapses"; second, "The Fatal Franchise of Freedom: of Social Choice Democracy"; and third, "The Future of Freedom: of Facts and Fiction." Most of the work is excellent and I will briefly mention several pieces that stand out in my mind.

In "Libertarians and the Rule of Law," Arthur Seldon explores the reasons for and implications of the decline of the rule of law. He writes, "'Democracy' is propounded as an

unquestioned political ideal—by politicians. The good word 'public' has been debased into a cynical question-begging misdescription for the power-seeking by individuals who would fail in the competitive test of the marketplace." Too much law, he argues, undermines respect for and the enforceability of true law that protects human society.

In "The Bitter Medicine of Freedom," Anthony de Jasay argues that freedom is menaced in our time not so much by "despots, dictators or totalitarian creeds," as by the all-too-human tendency to want to abdicate our responsibility for our mistakes and failings. People want freedom to do the things they like, but want the state to succor them when things go awry. As he says, "The rough underside of freedom is responsibility for oneself. The fewer the institutional obstacles an individual faces in choosing acts to fit his preferences, the more his life is what he makes of it, and the less excuse he has for what he has made of it. . . . The corollary of an individual's discretion to contribute to or coldly ignore the purposes of the community is that he has no good claims upon it to advance his purposes." The statist succeeds mainly by promising people relief from that bitter medicine. If we are to preserve freedom, however, we have to convince people that some doses of that bitter medicine are inevitable.

Antony Flew's "Social Democracy and the Myth of Social Justice" needs to be in the arsenal of anyone who wants to combat the constant cry of the statist that various coercive measures must be implemented in order to advance "social justice." Hayek attacked the notion of "social justice" in the second volume of *Law, Legislation and Liberty*, but Flew improves upon Hayek's criticism, taking pains to argue that "social justice as customarily conceived is precisely not a kind of justice." He leaves in tatters the theories of Rawls and other contemporary advocates of the idea that state-sanctioned coercion can make for a more just world.

Vaclav Klaus, finance minister of the Czech Republic, offers up a great tribute to the Austrian School in "The Austrian School—Its Significance for the Transformation Process." How wonderful to read that Austrian ideas

have played a major role in the Czech Republic's journey from tyranny to freedom.

Other notable contributions to this volume include Angelo Petroni's "Is There a Morality in Redistribution?," Manfred Streit's "Competition Among Systems as a Defence of Liberty," Antonio Martino's "Ideas and the Future of Liberty," and Hans Sennholz's solid "The Böhm-Bawerkian Foundation of the Interest Theory."

The one essay that is rather weak is "Liberalism and Libertarians" by Gerd Haberman, a critique of libertarian thinking that rehashes a lot of arguments that have been refuted often—for example, the canard that libertarians regard people as "isolated atoms," ignorant of "their most basic social bonds." To consistently reject the use of coercion in human relationships is not at all the same as denying or ignoring the fact that human beings need to have social bonds.

This book needed a more careful proof-reading and the typeface is not the easiest to read. Nevertheless, this collection is chock full of brilliant insights and devastating arguments. □

Mr. Leef is president of Patrick Henry Associates: Liberty Consultants in East Lansing, Michigan, and also book review editor of The Freeman.

The Long Affair: Thomas Jefferson and the French Revolution, 1785–1800

by Conor Cruise O'Brien

University of Chicago Press • 1996 • 385 pages • \$29.95

Reviewed by Aeon James Skoble

Although Thomas Jefferson is popularly known as a great statesman, historians have long been aware that he, like everyone else, was not as purely good as his popular image would suggest. Political thinkers of some stripes even find his theories of government objectionable. There have been many treatments of Jefferson's thought and legacy, both sympathetic and critical, yet there is something distinctive about Conor Cruise O'Brien's new book, *The Long Affair*: its

extreme polemical character. There have also been many polemics about Jefferson, but here, unfortunately, is a polemic masquerading as a serious work of history. O'Brien's main goal is to show that Jefferson deserves none of the reverence he has enjoyed since his death. Specifically, O'Brien wants to show that Jefferson is the direct ideological ancestor of racist skinheads, apartheid South Africa, and Timothy McVeigh.

O'Brien is off the mark in several respects. Chief among them is the lack of theoretical sophistication and historical context in his analysis. That's a weighty charge to level against a respected writer like O'Brien, but the fact is that he betrays his lack of theoretical perspective by not so much as mentioning the English philosopher John Locke. Locke is an essential antecedent to everything in the Declaration of Independence, a fact which O'Brien surely knows. Locke had, in the previous century, carefully laid out a theory of natural rights of self-ownership and the ensuing importance of consent. Locke also sets out a right to rebel against an unjust authority, which Jefferson's generation understood.

O'Brien takes Jefferson to task for being an "ideologue," i.e., for thinking that he was the definitive interpreter of timeless truths. But the rhetorical significance of the phrase "self-evident truths" was to highlight to the target audience, the British, that the colonists' complaint was not radical at all. The political theory expressed in the Declaration was at least 90 years old by the time of the Second Continental Congress. Locke had already established the legitimacy of the notion of government by consent and natural, inalienable rights, and these theories were common currency in England. The English themselves were supposed to be proponents of the Lockean theory—that's the point of calling it a "self-evident truth." The idea that government derives its just power from the consent of the governed was certainly not something Jefferson would have claimed sole proprietorship over.

O'Brien makes much of the fact that John Adams and Benjamin Franklin made small revisions to the draft of the Declaration in an unconvincing attempt to show that Jefferson

doesn't deserve the credit for writing it. But now the polemicism is made transparent: according to O'Brien, Jefferson deserves denunciation for originating a theory of revolution, but doesn't deserve to be revered as the author of the theory. The reality is that Jefferson *wasn't*, and wouldn't have claimed to be, the originator of the political theory underlying the Declaration, but *was* an eloquent articulator of that theory.

In any case, O'Brien is guilty of several *ad hominem* attacks of the weakest sort. To suggest that there is something suspect about Jefferson because Mr. McVeigh (or whoever) likes to quote him is fallacious reasoning. It's like saying that since Charles Manson quoted John Lennon, Lennon must have been evil. O'Brien makes several such charges, including his thoroughly unpersuasive attempt to show that the Ku Klux Klan is "descended from" Jefferson, whatever that means.

As we are all now aware, Jefferson owned slaves, in spite of his often-stated view that slavery was an offense against natural law. For O'Brien, this is evidence of pathological, virulent racism. Any number of more sensible considerations of this paradox (most recently Sean Wilentz's excellent critique of O'Brien in *The New Republic* or historian Joseph Ellis's *American Sphinx*) have demonstrated that things are not that simple. Could Jefferson have shown greater moral courage than he did? Perhaps, but remember that slavery was the norm for that time and place, so there were more complex legal and financial factors involved, which, while not exculpatory, also suggest less harsh condemnation. During the Second Continental Congress, Jefferson tried to include an antislavery clause in the Declaration, but it was vetoed by the Southern delegation. Later he arranged for the release of some, but not all, of his slaves. Is it strange that someone who thinks that slavery is a moral wrong should not have done a better job ending the institution of slavery? How can we answer that question satisfactorily? Deciding that Jefferson could have done more is a far cry from branding him a vicious racist.

No personal attack on Jefferson's character would be complete without revisiting the allegation that he had a long affair with his

slave Sally Hemings. The "long affair" of the book's title is meant to refer most obviously to Jefferson's enchantment with the French Revolution, and his seeming endorsement of its worst excesses, which is part of the link between Jefferson and McVeigh, according to O'Brien, who documents this with selected writings (while ignoring other more moderate writings). But the "long affair" also evokes the relationship between Jefferson and Sally Hemings. Was there such an affair? The only honest answer is: we can't be sure. There is some evidence to support the story, but not very much, and the story originated in the mouths of political enemies of Jefferson. To accept uncritically the allegations as further ammunition for a personal attack is not the mark of reasoned discourse, yet O'Brien is far too quick to endorse the story in its entirety.

O'Brien's book is so clouded by animus that it fails to be either reasonable or persuasive. Whatever his faults, Jefferson doesn't deserve this, and more to the point, modern readers interested in exploring the perplexing legacy of Jefferson do not deserve it either. □

Dr. Skoble is Visiting Assistant Professor of Philosophy at Southeast Missouri State University.

The Libertarian Reader: Classic and Contemporary Writings From Lao-Tzu to Milton Friedman

edited by David Boaz

Free Press • 1997 • 476 pages • \$27.50

Reviewed by William H. Peterson

Asks Shakespeare's Juliet: What's in a name? Yesterday conservatism was "in" as the name of what could be called the free-society movement. Today, increasingly, libertarianism as the catch-name is in. Recent books by Charles Murray (*What It Means to Be a Libertarian*) and David Boaz (the title reviewed here and his *Libertarianism: A Primer*) have put the word "libertarian" in front of many who were not previously familiar with it.

As editor David Boaz says in his introduc-

tion to this fine collection, it is easier to define libertarian ideas than to agree on a proper name for those ideas. The essays he has chosen succeed in explaining the essence of libertarian thinking. Believers in statism may not be won over (although they should be!) but after *The Libertarian Reader*, they won't have any excuse for misrepresenting what libertarians stand for.

Mr. Boaz sets forth seven sections of selected readings, six of them on central ideas in libertarianism: skepticism about power, individualism, individual rights, spontaneous order, free markets and voluntary order, and peace and international harmony. The seventh section relates to the future of libertarianism and features a gem, "Paternalist Government Is Out of Date" by Michael Prowse of *The Financial Times*.

Selections and ideas match well, and make this a most handy reference work, even though many of the selections (such as James Madison's *Federalist* No. 10 and Thomas Jefferson's Declaration of Independence) can be found in conservative and other readers. Where Mr. Boaz especially shines is in his annotated comments and libertarian asides. He notes, for example, that Jefferson in his draft of the Declaration of Independence insisted on the phrase *inalienable* rights, that these rights are "natural," that government can't transfer or abolish them, that if it does, the people have "the right to alter or to abolish it, and to institute new government."

Among these many selections are such other sharp questioners of state authoritarianism as John Locke, Adam Smith, Thomas Paine, Herbert Spencer, Frederic Bastiat, and, from the twentieth century, F. A. Hayek, Murray Rothbard, Ludwig von Mises, H. L. Mencken, and Charles Murray. (Of interest to *Freeman* readers is Doug Bandow's "Private Prejudice, Private Remedy," which originally appeared in the July 1996 issue of this journal.) David Boaz knows the literature well and has wisely drawn from it.

Particularly noteworthy, I believe, is the essay "The Right to Do Wrong" by Roger Pilon, director of constitutional studies at the Cato Institute (where Mr. Boaz serves as executive vice president). Mr. Pilon endorses

the Supreme Court's 1990 defense of flag-burning as a First Amendment right not only of speech but of content. Pilon's point is all speech is a form of action and, arguably, all action is, if not speech, at least a form of expression with which the government has no right to interfere—as long as the action is peaceful—no matter how much it annoys others.

Such jewels abound in this mustering of sharp minds. □

Dr. Peterson, an adjunct scholar at the Heritage Foundation, is Distinguished Lundy Professor Emeritus of Business Philosophy at Campbell University in North Carolina.

The Unknown Lenin, From the Secret Archive

edited by Richard Pipes with the assistance of David Brandenberger; basic translation of Russian documents by Catherine A. Fitzpatrick

Yale University Press • 1996 • xi-xx + 204 pages • \$27.50

Reviewed by Joseph T. Fuhrmann

It has been inspiring to watch the "opening up" of Russian archives since the collapse of the USSR. Foreigners now have access to documents once denied even to communist historians. The "Presidential Archives" in Moscow hold papers still classified "top secret," but a few people are permitted to work there. Bureaucratic attitudes in the open archives can still be confining and frustrating, but despite that complication, amazing materials are now available.

This volume contains a selection of 122 documents housed at the Russian Center for the Preservation and Study of Documents of Recent History (RtsKhIDNI) in Moscow. They have been translated into English and are published here under a joint venture between Yale University Press and the RtsKhIDNI. Yale has worked with Russian archives to issue three other titles in this "Annals of Communism Series": *The Secret World of American Communism*, *Stalin's Let-*

ters to Molotov, 1925-1936, and *The Fall of the Romanovs. The Unknown Lenin* is a worthy addition to an important series.

Richard Pipes, emeritus professor of Russian history at Harvard, is the principal editor of *The Unknown Lenin*. Pipes has long striven to refute the notion that Lenin was an admirable fellow who made a noble revolution which was betrayed by Joseph Stalin. It is not that Pipes is favorable to Stalin; his concern, rather, is to show that Lenin was equally ruthless and unprincipled. Or more so. Pipes relishes the story that when Molotov, the "only Communist official to serve both Lenin and Stalin throughout their political careers, was asked to compare the two, he declared without hesitation that Lenin had been the 'more severe' or 'harsher' (*boleee surovyi*)." Who could have been better qualified than Molotov to make such a judgment! As Pipes remarks, "Those who still idealize Lenin and contrast him favorably with Stalin will find little comfort in the Lenin documents which are now coming to light."

One of the purposes of this volume, then, is to demolish favorable sentiment for Lenin. Some of the documents do this. On August 11, 1918, for example, we find Lenin demanding that a kulak uprising in Penza be suppressed by hanging "no fewer than one hundred known kulaks, rich men, bloodsuckers. . . . Find some truly hard people." On March 19, 1922, Lenin issued an order concerning confiscation of church property and the execution of priests and others who sought to block such seizures. "[I]f it is necessary to resort to certain brutalities for the sake of realizing a certain political goal, they must be carried out in the most energetic fashion and in the briefest possible time because the masses will not tolerate prolonged application of brutality. . . . Therefore, . . . we must give battle to the Black Hundreds [a pre-revolutionary, proto-fascist organization] clergy in the most decisive and merciless manner and crush its resistance with such brutality that it will not forget it for decades to come." The trial of these people should "be conducted with the maximum of speed and . . . end in no other way than execution by firing squad of a very large number of the most influential and dangerous" rebels.

Pipes incontrovertibly proves that Lenin

was ruthless and tyrannical. To his credit, however, he also offers many documents which show more admirable sides of the man. A major theme in Lenin's correspondence, for example, is concern for the health and well-being of his correspondents. Lenin also seems to have had a limited appetite for personal aggrandizement. On January 29, 1919, we find Lenin rejecting a suggestion from the historian N. A. Rozhkov that he (Lenin) implement a "personal dictatorship"—though one wonders how such a regime would have differed from what the Bolsheviks *had* established! This same letter gives a hint, incidentally, of why Lenin so disliked capitalism. Rozhkov had suggested that the solution to the food shortage might be free trade. "You should not be thinking of free trade," Lenin replied: "free trade, given the absolute shortage of essential produce, is equivalent to frenzied, brutal speculation and the triumph of the haves over the have-nots." Lenin preferred to allow large numbers of people to starve rather than abandon his Marxist economic doctrines.

Admirable as this volume is, one questions the importance of some of the documents it offers. The translations seem excellent, as are the "Introduction," the editors' comments on individual documents, the index, and the archival listing and data for each document. All concerned deserve praise for their efforts, which throw a lot of new light on the man chiefly responsible for bringing the world's first communist state into existence. □

Dr. Fuhrmann, who teaches Russian history at Murray State University, is the author of Rasputin: A Life (Praeger, 1990).

The Disadvantages of Being Educated

edited by Robert M. Thornton

Hallberg Publishing Corp., Tampa, Florida
33623 • 1996 • 221 pages • \$14.95 paperback

Reviewed by Edmund A. Opitz

The *Disadvantages of Being Educated* is an event, of sorts; it gathers together essays little noticed, perhaps, nor long remembered

... except by those who have come to appreciate Albert Jay Nock's vast learning, his wit, and his unembroidered literary style. This book is good news; the editor is thoroughly familiar with the entire range of Nock's writing, and it may be assumed that these essays are his favorites.

Robert Thornton, the editor of this admirable collection, was the prime mover behind the scenes of the Nock renewal that began to surface during the late fifties. In 1963 he, a businessman, assembled two kindred spirits—a neurosurgeon and a minister—and over a convivial luncheon the Nockian Society began to emerge. It was not to be just another organization: God forbid! The three of us contemplated a kind of clearinghouse operation with an occasional newsletter carrying items of interest to men and women who had been touched by Nock's writing. On our masthead were the words: No Meetings; No Officers; No Dues. This was to be a society that kept out of members' way; the next best thing, observed someone, to no society at all! It was basically a mailing list plus a real person to answer the phone. Over the years the Society's mailing list grew to nearly 700 names.

The Society had no expenses except postage. Members, from time to time, would send a gift to cover that. Occasionally we would turn up a rare, out-of-print Nock title and auction it off through the newsletter. Our first Society publication was a wonderful collection of Nock's thoughts on a variety of topics, assembled by Robert Thornton and entitled *Cogitations from Albert Jay Nock*, 120 pages. This appeared in 1970 to mark the centenary of Nock's birth. It has gone through three printings: our bestseller.

Most readers of this review know Nock, at least by name. One hopes that they gained some acquaintance with the man himself, and his career, in Jim Powell's splendid essay on Nock in the March 1997 *Freeman*. In the same issue is a reprint of Nock's most popular essay, "Isaiah's Job," which first appeared in print in *Harper's* in 1936. The Foundation for Economic Education issued it in pamphlet form in the early fifties and has put nearly a million copies into print during the past 45 years.

There was an early *Freeman* launched in 1920 with Nock as editor. He authored many articles in addition to his editorials. Funds ran out in 1924 and Nock sailed off for the Continent, where he lived during most of the next 16 years. It was a period of intense literary activity. In 1926, his classic *Jefferson* appeared, to mark the centenary of our third president's death. Half a dozen years later he gave a course of lectures at the University of Virginia, which became the book *The Theory of Education in the United States*. A steady flow of essays from Nock's pen during the 1930s appeared in quality magazines and then in book form. He wrote a learned book on Rabelais and in 1931 published a definitive annotated edition of *The Works of Francis Rabelais* in two huge volumes. *Our Enemy, the State* appeared in 1935 and has been the subject of some controversy ever since concerning the distinction Nock makes between Government and The State; essentially it is the same distinction made by Bastiat between The Law, whose purpose is justice between persons, and The Law perverted to advantage some at the expense of others. This arrangement is clear in the case of the Norman Conquest of England. The Normans parceled out the land—20 percent to the king, 25 percent to The Church, and the rest to 170 Norman noblemen. Such a regime is The State, and may have been the kind of thing that Ludwig von Mises had in mind when he pointed out that "All ownership derives from occupation and violence." (*Socialism*, p. 32 and *Human Action*, p. 679) Nock's words clarify the issue: "... when society deprives The State of the power to make positive interventions on the individual—power to exercise positive coercion on him in his economic and social life—then at once the State goes out of existence, and what remains is government ... government as contemplated by Mr. Jefferson in the Declaration, by Paine, by Franklin, and the 18th century British Whigs and Liberals. That's all." But, as Nock pointed out in another context, most people do not want a government that will let them alone; they want a government they can use to their own advantage, and at the expense of everyone else, i.e., they want The State.

After Nock returned to the United States in 1940, an old publisher friend began badgering him to write his autobiography. Nock had always felt that his private life was nobody's business but his own. So the publisher tried a different tack: Why not make this the autobiography of a mind; how you arrived at the philosophy you live by, how you would explain and defend the ideas you've made your own, what first attracted you to them, and how they have served you? Nock was intrigued and set to work on what became *Memoirs of a Superfluous Man*. It's a dull fellow indeed who can read this book and not be deeply moved by it. Ideas begin to bulge and fever in the brain; there are birth pangs, growth hurts! Your reading program changes as you chase down some of the titles Nock discusses; you are going through what might be termed a semi-religious experience. Nock never did seek a "following" in the customary understanding of that term. What he did was generate new

perspectives in a reader, and a new mood; operate on your own steam and you begin to develop strength from within, also from around and above. There are Nockians and incipient Nockians in unexpected places; a zestful crew if ever there was one!

So, how does one get started? Well, you start by reading the essays, seventeen of them, in *The Disadvantages of Being Educated*, 221 pages of superb writing. The friendly publisher has designed a very attractive high-quality paperback, and Mr. Thornton the secretary of The Nockian Society, contributes a fine introduction. You may contact The Nockian Society at 42 Leathers Road, Fort Mitchell, Kentucky 41017. Intellectual adventure lies ahead. □

The Reverend Mr. Opitz served on the senior staff of The Foundation for Economic Education for 37 years. Now retired, he continues to serve FEE as a Trustee, and as a contributing editor of The Freeman.

Answers to Liberty Quiz (p. 424)

1. (H.) English philosopher John Locke (1632–1704) in *Second Treatise on Civil Government* (1689).

2. (D.) The phrase *laissez-faire* has been attributed to the seventeenth-century French businessman Legendre and popularized by Jacques C.M. Vincent de Gournay (1712–1759).

3. (L.) Attributed to Boston attorney James Otis (1725–1783) in 1763.

4. (M.) Thomas Paine (1737–1809) in *Common Sense* (1776).

5. (G.) Thomas Jefferson (1743–1826), in a letter to William Stevens Smith, November 13, 1787.

6. (T.) Mary Wollstonecraft (1759–1797) in her *Vindication of the Rights of Woman* (1792).

7. (J.) Albert Jay Nock (1870–1945), in *Our Enemy, the State* (1935).

8. (B.) Benjamin Franklin (1706–1790), in his 1736 *Poor Richard's Almanac*.

9. (Q.) Adam Smith (1723–1790), in *The Wealth of Nations* (1776).

10. (A.) Lord Acton (1834–1902), in his letter to Mandell Creighton, April 5, 1887.

11. (S.) Mark Twain (1835–1910), in *Pudd'nhead Wilson* (1894).

12. (C.) Milton Friedman (1912–), in many talks since the 1960s.

13. (E.) F.A. Hayek (1899–1992), in *The Road to Serfdom* (1944).

14. (N.) Ayn Rand (1905–1982), in her March 1964 *Playboy* interview.

15. (I.) Ludwig von Mises (1881–1973), in *Human Action* (1949).

16. (F.) Henry Hazlitt (1894–1993), in *Economics in One Lesson* (1946).

17. (R.) Thomas Sowell (1930–), in *Is Reality Optional? and Other Essays* (1993).

18. (O.) Leonard E. Read (1898–1983), *Anything That's Peaceful* (1964).

19. (K.) P.J. O'Rourke (1947–), in *Age and Guile Beat Youth, Innocence, and a Bad Haircut* (1995).

20. (P.) Murray N. Rothbard (1926–1995), "Left and Right: The Prospects for Liberty," in *Left and Right* (1965).

This brief quiz underscores the exhilarating sophistication and spirit of liberty.

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Published four times a year by
Blackwell Publishers Limited
108 Cowley Road, Oxford OX4 1JF, UK *and*
350 Main Street, Malden, MA 02148, USA

1997 Subscription prices are as follows:
(Canadian customers/residents please add 7% for GST)

	Europe	N.America	Rest of World
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Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com
FEE Home Page: <http://www.fee.org>

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$30.00 or more receive a subscription to *The Freeman*. Student subscriptions are \$10.00 for the nine-month academic year; \$5.00 per semester. Additional copies of this issue of *The Freeman* are \$3.00 each. For foreign delivery, a donation of \$45.00 a year is suggested to cover mailing costs.

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A Private-Enterprise Gold Standard?

How can a business with international sales protect itself from fluctuations in exchange rates caused by monetary policy? One small custom-automobile builder in England is trying a simple, if radical, solution: Marlin Cars of Crediton, Devon, has announced prices for their handmade cars in ounces of gold. Marlin cars combine modern engines, transmissions, and suspension systems with traditionally styled aluminum bodies and box-girder steel frames. In preparing to fill sales orders from various countries, Marlin has become caught up in the growing controversy over European Currency Units.

Terry Matthews, Marlin's director, said, "We're sick and tired of all this posturing by politicians, pundits, and economists over whether the U.K. should opt in, opt out, or even 'twin-track'—so we've decided to go it alone. We're more than happy to cut short the debate by quoting the international prices of our cars in gold." Ms. Matthews says that the company is valuing a basic Marlin Hunter two-seat sports-tourer with electric windows, manual gearbox, and a Ford DOHC 2.0 liter engine at 85 ounces of gold.

"This means that a customer anywhere in the world only needs to check this figure against the prevailing local rate for gold bullion to get an actual price of one of our cars," she adds. "As a standard, the quantity in circulation is relatively stable; no one can easily print more of it to satisfy short-term economic or political goals. As a unit of value, gold is recognized the world over as a hedge against monetary uncertainty."

Strong historical evidence shows that governments consistently inflate money in an effort to obtain more taxes. This has been true at least back as far as the Roman Empire, when Rome began making coins of less valuable alloys. The problem is becoming acute in Europe, where the search for a common currency has revealed in stark detail the reluctance of nearly every country in the European Union to give up control of their money. Conservative economists have tried

for years to get governments to readopt the gold standard, with little success. Such decisions are more political than logical, and there are many monetarist economists who think that returning to the gold standard would be disastrous. It certainly would wreck their active monetary policies, but it could give a stable basis for exchange, with low interest rates for borrowing and the ability to save with security.

Is it possible to establish a "private" gold standard, that is, one independent of government action, one dependent on markets alone? This little company believes it is, strongly enough to become the spearhead of a movement to quote prices in gold. The beauty of Marlin's policy lies in the inability of any government to forbid it. Countries can forbid private ownership of gold, but can't prevent their citizens from using the price of gold as a standard for exchange. The danger of this concept lies in the fluctuations in gold prices with respect to local money. Yet that very danger becomes a strength when measured against a currency of declining value. With all the debate about establishing a gold standard and multinational fiat money, why can't businesses simply quote the prices of their products in gold? Why indeed can't they establish a *de facto* gold standard? One tiny company is betting that it can be a start.

—W. J. BROGDON, JR.

Bill Brogdon, a retired captain in the U.S. Coast Guard, resides in Cape Carteret, North Carolina.

State and Society

Some astute observers, such men as Nietzsche and Burckhardt, were warning as long ago as the mid-nineteenth century of the dangers stemming from the new mass-man and the new mass-state. Social critics of our own time, of the stature of Wilhelm Roepke and Ortega y Gasset, have pointed to more and more signs of the dangers inherent in the centralized modern state. Meanwhile, the

consolidation of power in the new dispensation has steadily advanced.

In Frank Chodorov's words: "The present disposition is to liquidate any distinction between State and Society, conceptually or institutionally. The *State is Society*; the social order is indeed an appendage of the political establishment, depending on it for sustenance, health, education, communications, and all things coming under the head of the pursuit of happiness."

Such a system gives far too little to man's freedom or personality. The state swallows the individual. Even if such centralization were efficient in the satisfaction of human wants, which it is not, the means used to achieve the end would still be unacceptable simply because they are incompatible with human freedom.

Even more dangerous, perhaps, is the risk that the very concept of freedom itself can become so misused and distorted within such a society that no individual dare lay claim to any rights or dignity having a higher source than the society in which he lives. At that moment, the guarantees developed by Western civilization to protect the individual from the arbitrary exercise of power have in effect all been swept away, no matter what label that society might give itself.

Once such checks upon the exercise of power have been removed, all the internal vitality and freedom within such a society are open to destruction in the name of "order." Soon the preservation of "order" or the pursuit of the "greatest social good" is identified with whatever action the wielder of centralized power deems suitable. Resistance against the exercise of such power comes to be viewed by society not as an expression of human individuality and free choice, but as an assault upon the public good, a crime of the selfish individual against the selfless community.

—GEORGE C. ROCHE III
The Freeman, August 1967
adapted from "Power"

Dr. Roche, a former FEE staff member, is president of Hillsdale College.

The Pine Barrens Parousia: A Reporter's Notebook

by Matthew Carolan

Circling the corner of Doe Run in Manorville, New York, my guides and I came across a young married couple discussing with their landscaper the finer points of decorative rock gardening. Just another idyllic day here on the East End of Long Island, it seems, a stone's throw from the lovely Peconic River.

Right behind the couple's home, however, stands a large parcel of land, which belongs to Gloria Hendricks, a Manhattan resident. Ms. Hendricks will never be able to do rock placement with her landscaper, though, or even cut down a pine tree on her property. Despite being in the same neighborhood, in the same "ecosystem," and on top of the same aquifer as her neighbors, an environmental "emergency" has led to the suspension of *her* property rights, in a display of public policy that can only be compared to a parousia.

A parousia is, biblically speaking, a phenomenon where "one will be taken, the other shall be left behind." Translated into land-use terms it means some will be allowed to build or get bought out, others won't. Translated into constitutional terms, it means a violation of equal treatment under the law.

Take Doe Run, for example. My guides and I observed several choice building plots for

sale, next to beautiful new homes currently valued at around \$300,000.

Indeed, all sorts of parousia-like exceptions have been made for certain people in the Pine Barrens. Certain town parcels, school districts, and large real estate developers' plots have been magically declared out of the ecosystem; market-value cash payments have been made to other large corporate landowners; and cash-strapped landowning boy scouts have received big checks in photo-ops with the governor, and disappeared without a complaint.

Meanwhile, other landowners, many of them elderly, get no cash, no exemptions, and have no place to go.

These small landowners are the victims of years of regulatory warfare waged on them by their government. It started to reach critical mass back in the early-to-mid-1980s, when the first newspaper articles appeared touting the importance of the Pine Barrens aquifer, a water supply, it is alleged, threatened by development on the East End. What's more, lawsuit after lawsuit came from environmentalist visitors to the island, to protect the "open space" or "viewshed," and the dwarf pine, the harrier hawk, and the buck moth.

The end result of all this agitation, spearheaded by the Long Island Pine Barrens Society, has been the passage by the state of New York in 1993 of the Long Island Pine Barrens Preservation Act. The act has been sold as essential to protect Long Island's drinking water. That is not true. Studies by

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consultants to the Suffolk Water Authority have shown not only that one-acre development throughout the county could occur with no damage to the water supply, but also that there is another lower glacial aquifer that is virtually incorruptible and can supply the county for centuries. (There are also options like private water rights and markets, which no one seems to have explored.)

The landowners have no representative on the newly created "Pine Barrens Commission," an unelected body comprised of the supervisors of the three major East End towns (Riverhead, Southampton, and Brookhaven), the Suffolk County Executive, and a representative of the governor. Some of those members rarely attend the meetings, sending subordinates instead, all the while coordinating with technocratic zeal the massive project of eliminating development in the Pine Barrens—even though they have never read the entire Pine Barrens law. They also rely on the town boards, many of whose members also have never read the two-inch thick document to "upzone" the land; that is, increase the minimum number of acres that any home must be built on, to reduce its value, and thereby reduce the compensation due landowners, in cash (unlikely) or payment in dubious transfer of development rights (see related story, p. 462). Meanwhile, the landowners pay taxes on the original pre-zoning value of the land, and those taxes are regularly raised by the towns.

"As a political official I'm often invited to regulatory seminars," says Gary Vegliante, Republican mayor of Westhampton Dunes, and one of the few politicians critical of the Pine Barrens legislation, "and you'll hear government agency officials, regardless of their political disposition . . . get up there and say, 'well, upzoning is an excellent way of reducing the value of an area, and later if you're looking through the condemnation process you'll acquire it more cheaply.'"

Not that condemnation is an option here. Transfer of development rights is the vogue because, as Suffolk County planner Lee Kopleman advised back in the 1980s, condemnation means ceding control over the fair market value to a judge, exactly what the cash-strapped county does not want.

Indeed, on two occasions the county has raided sales-tax monies set aside for cash compensation to the landowners to balance its budget—once under a Republican, once under a Democrat.

The county has also picked up many parcels of land of dead people, or by tax default, or by sheer exhaustion. Russell Furia, who had signed contracts worth millions for the development of his 75 builder's acres, saw landowners across the street from him protected from upzoning and regulation, while he ended up pleading with county planners to develop 30 houses. Then 12, on two-acre plots, and again on one-acre plots, both times with land donation. Then one—with land donation. Each time he was told no. They knew they had him over a barrel; he couldn't afford the taxes for long. After ten long years he sold out to them at what he estimates was a total loss.

Edwina Foster tried to complain. She, two sisters, and a brother, who were left land by their grandmother, put up a sign denouncing the zoning law changes, tax hikes, arbitrary applications of state law, and the dubious transfer of development rights—the "Pine Barrens Land Theft"—that had deprived them of their familial compound. For that sign they were called into court for violating the zoning law.

I have personally met some of the landowners—a handful of feisty elderly people, members of the Civil Property Rights Associates. So desperate are they for help that they drove over an hour to a diner near my home to talk with me. One nonagenarian, who has battled the county for decades, had wanted to come too, but the others feared for his health. They have scraped together everything they have for a suit which at this writing is in federal court. Some of them talk wistfully about the Suitum case, hoping that it will mean the end of transfer development rights. Perhaps then, the motley band of environmentalists, craven politicians, and snobby anti-growth types will measure their own passionate version of the public good against the Framers' demand for cash compensation. But right now these poor folks have virtually nowhere to turn. I'm not sure what I can do—except tell every person I know about this tyranny. □

Transfer of Development Rights: Top-Down Planning in Disguise

by Sarah Foster

Radicals of the 1930s had a favorite saying: Take it easy, but take it. That is to say, a step-by-step, easy-does-it approach is the most efficient and palatable way to implement socialism. Their intellectual heirs understand the principle even better, and have had over 60 years to perfect strategies. Although the idea of centralized economic planning is currently out of favor and there is resistance to “top-down” policies, the effort to increase governmental control over our lives and property has never slackened.

The most successful strategies today are processes that demand active public participation, thereby creating an illusion of popular control and “bottom-up” policy- and decision-making. One such tactic is to insert trading or selling mechanisms into blatantly socialistic schemes and label them “market-based” or “free-market-oriented.”

The use of transfer of development rights (TDR), which city councils across the country are making part of the local building-permit process, is the strategy adapted to land-use regulation. For every case where a property owner’s rights and the land itself have been trampled by agents from the U.S. Fish and Wildlife Service or Army Corps of Engineers, thousands of quiet “takings” are exacted by local governments using TDR.

TDR is, in essence, a system of land designation, with certain parcels being categorized either as “sending” or “receiving” sites. Development is restricted or completely denied on the first, while permitted on the latter. As described by city planner Rick Pruetz: “Using TDR, development rights which are not used at a sending site can be transferred to a receiving site where additional development is consistent with community objectives.”¹

TDR rests on the concept that “title to real estate is not a unitary or monolithic right, but . . . a ‘bundle of individual rights,’ each one of which may be separated from the rest and transferred to someone else, leaving the original owner with all other rights of ownership.”² Mineral rights are an example. In practice, here’s how it works. Property owner A wants to build an apartment house, but his parcel is zoned for a single-family home. Across town, owner B is told she can’t develop her land because a species of endangered fly lives there. Not to worry. The government grants the owner of the fly-specked parcel permission to sell the rights she’s forbidden to exercise to the man who wants to build an apartment house. If each learns of the other’s plight and A buys the ersatz rights from B, owner A can build to a greater density than otherwise allowed. In other words, B has sold a zoning variance to A, probably for “peanuts.” B still owns the land and must continue paying taxes on it.

Ms. Foster is an associate of the Western Journalism Center.

Dodging “Just Compensation”

Proponents admit TDR is a way for governments to take land out of use while dodging the “just compensation” requirement of the Fifth Amendment. According to Pruetz:

Often, communities are reluctant to restrict development on the sending sites without providing some kind of compensation to the property owner, and usually there is little or no public funding to provide this compensation. TDR solves this problem by providing transfer of development rights as compensation. The community saves the sending site with little or no public expenditure.³

TDR is used not only to preserve open space, historic landmarks, agricultural land, and natural areas like hillsides and streams, but also to force “densification” and “urbanization” when a city council or other agency decides people ought to live downtown instead of in suburbs. It can be the primary system of land-use regulation, a substitute for—or used with—zoning power. Whatever the goal, the agency simply designates “sending” and “receiving” areas or sites. “We only set the policy,” the planners say. “You, the public, are free to work out the details in the marketplace.”

Since the purpose of TDR is to force participation in government-created “markets,” excessive controls on land use are necessary. As Pruetz puts it: “Successful TDR programs strongly encourage transfers by making development difficult or impossible on sending sites . . . [and] . . . making it difficult or impossible to achieve additional density on receiving sites without using the TDR method.”⁴

The TDR idea was introduced in the 1960s, but it’s taken time for it to catch on among local governments. Not surprisingly, as more and more people find themselves in “sending” areas and would-be developers of “receiving sites” suddenly discover the additional permitting costs and requirements, resistance is growing. But in anticipation of such public awareness, the architects of TDR set up roadblocks on the usual avenue for redress: the courts. To date, it’s been difficult, if not impossible, for an aggrieved property owner to have a “takings” hearing.

That could change. In February of this year, the U.S. Supreme Court heard *Suitum v. TRPA*, which both sides agree is the most important “takings” case in half a decade. Though in a wheelchair and nearly blind, the 82-year-old plaintiff, Bernadine Suitum, made the trip from her home in Sacramento to Washington, D.C., to hear her case argued by attorney R. S. Radford of Pacific Legal Foundation. The Sacramento-based public-interest law firm is well known for its successful handling of such cases as *Lucas v. South Carolina Coastal Council* and *Dolan v. City of Tigard, Oregon*.

Mrs. Suitum had taken on one of the most powerful regulatory agencies in the country: the Tahoe Regional Planning Agency (TRPA), a bi-state entity formed in 1970 as a compact between Nevada and California, with approval by Congress. TRPA exercises virtually complete control over land use in the Tahoe Basin through a particularly complex and draconian TDR program.

In 1987, ostensibly to improve the clarity of Lake Tahoe, TRPA developed a new general plan designed to limit the number of houses. About 10 percent of the Basin’s 204,000 acres were designated as “stream environment zones” (SEZ), and off limits to development. The empty parcels within these zones, argues TRPA, are “sponges” that filter storm runoff so contaminants don’t get into the lake.⁵

Mrs. Suitum owns such a parcel, a 2/5th-of-an-acre lot she and her late husband acquired in 1972 in Incline Village, Nevada. When, in 1989, she was financially able to build her long-deferred dream house, she was told her tiny parcel was in a SEZ and any new “land coverage,” such as a house, was prohibited. Never mind that hers was almost the only vacant lot in a now completely built-up residential area and has houses on three sides.

But though Mrs. Suitum had to leave her land vacant as an alleged public benefit, TRPA refused to admit this was a “taking” and denied her claim for just compensation. Worse, she was not even allowed to contest it in court. Normally, when a government entity wants your land, say, for a school or road, and you say “No,” it seeks a condemnation order in court. Then follows a lot of haggling, and

you may or may not receive "just compensation," but at least you get something.

In the case of "regulatory taking," where government wants a particular property kept in a natural or otherwise restricted state for the "public good," doesn't want to pay for it, and has passed a regulation preventing development or other use, the property owner asks the court to determine if a "taking" has occurred. If the court says one has, price wrangling can begin.

In Mrs. Suitum's case, the lower courts ruled that since Mrs. Suitum had not participated in the quasi-sales process made available through TRPA, it was impossible to determine if a "taking" had occurred. Therefore, she'd have to go through that process first.

TRPA had given Mrs. Suitum three kinds of TDRs and basically said "Go peddle 'em." But not to just anyone. No, the buyer or buyers must be certified eligible by TRPA and any sale had to be TRPA approved. Specifically, she was granted one Land Coverage Right of 183 square feet (about the size of a bedroom), a Residential Development Right (representing a single-family house or unit), and the "right" to participate in a yearly lottery for a Residential Allocation. TRPA admits her chance of winning this last is about one in five. *None of these so-called rights enables Mrs. Suitum to build her home on her own lot.*

Mrs. Suitum sued, claiming that despite TRPA's claims, her property had been rendered worthless and the TDRs were of no value since there's no real market for them. How was she, an elderly person in a wheelchair, expected to sell such intangibles? Was she to go door to door asking folks if they needed a credit to build an extra bedroom?

TRPA officials were shocked at the challenge. "She's asking to take away some of the tools that are used to make the world a better place," announced one outraged TRPA attorney, in effect speaking for bureaucrats and planners everywhere.

The case has focused on the Constitutional issues of denial of just compensation as guaranteed by the Fifth Amendment and denial of due process guaranteed by the Fourteenth,

since Mrs. Suitum has been denied access to the courts on the question of compensation. In late May the High Court ruled unanimously in her favor on the "due process" issue, opening the way for her long-deferred day in court. It's now up to a Nevada judge to decide if Mrs. Suitum is entitled to compensation. Left unresolved, however, is the broader issue of TDR since she did not challenge the validity of the land use regulations that underlie the process. The Court noted, "... her only challenge to the TDRs raises a question about their value, not about the lawfulness of issuing them. Suitum seeks not to be free of the regulations but to be paid for their consequences."

Though the decision is not as far-reaching as many hoped it would be, the case has brought the issue of TDR to the foreground of discussions on property rights and government processes. As long as the State claims a "right" to take property for whatever reason—and the public agrees to the principle—the proper place for dispute and settlement is the courtroom, not the marketplace. The face-off should be between the individual and the State, not between individuals forced to participate in phony market schemes to achieve government "goals."

This leads to the deeper issue of goal-setting by the State. What right have planners and government officials to set goals of any kind for the "community"? Why should people be forced to participate in their implementation? Matters of land use, child care, education, or any of a host of other concerns—none of these are areas for government involvement, let alone goal-setting. This is centralized, top-down planning in disguise, foisted on an all-too-complacent populace. That's the basic issue in the TDR dispute and what must be challenged. □

1. Rick Pruetz, *Putting Transfer of Development Rights to Work in California* (Point Arena, Calif.: Solano Press, 1993), p. i.

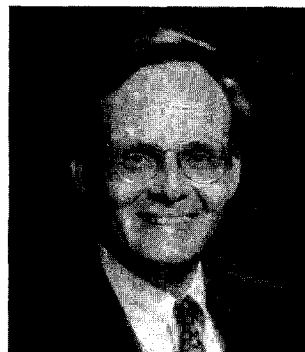
2. Jerome G. Rose, et al., *The Transfer of Development Rights: A New Technique of Land Use Regulation* (New Brunswick, N.J.: Center for Urban Policy Research, Rutgers University, 1975), p. 3.

3. Pruetz, p. 3.

4. Pruetz, pp. 2-3.

5. *Sacramento Bee*, February 23, 1997, p. A1.

Deregulation: Coming to a Utility Near You



One of the most important policy debates of 1997 concerns deregulation of the nation's electrical power industry. The issue, a hot topic at both the federal and state levels of government, boils down to a simple question: If this protected and tightly controlled industry is thrown to the marketplace, who will benefit and will prices rise or fall?

If deregulation of natural gas, telecommunications, railroads, airlines, and trucking are any indication at all, consumers have nothing to worry about. The experience in those industries strongly reinforces what economists have been telling us for decades: Competition is good; if allowed to work its wonders it will improve service and efficiency while cutting costs to consumers. That's the message of a very important study circulating in Washington and in state capitals as the electricity debate intensifies.

The study, published a few months ago by the Center for Market Processes at Virginia's George Mason University, was written by economists Robert Crandall and Jerry Ellig. Titled "Economic Deregulation and Customer Choice: Lessons for the Electric Industry," it has received wide attention and high acclaim since its release. It prompted *Newsweek* columnist Robert Samuelson to observe that when deregulation is done right, "it pays big dividends."

Take the deregulation of natural gas, for

starters. Various self-anointed consumer advocates predicted that when President Reagan eliminated the last of the controls on natural gas in 1985, prices would skyrocket. They also said that the United States would experience a shortage of gas. They were wrong. Prices plunged and no one these days wonders if we're going to have enough of the stuff. Adjusted for inflation, wellhead prices fell by 60 percent between 1984 and 1995. Residential and commercial customers saw their gas prices drop by at least 32 percent.

Consumers are also better off because of the deregulation of the trucking industry, which began in 1980. The number of carriers doubled in the first six years. Prices are down between 28 percent and 56 percent, Crandall and Ellig show.

Railroads suffered under the thumb of federal rules longer than any other American industry—since 1887, in fact. Regulations stifled competition, boosted costs, reduced management flexibility, and left railroads unable to compete effectively with alternative, and often subsidized, modes of transportation. The result of decades of regulation was widespread shrinkage of the industry and the bankruptcy of many individual companies.

Along came railroad deregulation in 1980. Since then, prices have declined 44 percent. Delivery time has improved dramatically. The industry is showing some life again.

Since telecommunications was opened to competition and market forces in the early 1980s, long-distance prices have been cut almost in half. Spurred by competition, tele-

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communications providers have invested a fortune in fiber optics—replacing copper wires with technology that permits far greater efficiencies and higher quality service.

Finally, airline deregulation has worked wonders, too. Far more Americans are flying today than before deregulation, largely because prices have dropped by almost one-third since 1978. Planes are safer than ever before. Now, if only governments would deregulate the airports they own, or sell them, we can cure the remaining problems that plague air travelers on the ground.

What are the free-market lessons here? “Within ten years of deregulating each industry,” write Crandall and Ellig, “prices were at least 25 percent lower, and sometimes close to 50 percent lower.”

Already, electric utility deregulation in Great Britain and New Zealand has resulted in greater supplies of electricity and lower prices. Electrical deregulation in the United States can be a certain winner too, but we may first have to expunge from the debate a longstanding myth about why government became involved in this industry in the first place.

For years, most people thought that electric power could not be a competitive enterprise with multiple providers operating in the same market. To prevent price gouging and other abuses, it was widely assumed that government would either have to own electric companies or heavily regulate the rates and practices of private ones.

Utility monopolies were once considered “natural” because it seemed more efficient if one firm provided the electricity for a given area, rather than having two or three firms string power lines through neighborhoods. The acceptance of the concept of natural monopoly, however, did not proceed from careful, objective study.

In the early 1900s, electric utility pioneer Samuel Insull of Chicago Edison led a nationwide public relations campaign to convince politicians, the media, and the general public that utilities should be regulated as monopolies rather than be subject to competition. Historian Marvin Olasky has found that Insull’s goal as president of the National

Electric Light Association (NELA), a major utility trade group, was to “show the public that competition in public utilities was unfeasible.”

Insull’s first strategy was to “heighten fears of socialism in order to promote acceptance of government-regulated monopoly as a less-undesirable alternative.” The NELA advanced its agenda, according to Olasky, with the unwitting help of the news media: “Annual payments of \$84,000 from Insull’s NELA allowed Hofer [an Oregon public relations firm] to send out almost 13,000 newspaper articles annually. The articles usually appeared as unattributed, ‘original’ editorials.”

In addition, Insull and other utility executives lobbied local newspapers and politicians persistently to support the idea that regulated private monopolies were good for industry and for consumers. Utility officials even paid to have chapters promoting natural monopoly included in textbooks and, reports Olasky, “moved to excise from government and economics textbooks passages opposing regulated monopoly.”

Greg Rehmke of the Free Enterprise Institute in Houston, an authority on the history of high-school debate competition, says that a Missouri utility executive once sent a colleague to investigate the judging of St. Louis high-school debates concerning electric railways because the debates had been won by those critical of the regulated monopoly position. This executive reported back the disquieting truth, says Rehmke, that the anti-monopoly debaters were winning because they had better arguments.

Between 1905 and 1934, 40 states established public utility commissions to protect established utilities from new competition and to regulate them as “natural” monopolies. Economist G. A. Jarrell, in the October 1978 *Journal of Law and Economics*, showed conclusively that utility regulation was the direct result of the utilities themselves lobbying for legislation that would protect their profits by keeping rates high and freezing newcomers out.

In almost every state today, the debate over electricity deregulation is in full swing. Legal

barriers that have prevented customers from purchasing electricity from anyone but the local utility monopoly may soon be abolished. That means customers can then choose from competing providers, much as they now choose which long-distance telephone service they want.

The companies which have long enjoyed protected monopoly status granted by state and local governments will have to prove that they can do the job better than firms from

other states that will want to enter the market. New companies no one can yet envision may also spring up. You can bet that better service and lower prices will be the result.

The world is entering a new era of global markets—highly competitive and driven not by central planners but by the forces of supply, demand, and technological advance. In that environment, there's nothing about electricity that makes it anything but a prime candidate for vigorous deregulation. □

Government Funding for Not Training Doctors: Another Odd Program

by Herbert London

In a plan many health experts describe as “brilliant” and “innovative,” federal regulators announced recently that for the next six years they would pay New York State hospitals *not to* train physicians.

Of course, this plan isn't unprecedented. For years the federal government paid farmers to let fields remain fallow. Now, the 41 teaching hospitals in New York State will be paid \$400 million not to train new physicians.

The purpose behind this proposal is to reduce the surplus of doctors and save money. Dr. Alan Hillman, a professor of health policy at the University of Pennsylvania, is quoted in the *New York Times* as an endorser of the

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plan. “I've never heard anything like this before. But I really can't find any fault with it. Maybe this is one of the first rational collaborations between hospitals and the Government.”

This plan was devised and proposed by officials of the Greater New York Hospital Association, with the active compliance of prominent politicians. Since New York trains 15 percent of the nation's doctors and the federal government finances that training to the tune of \$100,000 a year for each resident, the argument is made that fewer training residents will result in a net financial benefit for the hospitals.

Amid the congratulations and the backslapping is a scheme as flawed as the nation's

agricultural program. If anything, this plan demonstrates yet again that politicians and health administrators know almost nothing about economics. Leave aside the absurd subsidy for the training of physicians, which the market could easily address without government intervention; by paying hospitals not to train new doctors, health costs will be artificially increased. After all, dramatically more doctors in an environment with modest population growth will in time decrease the cost of medical care.

What about the experts who say they can't find fault with this plan? Perhaps they also believe it was rational to subsidize farmers for not growing food. If this is a logical plan for hospitals and farmers, why stop there? There are probably too many telephone carriers; after all, the price of long-distance calls has been decreasing continually over the last several years. Should carriers be subsidized for *not* installing new lines?

Invariably there is the politician who believes he is smarter than the market. There is always the naysayer contemptuous of the "invisible hand." So enthralled are pols with the New York plan that they have already objected to the "limited scope" of the program.

So this is how tax dollars are to be employed. Presumably health-maintenance organization standards and medical innovations which reduce hospital stays and the number of occupied beds will lead to further subsidies for hospitals that are operating at the margin. The logic of this plan leads inevitably to a situation similar to Soviet manufacturing or government-subsidized coal mines in the

United Kingdom. Even when these entities ceased to have an economic rationale for their existence, government funds supported them.

As an explanation for their enthusiastic embrace of the plan, hospital executives said the program would encourage them "to wean themselves from their dependence on the cheap labor of residents." This, too, has an odd ring to it. Hospitals currently receive large subsidies for doctors-in-training who are then paid a modest wage for a 90-hour work week. The logic is that these residents are being trained on the job. But as hospital administrators readily admit, residents engage in tasks that could easily be performed by less highly trained personnel or even machines.

Far better, it seems to me, to eliminate the government subvention and put hospitals in the position of training or not training residents as they see fit. There isn't any reason to assume that medicine must be treated differently from unsubsidized professions.

Should a free-market scenario be considered, there would be physicians without government assistance and generally lower medical expenses when hospitals apply the efficiencies of the marketplace. As things stand, the advertised public approval of the fee-for-doing-nothing plan is a function of economic ignorance and political backscratching.

Admittedly, many farmers benefit from parity pricing that encourages idle fields. But just as surely, Americans are generally not better off with food prices rising artificially and tax subsidies to hospitals for not training doctors. □

Fore: Watch Out for Government Golf!

by Raymond J. Keating

Politicians love invoking sports metaphors in speeches almost as much as they relish doling out subsidies to professional sports like baseball, football, hockey, and basketball.

Political rhetoric is sprinkled with such sports-laced phrases as playing defense or going on offense; protecting a lead; throwing a Hail Mary pass; long shots versus favorites; fumbling legislation; the political line-up; winning by a nose; hitting a home run; playing hardball; and, of course, three strikes and you're out. At times, economists use such metaphors as well.

But other than the standard "par for the course" cliché, which is used in general conversation, golf rhetoric stands neglected in political and economic discourse. Such neglect is rather peculiar for several reasons.

First, golf is quite popular among politicians and economists. For example, as Shepherd Campbell and Peter Landau note in their book *Presidential Lies*, all but four U.S. presidents since William H. Taft have enjoyed the game of golf with varying degrees of success and enthusiasm. According to the authors, Presidents Kennedy, Ford, Eisenhower, Franklin D. Roosevelt (prior to contracting polio), Bush, and Reagan generally possessed the best games, though Clinton, Nixon, Taft,

Harding, and Wilson ranked as serious devotees. FEE founder Leonard Read was a better-than-average golfer who occasionally used golf anecdotes in his writings. But the golf metaphor stays as rare in politics and economics as a double-eagle on a par 5.

Second, golf terminology would seem to lend itself to the ups and downs of the political world. For example, birdies, bogies, eagles, hooks, slices, buried lies, the rough, traps and bunkers, the left-to-right fade, the right-to-left draw, the yips, the dreaded shank, and of course, gimmes, would seem to offer a wealth of metaphoric opportunities.

Third, the actual manner in which golf is played should provide metaphorical grounds as lush as any fairway at Pebble Beach. More than any other sport, golf should appeal as a rhetorical tool for free-market economists. After all, the PGA Tour golfer stands as a model of the rugged, individualistic entrepreneur. Don't let those manicured greens and whispering television announcers fool you. Market judgment on the tour is swift and unequivocal. In few other sports is compensation on a week-to-week basis so closely tied to performance. When a player labors in a slump lasting a few weeks during the baseball season, for example, he still gets paid. In golf, a severe slump means missing the cut, and not getting paid at all. On the other hand, winning or finishing in the top ten at a tour event translates into a tidy profit.

On the PGA Tour, big bureaucracies do not

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exist. Each golfer's support staff is largely limited to a caddy. Some pros might have an instructor and an agent as well. The golfer is a lean and mean sole proprietorship.

In addition, the ever-varying terrain of the golf course should serve as a sound metaphor for changing conditions in the marketplace. From course to course and hole to hole, the market changes and shifts, requiring planning, creativity, and innovation.

Market economists could also use golf to point out the woes of the welfare state. For example, in golf a "gimme" means taking a short putt without actually putting the ball into the hole—i.e., a gimme is something for nothing. The entire welfare state is built on the concept of gimmes.

Also, amateur golf subscribes to the handicap system, whereby players are given a certain number of strokes per round based on skill levels. The worse your game, the more strokes you are granted. This handicap system supposedly allows golfers of varying abilities to compete together.

However, what the handicap really amounts to is welfare for noncompetitive golfers, i.e., a subsidy for bad golf. The handicap is a crutch for golfers lacking the necessary ability, drive, and hard work it takes to actually compete and excel.

Still, politics and economics are disciplines as barren of golf references as Scottish links are of trees. Unfortunately, government is certainly not absent from the business of golf.

The Business of Golf

I have written in these pages before about government's extensive involvement in professional sports, particularly through the ownership and financing of stadiums and arenas. Golf is a little different in that government is *almost* completely, and refreshingly, absent on the PGA Tour, but is quite pervasive at the amateur level.

Currently, only one of the 43 PGA Tour stops each year is played on a municipal golf course. The Buick Invitational of California takes place at the Torrey Pines Golf Club, owned by the city of San Diego. Otherwise, the tour has been blissfully free of government golf courses.

However, a rather dramatic change will occur in 2002. The venerable U.S. Open—one of golf's four "majors"—will be played on the Black Course at Bethpage State Park in New York.

Not only will it be the first municipal course to host the U.S. Open, but Bethpage State Park also ranks as the largest government golf complex in the nation. Indeed, Bethpage represents what is wrong with amateur golf, and what could go wrong with professional golf.

The Bethpage golf center on Long Island has been decades in the making. In 1929, the state of New York bought the Lenox Hills Country Club. Three more courses were added in the 1930s, courtesy of the renowned golf architect A. W. Tillinghast and federal taxpayers through FDR's Works Projects Administration. Another course was added in the 1950s. (In total, New York State owns 17 golf facilities which include 23 18-hole courses.) Bethpage is the "big dog" of government golf centers.

However, the government body with by far the largest number of golf courses under its control is the U.S. federal government. The feds own more than 300 golf courses, with some 230 under the Department of Defense (DoD). The DoD asserts that it needs these golf courses for morale purposes. Of course, there is no reason that members of the military cannot play on the same golf courses the rest of us do. The federal government claims it makes money on its golf courses, but outside groups have noted that when properly accounting for all costs, these courses lose about \$60 million per year.

Across the nation, according to the National Golf Foundation, there are a total of 15,703 golf courses, of which 4,746 are private clubs, 8,416 are privately owned courses open to the public, and 2,541 are government owned. In 1996, 850 courses were under construction or being expanded, including 115 municipal golf courses. At construction costs ranging from \$3–\$10-million per course, taxpayers are on the hook for a considerable sum—at least \$345 million—for courses under construction.

In the end, there is no justification whatsoever for government involvement in the golf business. Even if one subscribes to the idea of "market failure," certainly none of the criteria

for such failure—i.e., monopoly, public goods, external costs, or inadequate information—exist in the case of golf courses. The only reasons for the existence of government golf courses are patronage (another opportunity for politicians to dole out jobs), special-interest pressures (some golfers want cheap golf, courtesy of the taxpayers), and government revenue (politicians believe they can make money with golf facilities).

In reality, affordable golf, played on well-maintained, high-quality golf courses, can be and is provided by the private sector. Note that 54 percent of all golf courses in this country are privately owned *and* open to the public.

Meanwhile, government golf courses usually are not as well kept as private facilities, and lose money just as often as they make money. In either financial instance, the private sector should prevail. If a municipal course makes money then why not shift it into the private sector of the economy? If it loses money, the private sector will either turn it to profitability or find a better use for the land and other resources.

In certain aspects, though, private golf courses operate at a disadvantage with government courses. Government facilities can artificially drive down the price of a round of golf, and also fall back on the taxpayers when losses are incurred.

As an answer to government golf woes, many argue that the operations of municipal golf courses should be contracted out to the private sector. While a step in the right direction—examples abound of private golf course management firms turning around government golf facilities—this is but a small step.

Full-scale privatization is the only answer to government golf courses. In an era when rhetoric about smaller government can be heard from many corners, continued government ownership and construction of golf courses is a sobering development. This is a simple issue: the private sector is more than capable of building, owning, and operating golf courses in an efficient manner.

Indeed, privatization of municipal golf courses is a win-win scenario. The resulting government revenues can be used to retire outstanding government debt (the privatiza-

tion of all government golf facilities across the nation in theory could generate more than \$10 billion—probably far more). The golf business would be invigorated by enhanced competition, and golfers would see real benefits in terms of higher quality for their golfing dollar. After all, in the private sector incentives exist to better serve the customer, while in government incentives promote big budgets and more employees.

Another reason exists to get government out of the golf business as quickly as possible, and it brings us back to the professional level. The United States Golf Association's (USGA) decision to bring the U.S. Open to a municipal course in 2002 should serve as a warning sign. As noted earlier, the PGA Tour for the most part plays on private-sector golf courses. If government continues building golf courses, it may not be too long before the professional golf tour starts demanding that governments finance new courses for their tour events, or even demand funding for the events themselves. In the case of Bethpage's Black Course, the USGA will be investing about \$2 million of its own funds in course improvements and upgrades. How long before that equation is reversed, though (as in the case in other sports), and the USGA or PGA Tour start asking government for such "investments," under the threat of otherwise moving their golf tournaments elsewhere?

As a free-market golfer, I want to see golf course privatization occur for another reason. I get depressed hearing about the two greatest golfers of all time—two of my personal heroes—getting involved in government golf. Jack Nicklaus's golf course design firm, for example, is laying out four new courses in various Tennessee state parks, and Arnold Palmer's firm—Arnold Palmer Golf Management—is under contract to operate the Presidio Golf Course in California for the U.S. Department of the Interior.

Right now, the golf and government mix means extensive government involvement in the golf business, and the underutilization of golf metaphors by elected officials and economists. It's time to reverse this situation. What we need are more golf metaphors and fewer government golf courses. □

Henry Grady Weaver's Classic Vision of Freedom

by John M. Hood

In 1947, a slim volume written by a largely unknown General Motors corporate executive was issued by a small publishing house under the title of *The Mainspring of Human Progress*. The book, which began with an intriguing chapter entitled "Puzzling Questions of Vital Concern to 2,155,000,000 Individuals," led off with this curious paragraph:

For 60 known centuries, this planet that we call Earth has been inhabited by human beings not much different from ourselves. Their desire to live has been just as strong as ours. They have had at least as much physical strength as the average person of today, and among them have been men and women of great intelligence. But down through the ages, most human beings have gone hungry, and many have always starved.¹

The author, Henry Grady Weaver, served as director of customer research for GM. Blind in one eye, he nevertheless spent much of his life peering over data. He was a number-cruncher, not a philosopher or polemicist. His writing experience had consisted mainly of penning articles on psychological research. But *The Mainspring of Human Progress*, an amateur's paean to freedom and individual ingenuity, remains one of the finest

discussions of the impact of business on society that has ever been written.

Weaver was writing to an American public that had just endured almost two decades of desperation, economic hardship, social upheaval, and war. There was a sense of euphoria after the surrender of Germany and Japan in 1945, a commonly held belief that the United States had managed to extricate itself from turmoil and disaster to unparalleled strength and influence around the world. At the same time, however, fears and doubts were beginning to surface about some of America's traditional institutions and principles. The apparent vitality of the Soviet Union, which had itself fought back from the brink of destruction to a glorious victory, was unsettling. The lingering economic controversies from the New Deal—about the role of the federal government in society and the ability of capitalism to provide jobs and opportunities for the common man—had been left unresolved during a half decade of world war. Indeed, the growth of the federal government during World War II and the unprecedented role it assumed of directing and managing the wartime economy was just being realized and debated.

Weaver was a practical man as well as a vigorous defender of American business. He understood that, in order to persuade his readers that the free enterprise system was worth preserving, he would have to eschew elaborate theory and focus instead on historic

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This essay is an expanded version of Mr. Hood's introduction to the third edition of *The Mainspring of Human Progress* by Henry Grady Weaver, published in May 1997 by FEE.

fact and common sense. So, he began his book with a discussion of the condition shared by most human beings throughout most of human history—hunger. The ancient civilizations extolled by historians and philosophers, Weaver pointed out, consistently failed to keep their people fed. Egyptians and Greeks sometimes killed their babies because they couldn't feed them. The Roman Empire collapsed in famine. French peasants were dying of hunger when Thomas Jefferson bought Louisiana from Napoleon Bonaparte. As late as the 1840s, the Irish were starving to death from a potato famine. In Weaver's day, famines continued to plague significant portions of Asia and Africa. But by 1947, in the United States, there were only periodic, geographically limited episodes of hunger.² And after Weaver's time (he died in 1949), the "Green Revolution" of unparalleled agricultural productivity in the 1960s essentially eradicated hunger as a serious problem not only in the United States, but throughout much of the developed and developing world.³

Weaver was fascinated with the sudden, amazing productivity of agriculture, as well as with other pleasant surprises of modern life. "Why did men, women, and children eke out their meager existence for 6,000 years [of recorded history], toiling desperately from dawn to dark—barefoot, half-naked, unwashed, unshaved, uncombed, with lousy hair, mangy skins, and rotting teeth—then suddenly, in one place on Earth there is an abundance of such things as rayon underwear, nylon hose, shower baths, safety razors, ice cream sodas, lipsticks, and permanent waves?" he asked.⁴

Imagine what Weaver might think of American society today, where a family of modest means might have access to a cornucopia of foods and treats, dozens of television channels, access to thousands of movies, inexpensive clothes and cosmetics, a luxurious (by the standards of 1947) home with air conditioning, microwave ovens, digital stereo, a medicine chest full of life-saving or pain-alleviating drugs, several reliable automobiles, and a magical desktop machine capable of balancing a checkbook, drawing a picture, publishing a newspaper, playing a game, and sending

a letter instantaneously to another city or even another country. Indeed, the average American now consumes about twice as many goods and services as families did in Weaver's day—and he thought his contemporaries enjoyed an extremely high and unprecedented standard of living! (We might well say the same today: Studies of household consumption show that *poor* families today live very much like *middle-income* families did in the 1950s in terms of housing and amenities.)⁵

A devout Southern Baptist husband and father of two, Weaver was no materialist. He would not (nor should anyone) interpret the mere possession of conveniences and luxuries as proof of social well-being. At the same time, however, Weaver lacked the elitist's disdain for the importance of material comfort. He carefully studied human nature, specifically consumer preferences, and understood the revolutionary impact of economic progress on the lives of the middle class and poor. Nor did Weaver have much patience for those who tried to interpret American progress in ethnic or racial terms. "That sounds fine in after-dinner oratory and goes over big at election time," the Georgia native wrote perceptively, "but the argument is difficult to support. Our own ancestors, including the Anglo-Saxons, have starved right along with everyone else."⁶ Instead, Weaver argued, the mainspring of human progress was freedom itself. The United States, by allowing the most individual freedom to produce goods and services and sell them to consumers for profit, had unleashed the greatest degree of invention and ingenuity, resulting in social benefits for all.

In Weaver's time, this simple statement of the virtues of a capitalist economy, while increasingly rare in the ivory towers of American academia, was hardly incongruent with public sentiment. During the 1940s and 1950s, most Americans held business as an institution in high esteem (as well as, it should be noted, other institutions such as government, organized religion, and the press). The media, too, often viewed business and corporate leaders with at least equanimity, if not actual approval. Media analysts Robert Lichter, Linda Lichter, and Stanley Rothman point

out that many television and motion-picture plots of the 1950s featured businessmen in positive, sometimes heroic roles. Wise, honest, and trustworthy fathers Jim Anderson of "Father Knows Best" and Ward Cleaver of "Leave It to Beaver" were an insurance salesman and an accountant, respectively. Nick Charles, "The Thin Man," was a publisher. Herbert Philbrick, the hero of the popular 1950s TV adventure series "I Led Three Lives," was a pipe-smoking advertising executive, a Communist Party worker, and an FBI counterspy. Bruce Wayne, a.k.a. Batman, was a wealthy industrialist. Even into the 1960s, television series continued to portray those in business as "good guys." Westerns were one surprising source of positive images about business: Remember that Ben Cartwright of "Bonanza" ran a sprawling ranching and mining empire on the family's 1,000-acre Ponderosa estate?⁷

In most cases, however, while these business characters were portrayed positively, they were rarely portrayed in the actual practice of doing business. The Beaver spent little time at his father's accounting firm. Bruce Wayne even donned a mask and fought crime at night so as to distinguish Batman from the CEO of Wayne Enterprises. There were some notable exceptions. The hit 1954 film *Sabrina*—in which brothers played by Humphrey Bogart and William Holden vied for the affections of Audrey Hepburn—has several memorable scenes with both major and minor characters bouncing up and down on a new plastic, to be manufactured out of sugar cane and sold by the brothers' family firm. Holden, a hedonist with little interest in business, asks his workaholic brother why he was spending so much time dabbling with plastic rather than having fun. "What will that prove?" he demands, pointing to the strip of plastic. Bogart replies:

Prove? Nothing much. A new product has been found, something of use to the world. So a new industry moves into an underdeveloped area . . . People who never saw a dime before suddenly have a dollar, and barefoot kids wear shoes and have their teeth fixed and their faces washed. What's wrong with the kind of an urge that gives people hospitals, libraries, baseball diamonds, and movies on a Saturday night?⁸

Needless to say, if Weaver had lived long enough to see *Sabrina*, he would have rooted for Bogart's crusty but insightful businessman over Holden's irresponsible playboy. Nor would he have been alone. Movie audiences were *supposed* to root for Bogart, who gets the girl in the end (while Holden learns responsibility and prepares to shoulder his weight in the family business).

The Backlash Against Business

But even in the comparatively conservative 1950s, there was a significant undercurrent of skepticism and revisionist thinking about the role of business in society. These ideas flowed through universities, and bubbled up through the legal system in a series of court decisions that redefined the purpose and responsibilities of the American corporation. Social movements, responding to problems such as racial injustice and environmental degradation, began to view business as a corrupt, amoral institution in which a few greedy individuals profited at the expense of the broader community. By the 1960s and 1970s, the undercurrent of revisionism about business became a raging river of criticism, protest, incriminations, and hostility.

The mass media both reflected and influenced these public perceptions. Investigative journalism became a heroic, even romantic, calling, with the name of the game being to "catch greedy corporations in the act" of polluting the water, selling shoddy and overpriced products, exploiting workers and families, and sacrificing the public's health, safety, and welfare to make a quick buck. On television and in the movies, business executives increasingly became the villains, to be challenged by heroic lawyers, policemen, reporters, and activists. In a study of the 100 top-grossing films selected from *Variety* listings, researchers found that nearly nine out of ten business characters were portrayed positively before 1965, but two out of three were portrayed negatively thereafter. After 1975, the proportion of negative business characters rose to three out of four.⁹ Such films as *The China Syndrome*, *Norma Rae*, *Silkwood*, and *Wall Street* might serve as examples of this

trend, in which antisocial or even criminal corporate behavior could be challenged only by the heroic actions of crusading lawyers and journalists or brave whistleblowers. Lichter, Lichter, and Rothman found the same pattern for television characters. While small business owners were treated about the same over the decades, the percentage of big business characters portrayed as villains rose from 31 percent before 1965 to 58 percent afterward. The authors compared, for example, the positive portrayals of the Cartwright family in "Bonanza" to the largely corrupt and immoral Ewing family of "Dallas."¹⁰

Public sentiment, influenced by social activism and media images, also began to change toward business. In 1965, almost 60 percent of Americans believed that businesses made a "reasonable profit," vs. 24 percent who thought businesses made too much. By 1975, the trend lines had reversed—more Americans calling profits excessive rather than reasonable.¹¹ Even in 1939, as the economic stagnation of the Great Depression lingered, 56 percent of Americans said that the interests of employers and employees were "basically the same," while only 25 percent said they were opposed. But by 1994, more Americans thought the interests of the two groups clashed than thought they coincided.¹² Much of the change has occurred in public perception of big business; in one 1992 poll, 64 percent of Americans rated the moral and ethical standards of small business owners as excellent or good, while only 31 percent said the same about "business executives."¹³

It was during this same period of social upheaval and changing media images about business that a movement began among business scholars, journalists, issue-oriented activist groups, and some corporate executives to shift the goals and principles of American business away from a focus on profits and return to shareholders and toward serving the interests of a broader constituency of so-called "stakeholders"—workers, customers, neighbors, and society at large.¹⁴ Various called "corporate social responsibility" or "socially responsible business," the modern movement is dated by many of its adherents to 1953, with the publication of *Social Re-*

sponsibilities of the Businessman by Howard Bowen. In 1963, a textbook for colleges and universities by business professor Joseph McGuire appeared, entitled *Business and Society*, and by the 1970s the field was a full-fledged academic discipline, which could boast programs in major business schools and dozens of major books.¹⁵

Of course, corporate social responsibility as an American movement in the latter half of the twentieth century is only a modern manifestation of an older, even ancient, debate among philosophers and theologians in many lands and cultures about the morality of commerce itself. Is economic competition the enemy of compassion and community? Is commercial activity a necessary evil or a desirable good? To whom do traders and merchants owe their loyalty? Do capitalists exploit their workers and the poor? Is it moral to sell basic human necessities at a profit? The greatest thinkers of human history have wrestled with these questions. Aristotle wrote about trading and business profits in his *Nicomachean Ethics* and *Politics*. Major portions of Old Testament books such as Deuteronomy contain rules for ethical business practice. Adam Smith's *The Wealth of Nations* is usually thought of as a treatise on economics, but it also discusses in depth the social context and impact of commercial activity. Smith was, after all, a theologian and ethicist, not a businessman or economist. Karl Marx was no economist, either, and had never set foot in a factory, but his critical analysis of business behavior changed the course of history.

In the United States of the late nineteenth century, the issue sharpened as defenders and critics of the so-called "robber barons" clashed over the role of profit, exploitation, and immoral business practices in the development of the West, the growth of industry, and the accumulation of vast fortunes. Over the next century, the debate about such controversial businessmen as Cornelius Vanderbilt, Leland Stanford, Jay Gould, J.J. Hill, J.P. Morgan, and John D. Rockefeller continued to rage. Were these men exemplars of the evils of unfettered, greedy capitalism? Were they, instead, great innovators whose impact on society justified their wealth?

This debate continues today in academia and among political elites. But the argument for the moral and social value of business needs to be carried further to average Americans. One Roper organization poll in 1991 asked respondents to rank the responsibilities of business. At the top of the list were both tasks Americans believed corporations were doing well (such as "producing good quality products and services" and "protecting the health and safety of workers") as well as tasks Americans believed corporations were doing poorly (such as cleaning up pollution). Lower on the list of perceived business responsibilities were "developing new products and services" and "keeping profits at reasonable levels." Neither omission is surprising. The innovation and invention inherent in business, and so crucial to social progress, rarely gets much press or public attention. And on the latter point, Americans have for many years exaggerated the size of corporate profits, telling pollsters that they believe the average profit of U.S. firms is 34 percent when in reality it is only about 4 percent.¹⁶

Whether business can and will be viewed as a positive force for good in our society is a matter of great importance if free enterprise is to survive and thrive. Henry Grady Weaver, in the heady and unsettling days after World War II, understood this well. Writing about great American entrepreneurs such as Eli Whitney (the father not only of the cotton gin, but of much of mass production itself), John Deere, Thomas Edison, and Henry Ford, Weaver pointed out that their contributions to American society were far in excess of that of many political or military leaders better known to the public. Indeed, even early American political heroes such as Benjamin Franklin, Thomas Jefferson, and Thomas Paine were important inventors and entrepreneurs in their own right.¹⁷

Americans were and are an inventive people, Weaver wrote, because of the very system of free economic competition based on profit and reward. "No matter how much money John Deere may have made, it would be

insignificant in comparison with the tremendous overall benefits shared by millions of people" from his innovative steel plow that made prairie agriculture, and thus westward expansion, viable, he observed. "It's just possible that good old John Deere wouldn't have bothered his head about the plowing problem if he hadn't been living in a free country, where an ambitious blacksmith had a chance to become a prosperous manufacturer."¹⁸

In reality, the business world is populated more by heroes like John Deere than by the villains who make the morning newspapers, are vilified on the evening newsmagazines, or who act out Hollywood's unrealistic and silly fantasies about American society. Weaver's classic work showed how the real story of American business can and should be told. □

1. The Foundation for Economic Education, 1984 (13th printing), p. 11.

2. *Ibid.*, pp. 11-12.

3. See Nicholas Eberstadt, "Population, Food, and Income: Global Trends in the Twentieth Century," in Ronald Bailey, editor, *The True State of the Planet* (New York: The Free Press, 1995), pp. 7-48.

4. *Ibid.*, p. 12.

5. Karl Zinsmeister, "Payday Mayday," *The American Enterprise*, September/October 1995, p. 48.

6. *Ibid.*, p. 15.

7. S. Robert Lichter, Linda S. Lichter, and Stanley Rotham, *Video Villains: The TV Businessman 1955-1986* (Washington, D.C.: Center for Media and Public Affairs, 1987), pp. 17-21.

8. Lichter, Lichter, and Daniel Amundson, "Does Hollywood Hate Business or Money?" Center for Media and Public Affairs, 1994, p. 27.

9. *Ibid.*, p. 26.

10. *Ibid.*, p. 28.

11. Karlyn H. Bowman and Everett Carll Ladd, editors, "Public Opinion and Demographic Report," *The American Enterprise*, November/December 1993, pp. 86-88.

12. Bowman and Ladd, "Opinion Pulse," *The American Enterprise*, January/February 1995, p. 106.

13. Bowman and Ladd, 1993, p. 86.

14. Edwin M. Epstein, "The Corporate Social Policy Process: Beyond Business Ethics, Corporate Social Responsibility, and Corporate Social Responsiveness," *California Management Review*, Vol. 29, No. 3, Spring 1987, p. 101.

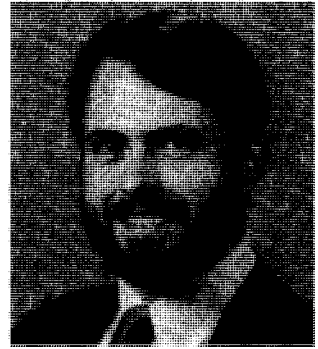
15. Donna J. Wood and Philip L. Cochran, "Business and Society in Transition," *Business and Society*, Spring 1992, p. 1.

16. Bowman and Ladd, 1993, pp. 84, 88.

17. Franklin invented a stove, the rocking chair, bifocal spectacles, and experimented with electricity. Jefferson's innovations ran the gamut from botany and agricultural technique to engineering, architecture, and law. Paine drew up the plans and supervised the construction of the first single-span iron bridge with crisscross struts. Weaver, p. 234.

18. *Ibid.*

Is Voluntarism Enough?



As the Age of Politics (historian Paul Johnson's label for the twentieth century) winds down, even liberals are championing civil society. Herds of politicians now say that families and communities, not governments, hold the answer to America's social problems. At the very least, they advocate private-public "partnerships," rather than grand new government social programs.

To promote such service the Summit for America's Future convened in April. Representatives from volunteer organizations, businesses, and churches, along with local governments and Indian tribes, gathered in Philadelphia to, in the words of the sponsors, mobilize "millions of citizens and thousands of organizations from all sectors of society in order to ensure that every young American has access to resources considered essential for achieving healthy, fulfilling and productive lives." In response companies promised money, services, and products to nonprofit enterprises.

Enlisting civil society to help mentor and tutor at-risk youth, improve health care, support families, assist elder-care and more is obviously a good thing. As long as it is truly voluntary. The distinction is important, since the government has a way of making involuntary the supposedly voluntary.

For instance, the state of Maryland and a number of local school districts require stu-

dents to "volunteer" in order to receive a diploma from high school. Some Summit attendees, led by the President, supported this attempt to make compassion compulsory, the worst sort of oxymoron imaginable. It makes a mockery of the Summit's very premise.

Similarly, proposals abound to use the tax law to bludgeon business into doing what government considers to be "responsible" behavior. Some advocates of this approach would add voluntarism to their indicia of corporate responsibility. But "philanthropy" motivated by such threats would be extortion, not voluntarism.

Even truly voluntary contributions are viewed by many firms more as a tool of public relations than an exercise of moral responsibility. However, that doesn't diminish the good that can be done by business. Companies have an enormous capacity to aid those around them.

Nevertheless, encouraging firms to voluntarily drop a few dollars on the less fortunate should not blind us to the most important issue. Government stands in the way of helping the needy at almost every turn.

Business performs its most important service to the poor by doing what it is constituted to do: employ people and provide goods and services. To the extent that it does so successfully, it will reduce the incidence of poverty and alleviate attendant social problems. Moreover, as business succeeds, it generates wealth for others—workers in related industries, pensioners, and more.

Not that politicians ever understand. Ob-

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serves T.J. Rodgers, president and CEO of Cypress Semiconductor, over the last two decades "government meddling [has] metastasized to the point that business can no longer provide workers with ever-higher wages." No one gains when the state grows in this way. Notes Rodgers, "subordinating shareholder value to 'social responsibility' invariably cheats both shareholders and society at large."

Government meddling most hurts those low-cost, labor-intensive enterprises which provide employment and services to poor communities. The minimum wage puts unskilled employees out of work. Local public transportation monopolies forbid inexpensive jitneys that enable lower-income people to find and hold jobs. Burdensome zoning requirements and building codes, special-interest licensing laws, and other regulations impede the development of small businesses that are critical for lifting people out of poverty through work.

Thus, political leaders concerned about the disadvantaged should eliminate barriers to business doing what it does best. This isn't enough, however. In many cases government is to blame for the problems in the first place. Before exhorting others to help, public officials should get their own policies right.

Consider education. Illiteracy is rife among inner-city kids, so volunteers are now supposed to teach students to read. But how about dealing with a public educational system that is turning out illiterates? The answer here is really not voluntarism, but privatization: parents should be able to choose among competitive educational alternatives, ensuring that their kids end up able not only to read, but to learn the values necessary to become responsible citizens in a free republic. Yet the politicians who speak loudest about helping the poor most strongly resist even any change in the public school monopoly.

People devoted to the poor also need to help shift the perception that responsibility for solving social problems lies with the state, and eliminate the barriers now created by government to individual, family, and community initiative. For most of America's early history, people recognized that they had a

moral (and religious) duty to care for those in need. As Marvin Olasky, author of *The Tragedy of American Compassion*, points out, compassion meant "to suffer with." To fulfill one's responsibilities as a citizen and a human being required involvement in the lives of others.

Since then, however, people have taken compassion to mean, first, writing a check, and more recently, making other people write checks. Indeed, in response to President Clinton's call on every church to employ one person now on welfare, the Reverend Albert Pennybacker of the National Council of Churches argued that "Our job is not to compensate for the failure of government to do its job."

But the Reverend Pennybacker has it all wrong. The Biblical model is clear: the able-bodied are to work and support themselves and their families; churches are to nurture, aid, and empower their members; finally, people of faith are to "do good to all people" (Gal. 6:10). The fundamental Christian duty is responsibility for themselves and charity to others. To the extent government has a role, it is as the ultimate safety net to catch those falling through multiple private ones. Political society should act only when civil society fails to do so.

Many people still do serve: nearly half of the adult population volunteers, spending an average of 4.2 hours a week in service activities. But the Reverend Pennybackers of the world have been willing to slough significant responsibility off on government, which, as the most imperialistic of institutions, has avidly filled the void. Thus, politicians serious about restoring civil society must say "no more." Public officials would do more for voluntarism by emphasizing the primacy of private assistance and the moral responsibility of every human being for his or her needy neighbors than attending summits.

Equally important, policymakers should reform government policies that discourage voluntarism and impede community development. Mother Teresa's religious order dropped a planned AIDS facility because New York City insisted that the building include a costly and unnecessary elevator. Labeling requirements in Los Angeles prevent restaurants from giving food away to the

homeless. The federal government threatened to put Salvation Army rehabilitation centers out of business when it proposed applying the minimum wage law to participants.

Well-publicized volunteer programs are a staple of politics. A succession of presidents have undertaken one or more such initiatives. But, like the much ballyhooed "Hands Across America" more than a decade ago, none has had much impact.

Today's Summit participants must reach deeper issues to ensure that the latest effort doesn't go the same way. Rewarding the successful who throw alms to the poor is fine. But better would be lowering the barriers to success, helping those in need to help themselves. Public officials need to answer for the failings of their own policies. For civil society to do more, political society must do less. □

"From Small Beginnings": The Road to Genocide

by James A. Maccaro

Dr. Leo Alexander, a prominent American psychiatrist, was the chief U.S. medical consultant at the Nuremberg War Crimes Trials that judged Nazi leaders following World War II. One question in particular perplexed him: Why was the German medical profession unable to effectively resist the Nazis?

As he searched in German archives, Dr. Alexander was puzzled by the lack of documentation of resistance by doctors. He assumed that German physicians, as scientists devoted to relieving human suffering, were appalled by the Nazis. He knew of the high regard the German public had for doctors, who were typically among the leading citizens

of their communities, and expected to find many examples of doctors who used their prestige to resist the Nazis. Yet he found no such evidence. In shocking contrast, Dr. Alexander discovered that the German medical profession fully cooperated with the Nazis and, indeed, was responsible for some of the most disturbing outrages of the Nazi regime.

Dr. Alexander was forced by the facts to change the focus of his research to an examination of the process by which the German medical profession came under the total domination of Hitler's government. He set forth his findings in the July 14, 1949, issue of *The New England Journal of Medicine*. In this remarkable study, "Medical Science Under Dictatorship," Dr. Alexander described how the German medical profession, in the words of Malcolm Muggeridge, "sleepwalked to the collectivist-authoritarian way of life."

Dr. Alexander discovered that the Nazi Holocaust began with "a subtle shift ... in

Mr. Maccaro practices law on Long Island, New York. "Medical Science Under Dictatorship" has been reprinted as a 32-page pamphlet which can be obtained for \$2.00 (which includes postage and handling) from Bibliographic Press, P.O. Box 5433, Flushing, NY 11354.

attitude" that accepted a philosophy of government that judged people based upon their perceived costs and benefits to the state. The first manifestation of this was the open discussion during the time of the Weimar republic, prior to Hitler's takeover of Germany, of government schemes for the sterilization and euthanasia of people with severe psychiatric illnesses. By 1936, medical extermination was widely and openly practiced, and the category of those deemed to be a burden to the state and therefore socially unfit to live had expanded to encompass all people with chronic illness.

On September 1, 1939, euthanasia was officially recognized as state policy and two government agencies were established to carry out the killings in an efficient manner. They were cynically named the "Reich's Work Committee of Institutions for Cure and Care," which dealt with adults, and the "Reich's Committee for Scientific Approach to Severe Illness Due to Heredity and Constitution," for children. Separate organizations were created to transport patients to killing centers and to collect the cost of the killing from the next of kin, who were told that the victim had died of natural causes.

Doctors were required to report on all patients who had been sick for five years or more or who were medically unable to work and unlikely to recover. The decision about whether someone should be put to death was generally made by psychiatrists who taught at leading universities. These "consultants" never examined or even saw the patient and based their decisions on brief questionnaires, which contained information about race, ethnic origin, marital status, next of kin, financial resources, and whether and by whom the patient was visited.

What began as a slow acceptance of "mercy killings" in rare cases of extreme mental illness soon expanded to mass extermination on an unprecedented scale. Among those killed were people with epilepsy, infantile paralysis, Parkinson's disease, depression, multiple sclerosis, and various infirmities of old age. In short, all people who were unable to work and not considered rehabilitable were killed.¹ One physician later admitted:

[The victims] were selected from the various wards of the institutions according to an excessively simple and quick method. Most institutions did not have enough physicians, and what physicians there were were either too busy or did not care, and they delegated the selection to the nurses and attendants. Whoever looked sick or was otherwise a problem was put on a list and was transported to the killing center. The worst thing about this business was it produced a certain brutalization of the nursing personnel. They got to simply picking out those whom they did not like, and the doctors had so many patients that they did not even know them, and put their names on the list.²

It is estimated that 275,000 Germans were exterminated in the killing centers; this provided extensive opportunities to perfect the methods that were later used in the concentration camps.

The next step taken by the German medical profession was the accumulation and use of human material obtained from the exterminated for medical research. For instance, one physician obtained 500 brains for use in his neurological research. This was soon followed by the use of live people for "terminal human experiments," a practice that was openly accepted by the German medical profession.³

"A Life Not Worthy to Be Lived"

Dr. Alexander demonstrated in *Medical Science Under Dictatorship* that by the early 1940s, the German medical profession had become fully implicated with the Nazi regime and its death camps. Moreover, he outlined how this monstrous outcome originated "from small beginnings." It started with acceptance of the "progressive" and "rational" idea that some people had "a life not worthy to be lived" and were a burden to society and to the state. Once this idea was acted upon, and physicians became accustomed to it, the extermination system expanded to include all people considered for any reason to be a financial burden to the state, followed by all those considered to be disloyal or a threat to the government and, ultimately, anyone considered undesirable by the government. Once the first German mental patient was put to death, a chain of events was begun that only

ended with destruction on a nearly unfathomable scale, including the murder of the majority of European Jews.

Dr. Alexander contrasted the actions of the German medical profession with those of doctors in the Netherlands under German occupation, who refused to take the first small step to genocide.

In December 1944, an order was issued by the Nazi authorities to all Dutch physicians: "It is the duty of the doctor, through advice and effort, conscientiously and to his best ability, to assist as helper the person entrusted to his care in the maintenance, improvement and re-establishment of his vitality, physical efficiency and health. The accomplishment of this duty is a public task."⁴

This statement might appear on first reading to be unobjectionable and innocuous. However, the Dutch medical profession, which was aware of the extermination system in place on the other side of the Dutch-German border, recognized that this order would serve as a basis for the promulgation of a new standard of care that would place first priority upon the return of patients to productivity for the state, rather than the relief of suffering. Physicians would consequently be

subordinated to the state and its interest to maximize "utility."

Dutch physicians unanimously refused to comply. When the Nazis threatened to revoke uncooperating doctors' licenses to practice, all doctors returned their licenses and closed their offices, but continued to see patients in private. The Nazis then arrested 100 Dutch doctors and sent them to concentration camps, but the medical profession refused to back down. The result was that no Dutch doctor participated in a killing and the Nazi plans for medical exterminations in the Netherlands were not carried out.

Dr. Alexander concluded:

It is obvious that if the medical profession of a small nation under the conqueror's heel could resist so effectively, the German medical profession could likewise have resisted had they not taken the fatal first step. It is the first seemingly innocent step away from principle that frequently decides a life of crime. Corrosion begins in microscopic proportions.⁵ □

1. Leo Alexander, *Medical Science Under Dictatorship* (Flushing, N.Y.: Bibliographic Press, 1996), p. 9.

2. *Ibid.*, p. 10.

3. *Ibid.*, pp. 17-21.

4. *Ibid.*, p. 24.

5. *Ibid.*, p. 25.

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Government: An Ideal Concept— **Leonard Read's Formula for Freedom**

by Esler G. Heller

The reviewer begs the reader's indulgence for combining a book review with an appreciation of the author. Yes, Leonard Read is my guide and inspiration, and I was thrilled to learn of the republication of *Government: An Ideal Concept* (FEE, 1997, \$12.95 paperback). This book is to me much like the fruits of scripture.

In 1982, I wrote to Read asking if he still believed what he had written in 1954. His reply: "Just the other day I re-read *Government: An Ideal Concept*. Today I wouldn't change a word of it. All of my books have been consistent with this book you like."

I have read all of Leonard Read's books; they *are* consistent. Read is constant in character and consistent in thought. Given his premises, his "freedom philosophy," as he called it (to disassociate himself from the anarchists who had appropriated his earlier use of "libertarian"), is consistent and corroborated by history. Read has grasped and described a natural law.

In *Government: An Ideal Concept*, he limits himself to basics and a few clear examples. Other issues and secondary points he leaves for other books, other writers. The argument

of this work is logical, consistent, and neither circular nor abstruse.

Read is never a polemicist but warns against provoking antagonism with unnecessary personal attacks and criticisms of error, when what is needed is self-improvement and demonstration of truth. Although he says *Government: An Ideal Concept* is an essay in clarifying his own thinking, he writes with the authority and serenity of someone already possessed of a truth.

Not at the Constitutional Convention of 1787 nor when Read wrote *Government: An Ideal Concept*, says Read, was there "any well-defined . . . principled, spelled-out ideal theory of government or liberty." The founders attempted to limit government, but "lacking was a well-defined theory or positive rationale as to *why* limitation."¹

Read was familiar with political and philosophical ideas from earliest writings to the present. Yet he was convinced that extant theories of liberty and government were inadequate and that this lack would have to be supplied before American society could secure the "Blessings of Liberty" cited in the preamble of the U.S. Constitution.

Read's plan is to try to justify government, an effective but surprising strategy for one who sees that government, the immune sys-

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tem of society, designed to protect from internal and external dangers, has itself grown unhealthy, and, by proliferation, become an agent of social dysfunction. He seeks to understand the healthy state of government in society as the *ideal*—a key word in this book's title. Properly limited government, he asserts, because it is necessary, must be a positive good rather than a necessary evil.

Fundamental to Read's theory of limited government is his analysis of social versus individual problems, and the role of force and coercion in society. By definition, government is organized force. It monopolizes the legal use of force in those geographical, social, and economic areas under its jurisdiction. Read posits, "Man's purpose on earth is to come as near as possible in his lifetime to the attainment of those creative aptitudes peculiarly his own." He then explains why all of creative human emergence can only be a personal, voluntary undertaking. This leaves those "actions of man which impair the source of creative energy and stifle its exchange, and also the actions which are parasitic on the flowing energy" as the only *social* problem. To remove these "inhibitory actions," it is necessary to restrain aggressive force and/or penalize those persons who indulge in it. Read explains why force can *only restrain, never create*. Therefore, the only proper use of force is to restrain aggressive use of force and fraud.

Only the widest possible social base is adequate to bear the responsibility for the use of force.² This means that the social authority for defense must be vested in a strictly limited government to be overseen, funded, and controlled by *all* society, a burdensome but unavoidable duty for citizens aspiring to freedom.

In earlier times, before the American Revolution, nearly all governments were tyrannical and most of their laws unjust. Even in the twentieth century, exemplary governments are rare. To be anti-government then was to be pro-freedom. Today, in spite of some discouraging problems, in many ways we are nearer to achieving liberty than ever before. It's a healthful exercise to count our blessings in this regard: increased understanding and

skepticism of big government, government-run schools, and the welfare state. And we are lengthening and improving the quality of the later years of life, thus enlarging the pool of human experience and, hopefully, wisdom.

The Ideal Role of Government

As we suffer the consequences of past errors, we can see the need to make finer distinctions in ethics, politics, and economics.³ In *Government: An Ideal Concept*, Read has defined the ideal role of government, the rule on which such distinctions are based. We still need improved, refined definitions of liberty, theories of government, and analyses of social problems, old and new. Yet libertarians are urged by anarchists to throw out the good with the bad.

This is the fallacy of philosophical anarchism. In *Government: An Ideal Concept*, Read shows why *limited-government* libertarianism is as radical as we can get in approaching liberty. Beyond it lies a resumption of the belief that might makes right. By showing the necessity of limited government, Read proves that no government and no taxes are no formula for liberty.

It has been wisely said that all important questions are ultimately religious. A primary axiom underlying a theory of liberty and limited government confirms the religious faith that God created man and woman in God's image, only a little lower than the angels. It is the rational, secular, empirical observation, elucidated by Mises, Hayek, and other classical-liberal thinkers that humankind, regardless of individual variations, shares a common human nature of reason and emotion making it possible to take an *optimistic* view of society. This optimism assumes that sinfulness is not so prevalent as to preclude our living in a higher degree of liberty than we have yet experienced.

The *pessimistic* view, that most of us are hopelessly depraved and must be driven and restrained to do the right thing by those stronger and wiser, implies an elitist theory of supermen and underclass, masters and slaves. Pending the moral regeneration of mankind, it leaves no hope in this world for peace or the

flowering of human potential. Such pessimism is belied by history. As Read observes elsewhere, civilization exhibits periods of evolution and devolution, progress and regress. But over time and space, what most persons regard as progress has predominated.

Read's faith in the virtue of people, *voluntary* followers of uncommon women and men, is implicit in his insistence on personal responsibility, integrity, and devotion to freedom's ideals.

Leonard Read is a Christian believer. He acknowledges God, the Creator, Judge, Infinite Consciousness, and Supreme Intelligence. He characterizes Jesus as "the Perfect Exemplar." In an interview he stated that you don't have to believe in God to believe in freedom, but if no one believed in God there would be no freedom. In *Government: An Ideal Concept*, Read reveals the foundation and framework of the rest of his life's work. It is a systematic exploration of the social (as separate from the personal) aspects of human life. To my knowledge, it is the most if not the only systematic book he ever wrote, and a fine example of that beautiful American idiom unique to Leonard's voice and pen.

Read often acknowledges (not in these words) that he is a crow who followed many plows. His distillation and synthesis of others' ideas, combined with his own insights, are fruitful and offer us the gift of a harvest we could not gather on our own. We stand not in his shadow, but on his shoulders, facing the light.

Freedom or liberty (synonymous to Read) is defined in *Government: An Ideal Concept* as "... man not playing God, individually or collectively, through government or otherwise." Elsewhere in his writings he rephrases it as "No man-concocted obstacles to the release and exchange of creative human energy." He leaves no doubt as to the difference between creative and destructive or obstacle-placing energy. In these definitions and in the body of his writings he avoids contradictions, ambiguities, idiosyncrasies, and the dated context that limit the usefulness of earlier essays and definitions of Locke, Humboldt, J.S. Mill, Spencer, Henry George, and other classical liberals. A worthy companion and successor to these earlier libertarian vision-

aries, Read's work and vision are not burdened with distracting baggage. He is remarkably lucid, leaving little likelihood of confusion. We can use his writings for outreach without the need for explanations, cautions, apologies, and extensive interpretation.

Emergence

Read's vision captures the *only* way there can be liberty and justice in the world: mankind's purpose on earth—emergence.⁴ Emergence depends on the free flow of creative human energy. Liberty is the free flow of creative human energy. The free market is the free flow of creative human energy. Therefore, the free market is liberty. Liberty, justice, equality before the law, and the free market are one. These different words have differing abstract definitions, but in reality identify the identical condition—liberty—seen from different perspectives.

Interestingly, *Government: An Ideal Concept* (1954) predates Hayek's *The Constitution of Liberty* (1960) with its memorable dictum: "But while the uses of liberty are many, liberty is one. Liberties appear only when liberty is lacking." Liberties are but the opportunity to exercise natural human rights. If liberties appear only when liberty is lacking, then rights appear only when *the human right*, the right to live in liberty, is shackled. Thus, "the human right" joins liberty, justice, equality before the law, and the free market as a synonym. There is a corollary: *The human right*, the right to live in liberty, must subsume, qualify, and test any other *proposed* human right, and as the free market is synonymous with liberty, so also must be *access* to the free market, for a market cannot be free when access is arbitrarily denied to individuals or groups.

Read does not explicitly speak to the unity of liberty, the human right, the free market, justice and equality before the law, but given his theory and arguments, it appears to be the inescapable conclusion. As Read would say, "That's what it is, and that's all it is."

Read perceived what many overlook or deny. "Not all mankind's devilry originates in men themselves being devils." "[T]oo many people have, for the time being, *adapted* them-

selves to governmental interventionism.” *“Most [reviewer’s emphasis] of the troubles among men are set in motion by ill-advised institutions—that is by men faultily organizing themselves.”* He recognized that well-intentioned but foolish ideas, rather than evil schemes, lead to harmful and corrupting attitudes and institutions. Thus acceptance of wiser ideas could, by changing incentives and reducing temptation, initiate a reversal of this sequence. Behavior can improve while human nature more or less remains the same. In other words, a practicable approach to liberty need not wait on the moral regeneration of mankind.

The universal interdependence of human beings, never better expressed than by John Donne in the seventeenth century—“No man is an island”—is a fundamental and recurrent theme in Read’s expositions.⁵ He does not explicitly disclaim his theory of government and liberty as inappropriate for small groups or exceptional situations, but it is obvious that different rules must apply in families, the military, disaster scenes, and similar circumstances. It is for the large, mostly anonymous society, dependent on and coordinated by the free market in goods, services, and ideas that liberty and government, as he defines it, is necessary.

Taxation

Government being necessary, how is it to be funded and staffed? Is all taxation theft?⁶

Is conscription for national defense justified? Read’s answer to the last question: “No ideal agency of society can conscript any of its members for any kind of employment.” So much for conscription of military, of jurors, of bookkeepers, and of tax collectors. Read’s *justification* of taxation to support limited government is a powerful argument which alone ought to motivate every libertarian to read his book. Read warns us, “One of the first, important and assuredly controversial points the foregoing theories will raise has to do with taxation.” He rejects voluntary funding of limited government, not because it would be inadequate—he thought it would be oversubscribed—but because he saw it as an invitation to plutocracy. The democratic ideal of equality before the law would be subverted

as those who paid the piper would surely call the tunes. But, he says, “the faults with voluntary financing of government are not the really valid reasons for favoring taxation, or for contending that taxation does not classify as aggression against the liberty of citizens.”

“Every one of us exists by reason of a division of creative energy and its exchange.” This is the free market, and ideal government is the just, organized agency for defense of the free market, employed by and responsible to the sovereign people, whose right to live in liberty it is government’s duty to protect.

Taxes are an acknowledgment of the relative freedom and sovereignty of the people. They focus our attention on our governments—be they good or evil. In this sense, taxes are disciplining, if unwelcome. This *helps* to explain why taxes need to be compulsory, but the basis of Read’s argument is still more fundamental: *fairness*. “[W]hile what we do with our creative potentialities is strictly a matter of personal decision, the fact that we ourselves are alive is due to the degree of perfection of the exchange equation which has preceded us.

“There are two sides to this coin. True, we inherit not only the benefits but also life itself, which division of labor and exchange confer. But by the same token, we inherit the obligation its maintenance and perfection demand. *In this single respect, we are as much members of the society which has been responsible for this as we are individual human beings.* [my emphasis] This membership in the societal organization that inhibits the social obstacles to creative energy and its exchange is one’s own. That which is one’s own isn’t anyone else’s. And it is not merely one’s own for harvesting its blessings; it is one’s own to support for precisely the same reason that it is everyone else’s to support. One cannot deny his parentage by the simple expedient of saying: ‘I don’t want any parentage.’ Nor can one deny his societal obligation by the simple expedient of saying: ‘I choose not to have inherited any obligation.’ The inherited obligation is a *fait accompli*. To support or not to support a limited organization of society, based on right principle, is logically exterior to

the area of free choice, unless, of course, one chooses to absent himself."

Read pointed out: "Some opponents of any organization by society refer to government as 'slavery' and to taxation as 'robbery.' These epithets appear not to be correct. When society's agency goes beyond its authentic functions of defending all of society's members equally and without favor and is employed as an agency of plunder to 'help' some members at the expense of other members, then and only then can the action of the agency be called slavery. Likewise, plundering the honest fruits of one's labor for the 'benefit' of others classifies as robbery—legal perhaps but robbery nonetheless."

Based on the general will to live and the right to life and livelihood, Read proceeds to describe an *implied contract* between each individual and the rest of society to employ and pay limited defensive governments. This contract provides for the delegation of the personal right of self-defense to government because it "cannot properly [and in justice] be attended to as individual projects."

Read, of course, condemned the progressive income tax. He did not offer alternatives. This task he left for us. So, having rejected the twin fallacies of no taxes and oppressive and discriminatory taxes, we are now free to, and obligated to, seek and propose a better tax system. The public at large accepts Poor Richard's verdict on the inevitability of taxes, and has no patience with the anarchist delusion to the contrary. This confused area of libertarian thinking is, I believe, one of the remaining obstacles to its popular acceptance.

It may be argued that Read's theory of limited government, being categorical, is so idealistic as to be inapplicable to the incremental nature of practical affairs. We need the theory for a compass, the vision for a map. The exploring party must still search to find its way. Mindful that human affairs cannot be mathematically exact, the categorical may be modified into a very strong but rebuttable presumption in its favor (against government intervention in creative actions), leaving statisticians with a heavy burden of proof.

Read eschews discussion of strategy beyond

pointing out that ours is not a numbers nor a propaganda problem. We do not have to sway multitudes. First, we have to get our own ideas right. This is a personal problem. Reflect on the waste of bloodshed and treasure and human suffering caused by trying to popularize or impose faulty systems. We must first bring our product to the point where it can withstand the most severe scrutiny. In *Government: An Ideal Concept*, Read deals with the role of government, not its structure. Apparently he is reasonably satisfied with the U.S. Constitution, condemning only black slavery, tariffs, the "elastic clause," and the income tax amendment.

Now, on the eve of the next millennium, it is appropriate to ask, "What is the Holy Grail, the end and purpose of political science, political philosophy, political economy?" Is it not to discover and explain the ideal, the principles of the political and economic structure most helpful to the further flowering of imperfect but improvable man and woman? Liberty, as Read describes it, is the embodiment of those principles. His vision is that ideal.

The correctness of this vision is demonstrated again and again. As true liberty has been approached, the lot of humanity, across its fullest spectrum, has improved, its age-old miseries ameliorated. To enjoy the "blessings of liberty" is not a vague or idle phrase, but man's noblest earthly ambition.

Read's brief *Government: An Ideal Concept* may well be a milestone in political thought. By virtue of giving us this readily accessible, most highly advanced definition of liberty and ideal theory of limited government, Leonard Read is, despite lack of formal scholarship and academic credentials, the pre-eminent political philosopher of his time. Add to this his founding and staffing of the Foundation for Economic Education, recruitment of its trustees, 37 years as its president, staffing and publication of *The Freeman*, rediscovery of Bastiat, support of Mises, cooperation with Henry Hazlitt, authorship of thirty-odd books and extensive worldwide travel, everywhere planting fertile seeds of liberty to supplant the choking weeds of servitude. Who in his time did more than Leonard Read to advance the

cause of liberty without ever impeding its progress?⁷

Readers of this article should not imagine that here is abstracted all of Read's wisdom. This is only an overview, a few comments and (I hope) a little logic. This is the book that every libertarian should keep at hand as both a guide and a challenge. It deserves careful and repeated study.

To see an impending disaster and not warn others is immoral. To receive knowledge and insight and not share it is to be unworthy of the gift and disqualified for further blessings. These are Leonard Read's principles. To spurn offerings of insight is a parallel fault. "Unto whomsoever much is given, of him much is required." In *Government: An Ideal Concept*, that vision is our challenge and duty. □

1. Except for *Government: An Ideal Concept*, I don't know where to find such a definition and theory today. Overwhelming might, whether right or wrong, always prevails. Our ideal is that right and might coincide. Who pays the piper calls the tune. Plural, private defense forces are divisive, a formula for plutoc-

racy, goon squads, corruption, and conflict—a house divided against itself. Only a consensus on the proper use of force can lead to peace. To approach a consensus, the use of force in society must be limited to defense of life, liberty, and property—that is, the free market, the fountain from which we all drink. Limited government must have a society-wide, tax-supported base.

2. See Isabel Paterson, *The God of the Machine* (New York: G.P. Putnam, 1943).

3. Among the fine but vital distinctions:

- a.) The difference in nature, not degree, between the necessary exercise of force and all other social transactions.
- b.) The difference between self-defense and aggression.
- c.) The difference between collecting a just debt and theft.
- d.) The difference between just and unjust, efficient and inefficient taxation.
- e.) The difference between private and personal matters and the public economic arena.
- f.) The difference between children and adults.
- g.) The difference between absolute and conditional rights.
- h.) The politically intimidating effect of many laws.

4. See Wilhelm von Humboldt, *The Limits of State Action*, edited by J. W. Burrow (Indianapolis, Ind.: Liberty Fund, 1969).

5. *The Limits of State Action* contains numerous parallels in an eighteenth-century context.

6. It is a measure of the difficulty and seriousness of these questions that in 1984 the libertarian writer, the late Roy A. Childs, in a conversation confessed to me that he had never been able to resolve the funding question to his own satisfaction.

7. From the time of his conversion from a supporter of FDR's New Deal in the early 1930s to a libertarian. This occurred in perhaps an hour-long discussion with W. C. Mullendore, head of Southern California Edison. Who could have foreseen the consequences of that pivotal conversation?

Say Not the Struggle Naught Availeth

Say not the struggle naught availeth,
The labor and the wounds are vain,
The enemy faints not, nor faileth,
And as things have been they remain.

If hopes were dupes, fears may be liars;
It may be, in yon smoke conceal'd,
Your comrades chase e'en now the fliers,
And, but for you, possess the field.

For while the tired waves, vainly breaking,
Seem here no painful inch to gain,
Far back, through creeks and inlets making,
Comes silent, flooding in, the main.

And not by eastern windows only,
When daylight comes, comes in the light;
In front the sun climbs slow, how slowly,
But westward, look, the land is bright!
—ARTHUR HUGH CLOUGH (1819-1861)

Why Managed Trade Is Not Free Trade

by Robert Batemarco

The British historian Thomas Babington Macaulay observed that free trade, one of the greatest blessings which a government can bestow, "is in almost every country unpopular."¹ Indeed, sound economics often makes for unsuccessful politics. That free trade is a great benefactor is one of the most convincingly established truths of economic science.² The economic case for free trade is essentially the case for voluntary exchange in general: no one freely enters into an exchange, whether as buyer or seller, unless he expects to emerge better off as a result of that exchange. Furthermore, the ability to exchange a single product one has produced for the many things one would like to consume makes possible the division of labor and the manifold expansion of production capacity that it permits. There is no economic reason why these gains do not apply equally to potential traders on different sides of national boundaries.

The political liabilities associated with free trade stem from the vigorous competition it promotes. Competitors who do not provide the best deal for consumers fail. Far from sugarcoating this unwelcome fact, free trade demonstrates it in no uncertain terms. Rather than looking to improve their own shortcomings, many of the losers in the competitive process seek to derail the process. They seek

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to ensure that they provide customers the best deal *not* by improving the package they provide, but by getting the government to hamper the ability of their competitors to provide a better deal. Foreign competitors make an especially easy target for such government restrictions.

Thus, government restrictions on international trade are of a piece with domestic restrictions on competition. They share the same goal: to redistribute income from the many to government's chosen few and to substitute its own preferred allocation of resources for that of the market. Indeed, by restricting trade with foreigners, governments close off an important means of mitigating the impact of their domestic restrictions. This is what John T. Flynn had in mind when he said, "The first condition of a planned economy is that it be a closed economy."³

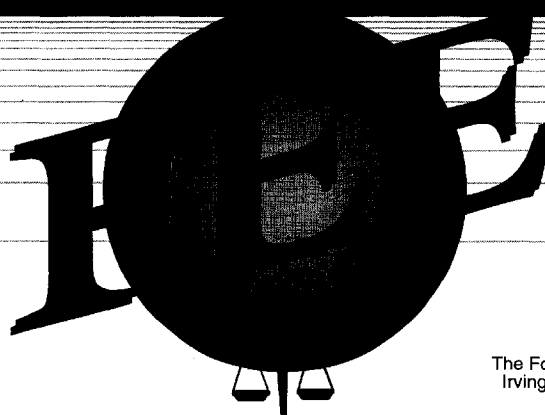
Free Trade: The Real Thing

In establishing a free economic system for the United States, the Framers mandated free trade among all the states in the union. They spelled this out in Article I, Section 9, of the Constitution:

No tax or duty shall be laid on articles exported from any state. No preference shall be given by any regulation of commerce or revenue to the ports of one State over those of another: nor shall vessels bound to, or from, one State, be obliged to enter, clear, or pay duties in another.

At 54 words, this was the original North American Free Trade Agreement. As we shall see, the 1994 agreement that goes by that name makes a travesty of free trade.

The damage done by restrictions on international trade became clear to most people during the debacle of the 1930s. Once World War II had ended, the popularity of free trade surpassed Macaulay's fondest hopes. Yet in many ways truly free trade was not in keeping with the tenor of the postwar times. Free trade requires neither complex laws nor ponderous bureaucracies. With the establishment of the United Nations, the World Bank, and the International Monetary Fund, the world was moving in the opposite direction. So postwar governments sought managed trade rather



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August 1997

Coercivists and Voluntarists

Categorizing a political position according to some simple left-right scale of values leaves something to be desired. Political views cover such a wide variety of issues that it is impossible to describe adequately any one person merely by identifying where he sits on a lone horizontal line.

Use of the single left-right scale makes impossible a satisfactory description of libertarian (and classical-liberal) attitudes toward government. Libertarians oppose not only government direction of economic affairs, but also government meddling in the personal lives of peaceful people. Does this opposition make libertarians "rightists" (because they promote free enterprise) or "leftists" (because they oppose government meddling in people's private affairs)? As a communications tool, the left-right distinction suffers acute anemia.

Nevertheless, despite widespread dissatisfaction with the familiar left-right—or "liberal-conservative"—lingo, such use continues. One reason for its durability is convenience. Never mind that all-important nuances are ignored when describing someone as being, say, "to the right of Richard Nixon" or "to the left of Lyndon Johnson." The description takes only seconds and doesn't tax the attention of night-news audiences.

Therefore, no practical good is done by lamenting the mass media's insistence on using a one-dimensional tool for describ-

ing political views. A better strategy for helping to improve political discussion is to devise a set of more descriptive terms.

There is much to be said for a suggestion offered by Professor Richard Gamble, who teaches history at Palm Beach Atlantic University. Richard proposes that instead of describing someone as either "left" or "right," or "liberal" or "conservative," we describe him as being either a *centralist* or a *decentralist*. This "centralist-decentralist" language would be a vast improvement over the muddled "left-right" language.

Unfortunately, "centralist-decentralist" language contains its own potential confusion—namely, "decentralist" might be taken to mean someone who is indifferent to what Clint Bolick calls "grassroots tyranny." Is there an even better set of labels for a one-dimensional political spectrum? I think so: "coercivist-voluntarist."

At one end of this spectrum are coercivists. Coercivists believe that all order in society must be consciously designed and implemented by a sovereign government power. Coercivists cannot fathom how individuals without mandates from above can ever pattern their actions in a way that is not only orderly, but also peaceful and productive. For the coercivist, direction by sovereign government is as necessary for the creation of social order as the meticulous craftsmanship of a watchmaker is necessary for the creation of a watch.

At the other end of the spectrum are voluntarists. Voluntarists understand two important facts about society that coercivists miss. First, voluntarists understand that social order is inevitable without coercive direction from the state *as long as* the basic rules of private property and voluntary contracting are respected. This inevitability of social order when such rules are observed is the great lesson taught by Adam Smith, Ludwig von Mises, F.A. Hayek, and all of the truly great economists through the ages.

Second, voluntarists understand that coercive social engineering by government—far from promoting social harmony—is fated to *ruin* existing social order. Voluntarists grasp the truth that genuine and productive social order is possible only when each person is free to pursue his own goals in his own way, constrained by no *political* power. Coercive political power is the enemy of social order because it is unavoidably arbitrary—bestowing favors for reasons wholly unrelated to the values the recipients provide to their fellow human beings. And even if by some miracle the exercise of political power could be shorn of its arbitrariness, it can never escape being an exercise conducted in gross ignorance. It is a simpleton's fantasy to imagine that all the immense and detailed knowledge necessary for the successful central direction of human affairs can ever be possessed by government.

Society emerges from the cooperation of hundreds of millions of people, each acting on the basis of his own unique knowledge of individual wants, talents, occupations, and circumstances. No bureaucrat can know enough about software design to outperform Bill Gates, or enough about retailing to successfully second-guess the folks at Wal-Mart, or enough about any of the millions of different industries to outdo people who are highly specialized in their various trades.

The coercivist-voluntarist vocabulary is superior to the left-right, or liberal-conservative, vocabulary at distinguishing liberty's friends from its foes. Support for high taxes and intrusive government commercial regulation is a "liberal" trait. A supporter of high taxes and regulation is also, however, properly labeled a coercivist. But note: no less of a coercivist is the conserva-

tive who applauds government regulation of what adults voluntarily read, view, or ingest. Both parties believe that social order will deteriorate into chaos unless government coercion overrides the myriad private choices made by individuals.

Voluntarists are typically accused of endorsing complete freedom of each individual from all restraints. This accusation is nonsense. While they oppose heavy reliance upon *coercively* imposed restraints, sensible voluntarists do not oppose restraints *per se*. Voluntarists, in contrast to coercivists, recognize that superior restraints on individual behavior emerge decentrally and peaceably. Parents restrain their children. Neighbors use both formal and informal means to restrain each other from un-neighborly behaviors. The ability of buyers to choose where to spend their money restrains businesses from abusing customers.

A free society is chock-full of such decentrally and noncoercively imposed restraints. Indeed, it is the voluntary origins of such restraints that make them more trustworthy than coercively imposed restraints. A voluntary restraint grows decentrally from the give and take of everyday life and is sensitive to all the costs and benefits of both the restraint itself and of the restrained behavior. But a coercive restraint too often is the product not of that give and take of all affected parties but, instead, of political deals. And political deals are notoriously biased toward the wishes of the politically well-organized while ignoring the wishes of those unable to form effective political coalitions. What's more, members of the political class often free themselves from the very restraints they foist upon others. Coercively imposed restraints are not social restraints at all; rather, they are arbitrary commands issued by the politically privileged.

The true voluntarist fears nothing as much as he fears coercive power—whether exercised by those on the "left" or the "right."



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than free trade. While the establishment of the proposed International Trade Organization was avoided, free trade was not restored.

While far from the ideal, the managed-trade regime that followed World War II was a measurable improvement over the beggarthy-neighbor protectionism which preceded that conflict. For a while even, the international bureaucracies that managed trade seemed to move the world in the right direction, generally lowering tariff rates. Managed traders seemed to resemble free traders. However, as memories of the folly of Smoot-Hawley⁴ faded, politically well-connected firms sought shelter from the cold winds of international competition. As bureaucrats reverted to empire-building form, managed trade became a fig leaf for protectionism. A rundown of the major vehicles of managed trade illustrates this.

Mechanisms of Managed Trade

GATT

The General Agreement on Trade and Tariffs (GATT) came about largely by default. Established on an interim basis, to be superseded by the International Trade Organization, it ended up lasting four decades when the proposed ITO failed to muster the votes to be passed by Congress. GATT basically provided for tariff reduction based on multilateralism. While it did achieve a number of piecemeal steps in the direction of freer trade, its weak link was that it played into the popular notion that *unilateral* relinquishing of trade barriers was at best a mixed blessing. The idea that a country should not "give up" its trade barriers shifted the focus to "striking a deal" and away from the merits of free trade itself.

NAFTA

The North American Free Trade Agreement (NAFTA) is the quintessential managed-trade vehicle sold under the rubric of free trade. The first tip-off should be its size. While we earlier saw how 54 words in the U.S. Constitution established free trade among the states of the Union, NAFTA weighs in at over 2,000 *pages*, 900 of which are tariff rates.

(Under true free trade, there is *one* tariff rate—0 percent.) The agreement does have trade-liberalizing features, to be sure. Consisting of a 10 percent reduction in tariffs to be phased in over 15 years, however, they are all but buried under the profusion of controls NAFTA also establishes.

In the first place, the benefit from those tariff reductions are jeopardized by the agreement's "snap-back provisions." Those permit pre-NAFTA tariff levels to be restored against imported items which "cause or threaten serious injury to domestic industry."⁵ In other words, NAFTA supports free trade as long as it does not promote international competition which is too hot for favored domestic firms to handle. In addition, NAFTA's rules of origin are designed to divert trade from the *world's* most efficient suppliers to *North America's* most efficient suppliers. This hobbles the international division of labor instead of expanding it, as true free trade does.

The importance of NAFTA clauses that keep *out* foreign goods came to light as U.S. clothing manufacturers railed against the import of wool suits from our NAFTA partner Canada. The suits in question were made from third-country wool *not* covered by NAFTA rules of origin. Since Canadian tariffs on foreign wool were lower than U.S. tariffs (10 percent vs. 34 percent),⁶ Canadian suits sold for less and soon claimed a large share of the U.S. market. The fact that the entire discussion of this issue centered on closing this "loophole" in NAFTA rather than on lowering the injurious U.S. tariff on wool should prove how devoted NAFTA's supporters are to free trade.

Free trade does not depend on international bureaucracies, yet NAFTA creates several of them. Its Commission for Environmental Cooperation was set up to enforce the environmental aim of sustainable growth. One tactic it uses is to prevent countries from trying to create a friendlier environment for investors by relaxing any extant environmental regulations.⁷ Such rules are to be enforced by trade sanctions and fines, with the latter to go into a slush fund for "environmental law enforcement."⁸ NAFTA also created a Labor Commission, whose purpose is to "level the

playing field" between trading partners with regard to labor costs. To repeat, free trade this is not.

WTO

The crowning jewel of managed trade is the World Trade Organization. Instituted to replace GATT, its 29,000-page treaty is a bureaucrat's dream come true. Its driving force comes from those who see government's job as "civilizing" the market (which they believe would otherwise operate as the law of the jungle). While those 29,000 pages say little about deregulating trade, they say a great deal about regulating everything else. Whereas GATT had been a voluntary forum for nations seeking mutual agreements to lower tariffs, the WTO has enforcement powers, with trade sanctions chief among them.

The treaty and other enabling legislation creating WTO overflows with such Orwellian verbiage as "systematic denial of worker rights in order to gain a competitive advantage is an unjustifiable trade barrier."⁹ In other words, people in poor countries are allowed to participate in international trade as long as they don't offer to sell goods cheaply enough that anyone would desire to purchase them. Indeed, many within the WTO bureaucracy support extending minimum-wage "protection" to poor nations in which they would wreak even more havoc than they do in the "advanced" nations where they are already in force.

The WTO agreement also expands the reach of anti-dumping laws, another favorite tool of entrenched multinational corporations to shield themselves from the competition of Third World upstarts. Technically defined as exporting goods below costs, the very concept of dumping is problematic, given costs' subjective nature. Any determination of a firm's costs by one not involved in the decision-making process must by definition be arbitrary.

The concept of harmonization is another buzzword beloved by the managed trade mavens of the WTO. The idea here is to achieve uniformity of labor laws, environmental and health regulations, and a host of other such restrictions on enterprise. And surprise, surprise—achievement of this uniformity is to

come by countries with the least restrictive measures ratcheting them up to the level of the most restrictive (known as upward harmonization). Clearly, the goal is not worldwide free trade based on the division of labor, but rather of a worldwide welfare state based on the faith that bureaucrats know best how to run businesses in which they themselves have no stake.

Conclusion

Free trade means the ability of producers to exchange their wares with anyone on the globe for other goods without some government standing in the way of some of those exchanges due to the country of origin of the goods involved. It requires no more laws or institutions than are necessary to provide standard protection of the property rights of all involved in the exchange. It is the application of laissez faire across international borders: nothing more, nothing less.

Multivolume documents paying lip service to free trade but forbidding transactions by parties whose competitive advantages are considered by some to be unfair are the antithesis of free trade no matter how many times the words "free trade" appear in their pages. That managed trade proponents hide the nature of their policy preferences under the cloak of free trade reveals their utter shamelessness. It also suggests that the free trade side is winning the battle of ideas. □

1. Cited by Lindley H. Clark, Jr., "The GATT Struggle Continues," the *Wall Street Journal*.

2. A compendium of the successful refutations of economic theories which purported to find exceptions to the general benefits of a free trade regime can be found in Douglas Irwin, *Against the Tide* (Princeton, N.J.: Princeton University Press, 1996).

3. Cited by Llewellyn H. Rockwell, Jr. in "Who Killed Free Trade?" *The Free Market* 14, April 1996, p. 2.

4. The Smoot-Hawley Tariff was passed in 1930 supposedly to prevent the loss of American jobs to foreigners. It raised tariff rates to unprecedented levels and ended up crippling world trade and contributing to the severity of the Great Depression.

5. James M. Sheehan, "Nafta—Free Trade in Name Only," the *Wall Street Journal*, September 9, 1993.

6. Christopher J. Chippelo, "Fight Looms over Canada's Suit Exports," the *Wall Street Journal*, August 7, 1996, p. A2.

7. For example, article 1114 forbids relaxing environmental regulations "as an encouragement for establishment, acquisition, expansion or retention in its territory of an investment or investor." Sheehan, *ibid*.

8. Matthew C. Hoffman and James M. Sheehan, *The Free Trade Case against NAFTA* (Washington, D.C.: Competitive Enterprise Institute, 1993), p. 3.

9. William H. Lash III, "Labor Rights and Trade Policy," *The Journal of Commerce and Commercial*, May 17, 1994.

One Life for Liberty

by Becky Akers

A British artillery park, Sunday, September 22, 1776. It wants an hour to noon, but the sun glares mercilessly on the cannon, and the Redcoats milling about mop their brows. There's not much breeze, but what there is stinks of smoke: It blows from the south, where New York City lies smoldering after yesterday's fire.

In front of the park is a tree. A cart and horse wait under it. A noose dangles overhead.

In the cart stands a young and outrageously handsome man. He's serene, confident, almost cheerful. His hands are bound behind him. Otherwise, no one would guess he's about to die, like a murderer, like a thief.

The hangman scrambles into the cart beside him, tugs the noose tight around his neck, tells him if he's got anything to say, he better say it now.

He sweeps the British with eyes as blue as the East River behind them.

"I only regret that I have but one life to give for my country."

With those words, Captain Nathan Hale of the 19th Connecticut Regiment of the Continental Army is hanged for espionage. He is 21 years old.

Old enough to have starved and marched for a year in Washington's army. Too young to have left anything but mundane letters and a matter-of-fact journal of his months as a Continental officer.

Captain Hale wrote no inspired treatises on liberty, no books extolling freedom. He

worked on a different, larger manuscript, that of the American Revolution.

Historians often distort the Revolution into a class war of merchants against farmers, with independence from England the Patriots' only aim. But contemporaries knew exactly what the Revolution was about. Its commander-in-chief was famous for calling George III "a tyrant," his government a "diabolical ministry," for exhorting his troops to "show the whole world that a Freeman, contending for liberty on his own ground, is superior to any slavish mercenary on earth."¹ The Congress running it was comprised of members like the Adamses, who lived, breathed, and dreamed liberty. ("But while I do live," John Adams said during debate on the Declaration of Independence, "let me have a country, and that a free country." Cousin Sam had written in 1772, "The natural liberty of man is to be free from any superior power on Earth, and not to be under the will or legislative authority of man, but only to have the law of nature for his rule.") Then there was the English convert cheering it on with such sentiments as "Government, even in its best state is but a necessary evil; in its worst state an intolerable one."² A man showed how much he valued freedom, how he wanted to live free of excises and restrictions on travel and regulations about how and where he conducted business, just by joining up.

Who Was Nathan Hale?

As the Revolution has been twisted, so have Nathan Hale and his last words. Today he is

Becky Akers has written a novel on Nathan Hale for which she is seeking publication.

largely forgotten or dismissed as a bumbling farmboy who let his enthusiasm carry him away. But again, his contemporaries understood what motivated him. They even engraved it on his memorial tablet: "Resign'd his life a sacrifice to his country's liberty."

Nathan Hale was as extraordinary in life as he was in death. Colonel Samuel Green recalled that he was "peculiarly engaging in his manners—... old & young exceedingly attached to him—respected highly by all his acquaintance—fine moral character. Everybody that knew Hale was attached to him—that's the fact."³ Mrs. Elizabeth Adams Poole, whose family boarded Hale while he taught school in New London, Connecticut, remembered that his "appearance, manners, & temper secured the purest affection of those to whom he was known.... On the whole I then thought him (& his tremendous"—i.e., shameful: spies were then considered the worst of criminals—"fate has not weakened the impression) one of the most perfect human characters recorded in history or exemplified in any age or nation." Mrs. Poole wrote this in 1837, when people liked their heroes unblemished. Still, it is hard to fault Nathan Hale. Everyone spoke of him with overwhelming affection, and unlike some champions of liberty, he never violated the ideals of freedom.

Born June 6, 1755, in Coventry, Connecticut, he was one of ten children (two more died as infants) raised by Richard "Deacon" Hale and his wife Elizabeth Strong. The family was already distinguished. Nathan's great-grandparents, John and Sarah Hale, helped end the Salem witch trials, and both the Hale and Strong families were spangled with ministers, the celebrities of Puritan New England.

Deacon Hale prospered enough on his farm to educate several of his eight sons. Nathan and his brother Enoch were tutored by Coventry's minister, the Reverend Joseph Huntington, whose brother Samuel would later sign the Declaration of Independence.

Nathan enrolled at Yale College when he was 14. Admission required fluency in Latin and Greek, so Nathan had already read—and for the next four years would continue to

read—such authors as Cicero and Aristotle. He also showed an athleticism that awed his friends: "I have seen him," Lieutenant Elisha Bostwick reported, "follow a football & kick it over the tops of the trees... (an exercise he was fond of)." Colonel Green recalled that he "[w]as exceedingly active—would jump from the bottom of one hog'shead up and down into a second and from the second up and down into a third like a cat—used to perform this feat often—would put his hand on a fence high as his head, and jump over it." Legend says he made such a prodigious broad jump on New Haven's green that the marks were preserved for years.

At commencement, Nathan and three classmates debated, "Whether the Education of Daughters be not without any just reason more neglected than that of Sons?" There is no record of which side each graduate argued. But it is likely that Nathan spoke against restricting school to boys as he was teaching a class of girls less than a year later.

Schoolmaster . . .

Schoolteaching demanded a strong arm, for whippings were as much a part of the curriculum as reading and writing. But according to Colonel Green, Master Hale broke with that tradition: "Children all loved him for his tact and amiability... wonderful control over boys—without severity..." Mrs. Poole agreed: "... the mildness of his mode of instruction, was highly appreciated by Parents & Pupils." And there was his class for girls, which met from 5:00–7:00 every morning, before the start of the regular school day. Educating females was a liberal notion in 1774, but Master Hale mentions it nonchalantly in a letter to his uncle: "20 young ladies" attended his class, "for which I have received 6s [shillings] a scholar, by the quarter."

He was teaching in New London, Connecticut, in April 1775 when couriers from the Massachusetts Committee of Safety spread the news of Lexington and Concord. Not only had mere farmers confronted British Regulars intent on raiding a colonial arsenal, but those farmers and hundreds of their neigh-

bors then sent the Regulars skedaddling back to Boston under withering fire. Town meetings were called all over New England to discuss this disarming of free men. Years later, Leverett Saltonstall wrote about the gathering in New London, "related to me by my aged friend, Capt. Richard Law, who at that time was [Nathan Hale's] pupil . . . Mr. Hale [said] 'let us march immediately and never lay down our arms untill we obtain our Independence.' . . . Capt. Law states that he was very young at that time . . . [but he was] struck by the noble demeanour of Hale, and the emphasis with which he addressed the assembly, [and] he enquired of his Father, what it meant." As well he might. Few were advocating independence from England at that time. Even George Washington and John Adams hoped for reconciliation. It was not until *Common Sense* burst on the Colonies eight months later that independence from England was accepted as the best way to safeguard liberty.

Soldier . . .

Nathan Hale enlisted as a lieutenant with the Connecticut militia that July and, a few months later, was commissioned a captain in the Continental Army.

Meanwhile, the Rebellion proceeded gloriously. Patriots had not only chased the Redcoats back to Boston, they kept them besieged there for the next eight weeks. When the British tried to break out at the Battle of Bunker Hill, the Americans ceded the hill but wounded or killed half the Redcoats. Better yet, the siege resumed apace.

There were problems, to be sure. One was the disorganization of the Continental Army, especially the quartermaster's department. Food, pay, even ammunition and weapons were in short supply. The recruiting office was almost as bad. Men had enlisted through the end of the year, and as December 1775 approached, the hungry, unpaid, musketless Patriots gathered around Boston would go home—en masse. The British would sit unopposed in Boston, free to invade the countryside. Some officers, such as General Charles Lee, berated and threatened their

men, trying to force them to stay. But Captain Hale used a free-market approach. He paid his company out of his own pocket to remain until new recruits arrived.

Finally, in March of 1776, General Sir William Howe, Commander of His Majesty's Land Forces in North America, admitted defeat. Farmers watched in jubilant disbelief as the world's best army boarded transports and abandoned Boston.

Patriot morale soared at the British departure (though everyone knew Howe and his Redcoats would return, probably to New York City, so Washington hurried his troops there). It rose even higher in July, when Congress published the Declaration of Independence. Here was lyrical, logical justification for rebellion: when "any form of government becomes destructive" of liberty, "it is [the people's] right, it is their duty, to throw off such government." With such encouragement, men continued to enlist, more than could be outfitted and fed. Their spirit was hardly dampened when Howe's fleet, augmented by fresh troops from England and German mercenaries, was sighted south of New York. Even an epidemic of typhus fever did not quell their enthusiasm.

But the problems with payroll and supply that had plagued the army at Boston followed them to New York. So Captain Hale led a detachment to capture a British supply sloop from under the 64 guns of a man-of-war, thus arming and feeding the Continentals after months of scanty provisions.

In August 1776, after the successes of Lexington and Concord, the battle at Bunker Hill, and the evacuation of Boston, Americans suffered their first defeat when Howe's army squared off against them in the Battle of Brooklyn. The British found an undefended pass on the Americans' left and swept in behind them. At day's end, the Continentals—or what was left of them: 2,000 out of 19,000 were casualties—huddled in their fortifications on Brooklyn Heights, trapped. The East River lay behind them, and Redcoats were building siege tunnels a few hundred yards in front. A siege was the classic way to end a battle—and, in this case, the war.

Barring a miracle, the besieged could look forward to thorough defeat.

But Washington and "a kind Providence" worked that miracle. Rain fell the next three days, wetting gunpowder and preventing further fighting. The storm also kept the British Navy from sailing up the East River to bombard the Americans' rear. Washington thus had time to orchestrate a daring retreat. Under cover of darkness, he ferried his army across the East River, back to Manhattan, right under British noses.

Still, defeat loomed. Sooner or later the British Army would follow them across the river, the British Navy would surround Manhattan Island. Washington's force of 30,000 began deserting until only 10,000 terrified farmers and shopkeepers remained. With this number, the General had to defend Manhattan's 18 miles of accessible coastline from Howe's 35,000 professionals. Obviously, if Washington knew the time and place of the British beachhead, he could mass his troops, maybe even hold New York.

He needed a spy.

Spy

Espionage in those days before James Bond was considered neither sexy nor glamorous. One Continental officer called it "moral degradation" and added, "Who respects the character of a spy, assuming the garb of friendship but to betray? . . . Let us . . . not stain our honor by the sacrifice of integrity." So heinous was it that years later, when President Washington wanted to honor some of the Revolution's surviving agents with a dinner party, they declined rather than admit their involvement to family and friends.

In early September 1776, then, with the British preparing to cross the East River and finish the war, Washington turned to Colonel Thomas Knowlton of Connecticut for help. After the debacle in Brooklyn, Knowlton had formed about 100 men, the *crème de la crème* of the army, into a corps of Rangers. He recruited four captains, one of whom was Nathan Hale. Their main duty was reconnaissance, to make sure the British never again surprised the troops as they had in Brooklyn.

Washington may have talked to the Rangers himself, or he may have asked Knowlton to handle it. Either way, finding a spy would be difficult. Few men would volunteer for such ignominy.

But Captain Hale did.

His friends tried to dissuade him. "I [told him]," wrote Captain William Hull, who had known Nathan at Yale, "that it was an action . . . [whose] propriety . . . was doubtful . . . the employment was not in keeping with his character. His nature was too frank and open for deceit and disguise."

"After the retreat of our army from Long Island," Sergeant Stephen Hempstead recalled, "[Captain Hale] informed me, he was sent for to Head Quarters, and was solicited to go over to Long Island to discover the disposition of the enemy's camps, &c., expecting them to attack New York, but that he was too unwell to go, not having recovered from a recent illness; that upon a second application, he had consented to go." Asher Wright, a boyhood friend who had followed Hale to war as his attendant, thought it folly: "He was too good-looking to go so. He could not deceive. Some scrubby fellows ought to have gone. He had marks on his forehead so that anybody would know him who had ever seen him—having had powder flashed in his face."

Neither illness nor his friends' disapproval kept the Captain from his mission. Sergeant Hempstead accompanied him as he ". . . left our Camp on Harlem Heights . . . Capt Hale had changed his uniform for a plain suit of citizens brown clothes . . . [afterwards] we parted for the last time in life." This is our final glimpse of Hale until British logs note his arrest.

We know nothing of his activities behind the lines. Likewise, there are no eyewitness accounts of his capture. Many suspected false play: ". . . betra'd he doutless wass by somebody," his father wrote. "[H]e was executed about the 22nd of Sepetember Last by the Aconts we have had. A Child I sot much by but he is gone. . . ." Some thought that Nathan's cousin Samuel, a Tory from New Hampshire who was serving as Howe's Deputy Commissary of Prisoners, had recognized and betrayed him. According to other stories, he

gave himself away. His brother Enoch's journal says, "... Being suspected by his movement [that] he wanted to get out of N York [he] was taken up & examined by the Genl [Howe] & some minutes being found with him orders were immediately given that he should be hanged."

British Lieutenant Frederick Mackenzie corroborates the interrogation by General Howe: "A person named Nathaniel Hales [sic] ... this day made a full and free confession to the Commander in Chief of his being employed by Mr. Washington. ..." Howe probably offered the prisoner his life to turn his coat. Although we would not condemn a man's efforts to save his neck by switching sides and then deserting, an eighteenth-century gentleman would never stoop to that. Such a choice for Nathan Hale was no choice at all.

Still, it is remarkable that he refused. From his vantage, the Revolution was finished. Howe had devastated the Continentals at the Battle of Brooklyn one month ago; during the week or ten days that Captain Hale was behind their lines, British forces had invaded New York City with only token resistance from the shattered Patriots; Howe's well-fed, professional army outnumbered Washington's rabble three to one, besides the British navy cruising New York's bay, ready to shell Continental fortifications. It was only a matter of time until the Redcoats marched north from the city (then occupying the southern tip of Manhattan Island) to Harlem Heights, mopping up the Continentals as they went.

Yet Captain Hale stayed true to his cause.

On the gallows, Mackenzie reported, "he behaved with great composure and resolution." William Hull recalled that "... [British Captain John Montresor] came to our camp, under a flag of truce and informed [us] ... that Captain Hale had been ... executed that morning ... [Montresor] was present ... and seemed touched by the circumstances ... [Captain Hale] was calm, and bore himself

with gentle dignity, in the consciousness of rectitude and high intentions. ... He said, 'I only regret that I have but one life to lose for my country.'"

This extract, from Hull's memoirs, was written decades after the Revolution. By then, a country and government that were already abusing the people's hard-won liberties had been established. But in 1782, just six years after Nathan Hale's death, an article appeared anonymously in the *Boston Chronicle*. Evidence suggests that Hull was its author. Here he quotes Captain Hale's last words as, "I am so satisfied with the cause in which I have engaged, that my only regret is that I have not more lives than one to offer in its service."

Obviously, the shorter version packs a greater punch, but it also changes "cause" to "country." Nathan Hale was no nationalist. He gave his life for the cause of liberty, not for a collection of state governments that hardly existed and was not venerated once it did.

In one of the Revolution's darkest hours, Nathan Hale stood firm for liberty. He refused to renounce its ideals though it cost him his life and though the Continental Army faced annihilation. His courage in the face of such hopelessness inspired that army during the fall and winter of 1776, as they lost battle after battle but continued to regroup and fight. It inspires to this day. So "why is it," Sergeant Hempstead marveled, "that the delicious Capt Hale should be ... forgotten?" □

1. George Washington, General Orders, Headquarters, New York, July 2, 1776.

2. Thomas Paine, *Common Sense*, 1776.

3. Quoted in *The Documentary Life of Nathan Hale* by George Dudley Seymour, 1941, p. 158. Seymour's biography was privately printed and so is extremely hard to find. It consists of original sources as well as secondary articles on Captain Hale. In the nineteenth century, Nathan Hale and the other heroes of the Revolution were romanticized, and biographies that were really hagiographies appeared. Seymour was the first serious biographer of Hale. Although he admired Hale intensely, he never accepted legend as fact but carefully researched and verified all original accounts before including them in his *Documentary Life*. Subsequent quotations in this article are from Seymour's book.

Anne Robert Jacques Turgot, Who First Put Laissez-Faire Principles into Action

by Jim Powell

By the mid-eighteenth century, a number of authors had expressed the liberating vision that came to be known as laissez faire. Anne Robert Jacques Turgot put it into action.

As regional administrator and later comptroller-general of France, a nation which had succumbed to absolute monarchy, he took giant steps for liberty. He spoke out for religious toleration. He granted freedom of expression. He gave people freedom to pursue the work of their choice. He cut government spending. He opposed inflation and made a case for gold. He abolished some onerous taxes and trade restrictions. He abolished monopoly privileges. He abolished forced labor.

Turgot was respected by leading thinkers for liberty, including the Baron de Montesquieu, the Marquis de Condorcet, and Benjamin Franklin. Referring to Turgot, Adam Smith wrote that "I had the happiness of his acquaintance, and, I flattered myself, even of his friendship and esteem." After meeting Turgot in 1760, Voltaire told a friend: "I have

scarcely ever seen a man more lovable or better informed." Jean Baptiste Say, who inspired so many French libertarians during the nineteenth century, declared, "There are hardly any works which can yield to the journalist and to the statesman an ampler harvest of facts and of instruction than may be found in the writings of Turgot." Pierre-Samuel Du Pont de Nemours, a French champion of laissez faire and founder of the American industrial family, paid his friend Thomas Jefferson the supreme compliment by calling him "the American Turgot."

Turgot displayed remarkable vision. For instance, he predicted the American Revolution in 1750, more than two decades before George Washington and Benjamin Franklin saw it coming. In 1778, Turgot warned Americans that "slavery is incompatible with a good political constitution." He warned that Americans had more to fear from civil war than foreign enemies. He predicted that "Americans are bound to become great, not by war but by culture." Turgot warned French King Louis XVI that unless taxes and government spending were cut, there would be a revolution which might cost him his head. Turgot warned about the dangers of fiat paper money, and when it was resorted to during the French Revolution, the result was ruinous runaway inflation and a military coup. Turgot

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showed how people could make the transition from absolutism to self-government.

Although few of Turgot's writings were published in his lifetime, he was ablaze with ideas for liberty. "Turgot was much too able a man to write anything insignificant," observed intellectual historian Joseph A. Schumpeter. Commenting on his most important work, a slim volume, Schumpeter noted that it contains "a theory of barter, price, and money that, so far as it goes, is almost faultless . . . comprehensive vision of all the essential facts and their interrelations plus excellence of formulation."

Early Life

Anne Robert Jacques Turgot was born in Paris on May 10, 1727, the third and youngest son of Michel Étienne Turgot and Madeleine Françoise Martineau. His father was a government official who helped build the Paris sewage system. An awkward child, Turgot didn't seem to get along with his mother, who reportedly cherished fine manners above all. The family, which had Norman roots, lived comfortably.

Early on, Turgot acquired a love for learning. He attended the Collège du Plessis where he discovered the theories of English physicist Isaac Newton. It was traditional for the youngest son to become a priest, and accordingly Turgot enrolled at the Saint-Sulpice seminary, where he earned his bachelor of theology and became known as Abbé de Brucourt. He then enrolled at the Sorbonne.

A fellow student named Morellet remarked that "The remembrance of Turgot is sweet to all who have known him personally. Already his mind announced all the qualities it afterwards unfolded of sagacity, penetration, and profoundness. He had the simplicity of a child, yet it was compatible with a kind of dignity." Despite a striking physical appearance, Turgot was shy around women. He never married.

Turgot learned English, German, Greek, Hebrew, Italian, and Latin. He translated into French works by Caesar, Homer, Horace, Ovid, Seneca, Virgil, and other classical authors, as well as writings by eighteenth-

century authors like Joseph Addison, Samuel Johnson, and Alexander Pope. He translated David Hume's essay "On the Jealousy of Trade."

Turgot's first writing on economics was an April 7, 1749, letter to his friend Abbé de Cice. He attacked the doctrines of the Scottish financier John Law, who moved to France and in 1716 began promoting what became a disastrous inflation. Defending gold, Turgot wrote: "It is ridiculous to say that metallic money is only a sign of value, the credit of which is founded on the stamp of the king. This stamp is only to certify the weight and the title. Even in its relation to commodities the metal uncoined is of the same price as that coined, the marked value is simply a denomination. This is what Law seems to have been ignorant of in establishing his bank.

"It is then as merchandise that coined money is (not the sign) but the common measure of other merchandise, and that not by an arbitrary convention, founded on the glamour of that metal, but because, being fit to be employed in different shapes as merchandise, and having on account of this property a saleable value, a little increased by the use made of it as money and being besides suitable of reduction to a given standard and of being equally divided, we always know the value of it. Gold obtains its price from its rarity."

While at the Sorbonne, in December 1750, Turgot wrote a Latin dissertation ("On the successive advances of the Human Mind") which provided an early view of human progress.

Turgot hailed American optimism: "Let us turn our eyes away from those sad sights, let us cast them on the immense plains of the interior of America. . . . The soil, hitherto uncultivated, is made fruitful by industrious hands. Laws faithfully observed maintain henceforth tranquillity in these favoured regions. The ravages of war are there unknown. Equality has banished from them poverty and luxury, and preserves there, with liberty, virtue and simplicity of manners; our arts will spread themselves there without our vices. Happy peoples!"

By this time, Turgot had second thoughts

about entering the priesthood. He confided to his friend Du Pont de Nemours (1739-1817) that "it is impossible for me to give myself up, all my life, wearing a mask." Turgot obtained his father's permission to pursue a law career, and he left the Sorbonne.

With his obvious intelligence and learning, he met many of the leading thinkers of the day, including political philosopher Charles Louis de Secondat (Baron de Montesquieu), philosopher Claude Adrien Helvetius, and mathematician Jean Le Rond D'Alembert. In January 1752, Turgot secured an appointment to a minor government post, deputy councilor of the procurator-general. The following year, he was appointed—presumably after having paid a consideration—to the "royal parliament," which functioned as a court. There wasn't any elected legislative assembly.

Early Work

Turgot's first published work, *Le Conciliateur*, appeared in 1754. It was a pamphlet protesting plans to renew religious persecution. As a Catholic addressing Catholics, he wrote: "I know of how many wars heresies have been the source, but is not this because we have persisted in persecuting them? The man who believes earnestly believes with still more firmness if we would force him to change his belief without convincing him; he then becomes obstinate, his obstinancy kindles his zeal, his zeal inflames him; we wish to convert him, we have made of him a fanatic, a madman. Men, for their opinions, demand only liberty; if you deprive them of it, you place arms in their hand. Give them liberty, they remain quiet, as the Lutherans were at Strasburg. It is then the very unity in religion we would enforce, and not the different opinions we tolerate, that produces trouble and civil wars."

"If the prisons of the Inquisition were terrible," he continued, "France itself has had only too many which have echoed the cries of the oppressed conscience. If the former were unjust, why should the latter be authorized? We who condemn with horror the minister of the Church who, by torture, compelled the mind, should we give to our king the right still

to subjugate it? We regard with indignation the inflictions which, in Italy and in Spain, obstruct the rights of conscience; the least reflection should prevent our feeling less for the conscience of our own citizens."

Meanwhile, Turgot had befriended Jacques Claude Marie Vincent, Marquis de Gournay (1712-1759), whom intellectual historian Joseph A. Schumpeter called "one of the greatest teachers of economics who ever lived." Widely traveled throughout Europe and especially knowledgeable about English and Dutch business practices, the Marquis de Gournay was a follower of Richard Cantillon, the author of *Essai Sur La Nature Du Commerce En Général*, which offered perhaps the first comprehensive view of free-market operations.

In 1748, Gournay had come into an inheritance, retired from business, and bought himself a government position as inspector of factories. Between 1753 and 1756, he invited Turgot to join him as he visited companies in Anjou, Bourgogne, Bretagne, Dauphine, Languedoc, Lyonnais, Maine, and Provence. Turgot could see that commerce was crucial. Moreover, Gournay's free-trade principles had an impact on Turgot.

The year Gournay died, Turgot wrote his *Éloge de Gournay* [*Elegy for Gournay*] in which he explained why government officials couldn't run an economy. For instance: "If the Government limits the number of sellers by exclusive privileges or otherwise, it is certain that the consumer will be wronged and that the seller, made sure of selling, will compel him to buy dearly bad articles. If, on the other hand, it is the number of buyers which is diminished by the exclusion of foreigners or of certain persons, then the seller is wronged, and if the injury be carried to the point when the price cannot cover his expenses and risks, he will cease to produce the commodity, its regular supply will thus be endangered, and a famine may be the consequence. The general liberty of buying and selling is therefore the only means to insure on the one side to the seller a price sufficient to encourage production; on the other side to the consumer the best merchandise at the lowest price."

"To desire that government should be

obliged to prevent fraud from ever occurring would be to desire it to provide head pads for all children who might fall. To assume, by regulations, successfully to prevent all the possible malversations of this nature, is to sacrifice to a chimerical perfection the whole progress of industry."

The Physiocrats

Turgot defended economic liberty in "Foundations" ["Foundations"] and "Fairs and Markets" ["Fairs and Markets"], articles for Denis Diderot's famous and widely influential 17-volume *Encyclopédie* (1751–1772). Somewhere along the line, Turgot had become familiar with the views of the "Physiocrats." Economist, editor, and government official Du Pont de Nemours (1739–1817) coined the term from the Greek words *physis* ["let nature"] and *kratein* ["rule"]. His book *Physiocratie* appeared in 1768. The brash, bold Du Pont de Nemours became a close friend of Turgot, who was godfather to his third son and suggested the name of this boy—Eleuthère Irénée ("freedom and peace")—destined to launch the family colossus, E.I. du Pont de Nemours & Cie.

"Physiocrat" referred to ideas popularized by François Quesnay (1694–1774), a nobleman's son who made himself a surgeon and bought his post as physician to King Louis XV and his influential courtesan Madame de Pompadour. Historians Will and Ariel Durant wrote that although Quesnay "was a self-confident dogmatist in his works, he was in person a kindly soul, distinguished by integrity in an immoral milieu."

Quesnay attacked taxes and trade restrictions in his articles for the *Encyclopédie* (1756), his own little book *Tableau économique* (1758), and elsewhere. There will be prosperity, he insisted, if "each person is free to cultivate his in fields such products as his interests, his means, and the nature of the land suggest to him."

According to historians Will and Ariel Durant, "Louis XV asked Quesnay what he would do if he were king. 'Nothing,' answered Quesnay. 'Who, then, would govern?' 'The laws'—by which the physiocrat meant the

'laws' inherent in the nature of man and governing supply and demand." On September 17, 1754, the king issued an edict abolishing all restrictions on trade in wheat, rye, and corn, but a subsequent crop failure led to higher prices, and there was a clamor for restoring controls. The edicts were rescinded on December 23, 1770.

The political philosophy of the Physiocrats was perhaps best expressed in the 1767 book *L'ordre naturel et essentiel des sociétés politiques* [*The Natural and Essential Order of Political Societies*] by Pierre-Paul Mercier de la Rivière (1720–1793). "Do you wish a society to attain the highest degree of wealth, population, and power? Trust, then, its interests to freedom, and let this be universal. By means of this liberty (which is the essential element of industry) and the desire to enjoy—stimulated by competition and enlightened by experience and example—you are guaranteed that everyone will always act for his own greatest possible advantage, and consequently will contribute with all the power of his particular interest to the general good, both to the ruler and to every member of the society."

On August 8, 1761, Turgot was appointed an *intendant* (chief administrator) for the provinces of Angomois, Basse-Marche, and Limousin, a region in central France later known as Limoges. As the nineteenth-century historian and thinker Alexis de Tocqueville explained, "The intendant was in possession of the whole reality of Government. All the powers which the Council of State itself possessed were accumulated in his hands. Like the Council he was at once administrator and judge. He corresponded with all the Ministers, and in the province was the sole agent of all the measures of the Government."

Limoges was among the poorest regions of France. Almost all the approximately 500,000 people were peasants who lived on chestnuts, rye, and buckwheat. According to the Physiocrat Marquis de Mirabeau (1715–1789), peasants dressed in rags and lived in huts made of clay with a thatch roof, and the most prosperous Limoges farmers could afford to slaughter only one pig a year. Historian Hippolyte Taine, who gathered a tremendous

amount of material on living conditions, reported that many peasants used plows which were no better than those of ancient Rome. Turgot remarked, "I have seen with pain that in some parishes the curate alone has signed, because no one else could write."

Peasants in Limoges, as elsewhere, were crushed by taxes. Economic historian Florin Aftalion reported there were some 1,600 customs houses throughout France to collect *traites* as goods passed various points along roads and rivers. For instance, explained Cornell University scholar Andrew Dickson White, "on the Loire between Orléans and Nantes, a distance of about two hundred miles, there were twenty-eight custom-houses; and that between Gray and Arles, on the rivers Saône and Rhône, a distance of about three hundred miles, the custom-houses numbered over thirty, causing long delays, and taking from twenty-five to thirty per cent in value of all the products transported."

There were a host of other taxes, including one on salt. The *taille* amounted to about a sixth of the income of peasants. This came on top of feudal duties and church tithes. Peasants got to keep about a fifth of their income. The *taille*, from which some 130,000 clergymen and 140,000 aristocrats were exempted, was based on a tax collector's estimate of a peasant's ability to pay, which meant appearances. Du Pont de Nemours observed: "they [the peasants] did not dare to procure for themselves the number of animals necessary for good farming; they used to cultivate their fields in a poor way so as to pass as poor, which is what they eventually became; they pretended that it was too hard to pay in order to avoid having to pay too much; payments that were inevitably slow were made still slower; they took no pleasure or enjoyment in their food, housing, or dress; their days passed in deprivation and sorrow."

Turgot focused on the most obnoxious taxes, starting with the *taille*. It wasn't within his power as a regional official to abolish the *taille*, but he did what he could. Traditionally, national government finance officials had guessed how much money they were going to spend on wars, maintaining Versailles, bu-

reaucrats, and other things, which determined the amount of tax revenue needed. They demanded about the same portion of taxes from each district as they always had, even though there had been an economic decline in some districts, which effectively meant higher tax rates.

Turgot attributed the economic decline of Limoges to high taxes. He asked that his district's tax quota be cut by 400,000 livres. It was cut 190,000. Year after year for the 13 years that he was an *intendant* in Limoges, he pleaded for tax cuts.

Turgot did have the power to abolish the *corvée*—forced labor—which was the most hated tax on peasants. A remnant of serfdom, this originated as a feudal obligation for peasants to perform a certain amount of labor without pay. The *corvée* became a demand that peasants work as much as 14 days a year on the king's roads, breaking, carting, and shoveling stones. Often this came at the worst time, such as when peasants were busy with their harvest. Landlords, who stood to gain more from roads, contributed nothing. As might be expected, forced labor resulted in poor work, and the roads were terrible.

Turgot hired competent contractors to build and improve roads, and some 450 miles of roads were built in Limoges. He defrayed the costs with a moderate tax. Clergymen and aristocrats remained exempt, but at least peasants were free to work their land. Limoges became known as a district with superior roads—"the wonder of all travellers," as Turgot biographer W. Walker Stephens put it.

Turgot did much to help improve agriculture. Because tons of grain were lost to the grain moth and corn weevil, he helped the Limoges Society of Agriculture find better storage methods. To help diversify food sources, he urged that peasants grow potatoes. As the Marquis de Condorcet observed in his biography of Turgot, "The people at first regarded the potato with disdain and as beneath the dignity of the human species, and they were not reconciled to it till the intendant [Turgot] had caused it to be served at his own table, and to the first class of citizens, and had given it vogue among the fashionable and rich."

Turgot was in touch with others who embraced ideas of liberty. He dined with the Scottish moral philosopher Adam Smith when he visited Paris in 1765, and later Turgot helped supply Smith with books for his work on *The Wealth of Nations*. But as intellectual historian Peter Groenewegen has shown, Turgot had little impact on Smith's writing, since Smith had already formed his principal views. Like the Physiocrats, both men believed in economic liberty, and unlike the Physiocrats, they recognized the importance of commerce.

In 1766 Turgot wrote an 80-page summary of his views for two Chinese students in Paris. This became *Réflexions sur la Formation et la Distribution des Richesses* [Reflections on the Formation and Distribution of Riches]. It explained much about how free markets work and made a case for laissez-faire policy. Although Turgot wasn't a Physiocrat, he shared their commitment for economic liberty. Du Pont de Nemours published *Réflexions* in the November and December 1769 issues of *Ephémérides du Citoyen*, the Physiocratic journal. But without consulting Turgot, Du Pont de Nemours made a number of changes, and Turgot wasn't pleased.

Turgot made clear his opposition to slavery: "This abominable custom of slavery has once been universal, and is still spread over the greater part of the earth."

He affirmed the importance of sound money: "Thus, then, we come to the constitution of gold and silver as money and universal money, and that without any arbitrary convention among men, without the intervention of any law, but by the nature of things. They are not, as many people have imagined, signs of values; they have themselves a value. If they are susceptible of being the measure and the pledge of other values, they have this property in common with all the other articles that have a value in Commerce. They differ only because being at once more divisible, more unalterable, and more easy to transport than the other commodities, it is more convenient to employ them to measure and represent the values."

Turgot banished the ancient dogma that interest was immoral. "The price of borrowed money is regulated," he wrote, "like that of all

other merchandise, by the balance of supply and demand: thus, when there are many borrowers who need money, the interest of money becomes higher; when there are many holders of money who offer to lend it, interest falls. It is, therefore, another mistake to suppose that the interest of money in commerce ought to be fixed by the laws of Princes."

During the famine of 1769–1772, he mortgaged his estate to get money for famine relief. He organized relief efforts financed almost entirely by voluntary contributions. French treasury officials claimed taxes were due from Turgot's relief organization because its records weren't written on stamped paper. He issued an ordinance suspending the stamp tax laws in Limoges. The bakers' guild of Limoges moved to raise bread prices, and Turgot responded by suspending their monopoly privileges. He encouraged people to bring bread from other towns, and they did. He insisted that the best remedy for famine was free trade.

Turgot further defended laissez faire by writing *Lettres sur le commerce des grains*, seven letters to Comptroller-General Abbé Terray. Turgot warned that government is incapable of guaranteeing economic security. He declared: "Government is not the master of seasons, and they should be taught that they have no right to violate the property of the agricultural labourers or the dealers in corn."

Terray was deaf to Turgot's appeal. In December 1770, the Comptroller-General ruled that grain could be sold only in government-controlled marketplaces. Speculation was outlawed. A subsequent measure outlawed grain trading by any merchant who didn't have a license. Grain monopolists regained their power.

Abbé Terray asked Turgot for help protecting iron smelters, and Turgot replied with a letter known as *Sur la Marque des Fers* [On the Mark of Iron]. The title referred to the stamp on iron indicating that it was smelted in France, part of the effort to keep out iron from other countries. "I know no other means of quickening any commerce whatever than by granting to it the greatest liberty," Turgot wrote, "and the freedom from all taxes, which

the ill-understood interest of the Exchequer has multiplied to excess on all kinds of merchandise, and in particular on the fabrications of iron." Then, talking about how trade retaliations back fire: "The truth is, that in aiming at injuring others, we injure only ourselves."

Conscription

Turgot had to deal with the consequences of military conscription. "The repugnance to service in the militia," he wrote the Minister of War in January 1773, "was so widespread among the people, that each drawing was the signal for the greatest disorders throughout the country, and for a kind of civil war between the peasantry; the one party seeking to escape the drawing, taking refuge in the woods, the other, with arms in hand, pursuing the fugitives, in order to capture them and subject them to the same lot with themselves. Loss of life and minor outrages were common. Depopulation of many of the parishes, with cultivation abandoned, often followed. When the time came to assemble the battalions, it was necessary for the syndics of the parishes to lead on their militia-men escorted by the horse-police, and sometimes bound with cords." Turgot let people voluntarily contribute cash to a pool for those conscripted, and many enlisted for the money.

There was much resentment against the practice of forcing local people to provide room and board for soldiers, and Turgot took action. He rented some buildings as barracks and spread the cost among all the taxpayers. Military discipline reportedly improved.

On May 10, 1774, King Louis XV died of smallpox. He was succeeded by his awkward, timid 19-year-old grandson, who became Louis XVI. His queen was the 19-year-old Marie Antoinette, a beautiful and frivolous daughter of the arrogant Austrian Empress Maria Theresa.

At the time, France had the biggest government in Europe except for Russia. The French government was in desperate shape, having incurred massive debts during the Seven Years War (1756–1763) with Britain. The royal palace of Versailles was an enormous drain. On the payroll were eight archi-

tects, 47 musicians, 56 hunters, 295 cooks, 886 nobles with their wives and children, plus secretaries, couriers, physicians, and chaplains, and some 10,000 soldiers who guarded the place. Almost every week, there were two banquets, two balls, and three plays held at Versailles.

Marie Antoinette aggravated the public by her extravagance with taxpayer money. Married to an impotent king, she squandered large sums at card tables and lavished costly gifts on her court favorites. She spent hundreds of thousands of livres on dresses. Austrian ambassador Mercy d'Argentau warned her mother, Maria Theresa: "Although the King has given the Queen, on various occasions, more than 100,000 écus' worth of diamonds, and although her Majesty already has a prodigious collection, she nevertheless resolved to acquire . . . chandelier earrings from Bohmer. I did not conceal from her Majesty that under present economic conditions it would have been wiser to avoid such a tremendous expenditure, but she could not resist."

The Parlements of Paris protested taxes. This body, whose members bought their way in, was the most influential of 13 French parliaments. It had acquired the prerogative of approving royal edicts on taxes before they could go into effect. If the Parlement opposed a tax edict, there would be a *lit de justice*: members would meet the king in his throne room, and he would make a final decision which everyone must obey. But this proceeding was widely resented.

Louis named the 73-year-old Count de Maurepas as his chief adviser. He had held a number of official positions until 1749, when he was dismissed on suspicion of having written some lines critical of courtesan Madame de Pompadour. But Maurepas knew how to pull strings. As royal playwright and historian Jean François Marmontel described him, "he possessed a lynx-eye to seize upon the weak or ridiculous in men, and an imperceptible art to draw them to his purposes . . . he made sport of everything, even of merit itself." Maurepas knew that with his scandalous reputation, he needed some respected figures in the government, and his wife rec-

commended Turgot. On July 20, 1774, Turgot was nominated to a minor post, Minister of Marine.

In Limoges, as biographer Leon Say reported, the aristocrats "could not forgive Turgot for having broken with traditions which had hitherto been favourable to them . . . it was not the same with the peasantry. His departure was announced publicly from the pulpit by all the curés of the province, who celebrated mass everywhere on his account. The countrymen suspended their work in order to be present, and all cried: 'It is wisely done by the king to have taken M. Turgot, but it is very sad for us that we have lost him.'"

During the few weeks that Turgot was Minister of Marine, he spoke out for taxpayers against the politically powerful French shipbuilding industry. He recommended that the government buy ships in Sweden rather than France, which would cut costs 40 percent. Turgot countered protectionist objections by observing that the Swedes drank French wines and wore French clothes.

On August 24, 1774, Louis met with Turgot and discussed the country's economic situation. Prodded by Maurepas, the king named Turgot as Comptroller-General. Turgot recognized that the kind of spending and tax cuts he envisioned would encounter ferocious opposition, and he had to have the backing of the king, so he sought an interview.

The king promised his support, and afterward Turgot sent him this memo: "I confine myself to recall to you these three words—

"No Bankruptcy.

"No Increase of Taxes.

"No Loans.

"No bankruptcy, either avowed or disguised by illegal reductions.

"No increase of taxes; the reason for this being in the condition of your people, and still more, in that of your Majesty's own generous heart.

"No loans; because every loan diminishes always the free revenue and necessitates at the end of a certain time, either bankruptcy or the increase of taxes. In times of peace it is permissible to borrow only in order to liquidate old debts, or in order to redeem other loans contracted on less advantageous terms.

"To meet these three points there is but one means. It is to reduce expenditure below revenue, and sufficiently below it to insure each year a saving of twenty millions, to be applied in redemption of the old debts. Without that, the first gunshot will force the State into bankruptcy.

"The question will be asked incredulously, 'On what can we retrench?' and each one, speaking for his own department, will maintain that nearly every particular item of expense is indispensable. They will be able to allege very good reasons, but these must all yield to the absolute necessity of economy.

"It is, then, of absolute necessity for your Majesty to require that the heads of all the departments should concert with the Minister of Finance. It is indispensable that he should discuss with them, in presence of your Majesty, the degree of necessity for all your proposed expenses. It is above all necessary, as soon as you, Sire, shall have decided upon the strictly necessary scale of maintenance of each department, that you prohibit the official in charge of it to order any new expenditure without having first arranged with the Treasury the means of providing for it. . . ."

Turgot's top priority was to establish freedom of the grain trade, as he had done in Limoges. On September 13, 1774, Turgot issued an edict and wrote: "it shall be free to all persons whatever to carry on, as it may seem best to them, their trade in corn and flour, to sell and to buy it, in whatever places they choose throughout the kingdom."

Voltaire was incredulous: "I learned that a Minister of State who was neither a lawyer nor priest had just published an edict by which, in spite of the most sacred prejudices, it was permitted to every Perigourdin to sell and buy wheat in Auvergne. . . . I saw in my canton a dozen of labourers, my brethren, who read the edict. 'How then?' said an old man; 'for sixty years I have been reading these edicts which, in unintelligible language, have always stripped us of natural liberty; now here is one that restores us our liberty, and I can understand every word without difficulty. This is the first time a king reasons with his people.'"

France had long penalized foreigners, and in November 1774, Turgot overturned some

of the worst laws. For instance, the law which held that the property of a deceased foreigner would revert to the government. Such laws, observed Du Pont de Nemours, "debarred the settling in France of a great number of clever men and industrious artists, of capitalists, and useful merchants, who would have desired nothing more than to make France the centre of their affairs, and which debarred even retired foreigners of wealth attracted by the pleasures of society and the agreeableness of the climate." Du Pont emphasized that Turgot proceeded without demanding "reciprocity, since the good of its operation would be certain for France, and the evil would be but for those countries which did not imitate her."

In January 1775, Turgot suffered an attack of gout which involved inflammation and severe pain in his legs. During the next four months, he was carried in a chair to the king's working quarters. From there, he directed a quarantine of regions devastated by cattle-plague. The king agreed to pay a third of the value of diseased animals which were slaughtered and buried, and this frustrated efforts to control government spending.

Turgot set new standards for integrity. For instance, it had long been the custom for the Farmers-General, the private firm which collected a substantial amount of tax revenue, to give the Comptroller-General about a 100,000-livre bribe upon signing a new contract. Turgot declined the bribe and abolished the practice.

Turgot worked to curtail the rapaciousness of bureaucrats. "People complain also," he wrote, "of the embarrassments they are thrown into by the extreme severity of the penalties, often for the slightest faults. It is indispensable to remedy this, as well as the inconveniences manufacturers suffer from the contradictions in the regulations, and to shield them from the abuse of the authority by the Bureaux of Inspection." Then issuing orders: "You are not to seize anything belonging to them [workers and small manufacturers], any stuff or merchandise, on the pretext of its faultiness. You will confine yourselves to exhorting these poor artificers to make the things better, and to indicate to them the means of doing so."

On April 20, 1775, corn riots erupted in Dijon, reflecting fears that grain produced in that region might be sold elsewhere—and wouldn't be available to relieve hunger in Dijon. Rioting quickly spread to other cities. Mobs stormed through the countryside, yelling "Monopoly!" and "Famine!" They broke into markets, demanding corn and flour for less than what merchants were charging. By May 2, mobs marched on Paris, and an estimated 8,000 people raided flour stores around Versailles. The Parlement of Paris issued a decree and posted notices urging people to petition the king for lower bread prices, and he gave in. Turgot advised the king that violence must be put down swiftly, and he was given command of a 25,000-man force which protected an orderly flow of grain to the markets. He had parliament's notices removed. His rivals at the royal court weren't pleased.

Between June and August 1775, Turgot issued edicts abolishing duties imposed by major towns like Beaune, Bordeaux, Dijon, and Pontoise.

Freedom of Speech

Turgot practiced freedom of speech. For instance, financier and politician Jacques Necker wrote a pamphlet *Sur la Législation et le Commerce des Grains* which criticized laissez-faire views and defended government restrictions on the grain trade. Turgot let it be published.

Although Turgot never challenged the legitimacy of a monarchy, he became convinced that people should prepare for self-government. Together with Du Pont de Nemours, he outlined a plan for parish assemblies, village assemblies, district assemblies, provincial assemblies, and a General Assembly. Participation would be open to those who owned land (any amount) and earned at least 600 livres per year. Individuals earning less than 600 livres of land would have fractional votes. Unfortunately, with everything else going on, this plan was never presented to the king.

The king's coronation brought Turgot into conflict with the establishment. Traditional-

ists wanted the coronation at the magnificent cathedral of Rheims, and the clergy wanted the king to take the oath for intolerance, "I swear . . . to exterminate, &c., entirely from my States all heretics . . . condemned by the Church." Church officials insisted, "It is reserved for you to deal the last blow to Calvinism in your kingdom. Order the schismatic assemblies of the Protestants to be dispersed; exclude the sectaries without distinction from all the branches of public administration. Your Majesty will thus assure among your subjects the unity of the Catholic worship."

Because the government was deep in debt, Turgot wanted a much cheaper coronation in Paris, and he objected to the oath. He wrote a memo to the king, *Sur la tolerance*, saying the oath was a bad idea even if nobody seriously contemplated a murderous Inquisition. "The prince who orders his subject to profess a religion he does not believe," Turgot wrote, "commands a crime; the subject who obeys acts a lie, he betrays his conscience, he does an act which, he believes, God forbids. The Protestant who through self-interest or fear makes himself a Catholic, and the Catholic who by the same motives makes himself a Protestant, are both guilty of the same sin." The king decided to throw budgetary considerations to the wind and be crowned at Rheims. He agreed to the dreaded oath, but he mumbled it, and nobody could make out the words.

There seemed to be a favorable omen for Turgot when the king followed his recommendation and appointed Chrétien Lamoignon de Malesherbes as *Maison du Roi* (Minister of the Royal Household), a post which put him in a position to influence the king and help curb extravagance at Versailles.

The budget was a bitter battleground. At the beginning of 1775, the government had revenue of 337 million livres, but only 213 million was left after interest on the debt. The costs of government would be 235 million—hence, a deficit of 22 million livres. Turgot cut many expenses, including sinecures for idle aristocrats.

Meanwhile, Turgot had become convinced that the severity of his country's problems required decisive action. He conceived what became known as the "six edicts."

Two were of monumental importance. Turgot would abolish the *jurandes*—guilds—which monopolized various trades. Like modern labor unions, they enforced barriers to entry for the enrichment of members. Consequently, there were few skilled workers, and they concentrated on making luxury goods. Turgot would permit anyone, including foreigners, to enter any trade except barbering and wig-making. The reason for exceptions was that Turgot offered to compensate people for the loss of their special privileges, and because of the government's financial situation it wasn't possible to compensate members of these two professions.

Turgot's second crucial edict would abolish the *corvée*, the practice of forcing peasants to work on roads without pay. He proposed that all property owners, the primary beneficiaries of road improvements, pay a tax which would provide money for hiring road contractors.

Turgot thought of making these explosively controversial proposals more politically palatable by presenting them with four other proposals which had more support. He proposed abolishing restrictions on the grain trade within France. He wanted to discharge officials who imposed restrictions on the operation of Parisian markets, ports, and docks. He recommended abolishing the *Caisse de Poissy*, a tax on the cattle and meat industry. Finally, he proposed to cut the tax on suet.

During the last several months of 1775, Louis XVI weighed the compelling case for these edicts and the firestorm of opposition they would surely provoke. Turgot suffered another attack of gout and was absent as opposition intensified. Malesherbes cautioned Turgot to go slow, but Turgot, then 48, replied: "The needs of the people are enormous, and in my family, we die of gout at fifty."

Over the objections of his brothers and all of his advisers except Turgot and Malesherbes, Louis XVI endorsed the six edicts, and on February 5, 1776, he presented them to the Parlement of Paris. They resisted, and the king declared, "My Parlement must respect my wishes."

The Parlement supported guilds because many of the members were red-robed lawyers,

and guilds were a lucrative source of litigation. One notorious case between the guild of tailors and the guild of used-clothes dealers had dragged on for more than 250 years. Led by the Prince de Conti, who expected to lose about 50,000 livres annually if the guilds were abolished, local officials went on the attack to protect their special privileges.

As if these six edicts weren't enough of a challenge for the establishment, Turgot presented another which would abolish laws restricting the wine trade. In Bordeaux, for instance, it was illegal to sell and drink wine from another district. Wines from Languedoc couldn't be shipped down the Garonne River before St. Martin's Day. Wines from Périgord, not before Christmas. Turgot declared: "It is the interest of the whole kingdom we have to consider, the interests and the rights of all our subjects, who, as buyers or as sellers, have an equal right to find a market for their goods and to procure the object of their needs on the terms most advantageous to them."

Lawyers, noblemen, monopolists, clergymen—all were against Turgot. Maurepas, who had appointed Turgot, criticized him in public and maneuvered behind his back. As biographer Douglas Dakin explained, "Merely by refraining from defending Turgot, and merely by confirming Louis's growing suspicions with a word here and there, he was bound in the long run to achieve his object. For everything that came to Louis's ears—facts endlessly distorted, fortuitous happenings which in normal times would have had little significance, the fatuous lies concocted by Turgot's detractors—all came to assume a unity and to take on the character of incontrovertible evidence. . . ." Marie Antoinette, outraged at Turgot's efforts to sack incompetents and cut spending by the royal household, schemed against him. She had no interest in ideas. "I must admit I am lazy and dissipated when it comes to serious things," she told her mother.

"I cannot conceal from your Majesty," Turgot wrote the king on April 30, "the deep pain I have suffered by your cruel silence towards me on Sunday last, after I had in my preceding letters described to you so distinctly my position, your Majesty's own position, the

danger that your authority and the glory of your reign were incurring, and the impossibility of my continuing to serve you unless you give me your firm and steady support. Your Majesty has not deigned to reply to me. . . . Your Majesty gives me neither assistance nor consolation. How can I believe that you any longer esteem me? Sire, I have not deserved this. . . ." The king didn't reply.

On May 12, 1776, Turgot was dismissed. He reportedly warned Louis XVI: "Remember, sire, that it was weakness which brought the head of [England's King] Charles I to the block."

Voltaire expressed the feeling of many who hoped for reform. "Ah, mon Dieu, what sad news I hear!" he wrote three days after Turgot's fall. "France would have been too fortunate. . . I am overwhelmed in despair." The Marquis de Condorcet wrote: "Adieu! We have had a beautiful dream."

Government spending zoomed out of control. Guilds regained their monopoly power. Restrictions again throttled trade. The regime brought back forced labor.

Turgot had probably achieved as much as any human being could without organizing popular support to buck special interests. His experience revealed how fragile were reforms which depended on the goodwill of a ruler. Edicts, it turned out, were no substitute for education of the people.

Turgot moved to a house on the rue de Bourbon, Paris, and he quietly studied science, literature, and music. For Benjamin Franklin, representing American interests in Paris, he wrote *Mémoire sur l'impôt* to explain his laissez-faire economic policy.

In one of his last surviving writings, a controversial March 22, 1778 letter to English radical minister Dr. Richard Price, Turgot expressed his support for American independence, although he didn't think the French government could afford to provide financial help. Turgot criticized American state constitutions for establishing a strong executive—"an unreasonable imitation . . . of the usages of England"—rather than lodge all power in a legislature. Turgot denounced chimerical state taxes and tariffs. He urged that Americans "reduce to the smallest possible number

the kinds of affairs of which the Government of each State should take charge. . . .” He declared that “The asylum which America affords to the oppressed of all nations will console the world.” The letter provoked John Adams to make his case for a separation of powers, writing the three-volume *Defense of the American Constitution* which wasn’t published until 1787, after Turgot’s death. Adams, prickly pear that he was, liked Turgot and described him as “grave, sensible, and amiable.”

Turgot suffered more attacks of gout, and after 1778 he could walk only with crutches. His situation became critical in early 1781. He died at home around 11:00 P.M., March 18, 1781. He was 53. His friends Mme. Blondel, the Duchesse d’Enville, and Du Pont de Nemours were by his side.

Having rejected Turgot’s peaceful reforms, the French government stumbled from one crisis to another. By 1788, military spending took a quarter of the budget, and half the budget was needed for payments on the national debt which had soared to 4 billion livres. There were riots against taxes. The government was broke, and the king and queen were a pitiful sight as they handed over their silverware to the royal mint. Desperate for funds, the king agreed to summon the Estates-General, an assembly of nobles, clergy, and taxpayers, which hadn’t met for one-and-a-half centuries. This became the National Assembly, to which Du Pont de Nemours had been elected. It rebelled against the nobles, and the king made the fateful decision to back the nobles. The National Assembly abolished guilds and some of the worst taxes, and it confiscated church properties. Hatred bred of oppression boiled over, as Turgot had anticipated. On January 21, 1793, Louis XVI was led to a Paris guillotine and beheaded. Marie Antoinette—ridiculed as “Madam Deficit”—followed him to the guillotine on October 16, 1793. The French

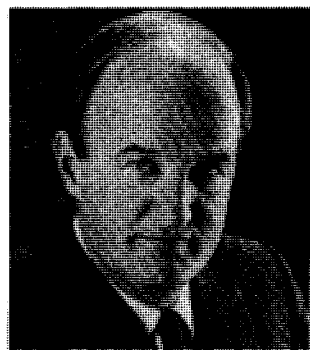
people suffered through runaway inflation, the Reign of Terror, and the military takeover by Napoleon Bonaparte who plunged the country into more than a decade of war.

Turgot’s steadfast friend Du Pont de Nemours, who had been scheduled for the guillotine the very day the Reign of Terror ended and was later rescued by Madame Germaine de Staël, made sure he wouldn’t be forgotten. After emigrating to America, Du Pont de Nemours edited a nine-volume edition of Turgot’s works (1808-1811). Another French edition of Turgot’s works appeared in 1844. And there was G. Schelle’s *Oeuvres de Turgot et documents le concernant* (1913-1923), with many documents from the Turgot family. More than a dozen books about Turgot were published during the nineteenth century.

Turgot inspired the economist Jean-Baptiste Say who, in turn, helped inspire the resurgence of libertarian writings in Europe. Leon Say, Jean-Baptiste’s grandson, wrote in his 1887 biography of Turgot: “if he failed in the eighteenth century, he has in fact dominated the century following. He founded the political economy of the nineteenth century, and, by the freedom of industry which he bequeathed to us, he has impressed on the nineteenth century the mark which will best characterize it in history.” In recent years, Turgot’s most ardent admirer has been intellectual historian Murray N. Rothbard who affirmed that “If we were to award a prize for ‘brilliancy’ in the history of economic thought, it would surely go to Anne Robert Jacques Turgot.”

He had a liberating vision. He told the truth. He pursued justice. He was fearless in challenging special interests who everywhere capture government power. He showed why liberty is absolutely essential if the poorest among us are to improve their lives. He displayed the courage and compassion to help set people free. □

Has Capitalism Failed or Succeeded? The Tale of Two Graphs



"Yet, in the aftermath of the Keynesian revolution, too many economists forgot that classical economics provides the right answers to many fundamental questions."

—N. Gregory Mankiw¹

The Great Depression of the 1930s brought us Keynesian economics and a broad shift in emphasis from the classical study of economic growth to concern about economic fluctuations and how to subdue the boom-bust business cycle. Postwar textbooks, led by Paul Samuelson's *Economics*, focused primarily on the ups and downs of the capitalist system and how government policy could ameliorate the business cycle. Keynesian economists stressed "countercyclical demand management" and "compensatory fiscal policy" to "iron out the business cycle, with boom surpluses canceling out depression deficits."² Economists taught the "New Economics" of "automatic built-in stabilizers," "discretionary fiscal policy," and "fiscal drag." Even free-market economist Milton Friedman focused his research on ways to stabilize the economy through monetary policy.

Indeed, according to the new conventional wisdom, the primary purpose of studying economics was to achieve "short-run stabilization" of the capitalism system. Postwar textbooks abound in the study of cyclical fluctuations, while burying the study of eco-

nomic growth and development in the back pages.

The Volatility of Capitalism?

If you look at Graph #1 at the top of the next page, you might agree with this focal point: The business cycle appears to be volatile and the primary problem facing the United States. This graph, published in Michael Parkin's popular textbook, shows real GDP fluctuations from 1869 to 1992.

Graph #1 suggests that the U.S. economy has run amok, suffering untold boom and bust over the past century and a half. According to the critics, capitalism has failed and needs to be tamed.

Is this an accurate picture of the U.S. economy? We all know that games can be played with charts and graphs. Darrell Huff, in his classic book, *How to Lie With Statistics* (W. W. Norton, 1993 [1954]), described the distortions that can occur with a "one-dimensional" picture.

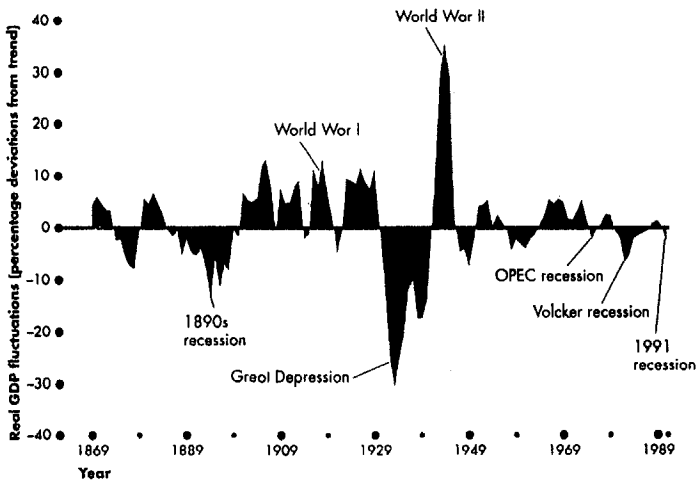
The Long-Term View Favors Economic Growth

Now let's look at Graph #2, which tells quite a different story. This graph highlights real GDP, 1869-1992, rather than changes in real GDP.

Amazingly, Graph #2 also comes from Parkin's textbook. It uses the same statistics, but paints an entirely different picture. Here the overwhelming conclusion is not that the

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Graph #1: Real GDP Fluctuations, 1869–1992



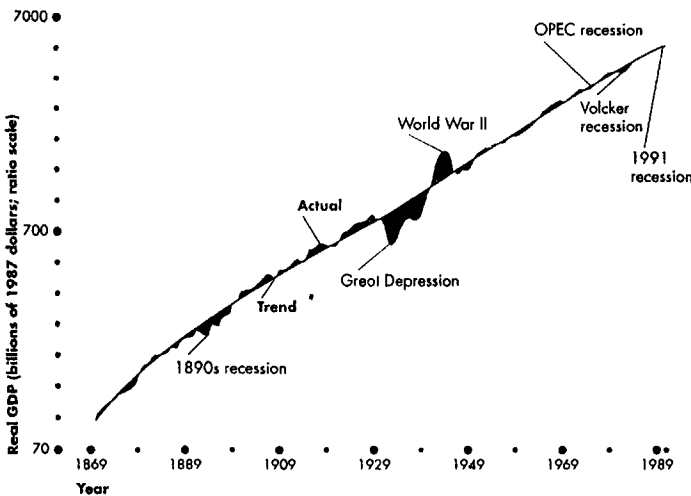
The uneven pace of increase of real GDP is illustrated by tracking its fluctuation measured as the percentage deviation of real GDP from trend. Rapid expansion of real GDP, which occurred during both world wars, puts real GDP above trend. Decreases in real GDP, which occurred during the 1890s recession, the Great Depression, and the three most recent recessions, puts real GDP below trend. The real GDP fluctuations describe the course of the business cycle.

Source: Michael Parkin, *Economics*, 2nd ed. (Addison-Wesley, 1994), p. 596.

U.S. economy is subject to violent fluctuations, but that it has grown dramatically over the past century or more. In this graph, the periods of inflationary booms and recessions are relatively minor. Even the Great Depres-

sion is dwarfed by unrelenting economic progress over the long term. The key point is that Americans have enjoyed a dramatic increase in their standard of living over the past century. Capitalism works!

Graph #2: Real GDP, 1869–1992



Between 1869 and 1992 real GDP grew at an annual average rate of 3.3 percent. But the growth rate was not the same in each year. In some periods, such as the years during World War II, real GDP expanded quickly. In other periods, such as the Great Depression and, more recently, following the OPEC oil price hikes, the Volcker interest rate increases, and in 1991, real GDP declined. There were several periods of decline in the nineteenth century as well, one of which is marked in the figure.

Source: 1869–1929: Christine D. Romer, "The Prewar Business Cycle Reconsidered: New Estimates of Gross National Product, 1869–1908," *Journal of Political Economy* 97, (1989) 1–37; and Nathan S. Balke and Robert J. Gordon, "The Estimation of Prewar Gross National Product: Methodology and New Evidence," *Journal of Political Economy* 97, (1989) 38–82. The data used are an average of the estimates given in these two sources. 1929–1950: *Economic Report of the President*, 1991. 1950–1992: *Economic Report of the President*, 1993. The data for 1869 to 1950 are GNP and those for 1950 to 1992 are GDP. The difference between these two measures is small and is explained in Chapter 23, pp. 619–620.

Source: Michael Parkin, *Economics*, 2nd ed., p. 595.

The Economics Profession Alters Its Viewpoint

For decades, the American economics profession worried about recession, unemployment, and income inequality. Economists endorsed "compensatory" fiscal policy (deficit spending and government expansion) as a way to tame the business cycle. Meanwhile, economic growth slowed relative to other nations.

Now the pendulum has swung back. More and more economists are recognizing the paramount importance of economic growth and rising standards of living rather than business fluctuations and inequality of income

distribution. Greg Mankiw, a new Keynesian at Harvard, is a case in point. He places the classical model of economic growth upfront in his *Macroeconomics* textbook, ahead of Keynesian business-cycle theory. He highlights the success stories of countries that have grown dramatically since the end of World War II. It's another sign that free-market economics has triumphed in the academic world. □

1. Gregory Mankiw, *Macroeconomics*, 2nd ed. (Worth Publishers, 1994), preface.

2. Paul A. Samuelson, *Economics*, 8th ed. (McGraw-Hill, 1970), p. 337.

Back in Print!

GOVERNMENT—AN IDEAL CONCEPT

by Leonard E. Read New Introduction by Hans F. Sennholz



To Leonard Read, government was neither a manager of economic activity nor an almoner of gifts to the people, but a necessary instrument of social order. Its only basis is justice, not pity. Government is represented by agents who are expected to enforce and defend man's natural rights and protect him against wrongs of his fellowmen. But these agents should not do what the individual must not do. The agents of government should be men and women of integrity. Unfortunately, Read observed, political office tends to rob a person of modesty, humility, and integrity, which make it advisable never to accept a political office.

Leonard Read's eloquent discussion of the nature of government and a new beginning in freedom will endure as a principled work of great value. It is a guidepost for readers seriously interested in the limits of public regimen and the cause of liberty.

152 pages, indexed, paperback \$12.95

A few years before Leonard E. Read authored this book, he created The Foundation for Economic Education. He was convinced that every generation must defend its freedom anew against the intellectual forces that seek through ever new devices to enslave it. Therefore, he dedicated his great strength and ability to the study and dissemination of freedom ideas. He managed the Foundation from its beginnings in 1946 until his death in 1983.

The Undiscountable Professor Kirzner

by Roger W. Garrison

Eugen von Böhm-Bawerk, whose name has come to be virtually synonymous with “roundaboutness” (of capital-using production processes), penned the original Austrian perspective on capital and interest. He wrote three volumes (*History and Critique*, *Positive Theory*, and *Further Essays*) over a span of a quarter of a century (1884-1909). In 1959 the 1,200-plus pages of *Capital and Interest* were translated into English by Hans Sennholz and George Huncke. Ludwig von Mises reviewed the new translation in *The Freeman*, where he described this “monumental work” as “the most eminent contribution to modern economic theory.”¹ Mises went so far as to suggest—as only Mises could—that no citizen who takes his civic duties seriously should exercise his right to vote until he has read Böhm-Bawerk!

And now we have Israel Kirzner’s *Essays on Capital and Interest* (Edward Elgar, 1996, 166 pages, \$59.95). There is no intent on the part of the author or the reviewer to station this volume between the voter and the voting booth. However, the position that this book occupies on the Austro-neoclassical landscape is an eminently strategic one—so strategic as to warrant our issuing a Mises-style taboo, not to voters, but to all economists who adopt the Austrian perspective. But first we

must put into perspective this new offering by Professor Kirzner.

The significance of this volume is not diminished by the fact that all its separate parts, except for the 12-page introductory essay, have been published before. With greater accessibility and appearing now together, these *Essays* provide a virtual history—and pre-history—of the modern Austrian resurgence. Three decades ago, well before the resurgence began, Professor Kirzner wrote *An Essay on Capital*. The four parts of this book (on “Unfinished Plans,” “Stocks and Flows,” “Capital and Waiting,” and “Measuring Capital”) read like the work of a lone scholar trying—and succeeding in most instances—to satisfy himself. The 1966 *Essay*, possibly the most underrated of all his contributions, appears anew as the longest of the 1996 *Essays*.

In late 1974, Professor Kirzner presented a paper titled “Ludwig von Mises and the Theory of Capital and Interest” in a special symposium at the Southern Economic Association meetings in Atlanta. At that time, a year after Mises’s death, and the year that the resurgence began (with a conference in Vermont at which Professor Kirzner was a key participant), there was a small but eager audience for his Austrian perspective. Professor Kirzner shows how Mises’s theory differs from Böhm-Bawerk’s and how it compares favorably to the theories of J. B. Clark and F. H. Knight. In part a stocktaking, in part

Dr. Garrison is professor of economics at Auburn University.

a research agenda for himself and for others, this paper was first published in 1976 along with other papers at the SEA symposium and published again in 1979 along with other writings by Professor Kirzner. Its appearance in the present volume provides a perfect segue between his early work on the theory of capital and his later work on the theory of interest.

The final essay, "The Pure Time-Preference Theory of Interest," first published in 1993, is clearly the work of a well-seasoned scholar. Professor Kirzner's good scholarship shines through in all his writings, but here we see him as a veteran of many symposia and conferences complete with their unyielding question-and-answer sessions. His work now has a growing and challenging audience. He responds to criticisms as if he has heard those criticisms many times in many different forms—because he has. The exchanges with allies and critics over the years have allowed him to clarify his own ideas and to offer them in the most rhetorically effective ways.

Ralph W. Pfouts, who offered a generally favorable assessment of the 1966 *Essay* in the *American Economic Review*, suggested that the Austrian perspective is not "the magic wand that makes all mysteries disappear."² Professor Kirzner, with his newly published *Essays*, and especially with his essay on the theory of interest, shows that it is very nearly that. Interest is always and everywhere a matter of time preferences. The primordial preference for the sooner over the later is the basis for a unified treatment of intertemporal exchange—whether the exchange is with nature or with other economic actors and whether or not it involves the use of capital. Tracing out the consequences of the systemic discounting of the future provides us with a Copernican account of an economic phenomenon that otherwise would have to be explained by what we might justifiably call Ptolemaic interest-rate theory. Capital-productivity theories and waiting-as-a-factor theories appear strained, partial, and oblique in comparison to the pure time-preference theory—that magic wand so skillfully wielded by Professor Kirzner.

If interest is to be understood in terms of time preferences, capital is to be understood in terms of multiperiod plans. An Austrian subjectivist perspective on capital features the plans of individual entrepreneurs—plans that are subject to revision as the attempts to carry them out reveal conflicts with reality and with the unfolding plans of other entrepreneurs. As Professor Kirzner demonstrates time and again, the forward-looking, plan-oriented account of a capital-using economy wins out over the alternative accounts that focus on some isolated slice of time or on the physical productivity of the produced means of production.

Professor Kirzner's perspective on capital and interest constitutes the essential difference between Austrian economics and neo-classical (particularly Chicago) economics and the essential bridge between Austrian microeconomics and Austrian macroeconomics. The book itself contains much about the essential difference but contains little about the essential bridge. The reason for this lacking is not difficult to explain. While contributing importantly, along with F. A. Hayek and Ludwig M. Lachmann, as a bridge-builder, Professor Kirzner has never actually crossed the bridge himself. The short introductory essay includes a brief explanation of his reluctance to cross over into macroeconomics. According to Professor Kirzner (p. 2), "recent Austrian work on Hayekian cycle theory [and presumably on Austrian macroeconomics generally] seems, on the whole, to fail to draw on the subjectivist, Misesian, tradition which the contemporary Austrian resurgence has done so much to revive."

We can guess what he has in mind here. Austrian macroeconomics features the intertemporal structure of production, the structure being defined as a temporal sequence of stages of production. For concreteness, the sequential stages are commonly identified with broadly defined industries, such as mining, refining, manufacturing, wholesaling, and retailing. Too quickly, all the multiperiod planning that goes on within and between these stages are allowed to gel into a simple Hayekian triangle—with its summary repre-

sentation of the relationship between the time element in the production process (the roundaboutness of production) and the market value of final output.

The right triangle, which Hayek introduced in his *Prices and Production*,³ gave him a leg up on Keynes, who paid no attention to production time. Consumer spending was represented by one leg of the triangle. This macroeconomic magnitude had the attention of both Keynes and Hayek. The other leg tracks the goods-in-process as the individual plans of producers transform labor and other resources into the goods that consumers buy. The Hayekian triangle allows us to show that (1) increased saving can make for more output but only in the more-distant future and (2) monetary expansion can deceive the market and derail the process that would otherwise keep production plans on track with intertemporal consumption preference. All this is well and good. But once the theory has been recast as a Hayekian triangle that can be reshaped by preference changes and distorted by policy activism, it is all too easy for the Austrian subjectivist to become a not-so-Austrian geometrician. This is Professor Kirzner's lament.

And so now it is time for our Mises-style taboo: No Austrian economist who takes his subjectivism seriously should draw a Hayekian triangle until he has read Professor Kirzner's *Essays*! There is no inherent clash between the macroeconomic theorizing that the Hayekian triangles facilitate (including the Austrian theory of the business cycle) and

the Kirznerian perspective that keeps the triangle adequately subjectivized. Quite to the contrary, it is precisely our understanding of the process that Professor Kirzner elucidates, the ongoing attempts on the part of many entrepreneurs to carry out their individual multiperiod plans (as guided by market rates of interest or as misguided by the central bank's rate of interest), that breathes subjectivist life into those otherwise meaningless triangles.

Professor Kirzner may well believe that if our Mises-style taboo keeps would-be macroeconomists from crossing the bridge without first reading the *Essays*, then the book itself will dissuade the readers—as it has dissuaded its writer—from crossing the bridge at all. Others, however, may believe that even the fullest compliance with the taboo will allow—even facilitate—some subjectively respectable bridge crossings. Austrian macroeconomics is not the oxymoron that some have long suspected it of being. While those practitioners among us will quickly forgive Professor Kirzner for never crossing over into macroeconomics, they can offer nothing but praise for the job of bridge-building that he has done so well. □

1. Ludwig von Mises, "Capital and Interest: Eugen von Böhm-Bawerk and the Discriminating Reader," *Freeman*, vol. 9, no. 8 (August) 1959, p. 52.

2. Ralph W. Pfouts, Review of *An Essay on Capital*, *American Economic Review*, vol. 58, no. 1 (March) 1968, p. 98.

3. Friedrich A. Hayek, *Prices and Production*, 2nd ed. (Clifton, N.J.: Augustus M. Kelley, Publishers, 1967 [originally published, 1935]).

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BOOKS

Red Flag Over Hong Kong

by Bruce Bueno de Mesquita, David Newman, and Alvin Rabushka

Chatham House • 1996 • 208 pages • \$25.00 cloth; \$17.95 paperback

Reviewed by George C. Leef

For decades, Hong Kong has been a favorite subject among those of us who teach economics. To demonstrate the importance of private property, economic liberty, and minimal, noncoercive government, Hong Kong was simply ideal. Here we have a small, rocky, resource-poor bit of land where the above conditions prevailed. Next door is the resource-rich colossus of the misnamed People's Republic of China (PRC) where you find statism, corrupt autocratic rule, and pervasive hostility to personal liberty. (As the authors note, prior to the assault on pro-freedom demonstrators in Tiananmen Square in 1989, the rallying cry of the Communist Party was "Oppose Liberalism.") The wealth and progress enjoyed by the people of Hong Kong stands in dramatic contrast to the backwardness and poverty that characterizes life in the PRC.

Alas, this wonderful experiment in the importance of freedom is jeopardized by the impending transfer of control over Hong Kong from the British to the communist rulers in Beijing. On July 1, 1997, British governance ends and the least authoritarian government on the planet (according to Heritage Foundation's *1997 Index of Economic Freedom*) will be replaced by. . . . By what? The PRC has promised to allow Hong Kong to continue its free-market economic system and liberal society; it has promised free elections and a high degree of autonomy for Hong Kong. But will it abide by these promises?

That is the crucial question that the authors explore in *Red Flag Over Hong Kong*. They conclude that the takeover by Beijing is a grave threat to the free and prosperous little enclave: "Hong Kong is in for a rocky road in the years ahead. Future treatment of Hong Kong will be caught up in the political competition for control of China. Victims of that competition will include the free press, academic freedom, open and fair elections,

and some portion of market freedom. Hong Kong will not be as tightly controlled as the rest of China, but neither will it be the free and vivacious place it has been for the past half a century. The political and economic landscape will be filled with uncertainty, cronyism, lost freedoms, and more corruption than has been known in the recent past. It is a bleak picture indeed." They make a persuasive case for their pessimistic outlook.

Hong Kong predicting has become a thriving mini-industry (proving again how politics can alter the allocation of resources) and Bueno de Mesquita, Rabushka (both of the Hoover Institution), and Newman (of Lingnan College) readily acknowledge that a case for optimism can and has been made, but, after a careful examination of the political and economic realities in China, find it to be much more likely that things will deteriorate significantly.

The optimists argue that China needs a thriving Hong Kong for its own economic growth and therefore will refrain from tampering with it. The authors counter that there are many contending factions in China—which is apt to become a more fragmented country in the years ahead—and that those that are threatened by the "bourgeois liberalism" of Hong Kong are more likely to prevail.

The Chinese military, for instance, will play an important role in the future development of the PRC. Many readers will be surprised to find out that the "People's Liberation Army" (PLA) is thoroughly immersed in profit-making business. Much of the transportation of goods takes place in military vehicles. The navy is thought responsible for much of the piracy that takes place in the waters off China. But, the authors say, "The gravy train enjoyed by the military can persist only as long as China is ruled by corruption instead of law. Some members of the PLA, therefore, have strong interests in protecting the status quo." A free Hong Kong, showing the results of an economy based on contract rather than power would be regarded as a dangerous anomaly by many PLA officers.

Also, there are many Communist Party officials who retain the Maoist hatred of capitalist ideas. They ordered the massacre in Tiananmen Square and persist in arresting people who have the temerity to speak out against their regime. These tyrants may not hold on to power in the long run, but they certainly can and probably will reshape Hong Kong to please them as long as they have it.

In fact, the Chinese attack on Hong Kong's freedom has already begun, well in advance of the transfer date. The authors give numerous telling examples, such as Beijing's declaration that the

Hong Kong press should practice "self-discipline" and be "respectful" of the sentiments of the Chinese rulers. That's a hint not likely to be missed. Even more evidence of Beijing's hostility to freedom in Hong Kong has surfaced since the publication of the book. (See, e.g., "Hitting on Hong Kong," the *Wall Street Journal*, January 22, 1997, p. A1 4.)

The authors remind us how remarkably free Hong Kong has been. The government consumes less than 20 percent of the Gross Domestic Product (compared to over 40 percent in the United States). It imposes no minimum wage law. There are no business subsidies or pointless regulations. There is a flat 15 percent tax on salaries, and no tax on interest, dividends, or capital gains. The currency is stable. Those are virtual laboratory conditions for a demonstration of the creative power of capitalism, but, sadly, they are about to be altered for the worse, the authors contend. Hong Kong may still provide us with useful economic lessons, but the comparison will be between the old, free Hong Kong and the new, more regimented Hong Kong under Beijing's thumb.

Red Flag Over Hong Kong is a fascinating book, revealing the unsavory political struggle that will determine the fate of the six million people of Hong Kong. Congratulations to the authors on a job well done. □

George C. Leef is the book review editor of The Freeman.

Facts, Not Fear: A Parent's Guide to Teaching Children About the Environment

by Michael Sanera and Jane Shaw

Regnery Publishing • 1996 • 300 pages • \$14.95 paperback

Reviewed by Gregory F. Rehmke

In *Facts, Not Fear: A Parent's Guide to Teaching Children About the Environment*, Michael Sanera and Jane Shaw cover a wide spectrum of environmental issues and contrast the research of leading scientists and economists with assertions found in textbooks and environmental books for children.

This task is especially challenging because the parents who are the target audience hold their own environmental beliefs. Since reporting on environ-

mental issues is often tilted, it is difficult to provide a balanced overview without sounding tilted the other way. People—and particularly parents—are naturally wary of books that seem extreme.

So as I read *Facts, Not Fear*, I tried to read not only for my own information about environmental issues and textbook teachings, but also with friends and relatives in mind who have children in school. Did an argument seem oversimplified? A conclusion overstated? Was an environmentalist's position presented fairly? My conclusion is that *Facts, Not Fear* does a good job of mainstreaming its message. It succeeds in explaining environmental issues in straightforward and uncomplicated language. Sections on population, natural resources, rain forests, and wildlife all begin with quotations from school textbooks and then calmly compare gloomy textbook perspectives on these topics with the research of leading scholars. *Facts, Not Fear* demonstrates convincingly that school textbooks are misinforming young people about environmental issues.

The authors maintain an even and careful tone while pointing out the disparity between what textbooks try to teach children, and what scientific and economic research suggests should be taught. In the beginning of the book, the established experts that have reviewed each of the chapters on environmental topics are listed along with their academic affiliations. Leading economists reviewed sections on population, natural resources, and water, and a variety of scientists reviewed sections on forests, wildlife, greenhouse warming, the ozone layer, acid rain, and pesticides. Detailed notes and references for each chapter make it easy for skeptical readers to check out key sources themselves.

The chapter on natural resources makes clear that much misinformation is a consequence of textbook authors not understanding economics. "You may face mineral shortages in your lifetime" writes the author of one textbook. "At the current rate of consumption, some scientists estimate that the world's known supplies of oil, tin, copper, and aluminum will be used up within your lifetime," says another. Well, yes, lots of things might happen in a student's lifetime. An asteroid might hit the earth, aliens might invade, or the moon might fall out of the sky. But future resource shortages are far more likely to be the consequence of government price controls than any future inability to locate, extract, and deliver resources to consumers.

These fears of a coming resource shortage come from comparing proven world resource reserves with annual world consumption rates. This is misleading. As Sanera and Shaw explain, "proven"

reserves are the reserves of a mineral that companies currently know about, and thus they depend on how much effort and technology companies have so far invested in looking. This, in turn, depends on the expected price of a resource. If prices begin to rise or if new technologies allow companies to search less expensively for reserves, then more reserves are likely to be discovered—and “proven” reserves increase.

In addition, it is useful to realize that today's natural resources are yesterday's rocks and rubble. Until entrepreneurs and engineers discovered how to make use of the stuff of the world, peat, bogs, coal deposits, oil, natural gas, and all manner of ores were of little use to mankind. Oil, the authors point out, was a liability to farmers, lowering the value of their land and harming crops and pasture until the technology was developed in 1859 to distill it. Entrepreneurs and inventors search to make today's sand and rubble into tomorrow's valuable natural resources. Textbook statements that we are running low on key minerals are wrong or at least misleading, and the implication that resource shortages might cripple the economic future of our children is indefensible.

Sanera and Shaw detail the fascinating U.S. Geological Survey (USGS) figures of “ultimate reserves”—the amount of recoverable resources estimated to be in the top-half mile of the Earth's crust and the total amounts of particular minerals thought to be in the entire Earth's crust. These are big numbers and show how absurd textbook predictions of shortages are. Consider the aluminum that many textbook authors say may run out. Instead of the 23 years that textbooks come up with by dividing *known* reserves by annual consumption, the USGS estimates, by dividing *ultimate recoverable resources* by annual consumption, that aluminum will last for the next 68 thousand years!

Future technologies will increase even this number by searching deeper in the Earth's crust for minerals. How much total aluminum is there in the Earth's crust? According to the USGS, enough for 38.5 billion years! Perhaps pessimists will still complain, “But what will we do then?” But for most people a few thousand years is enough of a cushion, and is a far cry from the 23-year deadline textbooks give children for aluminum (and 45 years for copper, 21 years for zinc, and so on).

In chapter after chapter, Sanera and Shaw steadily cut through textbook misstatements and misinformation. In addition to replacing fears with facts about the environment, the authors suggest at the end of each chapter exercises and activities that parents might use to engage their children

in thinking about this more realistic and upbeat view of the future.

Perhaps the first few chapters will be hardest for skeptical readers. The authors begin the book with their critique of the way environmental ideas are taught in schools and lay out the basics of free-market environmentalism. Perspectives and conclusions are presented without having room to include the full analysis presented later in the book (readers are many times referred to later chapters). The alternative would have been to just launch into the chapters on specific environmental issues. Perhaps in recommending *Facts, Not Fear* to someone skeptical of market-oriented ideas it would be best to point them first to chapters on particular environmental issues.

This is a book worth buying for ourselves, and worth buying to share with friends and relatives who have children in school. I know of no better step-by-step economic and scientific critique of the standard doom and gloom environmental world view. In countering environmental beliefs found in textbooks and taught to children, Sanera and Shaw address a disturbing consequence of the environmental movement—the filling of young minds with a deep and pervasive pessimism about their own future. □

Mr. Rehmke is director of educational programs at the Free Enterprise Institute in Houston.

Up From Poverty: Reflections on the Ills of Public Assistance

edited by Hans F. Sennholz

Foundation for Economic Education • 1997 •
208 pages • \$14.95 paperback

Reviewed by Dale Matcheck

This timely collection of essays is a rich and diverse anthology united by a recurring theme, namely, that the welfare of a human being contains spiritual as well as material components. A compelling case is made that the proper role of the state in promoting this welfare is to provide the environment in which people are free to strive, to achieve, and to live with the expectation that they may enjoy the fruits of their own labor. The articles represent some of the best writing that has appeared in *The Freeman* on the subject of the welfare state.

In his excellent introduction, Hans Sennholz

argues that the era of experimentation with socialism and welfare statism is coming to a close, and that the passage of federal welfare reform in 1996 is a harbinger of more changes to come. What these changes are, Sennholz does not specify, but he makes it clear that it will be difficult for recipients of public assistance to move into private-sector jobs unless the legal obstacles that destroy so many entry-level opportunities are removed. He reminds us that transfer payments are not the only "entitlements" created by the welfare state. Compulsory unionism, heavy payroll taxes and mandated benefits, minimum wages, occupational licensing, and other constraints imposed on labor markets have greatly reduced upward mobility among the poorest members of society.

Furthermore, the public school monopoly has left so many young people without basic skills necessary to compete in today's labor market. However, if we are to judge by the recent debate concerning the minimum wage, the Congress is not prepared to pass, nor is the public prepared to accept, the reforms necessary to create a truly free labor market. The new direction of public policy remains very much in doubt. Already, there are proposals to replace welfare with workfare, while some have suggested a simple privatization of the entitlement system, with private nonprofit agencies replacing the state bureaucracies.

The authors represented here would clearly take issue with the idea that forcible redistribution of income can produce desirable effects on society, no matter who is administering the system or what the work requirements may be. William Graham Sumner's classic essay "The Forgotten Man" calls into question the morality of even well-intentioned redistribution schemes, while Henry Hazlitt's essay "False Remedies for Poverty" explains clearly why the goals of such programs are so rarely realized in practice. Other articles chronicle the unfortunate consequences of these policies using historical examples from ancient Rome to modern Sweden. The final article in the collection is must reading for every American high school student. In it, Bertel Sparks uses examples drawn from the American experience to support his contention that effort made by individuals, striving to improve their lot in life, continues to be the surest route out of the "poverty trap."

The implication of this anthology is clear: freedom is a necessary component of any true measure of individual welfare. As Milton Friedman has observed, government programs that seek to expand the material well-being of citizens at the expense of their freedom are likely to end up providing less of both. Readers seeking to better

understand the social, economic, and political impacts of the welfare state will find this collection of essays a valuable resource. □

Dale Matcheck is assistant professor of economics at Northwood University, Midland, Michigan.

Libertarianism: A Primer

by David Boaz

The Free Press • 1997 • 228 pages • \$23.00

Reviewed by John Attarian

With statism's failures obvious, and Americans' disgust with statist government and politicians burgeoning, David Boaz's accessible book is a handy and timely introduction to an appealing alternative.

Opening with a brisk presentation of essential ideas, Boaz defines libertarianism as "the view that each person has the right to live his life in any way he chooses so long as he respects the equal rights of others." Government's proper role is to protect our rights to life, liberty, and the pursuit of happiness, not initiate the use of force. Courageously, Boaz rightly contends that "the most important political value is liberty, not democracy." All political theories are essentially one question: "Who is going to make the decision about this particular aspect of your life, you or somebody else?"

Concisely but comprehensively, Boaz presents the history of libertarianism, tracing it to a drive for religious freedom and including the contributions of St. Thomas Aquinas, the Scholastics, and the Levellers, as well as more familiar figures like John Locke and Thomas Paine. His explication of rights is likewise superb. Self-ownership and property rights are cogently spelled out, and the nonaggression axiom—"No one has the right to initiate aggression against the person or property of anyone else"—receives due prominence. His detailed treatment of the justice of distributions arrived at through just means and his argument that property rights are *human* rights, and indispensable since we live and act in a material world, are especially valuable. To his credit, Boaz insists on equality of rights only, not opportunity or outcomes. There is also a fascinating, thought-provoking treatment of emergencies. Acknowledging that dire situations (e.g., natural disasters) may arise where rights might not apply, Boaz nevertheless commonsensically concludes that we do live in mostly normal

situations, so "Our ethics should be designed for our survival and flourishing in normal conditions."

His treatments of market processes, civil society, law and the Constitution, health care, and the costs and failures of America's burgeoning Leviathan are other strong points. In showing that most American "poor" are affluent by historical standards and that before welfare, Americans took care of their own with numerous mutual-aid societies, Boaz ably rebuts the charge that welfare is essential because charity won't suffice.

Also welcome is his explication of what libertarianism *isn't*. "Libertarianism is neither libertinism nor chaos." "Libertarians never suggested that people be 'emancipated' from the reality of the world, from the obligation to pay one's own way and to take responsibility for the consequences of one's own actions."

A weakness in the book is that Boaz's case for liberty is overwhelmingly economic and technocratic: it makes us prosperous and promotes technological progress. "The biggest issue for most Americans in the 1990s is preserving economic growth." Oh? The biggest concern for many of us is, arguably, our disintegrating social fabric and rising barbarism. The Information Age will, he confidently predicts, make the clumsy state "obsolete." Government's "discoordination of the market process is making us less prosperous than we could be" and impeding progress; high-tech entrepreneurs will increasingly just bypass it. In a nutshell: Out of the way, government, you're obstructing progress!

Because of this focus, Boaz skates over the tough social issues. Boaz's technocratic economism will not convince religious conservatives who do not see consumption as their purpose in life and who hope for Heaven rather than a high-tech Brave New World. Their concerns are valid, but left undressed.

Given the reality of evil, and the imperative of preserving a safe, wholesome living environment, prudential constraints on conduct in the *public square*, as opposed to one's home (which Boaz sees, rightly, as one's castle), make sense. Laws against indecent exposure and inciting to riot, say. Perhaps Boaz will engage conservative concerns in future works. He doesn't here.

But overall, he performs ably. As a concise, competent introduction to libertarianism, Boaz's primer can't be beat. Perhaps "the libertarian moment" has arrived. If libertarianism seizes its moment, it will be thanks in no small part to this book. □

Dr. Attarian is a freelance writer in Ann Arbor, Michigan.

Epitaph for American Labor

by Max Green

AEI Press • 1996 • 207 pages • \$24.95

Reviewed by David Kendrick

From a former New York representative of the American Federation of Teachers (AFT) comes *Epitaph for American Labor*, which, according to its author, Max Green, "testifies to a reversal of my own thinking. . . . Whatever was true of yesterday's [union] movement, today's movement practices a variety of reactionary leftism that opposes America's values and interests." With Big Labor conspicuously flexing its political muscles these days, a book that deflates its pretensions is most welcome.

It was not always like this, Green writes, as he recalls the pragmatic nature of organized labor's leadership pre-New Deal: "Through its first century, the American trade union movement was distinguished by its rejection of socialism." This moderation was due primarily to the leadership of Samuel Gompers, founder of the American Federation of Labor (AFL), who, perceiving the state as the "executive arm of the dominant economic class . . . saw nothing to be gained by bringing government into the equation between business and labor."

Indeed, Green points out, the union movement's "top priority during the Gompers era was the passage of legislation to keep government *out* of labor-management disputes," culminating with the 1932 Norris-LaGuardia Act exempting union officials from antitrust lawsuits. (Unfortunately, organized labor had succumbed to the temptation to resort to politics by this time—Norris-LaGuardia also outlawed antitrust lawsuits, "yellow dog" contracts under which employees agreed as a condition of employment not to join a union.) As late as 1938, union officials in the Gompers tradition *opposed* a minimum wage, according to Green, "out of fear that if government could impose a minimum wage, it could also impose a maximum wage." Contrast that early opposition of union leaders to the incessant, multimillion-dollar campaign in which the AFL-CIO hierarchy succeeded in bludgeoning enough Republican congressmen to raise the minimum wage last year.

While this turn in the union hierarchy's attitude toward state intervention has been well-documented, Green breaks new ground in our understanding of Big Labor's role in the Cold War, taking issue with the often-expressed idea that the

unions were important in the victory over communism.

As the Cold War was beginning in the late 1940s, David Dubinsky, president of the International Ladies Garment Workers Union, proclaimed that "whether democracy was to revive in the countries overrun by Hitler and Mussolini lay in the trade unions." By this rationale, the principal weapons against the expansion of Soviet hegemony lay in the herding of workers into union ranks, and such so-called "democratization" schemes as the expropriation of privately owned land for redistribution by the state, or "land reform."

In Vietnam, for example, the redistribution of land, intended to "win hearts and minds," but imposed on the South Vietnamese people by the United States at the AFL-CIO's insistence, led to "resentment, felt at several levels of Vietnamese government and society, of interference by foreigners." In the end, Green concludes, these social efforts to undermine the internal insurgency of the Viet Cong were just "a sideshow diverting attention from the harsh but essential task of meeting the military challenge from the North."

During the 1980s, the Reagan Administration sought to rebuild U.S. defenses while reducing the budget deficit. But the AFL-CIO's executive council insisted, first, on smaller increases than what Reagan thought was necessary, then later in the decade, that "if vital [domestic] programs are to be cut or frozen, defense spending must also be frozen." And in 1983, six of the AFL-CIO's ten largest unions supported the nuclear freeze.

While unionists and their more avid supporters

have made much of the AFL-CIO's support for the Solidarity trade union as a factor in bringing down the Iron Curtain, Green points out that the periodic and futile labor protests which had continued in Poland since 1956 would probably have "continued indefinitely had it not been for ... a transformed Catholic Church."

In the wake of Pope John Paul's 1979 visit to Poland, Solidarity leader Lech Walesa recounted that "millions of unorganized and unaffiliated Poles had suddenly seen themselves as a community under the leadership of the church—an experience that a year afterward had led to the creation of Solidarity." According to Green, this outpouring of emotion, coupled with a new alliance between the Church and dissident intellectuals "formed the basis for the birth of Solidarity as a liberation movement, as distinguished from an ordinary trade union." Thus, Solidarity's role in liberating Poland had far more to do with the unification of all Polish society than it did with traditional trade unionism.

Union officials have coerced and even terrorized millions of workers they claim to represent, but their big-government, socialistic agenda is contrary to their interests. There are no more excuses to disregard the natural right of employees to decide for themselves if a union deserves their financial support. □

David Kendrick is program director for the National Institute for Labor Relations Research, a charitable organization providing research and analysis on the social and economic inequities of compulsory unionism.

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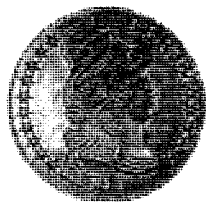
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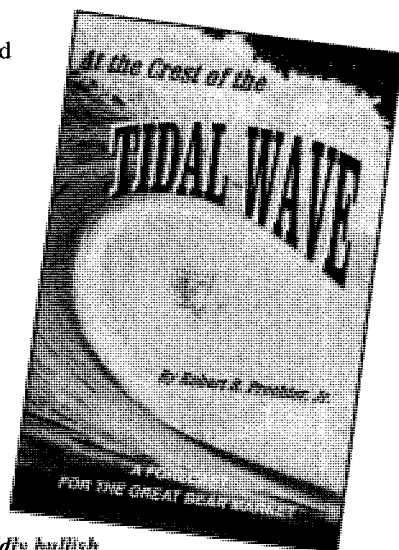
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IDEAS ON LIBERTY

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Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of \$30.00 or more receive a subscription to *The Freeman*. Student subscriptions are \$10.00 for the nine-month academic year; \$5.00 per semester. Additional copies of this issue of *The Freeman* are \$3.00 each. For foreign delivery, a donation of \$45.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

The "Right to Medical Care"

The idea of a right to medical care is so blithely tossed around that most people never take time to ponder the rather serious consequences that would flow from it. It is a classic pseudo-right. A pseudo-right is any claim expressed in rights language that would expand the power of the state at the expense of genuine rights.

The "right to medical care" is seductive. People not accustomed to dissecting political discourse will think of the benefits of having their medical services provided "free" or at a guaranteed affordable price. More sophisticated people may see the proposal as a giant insurance system and feel that there can be no danger in it. If all citizens pay and all have access to care when they need it, what could be wrong?

Well, a lot could be wrong. Let's start with something basic: for a right to be genuine, it has to be capable of being exercised without anyone's affirmative cooperation. The full exercise of my right of self-ownership requires you to do nothing except refrain from killing or assaulting me. The full exercise of my property rights requires you to do nothing except refrain from taking what is mine. You have no positive, enforceable obligations to me, apart from any you accept through contract.

That principle of nonobligation is an excellent test to which we can submit any proffered right. How does the right to medical care hold up? Leaving out self-treatment, it is difficult to see how there can be such a right. Medical care, unlike air, is not found superabundant in nature. It is produced by someone who spends resources to acquire expertise and education. It requires the use of instruments and drugs, which have to be manufactured by someone. Who is to provide these things? Does the provider have any choice in the matter? What if he refuses? Should he be forced? If

so, how shall we distinguish that person from an indentured servant or slave?

Since the “right to medical care” requires an affirmative obligation, it fails the rights test. Put simply, that “right” cannot coexist with the right to be left alone.

Implementation of the “right” does not typically entail forcing doctors, nurses, and manufacturers of medical instruments and pharmaceuticals to provide their services at gunpoint. So what I have said above may not seem germane. But it is, because although providers are not compelled, the taxpayers are. Taxation is somewhat less egregious than conscription, but it is still compulsion. Appropriating people’s earnings is tantamount to appropriating their time and labor. Since the compulsion of taxation is spread across large numbers of people, it is less noticeable than the conscription of medical personnel. But it doesn’t fundamentally change what’s going on.

That is only the beginning of what’s wrong with trying to enforce a right to medical care. Imagine for a moment a right to apples. That may sound nice, but an immediate problem arises. How many apples? Scarcity is the natural condition, which means that any given moment our wishes exceed the supply of the things we want. (Freedom and free markets have this knack for loosening nature’s rather strict bonds of scarcity.) Declaring such a right would be an efficient way of emptying the shelves of apples. And let us ignore the significant question of who would produce apples if we all had a right to them.

We might decide to trust people to take only what they need. But that doesn’t get us out of trouble. Even if we assume a population of considerate people, “need,” in this context, is a subjective notion. You can probably live without apples; so in one sense, you need none. But if we expand the concept of “need” a little, we open the gates

to endless disagreement over who needs how many apples. I may think I need many more than you. There is no way to resolve a dispute of that nature. Well, there is one way: the state can ration apples. We could trust the government to scientifically determine how many apples each of us needs. And if you believe that, you will also believe that the ruling party won’t manage to get more apples than the rest of us.

Government control of apples might be no more than an inconvenience. Government control of medical care would be life threatening. Yet what is the alternative once a “right to medical care” is declared? There is no way all people can have all the medical care they wish to have if it is (that is, appears to be) costless. The government will have to decide who gets what. How many of us would take comfort in that?

Here is the crux of the issue. The right to medical care must mean—no exceptions—the power of government, in principle, to determine who gets what. It may not exercise that power immediately. But given the economics of the matter, it will, sooner or later. I submit that this has nothing to do with rights and everything to do with control, literally, of people’s lives.

I do not exaggerate. A major ethical issue these days involves the “right to die,” or the right to assisted suicide. That is overshadowing one that may be more consequential, the so-called “duty to die.” Some years ago, then-Colorado Governor Richard Lamm argued that old people should know when it is time to quit this earth in favor of younger people. (The civil libertarian Nat Hentoff wrote recently that Lamm is, inexplicably, a devotee of exercise.) John Hardwig, a medical ethicist and social philosopher, has now picked up the cause of the duty to die. He writes that medical advances and an “individualist culture” may have many people believing that “they have a right to medical care and a right to live,

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despite the burdens and costs to our families and society." He adds that "there may be a fairly common responsibility to end one's life in the absence of any terminal illness . . . a duty to die even when one would prefer to live."

For our purposes we need not address whether an old person should preserve his heirs' inheritance rather than spend it on medical care. At the moment, that is a private, not a political, matter of how one spends one's own money. (The inheritance tax could have consequences for such a decision.) What is relevant is how that ethical issue is transformed when government controls medical spending via "the right to health care." The Lamm-Hardwig line would be translated into a rather unpleasant public policy: the withholding of care for the elderly in the name of "making room" for the young. The government giveth rights; the government taketh them away. As a matter of public policy, might not the politicians and bureaucrats decide that heart transplants, knee replacements, and mastectomies for octogenarians are a waste of money? This sort of thing is not considered beyond the pale in the increasingly fragile welfare states of western Europe.

All of this is a rather roundabout way of identifying the worst aspect of the "right to medical care": the tethering of the citizen to the state. For all the criticism that is leveled

at Medicare and proposals to reform medical care in general, too little attention has gone to that uncomfortable fact. If government controls medical spending, it controls you, including the very length of your life.

We may correlate the progress of mankind with the extent of its independence from the state. To put it mildly, national health insurance would be a setback.

Yet that is the direction in which we move. New regulations governing the portability of insurance policies and coverage of existing conditions all portend creeping comprehensive control. The newest cause, uninsured children, does the same. Ludwig von Mises explained why in his *Critique of Interventionism*. One regulation creates problems, which are used to justify the next intervention. For example, if Congress says mental-health benefits have to be equal to medical benefits, the cost of insurance will go up. That will then be the excuse to force young people who don't wish to pay those premiums to buy insurance. Next on the agenda will be price controls on doctors and insurance companies. When companies flee the straitjacketed market, the government will step in. This is not conspiracy. It's logic.

It all starts with an innocuous phrase, the right to medical care. Language is a potent thing. Let us handle it with care.

—SHELDON RICHMAN

Mr. Richman is this issue's Guest Editor.

The Perversity of Doing Good at Others' Expense

by Dwight R. Lee

Assume your 45-year-old friend is critically ill and will die by tomorrow morning unless something extraordinary is done. Miraculously, it becomes possible for you to save your friend. But to do so you have to shorten the lives of all other Americans by a small amount. By taking away ten seconds of life from someone else, you can extend the life of your friend by five seconds. When this transfer is made from all 260 million Americans, he will receive approximately an additional 41 years and four months of life, thus achieving an enviable life span of over 86 years.

Will you use your power to save your friend? Almost surely the answer is yes. Will saving your friend be an act of virtue? The answer to this question is more complicated. Saving your friend's life will be widely perceived as a virtuous act, but a strong case can be made that it would be a harmful act of callous self-interest. The sharp contrast between perception and reality in this fabricated example is unfortunately relevant to the world of politics, and explains why organized interest groups can capture small private gains at great social costs through political actions widely seen as virtuous.

I readily admit that if a good friend of mine were desperately ill, I would save him by

shortening the life of everyone in the general population by a few seconds if I had the power to do so. Although the gain in life for him would be less than the total loss of life for others, the gain would be dramatically visible, greatly appreciated, and easily associated with my act of "kindness," while the loss would be so diffused that it would go completely unnoticed. Even if the others were aware of their cost for saving my friend, a large majority of them would probably vote in favor of making their individual sacrifice (and obligating others to do the same) to extend his life, since that sacrifice was so low. We could all feel the warm glow of compassion over our virtuous sacrifice for the good of another.

There is a problem here, however. If it is so noble to save my friend's life by transferring a few seconds from everyone else, then it must also be equally noble to extend this benefit to others. But consider the destructive consequences of each of us having the power to add years to our best friend's life (which in most cases would be our own) by reducing the life of everyone else by a few seconds (but with the total life lost being twice that gained). With everyone trying to lengthen his or her life at the expense of others, the result would be an early death for everyone. Generalizing the earlier example of a two-second loss for a one-second gain, if everyone attempted to capture 41 years of additional life by transferring seconds from others, everyone would

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have his or her life shortened by 41 years. For someone my age this would, at best, mean instant death, and more likely a retroactive one.

So if the ability to extend one person's life by shortening the lives of others were immediately generalized to everyone, the consequences would be quickly recognized as disastrous. But if only a few had this ability initially, and it was expanded to more people very gradually, it would take a while for the harmful consequences to be noticed.¹ And probably people would be unaware of the connection between the reduced life expectancy of most and the longer life span of the few, the result being a clamor to expand the method prolonging the lives of the few. Even when the connection between the expanded transfer process and the ever-shortening life expectancy began to be recognized, no one would willingly cease attempting to benefit from the transfers. The person who unilaterally refused to transfer years from others to himself would lose twice the life expectancy as before, as others continued to transfer life from him to themselves. Of course, there might be a movement to stop the transfer process if anyone were left alive to initiate it.

But what if the destructive effect of the transfer process were masked by medical advances that caused a slight increase in life expectancy? Then the life lost because of the transfers might go largely unnoticed. Some would understand the harm being imposed by the transfers, but they would find it difficult to get people exercised by the loss of what they never had, which exists only in a counterfactual setting with which they are not familiar. Also, any attempt to get people to oppose the transfers faces a serious free-rider problem. Why should an individual incur a private cost in an effort that, even if successful, provides general benefits to everyone regardless of his or her contribution to the effort? For each person the advantage is in devoting the effort necessary to benefit from transfers, an effort that concentrates a benefit entirely on him or her, rather than in making the far less decisive effort to achieve benefits for the general public.

Real-World Transfers

Of course, my example of extending the lives of some by reducing the lives of others is fortunately a fanciful one. Unfortunately, it describes all too well the type of transfer that increasingly dominates the political process. The coercive power of the federal government to perform its few legitimate functions has always been a source of temptation for those who see the possibility of solving their problems through transfers from others. The case for yielding to this temptation is superficially appealing because government transfers could create concentrated and visible benefits for politically organized and appreciative groups while spreading the costs so widely that they go largely unnoticed.

Fortunately, for approximately the first 100 years after the ratification of the U.S. Constitution, the prevailing understanding was that the role of government was a limited one. Government was not intended to solve the problems of individuals; rather it was to establish a setting in which they could best solve their own problems in productive cooperation with each other. That view was exemplified by Grover Cleveland's 1887 veto of a bill passed by Congress to provide \$10,000 to drought-stricken farmers in Texas. In his veto message Cleveland stated, "A prevalent tendency to disregard the limited mission of [the government's] power and duty should be steadfastly resisted, to the end that the lesson should be constantly enforced that, though the people support the Government, the Government should not support the people."²

Unfortunately, as Cleveland was vetoing seed bills, U.S. Supreme Court decisions began opening the door for increased government regulation of the economy.³ Regulation, supposedly aimed at protecting the general public against abuse by business and other organized interests, is invariably controlled by those interests to reduce the competition they face. That amounts to a transfer from the general public to those being regulated, in the form of higher prices and a less productive economy. The growth of such transfers began rather modestly. Resistance to it was well entrenched, but the concen-

trated benefits appeared larger than the diffused (but actually larger) costs. As the number of beneficiaries increased with little apparent cost, the case for including more beneficiaries seemed compelling. Even when the costs of government transfers were noticed, they were seldom associated with the transfers that caused them. Indeed, the costs created by the transfers were commonly cited as problems that justified government solutions in the form of yet further transfers. The most egregious example of hoping the cause can be the cure was the expansion of government control in response to the depression of the 1930s, a depression prolonged, if not caused entirely, by a combination of federal tariff increases and Federal Reserve mismanagement of the money supply.

Soon government transfers were going beyond protective regulation and increasingly taking the form of direct payments and subsidies. In 1900 the entire federal budget amounted to only about 3 percent of the nation's GDP, with little of it devoted to transfers. By 1962 federal transfers to individuals (not including interest payments) amounted to 27 percent of federal outlays and to 5.2 percent of GDP. By 1993 federal payments to individuals had increased to 56 percent of federal outlays (85 percent when interest payments and national defense are excluded) and to 10.5 percent of the GDP.⁴

Noble Objectives

These budgetary transfers are almost always rationalized in the name of some noble public objective—helping the poor, protecting American jobs, saving the family farm, making the American economy more competitive. The reality is that the benefits from these transfers are concentrated primarily on organized interest groups and do little to achieve the noble objectives. Indeed, progress toward the goal is invariably retarded as the costs of transfers spread inefficiencies throughout the economy. Poverty programs have increased the number and dependency of the poor, trade restrictions and export subsidies have destroyed more productive jobs to save less productive ones, farm subsidies have

done more to help large corporate farms than small family farms, and corporate welfare has hindered American competitiveness by subsidizing failure.

Those failures are rooted in the fact that, just as in my life-extending example, government transfers add less value than they destroy. Government transfers systematically reduce the productivity of the economy, productivity essential for solving the social problems the government claims to be addressing. The wastefulness of government transfers is inherent in the very process that explains them. Because the benefits of transfers are concentrated, they are magnified by the political process, while the dispersed costs are devalued. The result is that the political benefit-cost comparison continues to show gains from transfers long after the social benefit-cost comparison is decisively negative. The ratio of losses to gains from many political transfers is far larger than the 2-to-1 ratio assumed in the example of life-expectancy transfers. For example, in California taxpayers are paying for water-diversion projects that provide water at \$212 per acre-foot to farmers who pay for it at a rate of \$3.50 per acre-foot.⁵ Or consider amendments to the Clean Air Act that protected Eastern coal producers against competition from Western coal by imposing scrubber requirements on electric generating plants to remove sulphur even if they burn low-sulphur Western coal. It has been estimated that this requirement costs electricity consumers approximately one dollar for every nickel it transfers to coal producers, not to mention the resulting reduction in environmental quality.⁶

Yet, attempts to point out the failure of an ever-expanding government role in the economy are typically met with complacency and often hostility. Again, as with the example of transferring life expectancy, it is easy to see the concentrated benefits from government transfers. It's even easier to ignore the generalized costs and see them as unrelated to the benefits. The economy, after all, has continued to grow. It would be difficult for anyone to know just how much greater that growth could have been, and most people are unaware of how costly even a slight reduction in

economic growth is over time.⁷ And even if people were aware of the general costs of government transfers, no individual would see the advantage in opposing them in general since the private advantage lies in getting more transfers for your group. Those who do suggest cutting back on transfers will encounter hostility from the beneficiaries, who realize that the amount they have to pay for the transfers to others is independent of whether or not they continue to receive theirs. Even many of those paying for a benefit going to others often respond negatively to advocates of reducing, or eliminating, that benefit because of its visible virtue and the lack of a detectable cost to any individual.⁸

The dynamic of government transfers is an insidious one that invariably leads to the disastrous situation Bastiat predicted: the state becomes "that great fictitious entity by which everyone seeks to live at the expense of everyone else."⁹

Both the fanciful possibility of helping some people with transfers of life from others, and the factual possibility of helping some people with government wealth transfers from others, illustrate the perversities that result when people attempt to do good at others' expense. Such attempts always give the appearance of promoting virtue while destroying the discipline and accountability that makes real virtue possible. □

1. I assume here that there is a strict limit on how much life can be transferred from others.

2. Quoted in Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987), p. 84.

3. Higgs discusses many of these decisions and their consequences in *ibid.* Also see Terry Anderson and Peter J. Hill, *The Birth of a Transfer Society* (New York: University Press of America, 1989).

4. These figures come from Herbert Stein and Murray Foss, *The New Illustrated Guide to the American Economy* (Washington, D.C.: The AEI Press, 1995), p. 212.

5. See Dennis C. Mueller, *Constitutional Democracy* (New York: Oxford University Press, 1996), p. 11.

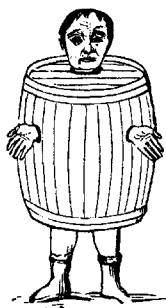
6. See George Daly and Thomas Mayor, "Equity, Efficiency and Environmental Quality," *Public Choice*, vol. 51, no. 2 (1986): 141-59.

7. It should be noted that the larger government involvement in the economy, the more the official national income statistics overstate the national income. The growth in the private sector is determined by the amount people voluntarily pay for goods and

services. Since there is generally no market for government-provided services, they enter into the national income accounts at the cost of providing them, which is almost always greater than their value. So GDP can, and often is, increased by government transfers that reduce the total value of economic output. To bring my example of transferring life expectancy in line with government transfers, the additional life one received from a transfer would have to be counted for more than it actually is.

8. Because the influence of any individual voter on a political decision to make a transfer is effectively zero, the opportunity cost of favoring a transfer is also effectively zero, even if the transfer is known to be individually costly. Therefore, if a person has been led to believe that a transfer is virtuous and he places even a modest value on the sense of virtue that comes from supporting the transfer, he will vote for it regardless of the personal cost if it passes. See Geoffrey Brennan and Loren Lomasky, *Democracy and Decision: The Pure Theory of Electoral Preference* (Cambridge: Cambridge University Press, 1993).

9. Quoted in George Roche, *Free Market, Free Men: Frederic Bastiat, 1801-1850* (Hillsdale: Hillsdale College Press and The Foundation for Economic Education, 1993), p. 150.



Competition and Cooperation

by David Boaz

Defenders of the market process often stress the benefits of competition. The competitive process allows for constant testing, experimenting, and adapting in response to changing situations. It keeps businesses constantly on their toes to serve consumers. Both analytically and empirically, we can see that competitive systems produce better results than centralized or monopoly systems. That's why, in books, newspaper articles, and television appearances, advocates of free markets stress the importance of the competitive marketplace and oppose restrictions on competition.

But too many people listen to the praise for *competition* and hear words like *hostile*, *cut-throat*, or *dog-eat-dog*. They wonder whether cooperation wouldn't be better than such an antagonistic posture toward the world. Billionaire investor George Soros, for instance, writes in the *Atlantic Monthly*, "Too much competition and too little cooperation can cause intolerable inequities and instability." He goes on to say that his "main point . . . is that cooperation is as much a part of the system as competition, and the slogan 'survival of the fittest' distorts this fact."

Now it should be noted that the phrase "survival of the fittest" is rarely used by advocates of freedom and free markets. It was coined to describe the process of biological evolution and to refer to the survival of the traits that were best suited to the envi-

ronment; it may well be applicable to the competition of enterprises in the market, but it certainly is never intended to imply the survival of only the fittest individuals in a capitalist system. It is not the friends but the enemies of the market process who use the term "survival of the fittest" to describe economic competition.

What needs to be made clear is that those who say that human beings "are made for cooperation, not competition" fail to recognize that the market is cooperation. Indeed, as discussed below, it is people competing to cooperate.

Individualism and Community

Similarly, opponents of classical liberalism have been quick to accuse liberals of favoring "atomistic" individualism, in which each person is an island unto himself, out only for his own profit with no regard for the needs or wants of others. E. J. Dionne Jr. of the *Washington Post* has written that modern libertarians believe that "individuals come into the world as fully formed adults who should be held responsible for their actions from the moment of their birth." Columnist Charles Krauthammer wrote in a review of Charles Murray's *What It Means to Be a Libertarian* that until Murray came along the libertarian vision was "a race of rugged individualists each living in a mountaintop cabin with a barbed wire fence and a 'No Trespassing' sign outside." How he neglected to include "each armed to the teeth" I can't imagine.

Of course, nobody actually believes in the

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sort of “atomistic individualism” that professors and pundits like to deride. We do live together and work in groups. How one could be an atomistic individual in our complex modern society is not clear: would that mean eating only what you grow, wearing what you make, living in a house you build for yourself, restricting yourself to natural medicines you extract from plants? Some critics of capitalism or advocates of “back to nature”—like the Unabomber, or Al Gore if he really meant what he wrote in *Earth in the Balance*—might endorse such a plan. But few libertarians would want to move to a desert island and renounce the benefits of what Adam Smith called the Great Society, the complex and productive society made possible by social interaction. One would think, therefore, that sensible journalists would stop, look at the words they typed, and think to themselves, “I must have misrepresented this position. I should go back and read the libertarian writers again.”

In our time this canard—about isolation and atomism—has been very damaging to advocates of the market process. We ought to make it clear that we agree with George Soros that “cooperation is as much a part of the system as competition.” In fact, we consider cooperation so essential to human flourishing that we don’t just want to talk about it; we want to create social institutions that make it possible. That is what property rights, limited government, and the rule of law are all about.

In a free society individuals enjoy natural, imprescriptible rights and must live up to their general obligation to respect the rights of other individuals. Our other obligations are those we choose to assume by contract. It is not just coincidental that a society based on the rights of life, liberty, and property also produces social peace and material well-being. As John Locke, David Hume, and other classical-liberal philosophers demonstrate, we need a system of rights to produce social cooperation, without which people can achieve very little. Hume wrote in his *Treatise of Human Nature* that the circumstances confronting humans are (1) our self-interestedness, (2) our necessarily limited generosity toward others, and (3) the scarcity of re-

sources available to fulfill our needs. Because of those circumstances, it is necessary for us to cooperate with others and to have rules of justice—especially regarding property and exchange—to define how we can do so. Those rules establish who has the right to decide how to use a particular piece of property. In the absence of well-defined property rights, we would face constant conflict over that issue. It is our agreement on property rights that allows us to undertake the complex social tasks of cooperation and coordination by which we achieve our purposes.

It would be nice if love could accomplish that task, without all the emphasis on self-interest and individual rights, and many opponents of liberalism have offered an appealing vision of society based on universal benevolence. But as Adam Smith pointed out, “in civilized society [man] stands at all times in need of the cooperation and assistance of great multitudes,” yet in his whole life he could never befriend a small fraction of the number of people whose cooperation he needs. If we depended entirely on benevolence to produce cooperation, we simply couldn’t undertake complex tasks. Reliance on other people’s self-interest, in a system of well-defined property rights and free exchange, is the only way to organize a society more complicated than a small village.

Civil Society

We want to associate with others to achieve instrumental ends—producing more food, exchanging goods, developing new technology—but also because we feel a deep human need for connectedness, for love and friendship and community. The associations we form with others make up what we call civil society. Those associations can take an amazing variety of forms—families, churches, schools, clubs, fraternal societies, condominium associations, neighborhood groups, and the myriad forms of commercial society, such as partnerships, corporations, labor unions, and trade associations. All of these associations serve human needs in different ways. Civil society may be broadly defined as all the natural and voluntary associations in society.

Some analysts distinguish between commercial and nonprofit organizations, arguing that businesses are part of the market, not of civil society; but I follow the tradition that the real distinction is between associations that are coercive—the state—and those that are natural or voluntary—everything else. Whether a particular association is established to make a profit or to achieve some other purpose, the key characteristic is that our participation in it is voluntarily chosen.

With all the contemporary confusion about civil society and “national purpose,” we should remember F. A. Hayek’s point that the associations within civil society are created to achieve a particular purpose, but civil society as a whole has no single purpose; it is the undesigned, spontaneously emerging result of all those purposive associations.

The Market as Cooperation

The market is an essential element of civil society. The market arises from two facts: that human beings can accomplish more in cooperation with others than individually and that we can recognize this. If we were a species for whom cooperation was not more productive than isolated work, or if we were unable to discern the benefits of cooperation, then we would remain isolated and atomistic. But worse than that, as Ludwig von Mises explained, “Each man would have been forced to view all other men as his enemies; his craving for the satisfaction of his own appetites would have brought him into an implacable conflict with all his neighbors.” Without the possibility of mutual benefit from cooperation and the division of labor, neither feelings of sympathy and friendship nor the market order itself could arise.

Throughout the market system individuals and firms compete to cooperate better. General Motors and Toyota compete to cooperate with me in achieving my goal of transportation. AT&T and MCI compete to cooperate with me in achieving my goal of communication with others. Indeed, they compete so aggressively for my business that I have cooperated with yet another communications

firm that provides me with peace of mind via an answering machine.

Critics of markets often complain that capitalism encourages and rewards self-interest. In fact, people are self-interested under any political system. Markets channel their self-interest in socially beneficial directions. In a free market, people achieve their own purposes by finding out what others want and trying to offer it. That may mean several people working together to build a fishing net or a road. In a more complex economy, it means seeking one’s own profit by offering goods or services that satisfy the needs or desires of others. Workers and entrepreneurs who best satisfy those needs will be rewarded; those who don’t will soon find out and be encouraged to copy their more successful competitors or try a new approach.

All the different economic organizations we see in a market are experiments to find better ways of cooperating to achieve mutual purposes. A system of property rights, the rule of law, and minimal government allow maximum scope for people to experiment with new forms of cooperation. The development of the corporation allowed larger economic tasks to be undertaken than individuals or partnerships could achieve. Organizations such as condominium associations, mutual funds, insurance companies, banks, worker-owned cooperatives, and more are attempts to solve particular economic problems by new forms of association. Some of these forms are discovered to be inefficient; many of the corporate conglomerates in the 1960s, for instance, proved to be unmanageable, and shareholders lost money. The rapid feedback of the market process provides incentives for successful forms of organization to be copied and unsuccessful forms to be discouraged.

Cooperation is as much a part of capitalism as competition. Both are essential elements of the simple system of natural liberty, and most of us spend far more of our time cooperating with partners, coworkers, suppliers, and customers than we do competing.

Life would indeed be nasty, brutish, and short if it were solitary. Fortunately for all of us, in capitalist society it isn’t. □

Discovery and Economic Freedom

by Daniel B. Klein

When an economist stands at the blackboard and draws a supply-and-demand diagram, he pretends he knows all the relevant opportunities. Economists must posit such settings to frame the story. When stories are given an exact formulation, especially when expressed in math or diagrams, they are called “models.” A resolution in such a model is called “equilibrium.” Models teach us much about competition, investment, and many other important topics in economics. But overexposure to models can impair our ability to see other important facets of economic processes. One begins to forget that there is so much that is *not* known.

Focusing on blackboard models limits our understanding of economic freedom. Economists focus so much on models like supply and demand, rather than on public issues, that freedom is understood only for what it achieves in such models. Equilibrium stories of price ceilings, price floors, and entry barriers lead us to think of markets as neatly characterized procedures, and of freedom as little more than the freedom to choose within these procedures. It may be the freedom of tenants to choose high-rent apartments, of

laborers to choose low-wage employment, or of consumers to choose the services of unlicensed electricians. Because equilibrium stories posit the industry, the preferences, and the opportunities, all that freedom accomplishes is a more efficient utilization of given resources.

Economists rarely talk of discovery, imagination, or serendipity, and consequently they tend to neglect these as vital factors of economic progress. They often carry over their habits of mind to public policy. In consequence, they are insensible to the fact that government restrictions on freedom tend to choke off the vital discovery factors.

For example, the economist might think that in making policy for urban transit, government experts can, after much careful study, adequately determine the transit technologies and systems that would suit the city’s needs, and then implement the system. I would dispute that approach, regardless of the particular transit system proposed. We shall return to the example of urban transit throughout this essay.

Freedom to choose among a set of given alternatives is but one facet of freedom. I will discuss three other facets of freedom. Each of them points to a kind of discovery.

Search and Responsedence

As consumers we do not know fully what stores are offering or what prices they are charging. We need to gain information and

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do so by searching. Searching takes time and trouble, but we learn more about the available alternatives.

In other cases, information simply comes to us without our looking for it. Perhaps by chance we encounter advertisements that alert us to valuable opportunities. Perhaps we get into a conversation and learn valuable information we hadn't been actively searching for. Then we revise our plans and respond appropriately to the new information. I call this experience *respondence*.

Whether the individual searches for information or simply receives it in the course of pursuing other goals, let's assume that the newly acquired information fits into his original plans or intentions. He now pursues his plans somewhat differently in response to the new information, but he does not change his basic interpretation of what he is doing.

Search and *respondence* are similar and are treated here together. Economists can incorporate both into their formal models. But search and *respondence* certainly complicate the model, and typically such complications are not worth the trouble. In practice, economists usually leave such features out of their storytelling, unless search and *respondence* are the very focus of their investigation.

Some economists explore the importance of *respondence* and freedom. They explore how uncertainty gives rise to economic practices that economists might otherwise have difficulty explaining—practices like queuing, order backlogging, second sourcing, and vertical integration. Ronald Coase has emphasized the importance of special opportunities and business idiosyncracies, such as “differences in the point of time at which payments are made and receipts obtained.”¹ These points often show an appreciation for individuation (uniqueness) and uncertainty in local conditions, and suggest that infringements on freedom prevent proper *respondence*.

Unrestricted *respondence* carries not only a flexibility in making one's choices in isolation but also the freedom to form elaborate contracts that grant one flexibility in relations with others. Though hoping to follow plan A, one might contract in advance for the *option*

of pursuing plan B, or plan C, or whatever plan would best respond to the contingency. For example, Arthur DeVany and Ross Eckert tell how, in the golden age, motion-picture companies worked on a contract system with film stars and other talent, and vertically integrated into the movie-house business, because of severe and pervasive uncertainties on both the supply side and the demand side of the industry. They argue that the Supreme Court's *Paramount* decision (1948), which broke up the production-house system, was based on an oversimplified notion of “restraint of trade,” and resulted in losses for filmmakers and audiences alike.²

In our example of free-enterprise urban transit, severe uncertainty and individuation might be fundamental, and adaptation crucial. Carriers might not expect current conditions to persist. New competitors might invade their routes or current competitors drop out. The carrier companies may wish to abandon certain routes or add others. For such reasons they may wish to lease their buses and vans, and form contracts that permit them to alter on short notice how they use their vehicles. They may form flexible contracts with their drivers, allowing the company to alter hours and remuneration. In unregulated private enterprise, such flexible *respondence*, as is common practice, is an important source of both cost containment and effective service. But it is seldom captured in equilibrium storytelling.

Epiphany

It is one thing for the entrepreneur to greet fortune when it comes knocking. It is something else to apprehend fortune in its hidden forms and seize it. Here we have the distinction between responding to the realization of events within a framework of recognized variables and relationships and the discovery of a fresh opportunity to embrace a new and better framework. This element of epiphany, of finding fortune by interpreting the world differently, is the subtle and vital element in human decision-making. Yet it is absent from equilibrium model-building.

An example of epiphany is found in

W. Somerset Maugham's short story "The Verger." A new vicar came to St. Peter's, Neville Square, and called in the church verger to discuss a troubling matter. "I discovered to my astonishment that you could neither read nor write," he told Albert Edward Foreman, the verger of 16 years. When directed to learn to read and write, Albert Edward replied, "I'm too old a dog" and bid the vicar a friendly farewell. He hung up his verger's gown and went into the street. He was a nonsmoker, but with a certain latitude, and it occurred to him that a cigarette would comfort him. He looked up and down the long street without finding a shop that sold cigarettes.

"I can't be the only man as walks along this street and wants a fag," he said. "I shouldn't wonder but what a fellow might do very well with a little shop here. Tobacco and sweets, you know."

He gave a sudden start.

"That's an idea," he said. "Strange 'ow things come to you when you least expect it."

He turned, walked home, and had his tea.

"You're very silent this afternoon, Albert," his wife remarked.

"I'm thinking," he said.

The former verger set up in business as a tobacconist and news agent. Soon he set up more shops, and in time accumulated a small fortune. The distinguished gentleman went to the bank to put his wealth into securities and startled the bank manager by announcing that he could not read or write. "Good God, man, what would you be now if you had been able to?" "I can tell you that, sir," replied Mr. Foreman. "I'd be verger of St. Peter's, Neville Square."³

Maugham's story tells of a man who not only discovered something he wasn't looking for, but discovered something he quite possibly might not have discovered at all. In Israel Kirzner's terms, the verger was alert to a profit opportunity.⁴ The verger's apprehension of the street as a bad place to find a cigarette was a realization in his working framework. Apprehending it as a good place to set up a

tobacco shop was not. The opportunity could have been missed entirely or noticed only fleetingly.

Economists give some attention to innovation in the sense of significant and identifiable technological advance. But they give very little attention to alertness or epiphany in all their buzzing, blooming—yet very often mundane—manifestations. The verger's story is material for neither a news headline nor an elegant model. Nor is it captured by any variable called "education" or "R&D." It is nonetheless the kind of small breakthrough everyone makes now and then, and which, in aggregate, accounts for significant economic improvement. It is creativity and imagination, achieved countless times over, in the individuated worlds of individuals. Whereas search/respondence explores the individual's adaptation within his individuated world, Kirzner's alertness is the individual's reformulation of that world.⁵ This human experience of reformulating, or reinterpreting, one's world, this element of epiphany, is by its very nature virtually impossible to capture within an equilibrium model.⁶

Too often economists neglect the effects of public policy on alertness and the discovery process. Kirzner however queries: What economic and political institutions can be expected most successfully to evoke entrepreneurial alertness?

In the Somerset Maugham story, the verger noticed something that was now in his interest to notice. At the heart of Kirzner's distinctive argument for economic freedom is his recognition that two people walking down the same street will see different things. That difference, he writes, "can be ascribed, in part, to the *interests* of the two individuals. Each tends to notice that which is of interest *to him*."⁷ The claim is natural enough and beyond doubt. It implies that profit opportunities will be best discovered and seized in a legal framework that gives individuals an interest in discovering them.

In formal models, economic freedom (and a host of other assumptions) lead to perfectly efficient outcomes. But Kirzner's argument for freedom is totally missed by such logic and arises only because the ancillary assumptions

of the model do not hold. In real life, many opportunities lie hidden from view. Not only are preferences, constraints, and opportunities individuated in minute detail, but each actor's interpretation of them is individuated.

The market process generates a system of human activities each of which is performed in partial ignorance. There are always discrepancies between available opportunities and market recognition of them. We therefore value, Kirzner argues, a legal system "which offers entrepreneurs the required incentives for the discrepancies to be noticed and corrected."⁸ The legal system that best does so is economic freedom, which keeps individuals alert to profit opportunities because it grants them an interest in seizing them. To Kirzner, the most impressive aspect of the free market is not its ability to generate efficient allocations within a framework of fully recognized ends and means. Rather, "the most impressive aspect of the market system is the tendency for [previously unrecognized ends and means] to be discovered."⁹ Yet this most impressive aspect, which cannot be captured in the language of mainstream economics, is poorly recognized in academic economic research and poorly imparted in economic education.

Consider again the making of policy for urban transit. It is typical for local governments to fix the price of taxi services and to require official meters in taxicabs. An economist might argue that this policy remedies problems of bad consumer information, infrequent dealings, and cabby opportunism. With a model of supply and demand in his head, he might reason that so long as regulators don't set the price too far from "the equilibrium price," the downside of price fixing may not be so bad.

Kirzner would argue that his reasoning is glaringly inadequate. Price competition, he'd say, is crucial to the vibrancy of the market and should not be seen in isolation from other activities in the market process.

Perhaps an upstart company seeks to enter a sleepy local taxi market. It plans to utilize a new maintenance system to keep the cabs in repair or a new dispatching system to provide prompter service to customers. It might offer

new stylish cabs and bring this new service to the consumer's attention by a clever advertising campaign. Finally, it plans on cracking the traditional market by offering—at least temporarily—a well-publicized low price—the lowest in town.

Kirzner's point is that when the government fixes taxi rates, besides running the risk of getting a shortage or surplus, we run the risk of regimenting the industry and choking off the vital process of discovery. If the upstart company cannot offer a new low price, then it is likely to forgo the campaign altogether. Society loses not merely some "quantity supplied," but an entire foray into a local economic terrain, a vital entrepreneurial investigation into new services and new ways of producing them. In carrying out the would-be campaign, the upstart company would have undergone a series of fresh decisions, each of which would have involved entrepreneurial discoveries. The overtrained economic perspective fails to appreciate this larger social loss from government assaults on freedom.

Serendipity

In our discussion of search and response we saw how freedom allows individuals to adapt to individuated conditions by responding to changes in those conditions and forming contracts to cope with them. In our discussion of Kirznerian alertness we saw how freedom sparks individuals to adapt their interpretations of local conditions, to incorporate available but undiscovered profit opportunities into their interpretive framework. There is yet another facet of freedom that helps match appropriate behavior and opportunity.

In a famous article entitled "Uncertainty, Evolution, and Economic Theory," Armen Alchian pointed out that in a market not only does behavior tend to adapt appropriately to opportunity, but opportunity tends to adopt appropriate behavior. The survivors in a market, he explains, "may appear to be those having *adapted* themselves to the environment, whereas the truth may well be that the environment has *adopted* them."¹⁰

Alchian gives an unreal but useful example:

Assume that thousands of travelers set out from Chicago, selecting their roads completely at random and without foresight. . . . [O]n but one road are there any gasoline stations. . . . [T]ravelers will *continue* to travel only on that road; those on other roads will soon run out of gas. . . . If gasoline supplies were now moved to a new road, some formerly luckless travelers again would be able to move; and a new pattern of travel would be observed, although none of the travelers had changed his particular path. . . . All that is needed is a set of varied, risk-taking (adoptable) travelers. The correct direction of travel will be established.¹¹

Alchian asks for an economic understanding that does not limit behavior to the tidy forms of optimization that make equilibrium models cohere. He asks for a more evolutionary understanding that allows "imitative, venturesome, innovative, trial-and-error adaptive behavior."¹² Such behavior, even though not neatly rational, may nonetheless be fortunate enough to find serendipity. Serendipity is a major discovery that one was not looking for, that alters one's own interpretation of what one is doing, and that is obvious to the discoverer. Unlike the epiphany, serendipity does not depend on alertness or insight. It hits you in the face.

Alchian's idea of opportunity adopting appropriate behavior points us toward another facet of economic freedom, again a facet eclipsed by equilibrium model-building. Alchian's point tells us to value freedom even for human behavior that is foolhardy, romantic, or arbitrary. Economic freedom carries the freedom to act regardless of permits, licenses, certification, or other forms of government permission to use one's own property or to enter consensually into dealings with others.

In conjunction with the freedom to experiment comes the responsibility of failure: only if the individual or firm carries the responsibility of failure will the selection mechanism of the competitive market operate to adopt appropriate behavior.

Once a particular type of behavior—be it a way of providing a restaurant, of distributing

auto parts, or of manufacturing textiles—hits upon success, that behavior is imitated and the social benefits increase. Behavior that does not hit upon success perishes. Alchian introduces a ballistics metaphor to make the point: "[s]uccess is discovered . . . not by the individual through a converging search . . . [but] by the economic system through a blanketing shotgun process."¹³ I think of Jed Clampett, the television character of "The Beverly Hillbillies," who inadvertently discovered crude oil while out shooting for some food.¹⁴ That epitomizes serendipity. Freedom produces the widest and fullest blanket of buckshot, and the honest dollar rewards the shots that hit the mark.

Sometimes serendipity comes about not by random shotgunning but by mistake. Many of us have had the experience of making a mistake in using our word-processing program, and, in figuring out how to fix the mistake, discovering some wonderful feature we hadn't known about. Mistake turns out to be a blessing. The historian Samuel Eliot Morison tells of such a case in the early pages of *The Oxford History of the American People*: "America was discovered accidentally by a great seaman who was looking for something else; when discovered it was not wanted; and most of the exploration for the next fifty years was done in the hope of getting through or around it."¹⁵ Alchian points out that a great deal of "pioneering and leadership" in the economic realm occurs by failed attempts at imitation.¹⁶ Because economic freedom presses entrepreneurs into contact and experimentation with their environment, it best generates serendipity.

Compare Alchian's idea of shotgunning with Kirzner's theory of discovery based on interest. In his example of two individuals who walk down the same city block, Kirzner argues that each tends to notice things that he would best be able to make use of. But even if discovery is not led by interest and is merely random, there is a definite benefit to having two, rather than one, encounters with the environment, since with two it is more likely that at least one will serendipitously discover an as-yet undiscovered opportunity. And Alchian's shotgunning idea is especially impor-

tant if discovery depends not only on individual interest, as Kirzner maintains, but also on distinctive talents in perceiving the environment; thus it has been argued that immigrant entrepreneurs sometimes succeed by virtue of their peculiar outlook on things. Each type of mind may have its own special propensity to have happy accidents.

In our example of urban transit, market experimentation might mean new modes, new vehicles, new pricing schemes, new routes, new schedules, new aspects of service, etc. Those changes might come from within the industry, from newcomers, or from entrepreneurs initially based in other industries, perhaps in hotel services, delivery services, or even used-car dealing. A free-enterprise transit policy would invite all comers to take their shot in the market, and let travelers select the most worthy. Depending on their discoveries, niche-finders would survive, or prosper, or induce imitation.

If economists were to allow more attention to the discovery factors, they might find themselves in stronger support of economic freedom. The discovery factors are all linked in their illumination of the following two points: (a) knowledge and opportunity are extremely local and individuated, (b) knowledge and opportunity are constantly changing. These points humble us by telling us that the economy will always be largely unknowable, as Friedrich Hayek argued so powerfully.

If, despite the best intellectual efforts, economic processes will remain largely unknown,

it makes little sense for the regulator, aided by the academic economist, to try to alter outcomes by regulating citizens. The wiser course typically is simply to safeguard the rules of property, consent, and contract, and leave citizens free to discover themselves within that legal framework. □

1. Ronald Coase, "Business Organization and the Accountant" (from articles originally published in 1938), *LSE Essays on Cost*, edited by J. M. Buchanan and G. F. Thirlby (New York: New York University Press, 1981), pp. 95-132.

2. Arthur DeVany and Ross D. Eckert, "Motion Picture Antitrust: The Paramount Case Revisited," *Research in Law and Economics*, vol. 14 (1991): 51-112.

3. W. Somerset Maugham, "The Verger," in *The Complete Short Stories of W. Somerset Maugham*, Vol. III (Garden City, N.Y.: Doubleday, 1952), pp. 572-78.

4. Israel M. Kirzner, *Discovery and the Capitalist Process* (Chicago: University of Chicago Press, 1985).

5. "The crucial element in behavior expressing entrepreneurial alertness is that it expresses the decision maker's ability spontaneously to transcend an existing framework of perceived opportunities," Kirzner, p. 7.

6. Israel M. Kirzner, *Perception, Opportunity, and Profit* (Chicago: University of Chicago Press, 1979), p. 155, wherein he says that the distinctive aspect of entrepreneurial activity is "its inability to be compressed within the equilibrium conception of the market." I believe that the only hope of capturing epiphany within an equilibrium model of optimizing agents is to model the individual human mind as a society of multiple agents; see my paper "Entrepreneurship and the Deep Self."

7. Kirzner, *Discovery*, p. 28.

8. *Ibid.*, p. 30.

9. *Ibid.*

10. Alchian's article was originally published in *The Journal of Political Economy*, 1950. It is reprinted in his *Economic Forces at Work* (Indianapolis, Ind.: Liberty Fund, 1977), quote at p. 22.

11. *Ibid.*

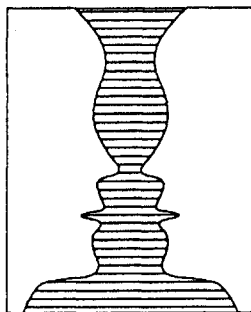
12. *Ibid.*, p. 32.

13. *Ibid.*, p. 31.

14. The genuine counterpart to Jed Clampett is James Marshall, a frontiersman who undertook to build a sawmill in the Sierra Nevadas in 1848. Instead he struck gold and triggered the California gold rush.

15. Samuel Eliot Morison, *The Oxford History of the American People* (New York: Oxford University Press, 1965), p. 23.

16. Alchian, p. 30.



Yes, Virginia, There *Is* a Free Lunch

by William H. Peterson

In the sweat of thy face shalt thou eat bread.”

So an angry Lord Jehovah thundered down on Adam and Eve—that unrighteous couple who had eaten of the forbidden fruit and were forthwith banished from the Garden of Eden and its endless bounty. And so was born, in the Old Testament version, the primal economic law of scarcity—man caught in a life-long dilemma of unlimited ends in a world of limited means, including life itself.

Here, Virginia, sweat means work, effort, fatigue. It also means production, possible economic growth (the creation of more and more goods and services to allay man’s basic needs of food, clothing, shelter), and, amazingly nowadays, a fresh bounty of luxury wealth, including cellular telephones, microwave ovens, heart bypass operations, mutual funds, a winter flight to the sun in Cancún, Mexico, or to the ski trails of Aspen.

The Catch-22 with wealth creation is government intervention: state intrusion in the market process that is supposed to make things better (a free lunch) but ineluctably makes them worse. Catch-23 is its cost. Production involves choices, often hard choices, about how to use scarce, or economic, re-

sources with alternative uses. Thus God’s commandment to banished Adam and Eve seems to have been: “Look, I’m no longer promising you a rose garden, only the opportunity to grow one.”

Catch-23 recognizes that nature still metes out her blessings sparingly, begrudgingly, whether in the Third World or on Park Avenue. Man fatedly wants more than he is able to get. Man then has to strategically think about wealth creation, to decide how and what to choose among consumer and capital goods. At the same time, he must decide what not to choose, given his limited—repeat, limited—time, energy, talent, and other resources, including, of course, cash and credit.

So life foists decisions daily, hourly, and even faster, on the firm—and government—as well as on the individual. As if you didn’t know firsthand, Virginia. Man’s plight—and opportunity—is that he perforce has to choose and exchange among competing options. He has to give up one thing for another. Choice by choice he seeks to optimize his resources. He has to sort out available options and single out but one in any action.

Early on in life, man gets a powerful message: He can’t eat his cake and have it too. To get he must give, to earn more he must invest more in skills and tools so as to boost his output and consume more. Self-interest under the rule of law spurs him to fashion

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tools for mind, hand, and, not so incidentally, society.

Cost. Aye, there's the rub. Man soon finds out that an opportunity taken means an opportunity forgone, that a costless Garden of Eden is not of this world. This law of opportunity cost recognizes that making choices innately involves cost-benefit analysis or, in the words of Ludwig von Mises in *Human Action*, "taking and renunciation." Take one benefit and you at once renounce another.

Tradeoffs

Nothing is for nothing. Something is only for something. Remember that Robinson Crusoe took off precious time from fishing to make a net in order to raise his catch. Trading-off is a rule of life, a facing-up to universal scarcity, to feeling, say, a gnawing sensation in the tummy three (or more) times a day, a gnawing not to be ignored (even if yielding to it can be overdone). Hunger demands action but not just any action. Or as an old Chinese saying has it: A hungry man must wait a long time before a roast duck flies into his mouth.

Milton Friedman has popularized this tradeoff idea as "There Ain't No Such Thing As A Free Lunch" (TANSTAAFL). Henry Hazlitt had a similar idea and got at state intervention's blindness to opportunity cost in his classic, *Economics in One Lesson* (1946): "The art of economics consists in looking not merely at the immediate but at the longer-run effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."

Thus the law of opportunity cost, or no free lunch, is a hard fact of life—as far as it goes. But in life's unending demand for choosing this quid for that quo lies the makings of, if not a free lunch and if not impeded by state intervention, a freer lunch—and a tastier, healthier, more variegated lunch at that.

Look, Virginia: Every human action, the good and the bad, the noble and the ignoble, substitutes one state of affairs for another—a perceived better state for a perceived inferior state. The acting individual seeks a profit or

lesser loss in each and every action. He is driven to seek an ever greater output for an ever lesser input—a freer lunch. And he can't help improving the lot of others in the process.

Recall how Adam Smith tagged man's self-interest under the rule of law as "an invisible hand [promoting] an end which was no part of his intention." As he went on in his *The Wealth of Nations* (1776): "By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good."

Another eighteenth-century writer, Jonathan Swift, also gave credit for a more bountiful lunch to self-interest under the rule of law, noting its intimately related drive for invention and entrepreneurship. In *Gulliver's Travels* (1726) he wrote, "And he gave it for his opinion, that whoever could make two ears of corn or two blades of grass to grow upon the spot of ground where only one grew before, would deserve better of mankind, and so do more essential service to his country, than the whole race of politicians put together."

Swift's point on interventionist do-gooding politicians is well taken. It came at the peak of mercantilism when politicians in Europe actively interfered in markets through guilds, bounties, tariffs, quotas, production limits, colonial restrictions, and other interventions, thus winding up doing bad.

A lesson emerges: Free, or private, choices tend to maximize returns and spur economic growth; coerced, or public, choices tend to minimize returns and impede economic growth. Under private-property rights, the law of opportunity cost becomes a tool advancing wealth creation and social cooperation.

To be sure, conditions change, private miscalculations occur, private mistakes are made. "The Edsel is here to stay," said Henry Ford II in 1957. Nonetheless, thanks to private enterprise, the history of man is onward and upward in terms of getting more of the good things of life, a freer, if not quite free, lunch. That lunch shrinks in size and quality

under state intervention. It can even sink out of sight, as in the cases of ancient and interventionist Egypt, Greece, and Rome.

Free to Choose

Yet civilization struggles on. And in that struggle is the story of freedom and free enterprise, savings and investment, entrepreneurship and invention—of payoffs in wealth from what Milton and Rose Friedman see as man's optimum political and economic state of being "free to choose." Man's progress is seen in the long steady improvement of capital goods, or tools, with each tool representing at once savings (forbearance) and investment (productivity), or cost and opportunity.

That improvement stretches from the Stone Age of a million years ago, when man made edged-flint hand tools, or crude eoliths, to remove bark, hunt wild game, and skin animals. The eolith is a model of opportunity cost—an opening for better output at the cost of time in flint searching and edging, with a freer lunch passed on to succeeding generations.

Some 250,000 years ago the model continued when man perfected fire for cooking and later for smelting and forming metal from ore. Some 15,000 years ago he invented spear-throwing and the bow and arrow; some 8,000 years ago he domesticated cattle for livestock and invented a sickle for harvesting; some 7,500 years ago he developed agriculture and wove linen on wooden looms; some 6,000 years ago he drew signs as a basis of alphabets and heightened communications.

Fast-forward to the Industrial Revolution, starting around 1750 (when human longevity was around 30 years), to see an explosion of highly productive inventions that sharply cut opportunity costs, boosted output per man-hour, accelerated man's material well-being, and lengthened his life span. Study the impact of inventions such as Watt's steam engine in 1776, Whitney's cotton gin in 1791, Fulton's steamboat in 1807, McCormick's reaper in 1841, Howe's sewing machine in 1845, Bessemer's steel furnace in 1855, Drake's oil-well strike in 1859, Bell's telephone in 1876, Edison's electric light in 1879, Duryea's automobile ("the horseless carriage") in 1892, and on

into the twentieth century for an even more dazzling display of technological advances from the refrigerator to jet travel, from kidney transplants to interactive TV, from the computer to the World Wide Web.

In all, witness how better tools increase productivity, making for freer lunches. Today human longevity in the West is well up in the 70s, for an average gain of around 45 years in the last 250 years or so. All thanks to a long succession of opportunity-cost cutters, of mostly unsung savers and investors, inventors and entrepreneurs. Thanks, too, to private-property rights—however unstable over the history of still-rapacious government, even here on the eve of the 21st century.

Trade, Virginia, is another aspect of opportunity cost. And because it is mutually productive, mutually profitable, it's anything but a greedy zero-sum or negative-sum, winner-take-all game, as some critics charge. Rather, trade, including world trade, is a win-win process of social cooperation, a positive-sum game that as a rule enhances the well-being of each player and of society as a whole. It follows that protectionism is a pox and a destroyer of international harmony.

The fly in this ointment of freer lunches is nominally "productive," but inherently counterproductive, intervention. Neomercantilistic states everywhere, including the United States, interfere with production, impede trade, foster inflation, inflict rent control, impose stiff capital gains taxes, create a rising underclass via the welfare state, and generally foist social trouble and raise opportunity costs. It's an inadvertent policy of less for more. Much less.

Sure, in sum, the law of opportunity cost as implying no free lunch is entirely correct, but only as far as it goes. For in the history of state-harassed freedom and free enterprise, a far different picture of the law of opportunity cost emerges. It is one of wealth creation: growing remunerative work opportunities, rising private savings and capital investment, creative invention and entrepreneurship, amazing productivity gains, plunging opportunity costs. It is this picture that enables the viewer to say, "Yes, Virginia, there is a free lunch." But can she keep it? □



Government and Disaster Relief

The North Dakota flood this past spring was a heartbreaker. The scenes of devastation gripped the nation and brought tears to the eyes of millions.

Back here in Michigan, my historian friend Burt Folsom used the occasion to acquaint me with an event about which I knew nothing: the terrible Michigan fire of 1881. Folsom noted a couple of differences between these two natural disasters, and gave me an earful of information that readers of this column may find interesting.

The first difference is that, bad as the flood on the Red River was, the Michigan fire exacted an even greater toll. Raging flames swept through the state's "Thumb" area, killing almost 200 people and destroying over one million acres of timberland. "The flames ran faster than a horse could gallop," said one survivor of this devastating blaze. Its hurricane-like fury uprooted trees, blew away buildings, and destroyed millions of dollars of property across four counties.

A second and more profound difference, according to Folsom, may be seen in prevailing attitudes toward private charity and the role of government. In the North Dakota flood, a California philanthropist donated \$2,000 to every flooded household and many others pitched in, but much of the spotlight focused on high-profile politicians and other people's tax money they were generously

offering to the victims. President Clinton and four cabinet secretaries flew to Grand Forks to announce a policy rarely adopted in federal relief efforts: Washington would pay 100 percent of the immediate emergency work, not the "mere" 75 percent it paid in the past.

At the time of the Michigan fire, Americans looked inward to themselves, not outward to the federal government, to assist the victims. They became the most generous people on earth, partly because they knew government had nothing to give except what it taxed away in the first place, and partly because they saw it as a personal responsibility to help their fellow citizens in need. For Michiganians in 1881, this meant an outpouring of help freely given from fellow Americans everywhere. In fact, the Michigan fire became the first disaster relief effort of Clara Barton and the newly formed American Red Cross. As the smoke billowed eastward across the nation, Barton's home town of Dansville, New York, became a focal point of relief. According to the officers of the Dansville Red Cross, a call from Clara Barton "rallied us to our work."

"Instantly," they said, "we felt the help and strength of our organization [the Red Cross], young and untried as it was." Men, women, and children throughout western New York brought food, clothing, and other gifts. Before the Red Cross would send them to Michigan, a committee of ladies inspected each item and restitched garments or replaced food when necessary.

Speed was important, not only because many were hungry but also because winter

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was approaching. Bedding and heavy clothing were in demand. Railroads provided the shipping. People left jobs and homes and trekked to Michigan to get personally involved in the rebuilding. Soon the Red Cross in New York and the local relief committees in Michigan were working together to distribute supplies until "no more were needed," according to the final report from the Red Cross.

The Red Cross assistance was much appreciated. And it made disaster relief faster, more efficient, and national in scope. But even if such help had not come, Michiganiens were prepared to organize all relief voluntarily within the state. In a previous fire in 1871, nearly 3,000 Michigan families were left homeless. Governor Henry Baldwin personally organized the relief efforts and gave out of his own pockets about \$150,000 (over \$3 million in today's dollars). Few if any thought it necessary to create a federal relief bureaucracy.

Henry Baldwin in 1871 and the Red Cross a decade later fulfilled the true definition of compassion. They suffered together with the fire victims and worked personally to reduce their pain. Perhaps Baldwin, the Red Cross, and the fire victims themselves felt that aid from Washington might dampen the enthusiasm of volunteers who gave their energy and resources out of a sense of brotherly love and duty. And this was in a year when the federal budget had a \$100 million surplus, not the \$100 billion deficit of today!

Why did so many Americans 100 years ago reject federal aid and insist on personal charity during natural disasters? Horatio Bunce, a farmer/philosopher of the 1800s, spoke for most citizens when he argued that federal aid to disaster victims was not only unconstitutional, but also uncharitable: "If ... you are at liberty to give to any and everything which you may believe, or profess to believe, is a charity, and to any amount you may think proper," he told his congressman, "you will very easily perceive what a wide door this would open for fraud and corruption and favoritism, on the one hand, and for robbing the people on the other."

Indeed, modern relief efforts of government show all the signs of bearing out Bunce's

admonition. Politicians seem to have a definition of "disaster" that gets more elastic with each passing year. To be eligible for relief disbursements under federal law, an event must "be of such severity and magnitude that effective response is beyond the capabilities of the state and affected local governments." The term "capabilities" often ends up meaning "willingness." When federal cash is a prospect, it's amazing how many state and local politicians think that both their governments and private citizens are "incapable" of getting by without it.

Whereas federal disaster relief used to apply to horrific events like hurricanes, earthquakes, and floods, it also goes now for unfortunate episodes that never were thought of as anything but local and private—severe cold, snowstorms, even the effects of the El Niño current on the West Coast fishing fleet. Two years ago, the governor of Massachusetts asked the president to declare some fishing towns in his state disaster areas because the fish had disappeared.

It is vital that people understand the preemptive influence of government relief. There is little reason to believe that politicians are more compassionate or caring than the population that elects them. There is little reason to believe that politicians who are not on the disaster scene and don't know the families affected will be more knowledgeable about how best to help than those who are on the scene and personally know the victims. There is even less reason to believe that politicians spend other people's money more effectively than those people to whom it belongs in the first place. Therefore, when government gets involved, there is good reason to believe that much of its effort simply displaces what private people and groups would do better and more cost effectively if government stayed home.

Another, equally vital point should be noted: The lofty status of "disaster relief heroes" is earned every year by thousands of private citizens acting out of their own desire and resources, and whose names and selfless devotion often don't make headlines. The politicians who show up with other people's money are in a different category. □

The Supreme Court of the United States:

Guardians of the Constitution or Watching Out for Their Own?

by Daniel J. Pilla

By the very terms of the Constitution, all judicial officers, as well as others in government service, “shall be bound by Oath or Affirmation” to support the Constitution. Article VI also sets forth what is known as the “Supremacy Clause.” It holds that the Constitution, all laws pursuant to it, and all treaties are the supreme law of the land and that “the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws or any State to the Contrary notwithstanding.”

It is for this reason the United States is referred to as a nation of laws, not of men. Our republican form of government assures all citizens that basic law, justice, liberty, and due process will be observed as to each person, regardless of his financial standing or political influence.

As the highest court in the land, the Supreme Court is intended to be the guardian of liberty. In *Federalist* No. 78, Alexander Hamilton referred to the judicial branch as the “citadel of the public justice and the public security.” The Supreme Court, indeed the entire judicial branch of government under Article III, was set up as an element of government independent of the other two.

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The founders knew that an independent judiciary was critical to maintaining liberty.

The legislative powers are vested in Congress under Article I. They are intended to pass laws necessary to carry out the terms of the Constitution as set forth in the preamble. The executive department under Article II possesses the power to carry out the legitimate functions of government and to control the armed forces. Described in modern terms, the Supreme Court, on the other hand, is intended to function as a goalie. It is to “kick out” any legislative or executive act that infringes the plain language of the Constitution.

Regarding legislation, the court is to do nothing more than compare the language of the statute with that of the Constitution to see whether the former comports with the latter. If so, the statute is legitimate and enforceable. If not, the statute is void under the terms of Article VI. It is to be struck down.

Of the language describing the three branches of government, Article III is by far the most succinct. The founders dedicated ten sections in Article I to explain the function of the legislative branch and four lengthy sections in Article II to describe the executive. Article III has just three short sections. These, combined with the concise language of Article VI, make it clear that the court has no power to make laws or negate specific Constitutional

provisions or protections. The court is a goalie, not a forward. Goalies do not score.

For decades since the 1930s, however, the Supreme Court has taken an activist role. Too many of its decisions fall outside the scope of judicial review; they have the character of legislation. As a result, our constitutional liberties have eroded substantially, while at the same time the power and reach of the federal government has been extended to all areas of our private lives in absolute disregard of the limitations set forth in the Constitution.

The Judges Go to Court

This is particularly true in tax cases. Whereas the Constitution plainly confines the power of government in several important areas, virtually all the limits have been declared invalid as they relate to the Internal Revenue Service. But when the power of taxation imposes upon the rights of federal judges, the courts are quick to protect their own.

Consider the case of Judge Terry J. Hatter and 15 of his colleagues. Hatter and the others are federal judges all appointed to the bench sometime before January 1983. Like most federal employees at the time, they were not subject to the Social Security tax laws. Rather, they enjoyed their own pension under the Civil Service Retirement System.

Beginning in 1982, however, Congress changed the law. To address the growing concerns over the solvency of Social Security, two major tax laws were passed in 1982 and 1983. The first was the Tax Equity and Fiscal Responsibility Act of 1982. The second was the Social Security Amendments of 1983. The first made the hospital insurance portion of Social Security applicable to federal employees, including judges, effective January 1, 1983. The second made the old age and survivors disability portion—the bulk of Social Security taxes—applicable to federal employees, including judges, effective January 1, 1984.

As a result of being brought within the pale of the Social Security tax scheme by these two laws, Hatter and his brethren sued the federal government claiming a violation of their constitutional rights. How can imposing income

taxes on judges possibly violate the Constitution? If we citizens have to pay taxes, why not federal judges? The answer lies within the language of Article III, section 1, which holds that the compensation of federal judges “shall not be diminished during their Continuance in Office.” Hatter argued that the imposition of the tax after he took office violated that clause.

Hamilton described the purpose of the compensation clause as being essential to protecting the separation of powers. He wrote in *Federalist* No. 79 that, “in the general course of human nature, a power over a man’s subsistence amounts to a power over his will.” Nothing could more aptly describe the power of the purse. Our founders knew that if the judiciary was to remain independent of Congress and the executive department, their compensation would have to be beyond their tampering.

The language of Article III has always been broadly construed to prohibit any diminution in compensation during a judge’s tenure. Indeed, a similar suit was brought by federal judges in the years immediately following the adoption of the income tax in 1913. The case of *Evans v. Gore* found its way to the Supreme Court, where it was held that the prohibition contained no exception for “diminution by taxation.” Judges appointed to the bench after the tax took effect were subject to it. However, those who held office before the tax was enacted were held exempt.

In the case of *Hatter v. United States*, the U.S. Court of Appeals reached the same conclusion. The Supreme Court unceremoniously affirmed the ruling.

Some Are More Equal Than Others

When the question of the constitutionality of a federal tax relates to a federal judge, the courts seem to have no difficulty ascertaining the plain language of the Constitution and applying it to the statute. When it is found that the Constitution prohibits the legislative act prescribed by the statute, the courts have no difficulty slapping down the infringement.

But let us contrast that with a case involving

a private citizen and his equally compelling constitutional argument. That case is *United States v. Lee* (1982). The case involved precisely the same Social Security laws. The fundamental difference is that Lee was not a federal judge but a self-employed farmer and carpenter. He was a member of the Old Order Amish and employed several persons in his business. Lee's complaint grew not from the compensation clause but from the free-exercise clause of the First Amendment.

Because the Amish are religiously opposed to the kinds of benefits offered by Social Security, Lee did not participate in the system. He neither paid into it nor expected to draw from it.

Prior to the Social Security amendments of 1982 and 1983, the law expressly provided that Lee and those of his religious community were not required to withhold Social Security taxes from their employees or pay the matching funds. The new law, however, extended the tax obligation to wages paid by employers to employees, even if the employees were not liable for the tax themselves. As a result, Lee found himself faced with the duty to pay matching funds for a tax that he was plainly opposed to on religious grounds and that he was exempt from paying under prior law.

Lee opted to stick to his religious principles and did not pay the taxes. He was assessed several thousand dollars by the IRS, and after paying a portion of the tax, he sued for a refund. After initial success, Lee found himself before the Supreme Court.

The First Amendment, of course, expressly states that Congress "shall make no law" respecting an establishment of religion or "prohibiting the free exercise thereof." In its opinion, the Supreme Court found that because of the Amish faith, "compulsory participation in the social security system interferes with [Lee's] free exercise rights" under the First Amendment. This is the conclusion a liberty-minded person would have hoped the court would reach. Unfortunately, its reasoning did not end there. Chief Justice Warren Burger went on to explain that the courts must strike a "balance" between the rights of the citizen and an "overriding" governmental interest. He reasoned that

when the government could show such an "overriding interest," it could infringe the plain and clear constitutional rights of the citizen.

The Court held that Lee must be forced to participate in the Social Security program despite its finding that this expressly violated his First Amendment rights. It rationalized the infringement by citing the government's "overriding interest" in collecting taxes and stating that "mandatory participation is indispensable to the fiscal vitality of the social security program." Citing the questionable financial soundness of the system, Chief Justice Burger observed that "widespread individual voluntary coverage under social security . . . would undermine the soundness of the social security program."

In no uncertain terms, the Supreme Court said that because the government needs the money it is permissible to violate the constitutional rights of a citizen. Thus, the only "overriding governmental interest" involved in the Lee case is financial.

In concluding, Chief Justice Burger reasoned that religious beliefs "can be accommodated, but there is a point at which accommodation would radically restrict the operating latitude of the legislature." The Supreme Court was saying that Congress must have free rein—absolute freedom—to pass laws. Religious and presumably other constitutional rights cannot be permitted to exist if they threaten the government's ability to do so.

Note how far this logic is removed from the model set forth by Hamilton in *Federalist* No. 78. In affirming the court's power of judicial review, Hamilton said, "If there should happen to be an irreconcilable variance between the two [the Constitution and a legislative act], that which has the superior obligation and validity ought, of course, to be preferred; or, in other words, the Constitution ought to be preferred to the statute."

From beginning to end, the Bill of Rights places express restrictions on government's ability to pass laws. Without such restrictions, this government is no better than any dictatorship that has ever existed. Those restrictions directly and simply forbid the invasion of

individual rights by a government eager to pass laws that infringe our liberty. Yet the Supreme Court in *Lee* held that the limitations are placed on the individual, not on government. Individual rights can be “accommodated,” but only if they do not stand in the way of some legislative goal. With such a test, there is literally nothing the federal government cannot do in the name of some “over-riding interest.”

Are Rights to Be Balanced?

Where in the First Amendment does it say that your religious liberty is dependent upon a “balancing” test? Where does it say that Congress should “accommodate” those rights, but only if they do not interfere with its own right to legislate? Just as the Supreme Court noted in *Evans* regarding Article III and the compensation clause, there are “no excepting words” in the First Amendment. The right is absolute and is expressly intended to limit Congress in its zeal to pass restrictive laws. What other purpose is possibly served by the plain language “Congress shall make no law”?

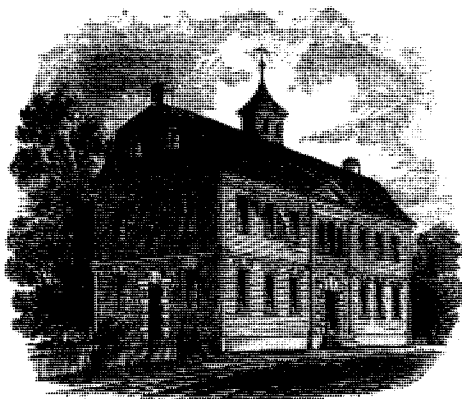
When it comes to the rights of the average citizen, the courts have abandoned a strict reading of the plain language in favor of judicial creativity designed specifically to achieve the predetermined goal of getting into your pocket. Hamilton insisted on strict adherence to the letter of the document. “If we set out with . . . a scrupulous regard to the

Constitution,” he said, “the government will acquire a spirit and tone productive of permanent blessings to the community. If, on the contrary, the public counsels are guided by humor, passion, and prejudice; or from resentment to individuals, or a dread of partial inconveniences, the Constitution is slighted, or explained away, upon every frivolous pretext, the future spirit of government will be feeble, distracted and arbitrary.”

Hamilton’s message is simple. Continuity of the moral fabric of society is dependent upon legal absolutes, especially where citizens’ rights are concerned. If the government is free to “explain away” the protections of the Constitution, in the end there will be no Constitution. If the rights of the citizens are made the “sport” of every change of governmental opinion, in the end citizens will have no rights.

How is it that a federal judge’s constitutional rights are more sacred than those of the average citizen? Judges are charged with the sacred duty of protecting the rights of all citizens from encroachment by government. Yet, as we have seen, they embrace that duty when it comes to their own liberty and tear it to shreds when it would cloak the liberty of the average man.

What has happened to our courts? They have caused our priceless constitutional system of law and limited government to deteriorate. What system of taxation or social program is so important that we should sacrifice our precious liberty to save it? □



Federal Government Growth Before the New Deal

by Randall G. Holcombe

Popular opinion holds that most of the credit (or blame) for the incredible growth of the federal government should go to President Franklin D. Roosevelt and his New Deal. While Roosevelt certainly was a willing participant in that process, the federal government began its amazingly rapid growth well before the New Deal, and it is unlikely that it would be much smaller today even had FDR never come along.

The origins of federal growth are in the Constitutional Convention. But the modern period of growth began with the Progressive Era before World War I. Contrary to popular belief, that growth continued through the 1920s. The percentage by which the federal government grew was greater during Herbert Hoover's four years as president than during the first seven years of the New Deal. Roosevelt merely continued a long-standing trend.

The story of the growth of the federal government can be divided into two parts: before and after 1913, when the 16th amendment to the Constitution, which permitted a federal income tax, was ratified. In 1913 federal spending was a mere 2.5 percent of GNP (today spending is almost ten times that level); so if the federal government is measured only by spending, little growth took place before the income tax. Before 1913, however, the federal government grew in other ways, by enlarging its power and chang-

ing its mandate. When the colonies came together to form the United States, the founders viewed the new government as the defender of its citizens' liberty. That meant protecting their rights—and in those days the most significant threat to the rights of individuals was, in nearly everyone's eyes, the government itself. By 1913 the federal government had been transformed into an organization not to protect rights, but, ostensibly, to further the nation's economic well-being.

The first part of our story, then, is how a government that began in 1776 as a protector of individual rights had by 1913 evolved into one that presumed to guarantee the economic welfare of its citizens. The second part of the story is how the federal government, armed with a powerful new source of revenue, began a continuous expansion that lasted throughout the twentieth century. One might be tempted to argue that the income tax was the cause of the federal government's growth, but that answer would be simplistic for two reasons. First, it focuses on spending alone and ignores the growth of the federal government's legal and regulatory power that began well before 1913. Second, it treats the income tax as something thrust on the nation rather than something chosen by its citizens. Constitutional amendments must have substantial popular support to gain the approval of two-thirds of both houses of Congress and three-quarters of the state legislatures. Americans wanted an income tax because they wanted more government, and they wanted

more government because they believed it would enhance their economic well-being.

World War I was a period of enormous federal expansion, and the New Deal is likewise well known as a period of government growth. Yet the time in between, the 1920s, is often characterized as a time of retrenchment. In fact, the 1920s continued the growth that began in the Progressive era and set the stage for the New Deal. Before getting into details, we need to place the decade in the context of the preceding history of the federal government.

Federal Growth from 1776 to 1920

The first major event in the growth of the federal government was the ratification of the Constitution in 1789. Before that, the United States was governed under the Articles of Confederation. The Constitution is frequently praised as a document that protects the rights of individuals and limits the powers of government. But a comparison of the Constitution with the Articles reveals that just the opposite is true. Under the Constitution the federal government gained more power, was less accountable, and had greater latitude to determine its own scope of action. That is what the Constitution was intended to accomplish.¹

The Constitution established the Electoral College for the selection of presidents, but specified no method for choosing electors. Several methods were used, but in most states the legislatures picked them. The framers expected that in most elections no candidate would get a majority of electoral votes. That would permit the House of Representatives to name the president from the five top electoral vote getters. That system never worked as envisioned, and by 1828, with the election of Andrew Jackson, the current system of popular voting for electors had become firmly entrenched, and along with it the party system.² From then on, successful candidates owed their success to the support of their parties, and in return used the political system to reward those who helped them get elected.

Undoubtedly the biggest event in the

growth of the federal government was the Civil War, which established its supremacy over the states. The Civil War brought much new power to the federal government, and laid the groundwork for the growth of interest groups.³ The first interest group to systematically raid the Treasury for its own benefit was the war veterans. Originally, Union veterans were entitled to pensions only if they had been injured in battle; they had up to five years to claim them. In 1870 veterans pensions totaled \$286 million in 1990 dollars and should have then declined. Instead they rose to \$1,548 million by 1890, because the Republicans, who dominated the White House and looked to veterans for political support, increasingly liberalized the pension laws until every Union veteran of the Civil War qualified.⁴

While veterans were a model for future interest groups, the Treasury at that time had decidedly limited means. At any rate, other groups were more interested in regulatory benefits. The Interstate Commerce Commission was created in 1887, and the Sherman Antitrust Act passed in 1890.⁵ The transformation of the U.S. government continued as the turn of the century ushered in the Progressive Era. The Food and Drug Administration was created in 1906, the Federal Reserve in 1913, and the Federal Trade Commission in 1914. A government initially committed to protecting the liberty of its citizens now seemed to be just as firmly committed to looking out for their economic welfare.

The Progressive Era was interrupted by World War I, during which federal power advanced in unprecedented ways. The railroads were nationalized, waterborne shipping was regulated, and the United States Food Administration, created in 1917, controlled all aspects of the food industry, from agriculture to distribution to sales. Similar regulation was applied to fuels, and eventually to the whole economy.⁶ When the federal income tax was introduced in 1913, the highest tax bracket was 7 percent for all income above \$20,000. Because of the demand for war-related spending, by 1918 the highest rate rose to 77 percent beginning at \$4,000. This was the context in which Warren G. Harding was

elected to the presidency in 1920 with the theme, a "return to normalcy."

Harding, Coolidge, and Hoover

If one looks only at total federal spending, it appears that the Republican administrations of Harding and Coolidge are a period of retrenchment sandwiched between the big-spending Democratic administrations of Woodrow Wilson and FDR. The Hoover administration does not fit this view even when examined superficially, because the percentage increase in spending during those four years exceeded the growth in the first seven years of FDR's New Deal, before World War II caused spending to skyrocket. Despite the conventional wisdom that big government began with FDR, a closer examination reveals that even the Harding and Coolidge administrations were periods of substantial government growth. It was masked, though, by the reduction in war-related spending following World War I.⁷ The 1920s, then, were actually a continuation of Progressive Era government expansion, which would last through the New Deal.

Contemporary political-party ideological stereotypes do not fit the pre-New Deal era. At the risk of some oversimplification, they should be reversed. The Republican party, the party of Lincoln, was the advocate of a strong federal government with increasing powers, while the Democratic party, which had most of its power in the South, advocated states' rights and a smaller federal government. Moreover, Harding and Coolidge were not particularly strong presidents, and the Congress was dominated by Republicans with substantial Progressive leanings. For Harding and, after Harding's death in 1923, Coolidge, a return to normalcy meant a return to the Progressive policies begun before the war. This was even more true of Hoover, who was an engineer by training and a firm believer in applying scientific principles of management to government. During the Wilson administration Hoover was the head of the U.S. Food Administration. He was secretary of commerce throughout the Harding and Coolidge years, before being elected president in 1928.

Federal Spending During the 1920s

Aggregate federal spending declined slightly during the 1920s, when measured in inflation-adjusted dollars per person. However, that slight decline is really a combination of two different underlying trends. In 1916, federal spending per person was \$83.60. (All data are in 1990 dollars.) By 1919 it had risen 16-fold, to \$1,329.77. By 1927, federal spending had fallen to its low point of the decade, \$180.57. The huge decline from 1919 is accounted for by a reduction in war-related spending, but nonwar spending actually increased sharply. Note that spending in 1927 was well over double the prewar 1916 level.

A more detailed analysis reaches the same conclusion. The 1920s saw huge declines in federal military and transportation spending (because so much transportation was nationalized during World War I). When civilian spending programs are isolated, they show substantial growth. Throughout the 1920s the average annual growth rate of federal spending on commerce, overseen by Secretary Hoover, was 13 percent. Agricultural spending increased by more than 11 percent a year, and spending on labor interests grew more than 12 percent a year. Federal spending on education grew by more than 10 percent per year, as did spending on public improvements and the public domain. Among broad categories, the fastest growth was federal law enforcement, which averaged more than a 17 percent growth rate during the 1920s. Thus, one can see that civilian spending during the 1920s grew rapidly and that spending remained substantially higher than it ever had been before World War I. Measured by spending alone, the 1920s was a decade of major federal government growth.

Prohibition

Much of the rapid growth in the federal law-enforcement budget was due to the prohibition of alcohol, which began in 1920 with the passage of the 18th amendment and lasted until repeal by the 21st amendment in 1933. The Department of Justice enforced prohibi-

tion, along with the Customs Service, Coast Guard, and Bureau of Internal Revenue. The bureau participated because, while alcoholic beverages were illegal, nonbeverage alcohol was to be taxed. But even when illegal alcohol was discovered, as far as the Treasury Department was concerned, the reason it was illegal was that the taxes were not paid. From 1920 to 1930 bureau spending on enforcement regarding illegal alcohol rose from just over \$2 million to more than \$12 million, while revenues rose from just over \$1 million to about \$5.4 million. In no year during Prohibition did the bureau collect more than it spent on enforcement. Apparently, even the Bureau of Internal Revenue viewed the law on alcohol not as a method of generating revenue but rather of extending federal law enforcement. Prohibition is probably the most visible area in which the federal government attempted to increase its control over the behavior of Americans during the 1920s.

Federal Corporations

Early in its history, the United States incorporated the First and Second Banks of the United States. After the charter of the Second Bank expired in 1836, the federal government did not charter another corporation until 1904, when one was formed to construct the Panama Canal. Federally owned corporations proliferated during World War I, beginning with the Merchant Fleet Corporation in 1917. After the war, most of these federal corporations continued in business and lost huge sums of money. The War Finance Corporation, chartered in 1918 to help strategic industries borrow money, had its charter extended in 1921 to assist American business in general. The Federal Land Bank, Spruce Production Corporation, and Sugar Equalization Board were other federal corporations begun during the war that lived on.

These corporations provided a model for government growth that extended through the 1920s to the present day. In 1923, 12 federally owned banks were created by the Federal Agricultural Credits Act. In 1924 the Inland Waterways Corporation was established to operate vessels on the Mississippi

River, and in 1929 the Federal Farm Board was established to finance agricultural price supports. Creation of those corporations was integral to the growth of the federal government during the 1920s, but their purpose was also significant. In each case they were established to help further the economic well-being of a particular group of Americans, reinforcing the federal government's transition from a guardian of liberty to an organization designed to oversee the national economy.

Agriculture

The 1920s were a difficult decade for American agriculture, largely because the world market for farm products was increasingly competitive. As a result, the decade is sometimes viewed as having favored business over agriculture. But in fact, the federal government began a number of initiatives to further the economic interests of farmers. In 1921 Congress passed tariffs on farm imports, and in 1922 the Capper-Volstead Act exempted agricultural cooperatives from antitrust laws. The Agricultural Credits Act of 1923 made it easier for farmers to get credit from the Federal Farm Loan Board. In 1926 the Department of Agriculture established a Division of Co-operative Marketing. The Agricultural Marketing Act of 1929 created the Federal Farm Board and, as noted, began federal price supports for agricultural products.

Adjusting for inflation, federal spending on agriculture expanded from \$17 million (1930 dollars) in 1920 to \$49 million by 1930. Whether evaluated in terms of budgets or number of federal programs, the increased support for agriculture in the 1920s was substantial. The charge that the federal government slighted agricultural interests is incorrect.

Antitrust

An examination of federal spending gives some indication of the growth of government, but regulation, though harder to measure, also had a big impact. Beginning with the Sherman Act in 1890, the federal government tried to limit the economic power of business

through antitrust laws. Before 1905 only 22 cases were brought under the Sherman Act. But antitrust enforcement picked up later in the decade, with 39 cases brought from 1905 to 1909. From 1910 to 1919, 134 cases were brought, indicating more vigorous enforcement. In the 1920s, the number declined slightly to 125 cases.

That decline is deceiving, however, because after the increased enforcement in the prior decade, businesses acted more cautiously. The scope of antitrust enforcement was broadened in the 1920s, and cases were brought against firms in unconcentrated industries for conduct that was not obviously in violation of the antitrust laws as previously enforced. Antitrust enforcement is another area in which the federal government increased its power—yet another reason to question the conventional wisdom that it was excessively probusiness in the 1920s.

Academic Influences

John Maynard Keynes, in a famous passage in his 1936 *General Theory of Employment, Interest, and Money*, remarked, "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." Intellectuals also pushed the federal government to broaden its scope in the 1920s. The ideas of Karl Marx were gaining credibility and moving governments into economic matters. Perhaps just as significant, although with less ideological content, were the concepts of scientific management that were gaining credibility throughout the United States. Civil Service reform had been initiated late in the 1800s to create a more professional federal work force, and there was increasing interest in applying the principles of scientific business management to government.

In 1920 the National Bureau of Economic Research was established in cooperation with government, private foundations, and academic institutions to better measure economic performance statistically so that government could apply those principles to the economy. Secretary Hoover was a strong

supporter of that effort. Indeed, many of the tenets of Keynesian economics that gained prominence during the 1930s were already part of the conventional wisdom of American economists in the 1920s.⁸ The alliance of academic institutions, private foundations, and government in the 1920s was yet another aspect of the growth of the federal government during the decade.

Conclusion

The New Deal is often seen as the pivotal event in the growth of America's twentieth-century Leviathan. But the federal government has grown since its inception. The most important event in the history of federal government growth was undoubtedly the Civil War. Then, supported by the popular demand for more government involvement in the economy, the ideological foundation of the massive growth in federal spending was laid during the Progressive Era at the beginning of the twentieth century. The federal income tax made that growth in spending possible.

That the federal government grew during FDR's presidency is undeniable. But Wilson and Lincoln had already set precedents for increases in government power in wartime. Thus, the main factors underlying the growth in government were firmly in place well before the New Deal. □

1. See Randall G. Holcombe, "Constitutions as Constraints: A Case Study of Three American Constitutions," *Constitutional Political Economy*, vol. 2, no. 2 (Fall 1991): 303–328.

2. See Forrest McDonald, *The American Presidency* (Lawrence, Kan.: University Press of Kansas, 1994), for a thorough history of the evolution of the office.

3. For an excellent history of the Civil War following this theme, see Jeffrey Rogers Hummel, *Emancipating Slaves, Enslaving Free Men: A History of the American Civil War* (Chicago: Open Court Press, 1996).

4. A good reference on the subject is Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, Mass.: Belknap, 1992).

5. In Terry L. Anderson and Peter J. Hill, *The Birth of a Transfer Society* (Stanford, Cal.: Hoover Institution Press, 1980), the origin of big government is the Supreme Court's *Munn v. Illinois* case, which allowed the state regulation of grain elevator rates.

6. An excellent study of the growth of the federal government during the twentieth century, including the effects of World War I, is Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987).

7. A more detailed exposition of this material appears in Randall G. Holcombe, "The Growth of the Federal Government in the 1920s," *Cato Journal*, vol. 16, no. 2 (Fall 1996), pp. 175–199.

8. See J. Ronnie Davis, *The New Economics and the Old Economists* (Ames, Iowa: Iowa State University Press, 1971).

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Edmund Opitz is an ordained Congregational minister, the founder and coordinator of The Remnant (a fellowship of conservative and libertarian ministers), a founder and secretary of The Nockian Society, and a contributing editor of *The Freeman*. He served as a member of the staff of FEE from 1955 until his retirement in 1992.

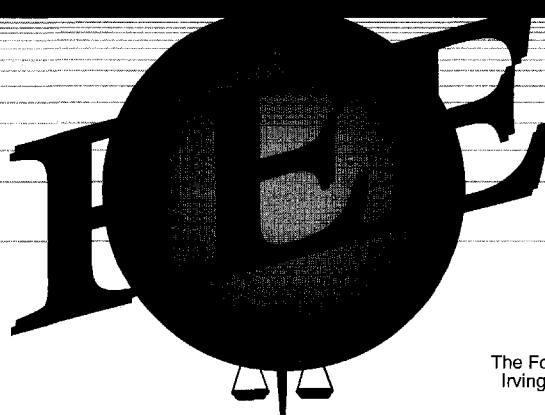
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*Father Robert Sirico is founder and president of the Acton Institute for the Study of Religion and Liberty in Grand Rapids, Michigan.



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September 1997

The Nanny State

I've never smoked. I even dislike being near lit cigarettes. (Cigar and pipe smoke don't bother me.) Moreover, I'm sure that smoking is addictive and unhealthy. Nevertheless, the ballyhooed "tobacco settlement" announced in June leaves a taste in my mouth far more foul than would be left by choking my way through an entire carton of unfiltered cigarettes.

The foulest feature of government's long-running harassment of the tobacco industry is the elitist presumption that tens of millions of Americans are too dimwitted to be trusted with their own fates. This presumption follows from the belief that "Big Tobacco" profits by selling goods to people who really don't want to buy what they buy.

Tobacco companies are portrayed as enjoying boundless powers to warp the judgment of all but the most perspicacious souls. Smokers smoke only because each encountered once too often the Marlboro man's rugged visage or a billboard showing Joe Camel's imminent success at scoring with the jazz-club's most fetchin' camel-babe. These brushes with Madison Avenue sorcery cripple people's self-preservation faculties. Government (the argument concludes) must intervene on smokers' behalf to punish "Big Tobacco," for no earthly force except the state has the fortitude or wisdom to rescue citizens from the spell of such a mighty demon.

In short, popular sentiment against tobacco companies holds that Americans cannot make sensible choices for themselves.

But on what evidence does this dogma rest? Merely showing that cigarette smoking is both addictive and increases smokers' chances of contracting fatal illnesses does not prove that smoking is irrational. Smoking has costs, to be sure, just as almost all of life's activities have costs. But smoking also benefits smokers. Non-smokers' failure to appreciate these benefits no more proves that smoking is without benefits than does a bachelor's failure to appreciate the benefits of marriage prove that marriage is without benefits.

Of course, anti-smoking zealots cravenly deny their puritanical busy-bodiness. Instead, anti-smoking snobs issue all manner of *ad hoc* excuses in attempts to manufacture popular support for their fanatical crusade. In addition to the tired refrain that tobacco advertising hypnotizes vast numbers of otherwise sane folk, the anti-smoking lobby regularly shrieks that "children must be protected!" or that "second-hand smoke kills, too!" or that "smokers' health-care expenses are a cost to us all!"

Let's examine each of these excuses for expanding government power.

"Children must be protected!" Well, obviously. But families, not governments, are the proper source of protection from most of life's pitfalls. Government's job in a free society is to police against violence and

theft rather than to be an antidote for each of life's innumerable imperfections. It's up to families to instill those values that help children avoid life's perils. Outside its legitimate domain of policing against violence, government is staggeringly klutzy. Entrusting it with the all-important but delicate task of molding children's character makes no more sense than entrusting a barroom bouncer to perform laser surgery on your eyes.

Not only will government fare worse than parents at keeping children clear of life's tempting dangers, it will simultaneously fail to treat adults as adults. Forget that banning cigarette advertising in the name of protecting children necessarily also bans such advertising for adults. More ominous is the threat that adults'—including parents'—actions will be ever more closely controlled by government on the grounds that adults influence children. With billions of dollars poured hysterically into anti-smoking campaigns "to protect kids," is it plausible that government will not deal heavy-handedly with parents and other adults whose actions diverge from the official message issued from Washington?

Government is either a nanny for none or a nanny for all.

"Secondhand smoke kills!" Scientific data undermine this assertion. But let's suppose that secondhand smoke *does* increase non-smokers' risks of serious illness. Would government regulation then be justified? No. Owners of private buildings have strong incentives to make appropriate trade-offs. If enough smokers wanted "smoking" restaurants, owners would supply them. Non-smokers would be free to avoid such restaurants. Likewise, if enough non-smokers wanted smoke-free restaurants (as they surely would if secondhand smoke truly were hazardous) owners would supply them. In fact, a world spared one-size-fits-all government regulation would feature a wide variety of options for both smokers and non-smokers. Different non-smokers—each with different tolerances for the risks and unpleasantness of secondhand smoke—would each choose what amounts of secondhand smoke to encounter. The case for regulation built upon secondhand smoke's alleged health risks is feeble—feeble, that is, unless one resorts to the paternalistic canard that non-smokers, like smokers, are too witless to do what's good for them.

"Smokers' health-care expenses are a cost to us all!" This increasingly popular anti-smoking battle cry is correct only insofar as health care is collectivized. Without government-subsidized and regulated health care, smokers' medical expenses would not be unloaded on non-smokers and taxpayers. To the extent that non-smokers' health-care costs (or taxes used to fund government-subsidized health care) are higher because smokers smoke, the best solution is to de-collectivize health-care funding.

Another problem with justifying harassment of tobacco companies on grounds that smoking increases non-smokers' expenses is that it proves far too much. Consider a good Samaritan who saves the life of a stranger severely injured in an auto wreck. Without the Samaritan's help, the stranger would have died. But because of the Samaritan's intervention, the stranger lives (say) another three years—years spent, however, undergoing expensive government-subsidized medical treatments. The Samaritan caused taxpayers' health-care costs to rise. Should government then sue the Samaritan for increasing taxpayers' health-care costs? Of course not. The alleged principle allowing government (in the name of taxpayers) to sue tobacco companies because smoking increases taxpayers' burdens is not itself sufficient grounds for penalizing tobacco companies.

But as with the secondhand-smoke argument, facts deny that smoking increases taxpayers' costs of subsidizing collectivized health care. Precisely because smokers *are* more likely to die earlier than non-smokers—and because medical expenses are highest for the very old—smoking may actually *reduce* the amounts that taxpayers pay to fund collectivized medicine.

I have my own proposed tobacco settlement. Let's recognize that smoking is voluntary. Let smokers enjoy their cigarettes, and let tobacco companies be regulated only by the market by putting an end to government's odious molestation of smokers and tobacco companies.



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IS POLITICS
INSOLUBLE?



HENRY HAZLITT
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Is Politics Insoluble?

by Henry Hazlitt

Edited by Felix R. Livingston

During the ninth decade of a long and productive life, Henry Hazlitt (1894–1993) made plans to write a treatise on political science. In 1978 he prepared a provisional outline for a book that would have the title *Is Politics Insoluble?* Hazlitt planned to include chapters on legislation, government growth, centralization of power, and alternative forms of government. Other chapters would touch on ideas of prominent political thinkers, including Plato, Aristotle, John Locke, America's Founders, James and John Stuart Mill, Herbert Spencer, T. H. Huxley, Wilhelm von Humboldt, Henry Maine, and Robert Nozick.

In a 1984 letter confirming the donation of his personal library to The Foundation for Economic Education, Hazlitt wrote: "one particular book that I am still planning . . . is already half written: *Is Politics Insoluble?* The title chapter was published in *Modern Age*, and about four or five additional chapters in *The Freeman*. I hope to do up to perhaps a half dozen more to make a complete book." Unfortunately, Hazlitt never finished the project and eight of the outline's fourteen chapters remained unwritten at the time of his death.

Now, The Foundation for Economic Education is proud to make the six essays—along with four other Hazlitt pieces—available in one collection. Edited, and with an introduction by Felix R. Livingston, Hazlitt's essays remind us that just as there were two Greeces in history, constitutional Athens and despotic Sparta, so are there two Americas. The first is bound by the rule of law and upholds the private property order and its attendant obligation to self-reliance and self-discipline. In this America, "every man, whoever he is, can act best and live happily." But there is also a second America. Its laws go far beyond those that are "just, definite and minimal," and its judges twist precedent to transform judicial decision into judicial legislation. In the second America, opportunities to "act best" are narrowed and hopes to "live happily" are dashed. This anthology will help readers understand how the first America can be realized and how dangers inherent in the second America can be diminished.

Felix R. Livingston, vice president of The Foundation for Economic Education from 1994 to 1997, is dean of institutional research at Washington and Jefferson College in Pennsylvania.

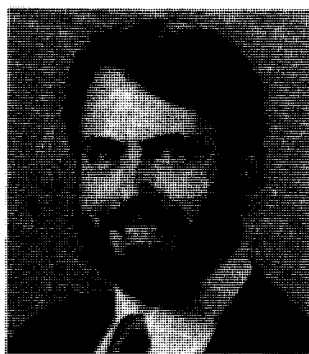


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Military Follies and Memorial Day Memories



Washington, D.C., is ever the city of contradictions. Eloquent speeches about freedom by legislators voting to limit liberty. Emotional promises to aid the needy from policymakers whose actions cause poverty and destroy families. Heartfelt tributes to military veterans from politicians who treat soldiers as gambit pawns in a global chess game.

The latter becomes particularly stark on Memorial Day, always the most poignant of holidays. It is a celebration, but of a peculiar kind: remembering the enormous sacrifice by millions of Americans who have served, and all too often died, in war. And such sacrifices may not be over.

Some conflict is probably inevitable given a world full of imperfect nation-states headed by sinful human beings. But today, mercifully, the dangers facing the United States are slight. The primary risks to Americans result from Washington's continuing desire to intervene around the globe irrespective of the nation's fundamental security interests.

Memorial Day this year, like those before it, had the obligatory presidential visit and wreath-laying at the Tomb of the Unknown Soldier. The rhetoric was also the same—a paeon to past soldiers' willingness to safeguard Americans' freedom. Although the international record of the United States com-

pares well to that of other nations, it remains a mix of the good, the bad, and the ugly.

America has fought four ugly wars, ones at least partially inspired by the sort of base motives that Washington usually ascribes to other countries. Another four were bad, undercutting, rather than promoting, the national interest. Only two can claim to be good.

Barely three decades after winning its independence, the United States found itself again at war with Great Britain. Washington had legitimate grounds for war—British warships routinely “impressed” (a form of government kidnapping) American citizens off U.S. vessels in order to man its fleets. But the most obvious trigger for war occurred in 1807 when a British warship fired on an American ship that refused to stop and be searched. Five years then passed. When war came in 1812, the so-called war hawks seemed motivated more by the prospect of seizing Canada than of righting maritime wrongs.

In 1846 came war with Mexico, perhaps America's most unjust conflict. Criticized at the time by future Civil War figures Abraham Lincoln, Ulysses S. Grant, and Robert E. Lee, the conflict was a war of aggression to wrest the territory now comprising California, Arizona, and New Mexico from America's southern neighbor. The bravery of the U.S. soldiers cannot compensate for President James Knox Polk's dubious motives.

America came of age as an imperial power when it defeated Spain in 1898. Although popular opinion was aroused through sensa-

Mr. Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author and editor of several books, including Tripwire: Korea and U.S. Foreign Policy in a Changed World.

tionalistic (and often false) reporting of the brutal conflict between Spanish forces and Cuban guerrillas, President William McKinley wanted control of the Philippines and future president Theodore Roosevelt simply wanted war. That more than selfless concern for Cuba's liberation animated America is evident from President McKinley's insistence that Spain cede Guam and the Philippines to America.

Even uglier than the Spanish-American War was the three-year conflict that followed as Washington defeated Filipino nationalists. Nothing except national greed motivated Washington to suppress a foreign independence movement with policies even crueler than those used by Spain in Cuba. Two hundred thousand Filipinos died in the devastating conflict, conducted for the sole purpose of preserving a Pacific outpost for American military forces.

The Civil War was bad. Although the welcome end of slavery has given an enduring moral gloss to the conflict, President Abraham Lincoln repeatedly emphasized that union rather than abolition was his goal, and the outer four southern states, Arkansas, North Carolina, Tennessee, and Virginia, seceded only after Lincoln called out troops to invade the other seven. Any political union should be voluntary; no such ties are worth 630,000 lives. Peaceful separation was the right solution.

American participation in World War I, an imperial slugfest devoid of relevance to the United States, was equally stupid. The great anti-Semitic despotism of Tsarist Russia and revenge-minded France (which had actually declared war first in the Franco-Prussian War some four decades earlier) were as much at fault as Wilhelmine Germany and unstable Austria-Hungary in starting the war. The supposed chief victim, Serbia, was a blood-stained regime that used terrorism against neighboring Austria-Hungary. The formal justification for American entry in the conflict—to protect the right of U.S. citizens to travel on merchant ships of a belligerent power carrying munitions through a war zone—was simply inane. In fact, President Woodrow Wilson wanted America in so he could reorder the world. Washington should have stayed out.

There were no interests at stake that warranted U.S. intervention in Vietnam. That Ho Chi Minh was not a second Hitler and Asia was not ready to fall to communism is evident from the fact that two decades after America's humiliating ejection from Vietnam, international hegemonic communism has disappeared and the entire region, including Vietnam, is looking toward the United States.

Similarly bad was the Gulf War. There was no compelling reason to make the region safe for monarchy, since Iraq's threat to the world's oil supply was overstated. And the oil embargo was sufficient to deny Baghdad any benefit from its conquest. Today the United States remains ensnared in the Persian Gulf, standing behind odious regimes like that of Saudi Arabia.

America's best conflicts were World War II, against potential hegemonies that actually attacked (in the case of Japan) and declared war on (as did Germany) the United States. The Korean War can claim some legitimacy not because Washington had any fundamental interest in the Korean peninsula, but because America had helped bring about the conditions that led to the war and could not easily walk away.

With such a dubious record of sending good people to fight for bad causes, Washington should be less promiscuous today in committing American servicemen to defend other countries. Yet U.S. soldiers are currently stationed in the Balkans, attempting to put back together the Humpty Dumpty state of Bosnia. A bipartisan coalition wants to expand NATO deep into Central and Eastern Europe, so Americans will defend the borders of the Czech Republic, Poland, and who knows who else. Policymakers are similarly committed to staying in East Asia, apparently forever, even though America's allies are now all well able to defend themselves.

The sad reality is that many of the enormous sacrifices made by so many young Americans had nothing to do with freedom. This was not the fault of those who fought and died, but of the political leaders who sent them. For two centuries American politicians have been treating the lives of American servicemen far too cheaply. □

Market-Based Environmentalism vs. the Free Market

by Roy E. Cordato

People on both the left and right are realizing that direct regulation of production and market activities—"command and control"—is too costly. Yet free markets and the outcomes they are likely to generate continue to be unappreciated. To the extent that policymakers value markets, it is not because markets maximize liberty and social welfare but because they can be manipulated to produce centrally planned ends.

That is the basic argument for market-based environmentalism (MBE). In spite of its calls for decentralized decision-making, the purpose of MBE is to subvert freely made decisions by coercively altering incentives. Thus, most MBE policies should be viewed with suspicion, if not disdain, by those whose primary interest is to advance individual liberty. (MBE should not be confused with free-market environmentalism, which is not subject to these criticisms.)

Markets and the Environment

The standard view of environmental problems is that they are inherent in a free society. If people are left free to pursue their own self-interest—to produce and consume what-

ever they want, how and when they want it—the result will be polluted air and waterways, littered streets, and depleted natural resources. Pollution and environmental degradation are often cited as evidence that Adam Smith was wrong. People pursuing their own self-interest may not advance the well-being of society.

Advocates of MBE fully subscribe to this view. As MBE advocates Robert Stavins and Bradley Whitehead argue, "policies are needed to . . . harness the power of market forces . . . to link the . . . forces of government and industry."¹

That view, unfortunately found in many economics texts, misunderstands the nature of both a free society and a free-market economy. Environmental problems occur because property rights, a prerequisite of free markets, are not identified or enforced. Problems of air, river, and ocean pollution are all due to a lack of private property rights or protection. Since clarifying and enforcing property rights is the basic function of government in a free society, environmental problems are an example of government failure, not market failure.

In a free society, environmental problems should be viewed in terms of how they impinge on human liberty. Questions should focus on how and why one person's use of resources might interfere with the planning and the decision-making abilities of others. Since people can legitimately make plans and

Dr. Cordato is the Lundy Professor at Campbell University in Buies Creek, North Carolina. For a much more detailed discussion of this issue see Roy E. Cordato, "Market-Based Environmentalism and the Free Market: They're Not the Same," The Independent Review, vol. 1, no. 3 (Winter 1997).

decisions only with respect to resources that they have rights to, environmentalism that has human well-being as the focus of its analysis must center on property rights.

From this perspective, environmental problems arise because different people attempt to use the same resource for conflicting purposes. This can occur only if the property rights to that resource are not clear or are not being enforced. Two simple examples can highlight the possibilities. Imagine a community that has a cement factory that emits cement dust into the air. The dust causes people in the community to have to wash their cars and house windows more frequently than otherwise and creates respiratory problems for those who have to breathe it. That is clearly a property-rights enforcement problem. Note that the problem is not that the dust is emitted into the air but that it lands on people's property—their cars, houses, and lungs—and interferes with their use of it. In this case, ownership rights are clearly defined, but are not enforced.

Another example might involve a public waterway, such as a river. Along the river, there is a factory that dumps the waste from its production process. Downstream are homeowners who use the river for recreational purposes, possibly fishing or swimming. The factory waste renders the river unsuitable or less useful for those purposes. The central problem here is that the rights to the river are not clearly defined. The public-policy issue involves who should have those rights or how they should be divided. It should be noted that the idea of privatizing rivers or sections of rivers is not new. Early American Indian tribes had clearly defined and enforced property rights to sections of many rivers. State governments nullified those rights.

Since free markets require well-defined and enforced property rights, the solution to environmental problems lies in extending capitalism, not restricting it.

Altering Incentives

Market-based environmentalism has little in common with this approach. Under MBE, government authorities deem a level of efflu-

ent emissions, the amount of recycled paper in grocery bags, or some other outcome a desirable goal. Individual behavior is then manipulated to achieve the goal. MBE policies are meant to control markets by altering the incentive structure—that is, individual decision-making—in order to thwart the outcomes of free-market activity.

Even the free-market advocate and chairman of President Reagan's Council of Economic Advisers, Murray Weidenbaum, has argued, "the environmental pollution problem is not the negative task of punishing wrongdoers. Rather, the challenge is a very positive one: to alter people's incentives."²

The two most common MBE approaches are excise taxes and "tradable permits." The excise tax is a direct implication of traditional welfare economics, which argues that pollution is evidence of "market failure" in which prices fail to incorporate the full "social cost" of production; that is, the external costs associated with the pollution are left out. Since, under this theory, markets fail to generate the correct price and output, an excise tax equivalent to the pollution costs would "correct" for the failure. The problem is that this entire analysis is both practically and conceptually unworkable. The concept of social cost, if meaningful at all, would be the sum of the pollution costs experienced by all the individuals in the community. Yet in reality, each person's costs are strictly personal and subjectively experienced. They cannot be measured and certainly cannot be added to the "pollution costs" experienced by others.

Furthermore, because any tax would cause a complete reallocation of resources in the economy, it could not possibly be known whether the tax would end up making society as a whole better or worse off. Such policies ignore not only sound economics but also sound science. The result is proposals that promote the political agenda or aesthetic values of policymakers and interest groups.

For example, the World Resources Institute (WRI) has published a study claiming that the use of automobiles imposes \$300 billion annually in external costs on society.³ That figure includes the "costs" of global

warming, even though decades of satellite data actually show mostly global cooling, and such pure aesthetics as the unsightliness of shopping malls and the loss of open space due to urban sprawl. The proposed remedies are all "market based" and meant to "alter people's incentives." They include hefty new taxes on gasoline, user fees for roads, and forcing all shopping malls to charge for parking.

Tradable permits (TPs), while often referred to as a "property rights" approach, are not intended to expand property rights but to rearrange and restrict existing ones to achieve an "environmentally correct" and politically determined result. This approach begins by identifying an undesirable activity and then restricting it by issuing a fixed number of permits to pursue the activity. The permits then can be bought and sold in a market setting. Firms can boost their revenues by reducing the level of the activity in question and selling permits to other firms that wish to increase their activity beyond what their permits allow. While TPs "harness" market forces to achieve politically determined environmental goals, they are in fact disdainful of truly free markets based on the recognition and enforcement of property rights.

TPs simply legalize trespass to the extent they allow actual rights-violating pollution to continue, for example, allowing cement companies in the example above to pollute without compensation to victims. As Robert McGee and Walter Block have argued, "perhaps the major fault with trading permits is that . . . they entail a fundamental and pervasive violation of property rights."⁴

In other instances, they simply create new kinds of rights in an attempt to centrally plan industries in the name of environmental protection. The Progressive Policy Institute,

President Clinton's favorite think tank, is calling for tradable permits to promote recycling. The government would issue permits to newsprint companies limiting them to a certain level of nonrecycled materials in their paper. Companies could sell their permits if they increase the recycled content. Those proposals exist, even though, as reported in the *Washington Post* and the *Wall Street Journal*, too much recycling may be causing increased pollution and waste of resources. Such policies are best viewed as an attempt to impose personal attitudes, such as a disdain for landfills, on society.

Market-based environmentalism and the free market are not the same. Free-market policies, even with respect to the environment, would not have "environmental protection" per se as their central focus. Instead the focus would be on resolving conflicts among human beings as they put natural resources to use. An important by-product of that would be a cleaner environment and a more conscientious stewardship of resources.

MBE sees human activity as something that must be harnessed by the government, albeit through market incentives. The conflict, from this perspective, is not among human beings but between them and the natural environment, with human beings wearing the black hats. □

1. Robert Stavins and Bradley Whitehead, *The Greening of American Taxes: Pollution Charges and Environmental Protection* (Washington, D.C.: The Progressive Policy Institute, 1992), p. 3.

2. Murray Weidenbaum, "Reforming Government Regulation to Promote Prosperity," *The World and I*, August 1992, p. 497.

3. James MacKenzie, Roger Dower, and Donald Chen, "The Going Rate: What it Really Costs to Drive," World Resources Institute, June 1992.

4. Robert McGee and Walter Block, "Pollution Trading Permits as a Form of Market Socialism and the Search for a Real Market Solution to Environmental Pollution," *Fordham Environmental Law Journal*, vol. 16 (1994): 58.



Mises's Legacy for Feminists

by Wendy McElroy

The name of the eminent Austrian economist Ludwig von Mises does not commonly arise in feminist circles, which tend to view the free market as an institution through which men as a class oppress women as a class. If the subject of Mises ever did arise, the political incorrectness of his observations on female nature would be likely to create more, not less, coldness. For example, in *Socialism: An Economic and Sociological Analysis*, he wrote, "It may be that a woman is able to choose between renouncing either the most profound womanly joy, the joy of motherhood, or the more masculine development of her personality in action and endeavor. It may be that she has no such choice."¹

From these fighting words, Mises moved into political commentary about the feminist movement itself. He argued that if feminism merely sought the economic and legal freedoms that permit women to become self-determining, then feminism was no more than a "branch of the great liberal movement, which advocates peaceful and free evolution." On the other hand, if feminism sought to alter the "institutions of social life under the impression that it will thus be able to remove the natural barriers," then feminism "is a spiritual child of Socialism."² After all, one of socialism's characteristics is its attempt to reform nature and natural laws by reforming social institutions. One illustration of that is the attempt to reform supply and demand through a planned economy.

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In some respects, the liberal feminism that arose during the early 1960s—called "second wave feminism"—resembled what Mises described as a branch of classical liberalism. Although the movement embraced a profound bias against capitalism, much of the thrust of liberal feminists was aimed at removing the legal barriers and inequities confronting women. The call for legal equality reached its peak in March 1978 when 100,000 demonstrators marched on Washington, D.C., to express their determined support for the ultimately doomed Equal Rights Amendment (ERA). Sixties feminists tended to view men as recalcitrant partners who needed to be reminded of their social responsibilities: from recognizing women's ability in the workplace to sharing the task of parenting at home. But, by current standards, the hostility expressed toward men in the 1960s was muted. In the spirit of acknowledging the presence of male members, the National Organization of Women even changed its name to the National Organization for Women.

Gender Feminism

Meanwhile, in the background, another brand of feminism was hammering out a distinct ideology that Mises would have considered to be wholly "a spiritual child of Socialism." In her book *Who Stole Feminism?* Christina Hoff Sommers referred to that ideology as "gender feminism" because, on the basis of gender, it considers men and women to be separate and necessarily antag-

onistic classes. Gender feminists conclude that all the ills afflicting women—from date rape to the wage gap—flow from the male system of total dominance, called patriarchy, which is expressed partly through capitalism. The pioneering gender theorist Adrienne Rich defined patriarchy in her book *Of Woman Born* as “the power of the fathers,” that is, the “social, ideological, political system” through which men control women “by force, direct pressure or through ritual, tradition, law, and language, customs, etiquette, education, and the division of labour.”³

Regarding the emotional impact of patriarchy, Andrea Dworkin wrote in *Our Blood*, “Under patriarchy, every woman is a victim, past, present, and future. Under patriarchy, every woman’s daughter is a victim, past, present, and future. Under patriarchy, every woman’s son is her potential betrayer and also the inevitable rapist or exploiter of another woman.”⁴ Men were no longer merely recalcitrant partners. Gender feminists redefined the opposite sex into a distinct political class whose interests were inherently antagonistic to women. In the theory that followed, Dworkin pronounced all men to be rapists. Kate Millett called for the end of the family unit. Catharine MacKinnon declared marriage, rape, and prostitution to be indistinguishable from each other.

Viewed through the political lens of gender feminism, maleness ceased to be a biological trait and became a cultural or ideological one. In *Toward a Feminist Theory of the State*, MacKinnon insisted, “Male is a social and political concept, not a biological attribute.”⁵ In *Our Blood*, Dworkin agreed, “In order to stop . . . systematic abuses against us, we must destroy these very definitions of masculinity and femininity, of men and women.”⁶ Maleness could not be reformed. It needed to be eliminated.

With the death of the ERA and the consequent disillusionment of liberal feminists, the ideology of gender feminism came to the forefront and began to exert a defining influence on many issues. Indeed, it is not an exaggeration to state that much of current mainstream feminism is based upon gender feminism’s version of class analysis. It is on

this point of theory that Mises provides penetrating insights on modern feminism.

Class Analysis and Caste Analysis

A class is nothing more than an arbitrary grouping of entities that share common characteristics as determined from a certain epistemological point of view. In short, what constitutes a class is defined by the purposes of the definer. For example, a researcher studying drug addiction may break society into classes of drug users and nonusers. Perhaps he will further establish subclasses within drug users based on the particular substance used, the frequency of use, or some other factor salient to the researcher’s purposes. Classes can be defined by almost any factor considered salient to the definer, such as income level, hair color, age, nationality, sexual habits, and so on.

But, for gender feminists, class analysis is more than a mere epistemological tool. It is converted into an ideological tool. That is, members of the class “male” do not merely share an identity based on certain physical characteristics, they also share specific political and social interests based on that identity. The foremost interest is to keep women, as a class, under their control. Thus, the concept of gender as a class becomes so significant that it is a causative factor: it predicts and determines how the members of the class will behave.

Class analysis is widely associated with Karl Marx, who popularized it as a political approach to predicting interests and behavior. For Marx, the salient political feature defining a person’s class was his relationship to the means of production: was he a capitalist or a worker? This is a form of relational class analysis, which describes a class by its relationship to an institution, in this case the capitalist system.

But the concept of class has a deep history within individualist thought, which predates Marxism. In America, for example, the Jeffersonian John Taylor of Caroline argued that his contemporaries who were involved in banking schemes constituted a “paper aris-

tocracy”—a special class within society that benefited at the expense of others. Franz Oppenheimer’s key distinction between those who use the political means to achieve their goals and those who use the economic means was disseminated through Albert Jay Nock, and it still forms the current conception of class analysis within individualist thought. The class is described in terms of its relationship to the institution of state power: Namely, is any given individual one of the rulers or one of the ruled? Does he use the political means or become its victim?

Twentieth-century American society poses a problem for Marxist analysis, which believes in fixed class interests—the inherent hostility between workers and capitalists. American society is almost defined by the fluidity of its class structure and interests. People frequently reclassify themselves from worker to capitalist, from lower to upper class. Past cultures, such as pre-revolutionary France, drew clear legal lines between the classes and recognized different rights for each of them. Even in eighteenth- and nineteenth-century America—sometimes touted as a “classless society”—categories of people were denied such legal privileges as voting. As the law became universally applied, class barriers fell.

The fluidity of modern American society poses no theoretical problem for Mises’s concept of class. To Mises, class was a matter of shared identity, not of shared interests. Thus, the “working class” may share certain objective economic realities, but this does not determine or predict the subjective values and interests of its members. Indeed, in a free market with legal equality, he expected to see a constant shift in the class structure. In *The Anti-Capitalistic Mentality*, after defining the “three progressive classes” of society as “those saving, those investing the capital goods, and those elaborating new methods for the employment of capital goods,” Mises explained: “Everybody is free to join the ranks of the three progressive classes of a capitalist society. These classes are not closed castes. Membership in them is not a privilege conferred on the individual by a higher authority or inherited from one’s ancestors.

These classes are not clubs, and the ins have no power to keep out any newcomer.”⁷

Mises called static classes that labor under legal disabilities “castes.” Castes are created when legal barriers are raised to cement people into a class and prevent social mobility. In *Socialism*, he expanded what he meant by castes, or “estate-members”: “Estates were legal institutions, not economically determined facts. Every man was born into an estate and generally remained in it until he died. . . . One was master or serf, freeman or slave, lord of the land or tied to it, patrician or plebeian, not because one occupied a certain position in economic life, but because one belonged to a certain estate.”⁸ In essence, castes are legislated classes that create a static society.

In *The Free and Prosperous Commonwealth*, Mises defined a status society as one “constituted not of citizens with equal rights, but divided into ranks vested with different duties and prerogatives.”⁹ It was under a caste system, not a class one, that necessary conflicts arose between legal categories of people who were accorded different privileges and disabilities. Thus, the phrase “class warfare” is a mistaken one: it should be “caste warfare.”

Moreover, so-called “class warfare” contains further confusion. For example, the phrase usually assumes that there is an identity of interests among the members of the separate classes. Yet as Mises explained, a common identity does not necessarily mean common interests since individual members of a class will tend to give their own individual interests priority. Ironically, this may well lead to competition among “class” members, rather than commonality. Mises wrote: “Precisely because ‘class comrades’ are all in the same ‘social situation,’ there is no identity of interests among them, but rather competition. The worker, for example, who is employed under better-than-average conditions has an interest in excluding competitors who could reduce his income to the average level. . . . What has been done by the labor parties in this regard in every country during the last few years is well known.”¹⁰ Mises raised fundamental questions regarding the concepts of “class interest” and “class warfare.”

Do shared interests even exist apart from the sum of the individual self-interests of each member? If objective shared interests do exist, do they take priority over the subjective value judgments of each member? If they do not have priority, what value do "class interests" have in allowing us to predict the behavior of a group? Let us consider these questions with specific application to gender feminist ideology.

Class Conflict Within Gender Feminism

According to this ideology, gender is the politically salient factor that defines a class—what Mises would call a caste—in terms of its relationship to the institution of patriarchy. Men share not only an identity but also political and social interests, which are in necessary conflict with the identity and interests of women. The identity of the class may be based on physical characteristics, but the interests of the class are ideological. Consider the paragraph on rape that closes Susan Brownmiller's introduction to *Against Our Will*: "Man's discovery that his genitalia could serve as a weapon to generate fear must rank as one of the most important discoveries of prehistoric times, along with the use of fire. . . . It is nothing more or less than a conscious process of intimidation by which *all men* keep *all women* in a state of fear."¹¹

Here a shared identity based on a shared manhood leads all men to a shared interest in using rape to intimidate all women. Mises would argue that the only valid step in the foregoing ladder of logic is that men, as a class, share a common anatomy. He would staunchly dispute that all members of the male class would evaluate that characteristic identically or use it in a collective, rather than an individualistic, manner. Indeed, the fact that men compete for women would undoubtedly lead to many sexual approaches, including protection and familial affection. Mises questioned the very basis of class-conflict theory, which rests upon the assumption that what benefits one class must injure another. As he pointed out, "the scientific significance of a concept arises out of its function in

the theories to which it belongs; outside the context of these theories it is no more than an intellectual plaything."¹²

Mises's theory of how society functions is based on classical liberal thought, which considers cooperation to occur only when both sides benefit from the exchange. Indeed, the very perception of benefit is what impels each side to act. Even the infamous hostility between workers and capitalists dissolves in a situation of equal individual rights because each group has no ability to coerce cooperation from the other. Only when force is introduced into the exchange do group conflicts necessarily arise.

Gender feminism is based on different theory: MacKinnon has referred to the ideology as "post-Marxist," meaning that it adopts many aspects of Marxism but rejects its insistence that economic status, rather than gender, is the salient political factor determining a class. Thus, gender feminism incorporates such socialist ideas as "surplus labor," by which human cooperation is viewed as the process of one group taking benefits from another group. To rectify the class inequity it is necessary to do precisely what the free market forswears—to forcibly intervene in order to assure a "socially just" outcome. The law must act to benefit one class at the expense of the perceived self-interest of another class. Specifically, the law must act to benefit women, who have been historically disadvantaged, at the expense of men, who have been the oppressors. In Misesian terms, women cease to be a class with shared identity based on characteristics and become a caste—a group with shared political and social interests that are legally protected. This form of intervention is epitomized by such measures as affirmative action and comparable worth.

An Individualist Feminist with Doubts About Class Theory

The form of feminism that draws most heavily upon classical liberalism is undoubtedly individualist feminism, which traces its roots as an organized force to the abolitionist movement in America. As such a feminist, I

question the value of the concept of class itself within the intellectual framework of individualism. One reason is the substantive tension that seems to exist between the concept of class and other theories within classical liberal thought.

Consider subjective value theory as painted by Austrian economists, who argue that it is not possible—even on an individual level—to predict how anyone will value a certain object or opportunity, or what anyone will perceive to be in his own self-interest. Only in retrospect, by examining how the individual acted on his choices, can you judge what that person's perceived interests were. That is what is meant by the phrase "demonstrated preference." Even then, having analyzed a person's former demonstrated preferences, it is not possible to predict how he will perceive his interests in the future.

Subjective value theory seems to argue against there being a predetermined interest of any sort, especially of the sort so divorced from subjective individual evaluation as that of an objective class interest. In short, two people who share identical class characteristics, for example, retiring factory workers at Ford, may have extremely different perceptions of self-interest and, so, manifest entirely different behavior.

This reservation about class theory harkens back to a question raised by Mises's commentary: Does it even make sense to talk about class interests existing apart from the self-interest of the individual members of that class? Does it even make sense—on anything other than an epistemological or cognitive level—to deal with a class as though it were an empirical entity apart from its members?

Yet, despite such reservations, the concept of class obviously has value in approaching ideas and understanding certain aspects of social interaction. The "working class," for example, does describe a particular economic situation and distinguish it from others. The question becomes: does identifying the members of a class provide any information about the interests of that class as a whole?

In at least one sense, it clearly could. Marxist and gender-feminist theory claim that

because you belong to a certain class you share certain interests that predict future behavior. But it is possible to argue the inverse. That is, because a group has demonstrated similar preferences or behavior, they belong to the same class. But a class membership that depends entirely on past behavior may well have little predictive value for the future.

For example, consider the ruling class, which uses the political means. According to their demonstrated preferences, they may seem to share an interest in, for example, protecting domestic industry through tariffs. Moreover, they may also share loose ties to state institutions that protect and enforce those interests, just as strangers who use the economic means share ties to the institution of the free market. In that sense, the class interests of the ruling class may be said to be institutionalized.

Yet with an apparently strong structure of class interest, we cannot predict the future preferences that individual members of the ruling class will demonstrate. History is replete with people who act against their predicted class interests. Human beings routinely act out of conscience, obedience, religious conviction, passion, whim, drunkenness—the list of the causative factors that can determine behavior seems endless.

Perhaps the most valuable function of class analysis within the framework of individualist thought is as a methodological tool to understand history rather than to predict the future. For example, a researcher might observe that a particular person was both an antebellum slave owner and a voting member of society. His class—or, in this case, caste—affiliation might provide insight into his voting pattern. Yet, even here, a cause-and-effect relationship cannot be drawn between his caste affiliation and his behavior since other factors, such as a sincere religious conviction, might have been causative.

In short, the individualist tradition, within which individualist feminism is lodged, seems to allow limited scope for the concept of class analysis. The scope is so limited, in fact, that the concept of class may be stripped of its predictive and causative value. For some, this

may mean losing a powerful tool of analysis. On the bright side, however, this means there is no necessary conflict between the sexes. The fact that men share certain physical characteristics says nothing about their individually perceived self-interests, or about how they will act in the future. Even if it could be demonstrated that men and women—as classes—have tended to clash historically, this says nothing about whether we must remain enemies in the future. □

1. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (London: Jonathan Cape, 1951), p. 100.

2. *Ibid.*, p. 101.

3. Adrienne Rich, *Of Woman Born: Motherhood as Experience and Institution* (London: Virago, 1977), p. 57.

4. Andrea Dworkin, *Our Blood: Prophecies and Discourses on Sexual Politics* (New York: Harper and Row, 1976), p. 20.

5. Catharine A. MacKinnon, *Toward a Feminist Theory of the State* (Cambridge, Mass.: Harvard, 1987), p. 114.

6. Dworkin, p. 48.

7. Ludwig von Mises, *The Anti-Capitalistic Mentality* (Princeton, N.J.: D. Van Nostrand, 1956), p. 40.

8. Mises, *Socialism*, p. 332.

9. Ludwig von Mises, *The Free and Prosperous Commonwealth: An Exposition of the Ideas of Classical Liberalism* (Princeton, N.J.: D. Van Nostrand, 1962), p. 158.

10. *Ibid.*, p. 164.

11. Susan Brownmiller, *Against Our Will: Men, Women and Rape* (New York: Bantam Books, 1976), p. 5. Emphasis in the original.

12. Mises, *Socialism*, p. 329.

Effective with the December issue, Sheldon Richman will be guest editor of *The Freeman* for the next several issues, announced Donald Boudreaux, president of the Foundation for Economic Education. Mr. Richman is currently vice president of policy affairs with The Future of Freedom Foundation in Fairfax, Virginia.

Mr. Richman is author of *Separating School and State: How to Liberate America's Families* and the forthcoming *Your Money or Your Life: Why We Must Abolish the Income Tax*, published by The Future of Freedom Foundation.

He was formerly senior editor both at the Cato Institute and the Institute for Humane Studies at George Mason University.

He has written widely on a variety of topics, his work appearing in the *Washington Post*, *Wall Street Journal*, *American Scholar*, *Education Week*, *Regulation*, and *The Freeman*, among others. He is a contributor to *The Fortune Encyclopedia of Economics*.

A former newspaper reporter, Mr. Richman was graduated from Temple University in his hometown of Philadelphia.

In a letter to current and prospective writers, Mr. Richman said he wished "each issue of *The Freeman* to make clear to readers how exciting the cause of liberty really is. . . . A chief mission of the magazine will be to illustrate the radical nature of property rights. . . . *The Freeman* must drive home the fact that property is what makes self-determination possible. Without it, everyone is a tenant and employee of the state."

Lafayette: Hero of Two Worlds

by Jim Powell

The freedom fighter Marquis de Lafayette changed history. He helped defeat the British at Yorktown, winning American independence. In France, he helped topple two kings and an emperor. Jean-Antoine Houdon, the great eighteenth-century sculptor who created busts of many great heroes, dubbed Lafayette “the apostle and defender of liberty in the two worlds.”

Cornell University historian Stanley Idzerda remarked, “Lafayette knew only one cause during his long lifetime: human liberty. As a young man he risked his life in war and revolution for that cause. In middle age, living under the barely concealed dictatorship of Napoleon, a regime he detested, he recalled how he had been wounded, denounced, condemned to death, despised, imprisoned, beggared, and exiled—all in the service of human liberty. Poor, powerless, and with no prospects at that time, Lafayette asked, ‘How have I loved liberty? With the enthusiasm of religion, with the rapture of love, with the conviction of geometry: that is how I have always loved liberty.’”

Lafayette was the principal author of the Declaration of the Rights of Man and of the Citizen. “There exist certain natural rights inherent in every society of which not only one nation but all the nations together could

not justly deprive an individual,” he insisted. He maintained these rights aren’t “subject to the condition of nationality,” and they include “freedom of conscience and opinions, judicial guarantees, the right to come and go.” He promoted free trade. He fought for religious toleration and freedom of the press. When the French government harassed immigrants, he sheltered many in his own house. He spent a lot of his own money to help free slaves in French colonies.

He did more than anybody else to link friends of liberty everywhere. He was in touch with Thomas Jefferson, Thomas Paine, George Washington, Benjamin Franklin, James Madison, James Monroe, John Quincy Adams, Daniel Webster, Andrew Jackson, and James Fenimore Cooper, among other Americans. He was a friend of Pierre Samuel Du Pont de Nemours, Germaine de Staël, Benjamin Constant, and Horace Say in France. He corresponded with Charles James Fox in Britain and Simón Bolívar, who helped secure the independence of Venezuela, Colombia, Ecuador, Peru, and Bolivia. Lafayette encouraged Italian liberals, Spanish constitutionalists, and Greek and Polish freedom fighters.

Lafayette stood out in a crowd. He was tall and bony with green eyes. “Pale, lanky, red-haired, with a pointed nose and receding forehead,” added biographer Vincent Cronin, “he looked less like an officer than a wading bird. Nor was he a shining courtier, being slow to speak and awkward.”

From the beginning, though, Lafayette im-

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pressed people. His cousin, the Marquis de Bouille recalled, "I found the young La Fayette remarkably well informed for his age, astonishingly forward in reason and reasoning, and extraordinary for his reflections, his wisdom, his moderation, his cool head and his discernment."

Washington saluted Lafayette's abilities as a strategist and commander: "He possesses uncommon military talents, is of quick and sound judgment, persevering, and enterprising without rashness, and besides these, he is of a very conciliating temper and perfectly sober, which are qualities that rarely combine in the same person."

Jefferson, representing American interests in Paris, offered this candid assessment to Madison: "The Marquis de La Fayette is a most valuable auxiliary to me. His zeal is unbounded, & his weight with those in power, great. His education having been merely military, commerce was an unknown field to him. But his good sense enabling him to comprehend perfectly whatever is explained to him, his agency has been very efficacious. He has a great deal of sound genius, and is well remarked by the King, & rising in popularity. He has nothing against him, but the suspicion of republican principles. I think he will one day be of the ministry. His foible is, a canine appetite for popularity and fame; but he will get above this." Jefferson told Lafayette: "according to the ideas of our country, we do not permit ourselves to speak even truths, when they may have the air of flattery. I content myself, therefore, with saying once and for all, that I love you, your wife and children."

The respected Lafayette scholar Louis Gottschalk wrote that "For most of the last fifty years of his long life, he was the outstanding champion in Europe of freedom—freedom for all men, everywhere."

Early Life

Marie Joseph Paul Yves Roch Gilbert du Motier was born September 6, 1757, in Château de Chavaniac, Auvergne, in south-central France. His father was Michel Louis Christophe Roch Gilbert du Motier, Marquis

de La Fayette, Colonel of the French Grenadiers. He descended from a long line of warrior-aristocrats, one of whom fought with Joan of Arc against the English. Lafayette's mother was Marie-Louise-Julie de la Rivière, whose family had money.

Lafayette's tutors stressed Catholic doctrine and the battlefield exploits of his ancestors, but he did acquire some proficiency in the classics. "I was very good in Latin," he recalled. "I wasn't made to take Greek, which annoyed me. I spent four years at the Collège [de Plessis]. My essays were quite outstanding." One of his early heroes was Vercingétorix, who had defended Gaul against Julius Caesar.

When he was two, his father was killed by a British cannon ball at the battle of Minden (about 40 miles west of Hannover, Germany) during the Seven Years War, and he became the Marquis de La Fayette (as he spelled it before the French Revolution). His mother pulled strings to find a place at Versailles, where the king held court. She died in April 1770, and his grandfather, the Marquis de la Rivière, died soon afterward, leaving Lafayette an inheritance which assured him of a sizeable annual income of around 120,000 *livres*.

At 15, he met 14-year-old Marie Adrienne Françoise de Noailles (known as Adrienne) and fell in love. The wealth and power of the Noailles family were rivaled only by the royal house of Bourbon. They married about a year later, on April 11, 1774. According to biographer André Maurois, she had "large, brooding eyes and an air of alert intelligence." Her aunt the Comtesse de Tesse, remarked that Adrienne rooted her views in "the Catechism and the Rights of Man."

Lafayette became impatient with positions in the Noailles cavalry, and he didn't see a future for himself at the royal court. He heard insurgent Americans were looking for French recruits, so he called on Silas Deane, a Connecticut merchant who was representing the Continental Congress. He wanted to volunteer at his own expense. He told Deane: "it is when danger threatens that I wish to share your fortune."

Lafayette bought a little two-gun merchant

ship named *La Victoire* and set sail for America on April 20, 1777. It was an anxious voyage, because the ship would have been easy prey for a faster, better-armed British privateer. But Lafayette was lucky, and after 54 days at sea, he arrived at the Bay of Georgetown, South Carolina. He sailed on to Charleston. He spent a month traveling to Philadelphia, mostly on horseback.

The Americans gave him the brush-off because previous French volunteers had proven to be a troublesome lot. But General George Washington was in desperate straits. There were only about 11,000 men in his army, they were poorly equipped, and they were being chased by British General William Howe. Moreover, Benjamin Franklin, whom Lafayette had met in Paris, sent letters asking Washington to serve as a "discreet friend" to Lafayette, "to advise him if necessary with a friendly affection." Franklin was confident that a generous reception for Lafayette would make the French more willing to help America.

Lafayette and Washington

Lafayette first met Washington during a dinner at Philadelphia's City Tavern, July 31, 1777. He welcomed Lafayette as the American forces began moving to evade an attack by British General Charles Cornwallis. They were overrun at Brandywine, Pennsylvania, and Lafayette was wounded in the leg. Then Washington's forces suffered serious losses fighting British General William Howe around Philadelphia.

Lafayette shared the hardships at Valley Forge in 1777-1778. "It is here," he explained to his wife, "that the American army will spend the winter in little huts which are scarcely more cheerful than a cell. . . . Everything tells me to leave, but honor bids me stay, and really, when you understand in detail the circumstances I am in, which the army is in, as is my friend who commands it, and the whole American cause, you will forgive me, my dear heart, you will even pardon me, and I dare almost say that you will congratulate me."

Washington's enemies tried to lure Lafayette into schemes that would undermine

Washington's command, but Lafayette asserted his loyalty. He wrote Washington: "I am bound to your destiny, I shall follow it and will serve you with my sword and with all my faculties." Washington replied: "I am well aware that you are quite incapable of entertaining plans whose success depends upon lies and that your spirit is too high to stoop to seek a reputation by ignoble means and by intrigue." He became Washington's information officer.

On May 18, 1778, Washington directed Lafayette to lead a force up between the Delaware and Schuylkill rivers and disrupt British communications with Philadelphia. He displayed tactical genius by cleverly ambushing several British detachments, then maneuvering his men back through British lines. The British pulled their soldiers out of Philadelphia and headed for New York, and Washington asked Lafayette to pursue them and inflict as much damage as possible. Working with General Charles Lee, who turned out to be incompetent, Lafayette was nearly routed by the British at Monmouth, New Jersey.

He decided to see how he could help the cause by returning to France and leading French forces against the British. He bid farewell to Washington, boarded *L'Alliance* in Boston, and sailed on January 11, 1779, bearing a letter from Washington to Benjamin Franklin. At Lafayette's suggestion France would send ships and soldiers to America. Of course, Lafayette would have loved to command the force, but he was only 22, and there were others with considerable seniority.

Lafayette versus the British

Lafayette proved himself extraordinarily resourceful at harassing the British—and escaping from them. One engagement with about 2,500 British soldiers at Petersburg, Virginia, was marked by the death of General William Phillips—the same man who, as an artillery officer 22 years before, had ordered the cannon fire that blew Lafayette's father to bits.

Traitor General Benedict Arnold took over

Phillips's command, and he was to be joined by General Charles Cornwallis, marching up from South Carolina, and by General Henry Clinton, coming down from New York.

Cornwallis's primary mission was to cut off the South from the North, destroy its arsenals, and, if possible, capture Lafayette, who had built up a force of about 3,500, including a 40-man cavalry and six artillery pieces—about half the total force led by Cornwallis. Lafayette retreated as Cornwallis advanced. He was careful to avoid being outflanked by always staying on higher ground north and west of Cornwallis. His men found myriad ways to cross the rivers of tidewater Virginia and harass Cornwallis from positions that were hard to assault.

Cornwallis approached Fredericksburg, then withdrew toward Williamsburg, and Lafayette followed. Hundreds of "Mad Anthony" Wayne's Pennsylvanians met Lafayette at the banks of the North Anna River. He was joined by General Daniel Morgan's riflemen and by skilled horsemen from Virginia and Maryland. Lafayette's forces grew almost as large as those of Cornwallis. The British commander dispatched troops to destroy Lafayette's military supplies stored at Albemarle Old Court House, but Lafayette led his forces through backwoods trails and thwarted the British.

War's End

On May 31, 1781, Washington wrote Lafayette saying that at last he and Rochambeau agreed to attack Clinton in New York. This, Washington believed, would force the British to withdraw forces from Virginia. Washington told Lafayette he could head north if he still wished, providing he could find a capable leader for his forces. The British intercepted Washington's message, and Clinton concluded that he was more vulnerable than Cornwallis. He ordered Cornwallis to establish a defensive position and send some of his forces to New York. Lafayette followed Cornwallis every step of the way, often through night maneuvers that eluded British detection. Two of his subordinates subsequently marched into a British trap, and a

reported 139 Americans were killed, and Lafayette spurred his horse through the gunfire to rally his troops. It was a defeat, but Cornwallis withdrew as he dispatched forces to New York, and he planned on leaving Virginia for Charleston. Lafayette regained Williamsburg.

His forces dwindled to about 1,500 as men went home and tended their fields, but he kept tabs on Cornwallis. Lafayette feared he would miss the most important action. He wrote Washington asking for an assignment in New York. Meanwhile, Clinton ordered Cornwallis to maintain a presence on the Chesapeake Bay—a staging area for attacks on Philadelphia—by occupying Yorktown.

On July 31, Washington ordered Lafayette to rebuild his forces as fast as possible and make the cavalry strong. He knew what that meant: keep Cornwallis bottled up on the peninsula where Yorktown stood. A subsequent dispatch confirmed that Admiral François-Joseph-Paul, Comte de Grasse, was sailing to Yorktown from French possessions in the Caribbean. And Washington and Rochambeau were on the way!

Lafayette amassed provisions. He beefed up his intelligence about British maneuvers. He repositioned his forces. He begged Virginia governor Thomas Nelson for help: "We have not 2000 militia fit to bring into the field. We are destitute of ammunition, and the army living from hand to mouth and unable to follow the enemy. So that on the arrival of the Spanish, French and American forces, I may be reduced to the cruel necessity to announce that I have not, that it was not in my power to stop the enemy."

On August 30, Admiral de Grasse's fleet—six frigates and 28 battleships, with 15,000 sailors and 3,100 marines on board—reached Yorktown. These ships could prevent Cornwallis from escaping by water, and they could help bring American and French soldiers to the scene more quickly. Soon Lafayette commanded over 5,500 regular troops, and there were another 3,000 militiamen. Cornwallis's 8,800 English, Hessian, and provincial troops were outnumbered by the time Washington and Rochambeau arrived on September 9.

"Through his own good luck and the bad judgment of Generals Clinton and Cornwallis had won for him much of his success," wrote historian Louis Gottschalk, "less perseverance or more rashness might easily have led to the annihilation of the force which he had commanded. If Cornwallis now faced the prospect of surrender, it was in large part because Lafayette had persisted where others might have given up or had been cautious where others, yielding to an alluring temptation, might have proved too bold."

The siege of Yorktown began on October 6, 1781. Lafayette was in the thick of the action, leading the capture of British positions. Cornwallis was almost out of food and ammunition, and about a quarter of his men were ill. He surrendered at noon, October 19. British soldiers marched between lines of American and French soldiers as a band played a melody called "The World Turned Upside Down." When the British tried to slight the Americans by looking only at the French, Lafayette ordered his drum-major to start playing "Yankee Doodle" as the British handed over their weapons and returned to Yorktown under militia guard. Historian Gottschalk observed: "No other person (except perhaps De Grasse) had contributed so much or so directly to the capture of one of England's finest armies as had the young general fresh from the 'Society' of Paris."

Continuing Efforts for Liberty

Back in France, after the war, Lafayette suggested that he and Washington launch a joint venture against slavery: "permit me to propose a plan to you which might become greatly beneficial to the Black Part of Mankind. Let us unite in purchasing a small estate where we may try the experiment to free the Negroes, and use them only as tenants—such an example as yours might render it a general practice, and if we succeed in America, I will cheerfully devote a part of my time to render the method fasionable [sic] in the West Indias. If it be a wild scheme, I had rather be mad that way, than to be thought wise on the other track." Washington replied that he would welcome such an opportunity.

Lafayette arrived in New York on August 4, 1784. Two weeks later, he was at Mount Vernon at Washington's invitation. He spent 11 days there, then visited other American friends and by November he was back with Washington. They traveled together to Annapolis. They bid farewell on December 1. Washington wrote Lafayette, "I felt all that love, respect and attachment for you, with which length of years, close connexion and your merits have inspired me. I often asked myself, as our carriages distended, whether that was the last sight I should have of you. And tho' I wished to say no, my fears answered yes." Lafayette and Washington never saw each other again.

Lafayette worked tirelessly for liberty. He promoted freer trade between France and the United States. "There now exist in this kingdom many obstacles to trade which I hope, by little and little, will be eradicated. . . . I think my present duty is, and it ever shall be my rule, to do that in which I hope to serve the United States."

Lafayette became a charter member of the Society of the Friends of the Blacks. He was an honorary member of the New York Manumission Society and the British Committee for the Abolition of the Slave Trade. In 1785, Lafayette and his wife spent 125,000 *livres* to buy two plantations in Cayenne, French Guiana. These came with 48 black slaves who were subsequently emancipated and given some land with which to start providing their own livelihood. The aim was to show how emancipation could be handled successfully.

Revolution in France

The slavery issue was soon overtaken by revolution. The French government had incurred enormous debts during the Seven Years War with Britain, and the situation worsened when the government gave substantial aid to the American struggle against Britain. Half the annual budget went to serve the debt, another quarter was spent on the armed forces, and the royal court at Versailles was a costly drain.

The weak-willed Louis XVI had caved in to

special interests, dismissing his finance minister, Anne Robert Jacques Turgot, who, during his brief tenure (1774–1776), had cut government spending, abolished monopolies, abolished internal trade restrictions, and abolished forced labor. For a while, Turgot's successor, Jacques Necker, had covered soaring deficits with borrowing, but this had about reached its limit, and government spending cuts couldn't be delayed any further. Thousands of people, long dependent on government checks, were desperate. Moreover, inefficient, high-cost producers shut down as consumers gained the choice of spending their money on less expensive goods from Britain and elsewhere. Unemployment in Paris soared to an estimated 50 percent.

Louis XVI intensified demands that the Parlement of Paris approve new taxes. They countered that approval must come from the Estates-General, an assembly of clergy, nobles, and taxpayers (known as the "Third Estate"), which hadn't met in a century and a half. The nobles who dominated the parliament figured they would dominate a new Estates-General, which is what Louis XVI was afraid of.

In 1787, the king nominated 143 lawyers, judges, and other influential people to the Assembly of Notables, and Lafayette was among them. Although this Assembly could only advise the king, Lafayette hoped that it might persuade the king to limit his absolute power. When that failed, he became a vocal member of the opposition. He constantly spoke out against taxation—and in favor of liberty. After Louis XVI insisted on new taxes, Lafayette declared: "The oriental despotism of the regime infuriates me." Lafayette called for a national assembly.

On July 5, 1788, Louis XVI agreed that the following May he would summon the Estates-General. Representatives would have to be elected and an agenda drawn up. Clergy, nobles, and taxpayers had met and voted separately, which meant that the tax-exempt clergy and nobles would always outweigh the Third Estate. This included taxpaying lawyers, bankers, merchants, artisans, and peasants who didn't want to be forever dominated. The king acceded to demands that the

Third Estate have as many representatives as clergy and nobles combined.

The Estates-General convened at Versailles in May 1789. The 47 representatives of the Third Estate declared themselves to be a National Assembly and boycotted the proceedings, demanding that clergy, nobles, and commoners deliberate together and vote individually. Nobles insisted that the king close the hall where the Third Estate met. He did, they continued their deliberations on an indoor tennis court, and Lafayette was there. They swore what became known as the Oath of the Tennis Court on June 20, 1789, to remain in session until they had drafted a constitution for France.

On July 14, 1789, Lafayette was having lunch with the Duke d'Orléans, a rival of Louis XVI, when he heard the distant sound of cannon. He found out that the Bastille, a medieval prison, had been seized by some 800 angry people. Almost a hundred attackers were killed, and the 49-year-old administrator of the Bastille was beheaded by a cook with a butcher's knife. The Bastille held only seven prisoners at the time, but it had come to symbolize the corrupt regime. Its fall to commoners launched the French Revolution.

A disgruntled lawyer named Maximilien Robespierre described it with what would become his bywords, "punish," "terror," and "victim." He was a leader of the Jacobins, who got their name because they began meeting in a hall which once belonged to Jacobin monks. Generally well-to-do, the Jacobins promoted egalitarian doctrines with force and violence.

The Declaration of Rights

Lafayette believed if anything good was to be accomplished, the aims of the revolution must be spelled out in a way that would win the hearts of people. Accordingly, for months he had been drafting what became the Declaration of the Rights of Man and of the Citizen. Lafayette was inspired by the Virginia Declaration of Rights, and his draft reflected his view that the primary threat to liberty was royal absolutism. He affirmed the right of the individual to "assure his property, liberty, honor, and his life." He advocated separation

of powers, limited taxation, and freedom of speech. He carefully specified how the constitution could be revised. In January 1789 he gave this draft to Jefferson, who praised it and sent along a copy to James Madison, then contemplating a Bill of Rights for America.

As the National Assembly debated the Declaration between July 11 and August 26, more members became convinced the primary threat to liberty was mob violence rather than royal absolutism, and they insisted on somewhat more conservative language. The final draft stressed obedience to law. It was more specific on freedom of thought. It specified freedom of religion. It emphasized the importance of secure private property. It didn't say anything about amending the constitution. Despite these differences, the final version was based more on Lafayette's draft than any other—almost all of his first five paragraphs were incorporated into the final version. While less eloquent than the immortal opening lines of the American Declaration of Independence, the Declaration of the Rights of Man and of the Citizen, adopted on August 27, offered a more fully developed vision of liberty.

The Declaration of the Rights of Man and of the Citizen appeared in thousands of broadsheets, pamphlets, and books. It was read in public places.

As for specific constitutional arrangements, Lafayette believed that a separation of powers was essential. He favored a bicameral legislature with a Chamber of Representatives, a lower house (short terms) that could initiate legislation, and the Senate, an upper house (six-year terms) that could exercise a "suspensive" veto on legislation, preventing enactment for perhaps a year. Similarly, he thought that legislative power should be subject to check by a king with a suspensive veto, preventing enactment through two elections—unless overridden by a two-thirds vote in the Chamber of Representatives.

But there was a bitter split in the National Assembly over checks and balances. Lafayette asked his friend Jefferson to host a dinner for eight National Assembly leaders, but despite the Virginian's benevolent influence, the split remained as deep as ever. On September 10,

the Assembly voted 490 to 89 for a legislature with a single chamber. It supported a suspensive veto for the king, giving Lafayette a partial victory.

Citizen militias formed throughout France, and they came together as the National Guard, which served the National Assembly. Lafayette was appointed commander of the Paris National Guard. "The National Assembly," he declared, "recognizes with pleasure that all France owes the Constitution which is going to ensure her happiness to the great efforts for public liberty just made by the Parisians." Soldiers throughout Paris swore allegiance to Lafayette, which seemed to give him more power than the king. Lafayette used his power mainly to save people from being murdered by mobs.

In the National Assembly, Lafayette was pushing for reforms. He introduced a measure for abolishing aristocratic privileges, and it passed on August 4. He proposed major reforms of criminal justice—accused persons must be provided with legal counsel, they must have access to all documents in their case, they must be able to confront witnesses, and trials must be public.

During the night of June 20, 1791, Louis XVI secretly made his "flight to Varennes," near the Belgian frontier, an attempt at rallying royalists and, if necessary, joining the Austrian army mobilized against the Revolution. Lafayette awakened his house guest, *Rights of Man* author Thomas Paine, and exclaimed: "The birds have flown away!" Outraged, since he had assured people that the king agreed to stay put, he signed the first order in French history for the arrest of a king, and he brought the humiliated royal family back to Paris.

On September 14, 1791, Louis XVI abandoned royal absolutism as he signed the Constitution.

This wasn't good enough for fanatics who were gaining more influence every day. Mob violence became endemic. Lafayette was branded an enemy of the nation who must be guillotined. On August 17, 1792, he was dismissed from the National Guard, an almost certain prelude to execution. Lafayette headed for the Belgian border, on his way to

Holland. By fleeing the country, according to a 1792 decree, he forfeited all his properties.

Imprisonment

Lafayette was detained in Rochefort, Belgium, which was controlled by the Austrian Emperor François II. Although Austria welcomed French royalist émigrés, Lafayette was considered a dangerous revolutionary. He was sent off to Wesel in western Germany, where he was placed in solitary confinement in a dark, damp, moldy, rat-infested dungeon. After about a year, the Prussian government agreed to serve as jailer for enemies of Austria, and Lafayette was transferred east to a fortress at Magdeburg, about 75 miles from Berlin—another dungeon. By January 1794, he had been transferred further east, a 12-day journey through bitter-cold weather to yet another dungeon at Neisse, near the Polish frontier.

The Prussians decided that Austria should jail its own enemies, and in the spring, Lafayette was transferred to Olmütz, Moravia (now part of the Czech Republic). Lafayette was stripped of virtually all possessions except a few books, including, ironically, a copy of Thomas Paine's radical *Common Sense*.

He wrote a friend that "Liberty is the constant subject of my solitary meditations. . . . It is what one of my friends once called my 'holy madness.' And whether some miracle releases me from here, or whether I testify upon the scaffold, 'liberty, equality' will be my final words. Here, I can fight against the tyrants only for my soul and my body." He expressed concern "that the Blacks who cultivate it [his estate in Cayenne] still keep their liberty."

Meanwhile, during the Reign of Terror in 1793 and 1794, when Robespierre ordered some 60 executions a day, 40,000 altogether, Adrienne Lafayette's mother, grandmother, and sister had been guillotined, and Adrienne had been imprisoned in Brioude and Paris. She was released thanks, in part, to efforts by American diplomat James Monroe, who had also helped free Thomas Paine from a French prison. Adrienne arranged for 14-year-old George Washington Lafayette to find a safe

haven in America. He bore her letter to George Washington that said "I send you my son."

Adrienne worked singlemindedly to see Lafayette. As Lafayette descendant and scholar René de Chambrun explained, "Lafayette had not spoken to a human being and had been completely isolated from the outside world for nearly one year, when suddenly, on October 15, 1795, the door of his narrow cell was thrown open." In came Lafayette's wife and two daughters. It was the most "dramatic instant of his life."

Prison conditions took their toll on Adrienne. She developed fevers, her arms became swollen, and there were open sores on her legs. When she asked to visit a physician in Vienna, she was told that if she left she could never return. She stayed, and her health worsened.

George Washington wrote a confidential letter to François II, pleading for their freedom and offering the United States as a sanctuary. In the British parliament, Charles James Fox and Richard Brinsley Sheridan championed Lafayette.

Freedom

The October 17, 1797, Treaty of Campo-Formio stipulated, among other things, that Lafayette and his wife would be released. They went to Holstein, a province of Denmark that wasn't likely to become embroiled in war between France and England. On Christmas Day 1798, George Washington wrote his last letter to Lafayette, expressing relief that his friend was free.

Finally in November 1799, Napoleon agreed they could return. Most of their properties had been confiscated and sold during the French Revolution. They were left with La Grange, an abandoned fifteenth-century castle about 35 miles east of Paris. Jefferson pleaded with Lafayette to make America his home. But Lafayette was convinced that if he left France, Napoleon would never let him return.

René le Chambrun emphasized that "Madame Lafayette's greatest concern was to find the hidden ditch where the beheaded bodies

of her grandmother, mother, and sister Louise lay with the other victims of the Terror. With her sister . . . they one day found the dreaded hole. They were too poor to buy the surrounding land, so they raised a subscription among the victims' kin. They built a chapel on the site of the one the Revolution had destroyed at Picpus."

Despite all he had suffered, Lafayette remained defiant. In 1802, Napoleon wanted to be named a consul for life, but Lafayette expressed his opposition. "The French people have too well known their rights to have forgotten them," he declared.

In 1807, Adrienne suffered the same painful symptoms she had in prison. By October, she developed a fever and went into a delirium. Her family gathered around. On Christmas Eve, she put her arm around Lafayette's neck and whispered, "Je suis toute à vous" ("I am all yours"). She groped for his fingers, squeezed them, and was gone.

Lafayette, René le Chambrun explained, "seldom left La Grange, where he led a farmer's life." He improved fertilization techniques. He introduced American corn to France. He planted apple and pear orchards, and he did a good business selling cider. He introduced new breeds of cattle, hogs, and sheep. He did well enough that he paid off debts and achieved some financial security.

Every day he arose at five in the morning, Chambrun reported, and "remained in bed for two hours writing friends of liberty all over the world: Poles, Hungarians, Greeks, Spaniards and Portuguese, North and South Americans . . . and, alone on his knees, holding in his hand a small portrait of Adrienne and a lock of her hair, he would spend a quarter of an hour in meditative devotion."

Lafayette's Return to Public Life

After Napoleon's downfall in 1814, Lafayette returned to public life. He visited Germaine de Staël, who, after a decade of exile, had revived her influential liberal salon. He protested as Napoleon's successor, Louis XVIII, affirmed the divine right of kings and issued one decree after another. He lashed

out at aristocrats scrambling back into power.

When Napoleon attempted his comeback, claiming a conversion to liberalism, the supposedly naïve Lafayette declared, "I see no sign of his doing so." The intellectual Benjamin Constant, who had bet on Napoleon's conversion to liberal principles, told Lafayette: "You are my conscience!" Constant persuaded Lafayette to seek election for the Chamber of Deputies. He became a deputy from the department of Seine-et-Marne.

Defeated at Waterloo, Napoleon demanded dictatorial power. Lafayette rose in the Chamber of Deputies. "When for the first time in long years," he declared, "I raise a voice that the old friends of liberty will still recognize, I feel called upon, Messieurs, to speak to you of the dangers confronting the nation, which you alone, just now, have the power to save. . . . This is the moment for us to rally round the old tricolour standard, the standard of '89, the standard of liberty, of equality and public order; it is that alone which we have to defend against pretensions abroad and assaults at home." He proposed five resolutions that, among other things, asserted the supremacy of parliamentary government.

Napoleon, still the most feared military commander in Europe, was furious. Lafayette urged his fellow deputies to join him in telling the Emperor that "after all that has happened, his abdication has become necessary to save the nation." Napoleon abdicated.

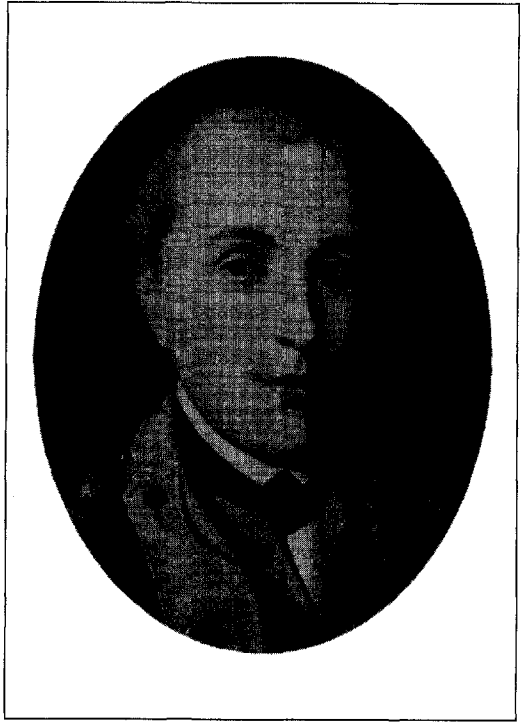
Lafayette withdrew from politics, but he remained an inspiration to friends of liberty everywhere. When fanatical royalists began to terrorize much of France, friends encouraged Lafayette to seek office again. In 1818, he was elected to the Chamber of Deputies from Sarthe. He started a group called Friends of the Liberty of the Press, and he pleaded for toleration. He urged that people "return to the national, constitutional and peaceable path—the path of good will. We have so many public and personal interests to conserve, so many common sorrows to deplore, so many private qualities to recognize in one another, when they are not denatured by the partisan spirit."

In 1823, Lafayette accepted President James Monroe's invitation for a farewell tour of America. He declined Monroe's offer to send a warship for him and instead traveled aboard the ordinary packet ship *Cadmus*. He arrived on August 15, 1824, and was greeted by some 30,000 people. An estimated 50,000 cheered Lafayette as he rode a wagon drawn by four white horses to New York's City Hall. People threw flowers at him. Mothers brought their children for his blessing. Some 6,000 people attended a ball in his honor. He began a 13-month tour through all 24 states.

"I see you are to visit York-Town," Jefferson wrote Lafayette in Boston, "my spirit will be there with you; but I am too enfeebled by old age to make the journey. . . . Our village of Charlottesville insists upon receiving you, and would have claimed you as its guest, if in the neighborhood of Monticello you could be anybody's guest but mine . . . God bless and keep you; may He permit me to see you again and to embrace you."

Lafayette commended Americans for what they had accomplished: "In the United States the sovereignty of the people, reacquired by a glorious and spotless Revolution, universally acknowledged, guaranteed not only by a constitution . . . but by legal procedures which are always within the scope of the public will. It is also exercised by free, general, and frequent elections. . . . Ten million people, without a monarchy, without a court, without an aristocracy, without trade-guilds, without unnecessary or unpopular taxes, without a state police, a constabulary, or any disorder, have acquired the highest degree of freedom, security, prosperity, and happiness, which human civilization could have imagined."

At Bunker Hill, Massachusetts, the orator Daniel Webster declared: "Heaven saw fit to ordain, that the electric spark of liberty should be conducted through you, from the New World to the Old." Lafayette entered Philadelphia, escorted by four wagons carrying about 160 Revolutionary War veterans. He stopped at the Brandywine battlefield where he had been wounded. He returned to Yorktown, which was still in ruins. Big crowds welcomed him everywhere—for instance, 10,000 in Newburgh (New York), 50,000 in



Lafayette

Baltimore, and 70,000 in Boston. He was cheered in Richmond, Columbia, Charleston, Savannah, Augusta, Montgomery, Mobile, New Orleans, Natchez, St. Louis, Nashville, Lexington, Cincinnati, Pittsburgh, Buffalo, and Albany. He appeared at Catholic churches, Protestant churches, and Masonic lodge gatherings. He attended receptions open to everybody, and he publicly welcomed blacks and Indians who came. Lafayette descended to the vault of George Washington's tomb at Mount Vernon. There was a reception at the University of Virginia. He saw John Adams in Quincy, Massachusetts, and James Madison in Montpelier, Virginia.

And Lafayette reached Monticello. "The Marquis got out of his barouche and limped as fast as he could toward the house," explained biographer Brand Whitlock. "Between the white columns of the portico appeared a tall, spare figure of a man stooped with age, wearing the swallow-tailcoat, the long waistcoat and the high stock of another epoch; he had cut off his queue, and his thin white locks hung about his hollow temples

and lean cheeks; he tottered down the steps, and came towards him.

"Ah, Jefferson!" cried Lafayette.

"The two old men broke into a shuffling run.

"Ah, Lafayette!" cried Jefferson.

"No need for eloquence now! They burst into tears and fell into each other's arms."

Sometime later, Lafayette's secretary Auguste Levasseur described an awesome sight in Charlottesville: "the Nation's Guest, seated at the patriotic banquet between Jefferson and Madison." On September 7, Lafayette went down the Potomac River on the steamboat *Mount Vernon*, boarded the frigate *Brandywine*, and sailed back to France.

Lafayette began spending winter months at 6 rue d'Anjou, Paris, and there held Tuesday evening receptions that attracted liberals from America and Europe. The American author James Fenimore Cooper reported that the gatherings "are exceedingly well attended." Benjamin Constant and Alexander von Humboldt attended, as did members of the Chamber of Deputies. Historian Lloyd Kramer noted that "Lafayette's soirees in Paris, like his long conversations with guests at La Grange, thus facilitated contact between different generations in much the same way as they contributed to new connections between politicians and writers or between his French friends and foreigners."

Meanwhile, in 1824, Charles X had become king of France and reasserted the power of church and throne. The Roman Catholic Church regained control over French schools, and anyone convicted of committing a sacrilege in a church building could be put to death. In 1830, the Chamber of Deputies voted "no confidence" in the ministry, the king called for new elections, and voters supported the king's outspoken opponents. On July 26, 1830, the king issued four decrees that dissolved the new Chamber of Deputies, suppressed freedom of the press, restricted the voting franchise of merchants and bankers and announced new elections based on the restricted franchise.

The day after the decrees were announced, Paris erupted in revolt. People barricaded the streets July 27, 28, and 29. The army refused

to shoot at the rebels. Some wanted a democratic republic, while others wanted stronger constitutional limitations on the monarchy, and still others were mainly concerned about job security.

The 73-year-old Lafayette declared that the regime of Charles X was politically finished and that it was time for a new government. "Make a revolution," he urged. "Without it, we shall have made nothing but a riot." As in 1789, he was asked to head the National Guard, and he accepted, but he declined suggestions that he become president of a French republic. While Paris seemed to favor a republic, most people in the provinces feared violent upheaval and wanted a constitutional monarchy. Lafayette concluded that "what the French people need today is a popular throne surrounded by republican institutions, but altogether republican." He believed the top priority for liberty was to preserve the authority of the Chamber of Deputies.

He proposed that the Duke d'Orléans become king. The duke was related to the Bourbon dynasty, had been in the republican army during the French Revolution, and he agreed to observe constitutional limitations on royal power. Accordingly, the Chamber of Deputies offered him the throne on August 7, and he became Louis-Philippe, "the bourgeois king." He proved to be an adroit public relations man—displaying the revolutionary tricolor flag, calling himself "king of the French" (rather than king of France), dressing in austere dark suits instead of opulent robes. Louis-Philippe made the Chamber of Peers an elected rather than hereditary body, and the voting franchise was doubled to include about 200,000 business people who possessed some property.

Lafayette defended individuals jailed for political offenses. He opposed capital punishment. He denounced slavery. He supported insurgents in Belgium. He was a champion of Polish freedom, and—defying government restrictions on refugees—he hid Polish patriots like Antoine Ostrowski and Joachim Lelewel at his La Grange estate.

In early February 1834, Lafayette reported pain and fatigue, perhaps triggered by pro-

longed exposure to bitter cold air. He had pneumonia. His children stayed with him. At about 4 o'clock in the morning, May 20, 1834, Lafayette pressed to his lips a medallion with a picture of Adrienne and took his last breath. He was 77. The funeral service was at the Church of the Assumption, Paris. Tens of thousands of people turned out to see 3,000 National Guards accompany Lafayette's coffin to the humble Picpus cemetery, where he would join Adrienne and so many guillotined victims of the French Revolution. Lafayette was laid to rest in American soil he had brought back on the *Brandywine*.

Lafayette was idolized during the nineteenth century, especially in the United States. His portrait seemed to be everywhere—American Friends of Lafayette has over a thousand historic portraits of him. Dozens of American towns, counties, and schools were named after him. "Pronounce him one of the first men of his age," John Quincy Adams proclaimed in his tribute, "and you have not done him justice."

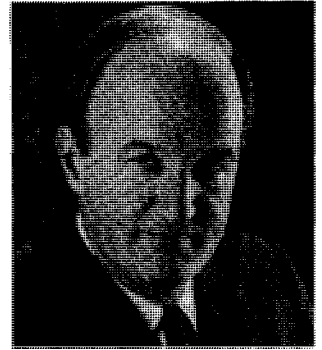
But most twentieth-century historians—especially French—debunked Lafayette as a vain, immature, mediocre, doctrinaire simpleton. Many conservatives, including his descendants, viewed him as a traitor to his class. Lafayette's grandson inherited La Grange, and he married a British woman—a Tory. She consigned Lafayette's books, papers, and other personal possessions to the third-floor attic of the northwest tower, a space which Lafayette had called the "Couloir des Polonais" ("hiding place of free Poles"). The next

two generations maintained the Tory ambience of the place.

Happily, there has come a renewed appreciation for Lafayette. René le Chambun, descended from Lafayette's daughter Virginie, acquired La Grange in 1955 and explored the northwest tower attic. He and his wife discovered a treasure of letters and mementoes.

Historian Lloyd Kramer recalled the revelation he experienced when he helped edit Cornell University's vast collection of Lafayette letters, gathered from Lafayette's birthplace at the Château de Chavaniac: "I soon came to realize the historical value of reading 'primary sources' and to believe that Lafayette's life had been far more varied and complex than the ironic, historical narratives suggested."

Even a tart-tongued biographer like Olivier Bernier acknowledged that "whatever his limitations, it is to Lafayette's glory that the one idea he seized on was that of liberty. Nothing can replace the right to speak, think, organize, and govern freely: from this all benefits derive. With his vanity, his obstinacy, his self-satisfaction, his thirst for popularity, Lafayette never lost sight of that all-desirable principle. For that, he deserved the gratitude of his contemporaries and the esteem of later generations. In a world where liberty is in very short supply, there are worse heroes than a man who never stopped worshipping freedom." So the one thing Lafayette's critics concede is the most important of all. He still stands tall as the great hero of two worlds. □



Getting Published— An “Austrian” Triumph

“[Austrian economists] feel they’ve been frozen out of mainstream economics and seldom get even a footnote in standard textbooks.”

—Todd G. Buchholz¹

Austrian economist makes good! I just got published in the *Journal of Economic Perspectives*, the most widely read economics journal in the country.

The article, “The Perseverance of Paul Samuelson’s *Economics*,” is a damning review of the 15 editions of Samuelson’s famous textbook.² I am still in shock a year after getting an E-mail from the *JEP* saying they had accepted my paper. Undoubtedly it is a watershed event when the No. 1-read economics journal in the country is willing to publish an article critical of the top Keynesian economist in the world and first American to win the Nobel Prize in economics. One of the co-editors, Brad de Long, said that my study is “one of the best and most exciting papers we published in the second half of the 1990s.” Tim Taylor, the managing editor, said that ten years ago they would not have published it.

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, and editor of Forecasts & Strategies, one of the largest investment newsletters.

A reprint of “The Perseverance of Paul Samuelson’s Economics” (including Professor Samuelson’s response) is available from FEE for \$3.00, postpaid.

Dethroning the King of Keynes

There are two major stories that come out of my study.

First, Samuelson’s *Economics*—the most popular textbook ever published, with over 4 million sold and translated into 41 languages—taught students a lot of bad economics. Until recently, the MIT professor taught students that high saving rates were bad for the country, federal deficits and progressive tax rates were beneficial, and Soviet central planning could work. In my review of his 15 editions, which covers the entire postwar period, I point out that Professor Samuelson spent whole chapters discussing the failed economics of the Soviet Union and China, while writing little or nothing on the success stories of West Germany, Japan, the East Asian Tigers, or Chile. He had numerous sections in his textbook on “market failure” while offering very little on “government failure.” He constantly highlighted the economics of Keynes, but downplayed the economics of Friedman, Hayek, and other free-market economists.

Samuelson’s Economics: From Keynes to Adam Smith

Not everything was negative in my review of Samuelson’s textbook. On the positive side: Samuelson frequently declared his optimism about the future of capitalism and rejected doomsayers’ predictions of another Great Depression or national bankruptcy. He reg-

ularly defended free trade and free markets in agriculture. And he was highly critical of Karl Marx and Marxian economics.

The most amazing discovery I made in my study is that Samuelson, under the influence of co-author William D. Nordhaus (Yale) and recent events, has had a change of heart and is gradually shifting back to classical economics. In more recent editions, he has reversed his position on a number of important issues. In the most recent edition, for example, Samuelson states that Soviet central planning was a "failed" model, that national savings is too low and needs to increase, and that the national debt is excessive. (For more on Samuelson's transformation, see my article, "Another Shocking Reversal in Macroeconomics," *The Freeman*, February 1996.)

The *JEP* also published a rejoinder by Samuelson, which was surprisingly reserved and anemic in response to my blistering critique. "I am pleading no alibi nor extenuations," he wrote. "My present-day eyes do discern regrettable lags in sloughing off earlier skins."³ He only denied that he was antisaving, one thing he is famous for.

My study of Samuelson's *Economics* points to the real need for a college-level textbook on sound economics. That is my primary goal right now. My forthcoming textbook is called *Economic Logic* and I hope to finish it next year. I'll keep you posted.

Past Prejudices Against Austrians

Austrian economists have had a long struggle in getting recognized by the profession. The mainstream has shown little interest if not disdain for a school that is laissez faire in government policy and critical of mathematical modeling and empirical econometrics.

Following the postwar Keynesian revolution, the economics establishment was unreceptive to the works of Ludwig von Mises and Friedrich Hayek. In the 1960s, Austrian economists depended on the conservative publisher Regnery and the engineering publisher D. Van Nostrand & Co. to get published.

Future Is Brighter

Gratefully that's all changing. Today Austrians hold a small but growing number of positions at major universities (George Mason, Auburn, NYU, University of Georgia, California State at Hayward, etc.), get published by major university and academic presses (Cambridge, Chicago, Oxford, NYU, Kluwer, Routledge, and Edward Elgar, among others), and are getting accepted in major journals (*Journal of Economic Literature*, *History of Political Economy*, *Journal of Macroeconomics*, and *Economic Inquiry*).

Still, other "free-market" schools (the monetarists and the new classicists) have advanced much further because of their mathematical and empirical approach. The Austrian school still largely remains a "book culture," as Peter Boettke puts it, and needs to devote more efforts to "strategic" publishing in the journals rather than preaching to the choir if it wants to have an impact.⁴ Happily, things are looking up. □

1. Todd G. Buchholz, *From Here to Economy: A Shortcut to Economic Literacy* (Dutton, 1995), p. 238. Buchholz's popular history, *New Ideas from Dead Economists* (Plume, 1990), completely ignores the Austrians because Hayek and Mises weren't discussed at Harvard.

2. Mark Skousen, "The Perseverance of Paul Samuelson's *Economics*," *Journal of Economic Perspectives*, vol. 11, no. 2 (Spring 1997), pp. 137-152.

3. Paul A. Samuelson, "Credo of a Lucky Textbook Author," *Journal of Economic Perspectives*, vol. 11, no. 2 (Spring 1997), p. 155.

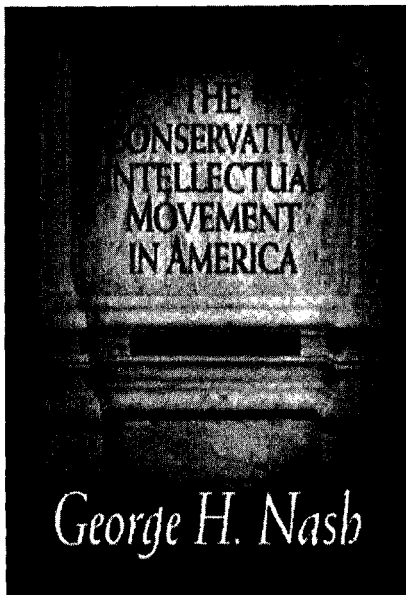
4. Peter J. Boettke, "Alternative Paths Forward for Austrian Economics," *The Elgar Companion to Austrian Economics* (Edward Elgar, 1994), pp. 601-15.



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George H. Nash



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In this revised and updated edition of what *Insight* magazine recently called "the standard work" on the history of post-World War II American conservatism, George Nash shows how an exceedingly diverse group of thinkers—among them William F. Buckley, Jr., Richard M. Weaver, Ludwig von Mises, Milton Friedman, Frederick Hayek, and Russell Kirk—formed a number of distinct, yet highly influential, positions toward politics and life in America. The Conservative Book Club, in choosing the title as a featured main selection, hails this work as "the book that picks up where Russell Kirk's *The Conservative Mind* leaves off."

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BOOKS

Poor Policy—How Government Harms the Poor

by D. Eric Schansberg

Westview Press • 1996 • 244 pages • \$25.00

Reviewed by George C. Leef

As Thomas Sowell correctly observes, before one can be a partisan of the poor, he must first be a partisan of the truth. Unless we understand the truth about the causes of poverty and the truth about the effects of what are called “anti-poverty programs,” we are not going to be able to do anything to help the poor. Indeed, trying to aid the poor without an accurate analysis of the causes and the effects of the proposed cures, we are apt to make their condition worse. In medieval times, doctors used to bleed people suffering from diseases on the assumption that bad blood was causing their distress; this was almost never beneficial and fatal in many cases. Could it be that government policy today toward poverty is on a par with bleeding?

In *Poor Policy*, D. Eric Schansberg argues that, like bleeding, government policy to help the poor actually is harmful. Welfare programs aren’t just *ineffective*. They are *harmful*. Furthermore, the author, who is assistant professor of economics at Indiana University-Southeast, makes a strong case that many of the poor are poor (or at least poorer than they would otherwise be) due to the effects of laws and policies designed to benefit various groups of non-poor people. In short, Schansberg is arguing the classic *laissez-faire* position against interventionism by demonstrating that it creates and exacerbates poverty.

Virtually everything government does outside of its Jeffersonian core of protecting individual rights to life, liberty, and property creates wealth transfers that make the society poorer on the whole, and have their worst impact on those who can least afford it. Schansberg devotes several chapters to the familiar list of laws that especially hurt the poor—the minimum wage, occupational licensing, rent control, and so on. In doing so, he introduces the reader to public-choice economic theory. Once people understand the logic of public choice, they are less apt to be taken in by the claims that laws like those are “well-intentioned.”

I particularly commend the author for attacking sacred cows. Social Security? Sorry. It harms the poor. Drug prohibition? It harms the poor also. Public education? A cataclysm for the poor. Given that so many Americans have been conditioned to ask of any proposed public-policy change, “How will it impact the poor?” we should use Schansberg’s book (as well as the works of Charles Murray, Marvin Olasky, and others) to bludgeon Social Security and so on with the argument, “They *hurt* the poor!”

The book also takes some well-aimed shots at the pernicious idea that Christianity demands that we have a governmental welfare system. Big-government advocates shamelessly resort to this form of moral blackmail, but the author replies, “The bottom line is that there is no relation between the biblical call to Christians and the use of government to help the poor. In fact, they are diametrically opposed. The use of government to reach certain ends is based on coercion. The change in behavior designed to accompany the Christian’s Spirit-filled life is completely voluntary.” The use of coercion to accomplish anything, whether it is feeding the hungry or exploring Mars, is simply *wrong*. Schansberg has here hit upon what I believe must be the foremost goal of defenders of liberty, namely, to get people to pay attention to the morality of the *means* and not just the desirability of the ends.

Poor Policy is a useful, nontechnical book that neatly organizes a lot of data and arguments against the ideas that government can, does, and should assist the poor. Bravo. □

George C. Leef is book review editor of *The Freeman*.

The Concise Conservative Encyclopedia

by Brad Miner

Free Press • 1996 • 318 pages • \$15.00

Reviewed by Aaron Steelman

The free-market movement in the United States has prospered tremendously over the past 20 years. Dozens of market-oriented think tanks and journals have been created, and an increasing number of students are becoming interested in the ideas of liberty. *The Concise Conservative Encyclopedia* provides a valuable and easy-to-read introduction to the ideas, individuals, and organizations that have shaped this burgeoning intellectual movement.

Miner's book contains 200 brief entries, an afterword by the author, and five succinct essays on the origins of conservative thought, ranging from antiquity to the modern era. Those essays are written by Carnes Lord, Jacob Neusner, James Schall, S.J., Peter Stanlis, and Charles Kesler.

In the preface, Miner argues that the "purpose of a 'reader's encyclopedia' such as this one is not to provide the last word on the topics and people it covers, but to offer the inquiring reader just enough information about the subject in question to enable him to go on reading in some other book with a modicum of improved perspective." Toward that end he has succeeded marvelously.

The entries have been chosen wisely and the author has given more than adequate attention to all the major strains of modern free-market thought, including classical liberalism. Every major classical liberal and libertarian figure—including Mises, Hazlitt, Bastiat, Friedman, and Hayek, to mention but a few—is incisively and intelligently profiled. In addition, Miner has included entries for a number of other individuals and institutions that readers of *The Freeman* will undoubtedly be familiar with, but that many nonlibertarians will not. Among those are Frank Chodorov, Bertrand de Jouvenel, and Felix Morley. The book also contains brief, yet insightful, descriptions of the Austrian, Chicago, and Virginia schools of economics. And Miner doesn't shy away from discussing differences of opinion on the Right. He discusses the debates over an interventionist foreign policy and free trade, and he deals with the seeming divide between traditionalism and libertarianism, which he argues has been overblown.

For newcomers to free-market thought, his suggested readings at the end of each entry will be valuable—although there are a few exceptions to that rule. For example, the lone book by Mises that he has recommended is *Human Action*. While there can be little question that *Human Action* is the most comprehensive statement of Mises's worldview, how many beginners are going to be able to actually get through it? Listing, for example, *Liberalism or Planning for Freedom* as well would have been more helpful.

Moreover, there are some exclusions that seem a bit puzzling. The Institute for Humane Studies, the Cato Institute, and the Volker Fund do not receive individual listings, nor do Israel Kirzner and Richard Epstein, two giants of free-market scholarship.

Despite those problems, *The Concise Conservative Encyclopedia* is a tremendous improvement over its two principal competitors: *Right Minds: A Sourcebook of American Conservative Thought* by

Gregory Wolfe and *A Dictionary of American Conservatism* by Louis Filler. It belongs in the library of every student of liberty, beginner or veteran. □

Mr. Steelman is a staff writer at the Cato Institute.

The Diversity Machine: The Drive to Change the "White Male Workplace"

by Frederick R. Lynch

The Free Press • xv + 416 pages • \$27.50

Reviewed by Brad Stetson

Even though race-and-gender-based double standards are encountering increasing public opposition, the affirmative action steamroller and the diversity machine have continued their work. Affirmative action has sustained some severe critical and legal blows lately, but its commercial cousin, the diversity movement, has escaped close scrutiny—until now. With this wide-ranging book, sociologist Frederick R. Lynch of Claremont McKenna College, crushes the Potemkin Village of slogans, moralisms, and stereotypes that have shielded diversity management from careful analysis.

Lynch diligently traces the diversity movement from its roots in the affirmative action campaigns of the 1960s to its entrenchments in the boardrooms of today's largest corporations. He carefully documents the language and rationales of "diversity trainers," the salespeople for the movement who practice a subtle form of extortion by urging CEOs and personnel managers to have a workforce that "looks like America" or "reaches out" to the "underrepresented." In other words, the best way to avoid being called names at an interest group's press conference or to preempt discrimination is to artificially pump up the number of women and minorities employed and promoted. Of course subsequent training in "cultural sensitivity" and multiculturalism also looks good—and is very profitable for the firms devoted to providing such "services" to corporations.

While Lynch is respectful of the good intentions of many in the diversity movement, he does not accept their rhetoric at face value. At conference after conference, he encounters "diversity experts" who, for all their multicultural awareness and self-proclaimed sensitivity, are unwilling to acknowledge either intragroup differences or the legitimate grievances of white males.

The diversity machine's general blindness to internal group differences stemming from age, religion, education, and even gender undercuts the validity of its generalizations about group traits. As Lynch illustrates, "The Hispanic manager could be a fourth generation Mexican-American with an Anglo mother and a Stanford M.B.A.; subordinates might be first-generation Guatemalans with a sixth grade education." Similarly, dismissive talk of white male "backlash" and "resistance" is the ready response of many diversity "facilitators" to the white male employee who voices disagreement with the diversity mandate. Lynch shows that the diversity machine's dispute with "white male" culture is in fact a veiled argument with the values and methods of capitalism and meritocracy.

The basic reality that supports the diversity juggernaut is the same phenomenon that sustains affirmative action programs and so much politically correct cant about race and gender in American life: "preference falsification." This phrase, coined by economist Timur Kuran, refers to the mobilization of social pressure to make people publicly praise ideas as true which they privately believe to be false. So in public, out of fear of being labeled "racist" or "insensitive," people may accept the reasonableness of affirmative action, but in private they deem it a cloak for racial discrimination. The same holds true for corporate diversity programs, except that the pressure to be approving is magnified, as people's promotions and jobs may well be jeopardized if they are too forthright in their disagreement. Indeed, as Lynch clearly shows with interviews and vignettes from the diversity seminars, dissenters from diversity orthodoxy experience an enormous amount of fear and intimidation.

The exhaustiveness and relentless detail of Lynch's investigation have a cumulative effect that will be persuasive to any open mind. Emerging from this meticulous dissection of the diversity movement is the unsettling truth that both the means and goals of this now largely mainstream, institutionalized philosophy are antithetical to the basic liberal values of the American founding: free speech, individualism, equality of opportunity, and nondiscrimination on grounds of race, gender, or religious faith. The diversity machine, with its underlying ideology of ethnic-gender proportionality, cultural relativism, and identity politics can only foment social acrimony and, ironically, given its banner and rhetoric, a homogeneity of thought. Were this a nascent or fringe movement, it would be troubling enough. But given that the mantras of diversity have already mesmerized American politics and business culture, it is even more distress-

ing. The diversity machine's momentum will not soon slow, and we should be deeply concerned about where the irrational ethnic and gender group consciousness it stimulates will lead us. □

Brad Stetson is director of The David Institute, a social research group in Tustin, California. He is co-author of Challenging the Civil Rights Establishment (Praeger Publishers, 1993), and author of Human Dignity and Contemporary Liberalism (forthcoming, Praeger). His E-mail address is blsdi@aol.com. A shorter version of this review appeared in First Things.

The Conservative Intellectual Movement in America: Since 1945, 2nd edition

by George H. Nash

Intercollegiate Studies Institute • 1996 • 467 pages • \$24.95

Reviewed by Robert Batemarco

"We see so far because we stand on the shoulders of giants." In a nutshell, this is the major lesson to be learned from *The Conservative Intellectual Movement in America: Since 1945* by George Nash. First published 20 years ago, this tome breathes life into those "giants of conservatism" and the battles they waged not only against the dark forces of leftism, but at times against one another.

That the internecine struggles of conservatism occupy a large part of this book should come as no surprise, given that conservatism was less a coherent movement than a coalition of three movements: libertarianism, traditionalism, and anti-communism. The Second World War had just finished giving each of them a pounding. To fight the war, governmental powers were swollen to unprecedented levels utterly inconsistently with libertarian notions of limited government; the ghastly carnage of that conflict shook the faith of many in the superiority of the Western tradition; and diplomatic intrigues plus the power vacuum caused by Germany's defeat left Stalin's Soviets the most powerful force in Europe.

Yet some thinkers saw these events not as a death knell, but rather as a wake-up call. The insight that the rise of totalitarianism was the logical conclusion of seemingly benign accretions of state power was the core message of Friedrich Hayek's *The Road to Serfdom*. Like the first crocus

when the snow still covers the ground, this book was a harbinger of future events. These included the founding of institutions as well as the proliferation of scholarship aimed at furthering the cause of freedom. Indeed, the Foundation for Economic Education and *The Freeman* loom large in this story and Nash devotes several pages to their early days. The contributions of Mises, Hazlitt, Rothbard, Röpke, and Friedman, among others, also receive their due.

If libertarians blamed the rise of big government for most ills of the twentieth century, traditionalists found greater fault in the realm of ideas. Richard Weaver, in his book *Ideas Have Consequences*, drew a straight line from William of Occam's fourteenth-century denial of the existence of universals to the twentieth century's moral relativism and denial of ultimate truth. Eric Voegelin, Leo Strauss, and Russell Kirk were other major contributors to this strand of conservative thought. While these thinkers berated libertarians for failing to venture beyond the realm of economics, the libertarians responded by accusing traditionalists of not *standing* for anything in a *principled* way. Frank Meyer sought to find common ground between traditionalist and libertarian camps by emphasizing "reason operating within tradition." Despite Meyer's efforts, however, the insistence of many traditionalists on using the state as a vehicle for the promotion of virtue kept them at odds with libertarians.

The third element of the amalgam known as conservatism were the cold warriors. The threat that communism posed to both limited government and traditional values was particularly obvious to those who had witnessed its depravity from the inside. It was from the ranks of those who could not answer in the negative the second half of the question, "are you now or have you ever been a communist?," such as Whittaker Chambers and James Burnham, that sprung the fiercest anti-communists. The conflict between the cold warriors and the libertarians arose over whether it was appropriate to jettison many American freedoms in order to preserve the rest from communism. Many libertarians correctly pointed out that this was a false dilemma. Fortunately, history proved them correct.

The Conservative Intellectual Movement in America: Since 1945 covers all this and much more. I found it a fascinating story and a great way for anyone taking an interest in conservative or libertarian ideas to get to know the key players. Political junkies be forewarned, however. You will find very little politics here: mainly discussions of the controversy over Senator Joseph McCarthy, the War-

ren Court's landmark decisions, and the states' rights aspects of the civil rights movement. This book's forte is ideas—their origins, connections, and consequences.

Having read the first edition of this book 20 years ago, I got even more out of it the second time around. However, a major disappointment was finding that to deal with the important events of those two decades, the author could muster no more than a 13-page epilogue. While he manages to fit a lot into those 13 pages, including the blossoming of right-wing think tanks, the impact of neoconservatism on the movement and the paleoconservative response, and the rise of the Religious Right, his discussion of paleolibertarianism was skimpy. He also all but ignores the impact of talk radio, an end run around the liberal-dominated news media that, while not originating new conservative ideas, played a major role in disseminating them. These lacunae notwithstanding, this book remains an authoritative source of information of those who have done so much to put liberalism on the defensive. □

Dr. Batemarco is director of analytics at a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York. He is book review editor of the Review of Austrian Economics.

The Young Entrepreneur's Guide To Starting and Running a Business

by Steve Mariotti

Times Business • 1996 • 322 pages • \$15.00

Reviewed by Richard A. Cooper

Steve Mariotti was mugged twice—once by the hoodlums who beat him while jogging on the Lower East Side of Manhattan and then by the realization that these street punks were forgoing the greater returns possible by honest effort in business. Did this bookish financial analyst and export/import trader pack his bags and flee Manhattan for the relative peace of suburbia? No, he left his previous line of work and became a teacher in the New York City public schools. He volunteered for assignment to the worst schools. There he had another revelation.

Steve Mariotti's primer could just as easily have been called *The Beginner's Guide to Starting and Running a Business*. But it is called *The Young Entrepreneur's Guide to Starting and Running a*

Business for good reason. His focus has been on teaching entrepreneurship as a way of imparting both business principles and basic skills to young people, especially disadvantaged youth, including the poor and handicapped. Personal transformation and self-fulfillment of students were the originally unexpected side effects.

Mariotti discovered that he could grab the attention of students, even those labeled "borderline retarded" when he talked about business and making money. "What had begun as an intuition slowly developed into a certainty: whenever I could manage to focus a lesson on some phase of entrepreneurial business, I had the students' attention. I began to do this consciously, using all my ingenuity to get across the bedrock principles of business: buy low, sell high; keep good records. I wanted these young people to appreciate the principles of free enterprise: (1) ownership and (2) honest relations with other human beings through the rational self-interest of voluntary trade."

With entrepreneurship in mind, Mariotti's students became interested in math, reading, and writing skills because they saw it benefited them. Instead of preaching or hectoring the students, Mariotti awakened the spark of recognition in them. Entrepreneurial education transformed the students' behavior as well as their academic outlook. Courtesy, deferred gratification, and conscious decision-making planted roots within them. He discovered that their tough lives gave them a "natural aptitude" for entrepreneurship. "I found that the negative characteristics of my students, when channeled into entrepreneurial activities, became positives."

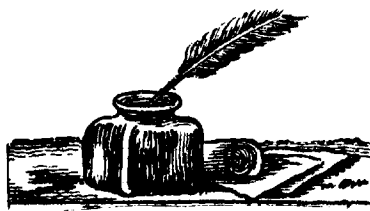
Given what we know about educational bureaucracies it comes as no surprise that Steve Mariotti

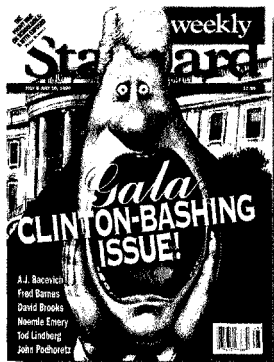
is no longer a schoolteacher. He left the New York City school system and established the National Foundation for Teaching Entrepreneurship in 1988. Today, he is still president of NFTE (pronounced "nifty"). NFTE conducts classes in entrepreneurship in schools, both public and private, as well as through various youth programs. Mariotti is not just interested in helping people start business, but in also showing them the liberating implications of entrepreneurship and the free-market economy. He is quite frank about this being one of the purposes of NFTE.

Step by step Mariotti explains the key principles of entrepreneurship in practical, basic (sometimes a little too basic for my taste, having spent my adult life in business), and inspirational style. Examples are given of well-known entrepreneurs as well as NFTE graduates and their businesses. Some of the topics include negotiations, keystoneing, market research, costing, accounting, banks, business plans, and so forth. Suggestions are made for businesses teenagers could start.

Whatever your role in society, you can benefit from reading *The Young Entrepreneur's Guide to Starting and Running a Business*. You will better understand what you or others can do to make yourself and society more educated and more prosperous. This entertaining and sometimes moving book tells the story of entrepreneurship as personal empowerment while also revealing the path that led Steve Mariotti to his life's work from number-cruncher to teacher in the worst public schools in New York to entrepreneurship missionary. □

Richard A. Cooper makes his living as an export-import manager while exploring ideas as a freelance writer.





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Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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A Note on Jane Austen and the Importance of Freedom

We are in the midst of a Jane Austen revival. Several recent films based on her novels have been hits with both critics and the movie-going public. Many readers are discovering—or rediscovering—the wit and quiet charm of her prose.

Jane Austen appeals to us because her novels so realistically depict the life of the upper middle classes in early nineteenth-century England. An Austen novel may be compared to a Vermeer painting—rendered scrupulously from real life, with great attention to even the most minute detail. For example, Miss Austen never records a conversation between men alone without at least one woman present in the room. She apparently felt that women had no idea what men talked about when they were alone and hence was careful not to relate such exchanges.

Miss Austen's works can also be exasperating. One wonders how such delightful, wise, and witty heroines can be the offspring of such vain, silly, and inept parents. In her last completed novel, *Persuasion*, we find Anne Elliot, one of the most perceptive and resolute of Miss Austen's heroines. Anne's father, Sir Walter Elliot, on the other hand, is vanity personified. The only reading he has done in years is the entry about himself in the baronetage—an entry that is there, not for anything he himself has accomplished, but due to his inheritance. His greatest concern is facial wrinkles—how to eradicate his own and how to tolerate their appearance in others.

Emma Woodhouse, the heroine of *Emma*, is one of Austen's less prepossessing heroines. But compared with her father she is a model of intellectual brilliance and conversational eloquence. Mr. Woodhouse is capable of little else than moaning about his susceptibility to disease.

Elizabeth Bennett, in *Pride and Prejudice*, is Miss Austen's most popular heroine—and deservedly so. Her lively perspicacity and moral fortitude are the envy of almost every reader who has enjoyed her story. And her parents? Her father, Mr. Bennett, is depicted

as a near-recluse, driven to the shelter of his library because of his embarrassing wife. While Elizabeth Bennett is the model of intelligence and virtue, her mother is the epitome of shallowness and empty-headed vanity.

Jane Austen herself was aware of the irony presented by the differences between parent and child and tried in several of her books to explain it. Hence, Anne Elliot rises above her father in character partially due to the solicitous care and concern of her patroness, Lady Russell. Emma is described as having had a wonderful governess. Elizabeth Bennett spent much time in the library with her father, apparently learning much from both books and Mr. Bennett. But having a fine mentor or a remarkable teacher is probably not the whole answer.

The real explanation lies in the fact that these young heroines are, in their own way, as resourceful and as disciplined as any entrepreneur. Indeed, one distasteful aspect of Jane Austen's art for many readers is the almost businesslike way in which her characters approach the prospects of marriage. But the best of her heroines have prepared themselves with as much care and forethought as anyone ever starting a great enterprise.

Her heroines have, for the most part, mastered literature and languages; they are wonderful in conversation and in writing; they can play musical instruments; they are at least competent in a variety of sports and horseback riding; they are accomplished needlewomen; and they have thoroughly mastered the rather difficult social dances of their day. These young women are in the real world, the world of competition, of hopes, of chances.

But the framework of this mannerly world is artificial. Even though there are dashing soldiers aplenty, we seldom see even a hint of violence in Jane Austen. For a more complete picture we must go to the Scottish novels of Jane Austen's contemporary, Sir Walter Scott. Therein we witness the violence that maintains the artificial world so charmingly depicted by Jane Austen. But the result of that artificiality, so carefully removed from the violence and threat of violence that maintains

it, is decay. And that is faithfully recorded by the ever-observant Miss Austen.

After our heroes and heroines have married, they have little in their artificial worlds to challenge them. They sit and they talk; they play whist; they call on neighbors; they discuss politics, the weather, and, mostly, the neighbors. Above all, they remember and reminisce about what they once could do.

In a word, they cease to be Anne Elliot, Emma Woodhouse, and Elizabeth Bennett and degenerate into Mr. Elliot, Mr. Woodhouse, and Mrs. Bennett. How discouraging to think that the miraculous Miss Elizabeth Bennett might sink into the emptyheadedness of Mrs. Bennett once she marries and becomes Mrs. Darcy, mistress of the great estate of Pembroke.

In Jane Austen's world, the only real way to obtain a good livelihood was through inheritance, marriage, or to wrest it from someone else through military triumph. Nowhere do we find people advancing in society by entrepreneurial activity by meeting the real needs of people.

English society was to change greatly during the first half of the nineteenth century. With greater personal freedom came an increase in opportunity. The advancing Industrial Revolution created wealth and the prospect of trade. The subsequent repeal of the Corn Laws in 1846 made farming more competitive and ended the sheltered and protected existence for many large landowners.

In fiction we tend to view the ending that somehow ensures security for our hero and heroine to the end of their days as the "happy ending." Jane Austen's unforgettable portraits of Mr. Elliot, Mr. Woodhouse, and Mrs. Bennett remind us that a secure life in a stagnant society is not a happy existence. It can bring loss of capacity and character. It can engender hollowness, emptiness, vanity. It may mean living luxuriously, but being barely alive. It vividly reminds us how important it is to be free to fail until the day we die.

—MERRILL GEE

(Mr. Gee is an engineer in Salt Lake City.)

Free Trade to Benefit the Many—Not Fair Trade to Benefit the Few

By Dwight R. Lee

When asked, most politicians claim that they favor free trade. But they quickly add the qualification that it must also be fair trade, which generally means that we should open our markets to another country's products only if their markets are equally open to our products. This qualification makes sense politically because people are easily convinced that it makes sense economically. Why should we give other countries the opportunity to increase their employment at our expense unless they reciprocate? Unfortunately, this view misses entirely the real advantages of international trade. Furthermore, it reflects a serious political bias that distorts government decisions over a wide range of issues.

The advantage from trade with other countries does not come from selling more to them than they sell to us so we can create more jobs. The key to a successful economy has never been simply the creation of jobs. The ability to consume always exceeds the ability to produce, so there is never a lack of work to do. The key to a successful economy is directing people into the most productive jobs, those that create the most value for consumers. This is the real advantage of international trade.

We create more productive domestic jobs both when we sell *and when we buy* from other countries, and the more open the international trade arrangements the better for all countries. When country B restricts the import of American products it reduces its productivity as well as ours. But we only add to our productivity loss if we respond by restricting the ability of our citizens to buy products from country B.

Consider the fact that, despite political rhetoric, when we buy foreign products we create American jobs. It would actually be better for Americans if this weren't true. When Americans buy products from, say, Japan, we end up with products we value more than the dollars spent could have bought elsewhere, and the Japanese end up with more dollars (actually the one who sells yen to American importers to pay for the Japanese products ends up with more dollars, but this doesn't meaningfully alter the story). What do the Japanese do with these dollars? It would be nice if they treated them as collector's items, to be kept and admired. Then Americans could obtain valuable products by doing nothing more costly than printing up dollars, something so easy that even the federal government does it well. But the Japanese produce goods for Americans not because they want dollars, but because of what dollars can

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buy. Those dollars eventually come back to America as claims on goods produced by American workers, or as investments in America that create domestic employment opportunities. They may not all come back directly from Japan, but they do come back.

I don't deny that by restricting foreign imports we can save some American jobs. But because these jobs, by definition, cannot survive the demands of international trade they obviously don't create as much value as those American jobs that would have been created without the import restrictions. Foreign trade eliminates only those jobs that are producing goods which domestic consumers can import cheaper by shifting their effort into more productive employment elsewhere in the economy.

Unfortunately, the general benefits from unrestricted imports (lower prices for consumers and a more productive economy) are largely ignored by the political process, which sees imports as a threat to existing jobs. The problem here reflects a distortion inherent in the political process. Relatively small groups organized around a common concern, such as protecting profits and jobs in a particular industry, are well positioned and strongly motivated to communicate through the political process with a loud, clear voice. On the

other hand, the general consuming public is too large and too diverse in its concerns to communicate a clear and consistent message through the political process. If something threatens to concentrate a cost on an organized few while spreading a benefit over the unorganized many, politicians will hear from the few but not from the many.

This bias in favor of special interests over the general interest explains a host of political perversities. It explains, for example, the difficulty politicians have cutting spending programs, which tend to concentrate benefits on organized interest groups, in order to reduce the burden on the general taxpayer. And it certainly explains the political perspective on free trade, which emphasizes the advantage in protecting existing jobs over the far greater, but much more general, advantage of better choices for consumers and improved economic productivity.

If politicians could feel the gain of the unorganized many as intensely as they feel the pain of the organized few, a large number of government restrictions on our economic choices would be quickly eliminated. Restrictions on our ability to buy the best products at the lowest prices, whether produced at home or abroad, would be among the first to go. □

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Entitlements Versus Investments: A Parable

by George C. Leef

Imagine two nations. We'll call one Atlantis and the other Pacifica. They are similar in most respects, except one. The government of Atlantis has established a right to housing, which is provided free to all citizens. Houses are built by unionized government employees following plans and procedures approved by the Atlantis Housing Department (AHD). Citizens are assigned houses based on family size. They may modify the house (within certain limits), but it remains government property. If a family dislikes their assigned house, they may spend their money to build one or buy one that is not government property.

In Pacifica, in contrast, housing is not a right. The government neither builds nor subsidizes housing for anyone. Those who want shelter must buy it, rent it, or build it themselves. There isn't even a housing code to tell people how to build houses. There is no Pacifica Housing Department, since the people don't regard housing as any of the government's business.

Housing is an *entitlement* in Atlantis, whereas it is an *investment* in Pacifica. The important question is whether the people are better off with their "free" government housing in the former or their housing investments in the latter.

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Cost

Housing is free in Atlantis—but does that mean it costs less? As economists have been pointing out for centuries, scarcely anything is really free. If scarce resources are used, the costs can be hidden, but they cannot be avoided. The funds expended by the AHD for construction and maintenance come from taxes that the government adroitly hides as much as possible through the fiction that businesses pay them. Nevertheless, the AHD has a prodigious budget, which means that it is soaking up a lot of resources that could have been used elsewhere.

The size of the AHD's budget is determined politically and the often-heard refrain, "We can't let our kids freeze," has helped to boost that budget much faster than the rate of population growth. AHD officials find "unmet housing needs" everywhere. Politicians who suggest that the budget be "cut"—that is, the rate of growth trimmed—can expect a salvo of motive-impugning attacks like "You're against decent housing!"

The vast AHD budget is an irresistible magnet for groups that would like money to flow their way. The various housing producers do very well. The National Edifice Association (NEA), a union of housing builders, is among the most powerful political forces in Atlantis and it has successfully lobbied for ever-larger work crews and ever-higher pay. The suppliers of materials have successfully

lobbied for prevailing price laws, which mandate that the AHD purchase only the highest quality (and cost) materials from approved sellers. The AHD naturally needs a large number of highly paid housing inspectors, administrators, facilitators, and other experts.

In Pacifica, people invest their own money in houses. They contract carefully, making as sure as they can that they receive maximum value for their money. They shop around a lot, often driving down original bids and asking prices significantly. Housing producers and suppliers sometimes grumble about the "cut-throat competition," but most stay in it.

The difference in systems and their incentives leads to quite a difference in cost. Per square foot, housing in Atlantis costs twice as much as it does in Pacifica. The funny thing is that many citizens of Atlantis express pity for Pacificans, who have to pay many thousands of dollars for their homes instead of receiving them "for free."

Quality

In Atlantis, the housing quality is generally poor. The unionized workers know that their jobs are secure. The possibility of any disciplinary action for cutting corners is extremely remote. Most AHD inspectors are "reasonable" and don't expect framing to be perfectly square or plumbing to be leak-free. After all, the inspectors aren't the ones who will be living in the houses, so why stir up a lot of trouble? (An embarrassing fact is that many of the housing workers and bureaucrats own privately built houses.) Losing your job is only a theoretical possibility, even for the most egregious blunder, thanks to the union.

Therefore, when citizens of Atlantis move into their houses, they find them to be rickety, drafty, leaky, and sloppy. Most don't complain, however. For one thing, complying with the procedures to register complaints is time-consuming and seldom leads to a satisfactory resolution. Moreover, the NEA and the AHD spend heavily in advertising each year to convince people that the houses they inhabit are designed and built by "dedicated professionals who really care" and are the best that

can be expected, given the many problems that those professionals must deal with (like defective tools, warped lumber, and so on). This has proven to be very successful and most of the people have come to believe that their free housing is the best they can expect. (Occasionally, there are nasty reports comparing the quality of houses in Atlantis with those in Pacifica, but such reports are invariably dismissed by intellectuals and experts as "fatally flawed" comparisons put forth by "housing elitists.")

Pacificans are happy with the quality of their houses; indeed, high quality is taken for granted. Those who build, maintain, and repair houses compete vigorously for the consumer's dollar and know that they have to monitor quality of workmanship carefully lest they commit a breach of contract. While not all Pacificans are fussy and demanding, enough of them are that it is too risky for a contractor to assume he can get away with sloppy work. The existence of some fussy, demanding housing consumers raises the standards in the market for the benefit of all. Contractors in Pacifica are directly accountable to their customers, fear lawsuits and loss of reputation, and therefore do good to excellent work. People who have lived in both countries unanimously report that Pacifica has much better housing.

Features

For many years following the establishment of a housing entitlement in Atlantis, houses continued to be designed along "traditional" lines. But, starting 20 years ago, politically influential theorists with ideas about the ways housing could be used to restructure and improve society began to assert themselves; now, housing design is very much a political question. The way houses are built has little to do with what the inhabitants might want and much to do with political clout of the many groups that stand to benefit if houses are built in accordance with their vision.

For example, environmentalists have prevailed upon the AHD to use substantially less lumber in framing houses in order to save

trees. The Environmental Coalition produced a study demonstrating that houses would be just as strong if 2×4 s were replaced by 2×3 s and they were more widely spaced. An advertising campaign showing trees crying at the approach of a logger carried the day, and thereafter, all houses were built according to "environmentally friendly" specifications. Unfortunately, lots of roofs have collapsed and walls have buckled. Some people have died in accidents due to weaker framing, but a proposal by the AHD to go back to the old standards has been tied up in the courts for years by the environmentalists, who say that we must not "turn the clock back."

The egalitarians have also weighed in. A famous University of Atlantis sociologist wrote a paper arguing that housing differences were a source of social division. Eventually, a bill called the Housing Harmony Act was passed. At first, it eliminated different styles, and by later amendment, different sizes of houses. Now, all houses must appear the same to passersby; some houses are actually bigger than others to accommodate larger families, but that is done by putting more rooms in basements. Now, no one loses self-esteem over the fact that his house looks smaller than others.

Some people have griped about this development. A few painted their cookie-cutter houses wild colors in protest, but that was quickly made illegal. (Now you can choose between two shades of tan.) Others, complaining about basement rooms, were silenced with retorts like, "Since when are you a housing expert?" or "Why are you against social harmony?"

In Pacifica, houses are built with the customer in mind. People can buy or build a house with any features they want (and can

afford). They get what they want, not what others have decided they should want.

Conclusion

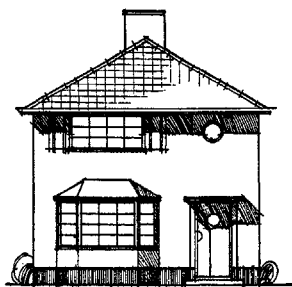
Other revealing comparisons could be made, but let's stop here and assess the relative situations. In Atlantis, housing is an entitlement. It is "free" to the citizens, but costs a lot and is of poor quality. Since politics drives the decision-making process, housing is built less to satisfy the occupant than it is to satisfy important political constituencies. Housing is a poor value and getting worse.

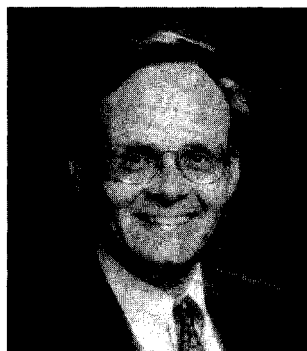
In Pacifica, housing is an investment. People spend their own money directly and make sure that they get the most value they can for it. Given their budgets, they get the best, most satisfactory housing they can. The wealthy live in mansions and the poor in very modest homes, but the housing for everyone is solid and functional.

These differences are not accidental. They aren't a matter of the individuals involved or the cultures of Atlantis and Pacifica. The differences are *systemic*.

Turning housing into a "free" entitlement necessarily changes the incentives of people. If you can get what you want through politics, people behave differently than if, to get what you want, you have to contract or cooperate with individuals who are free to say no. For that reason, consumers will always get better housing—or any other good or service—when they are investing their own money in it as opposed to accepting it as an entitlement that has been shaped by others.

Atlantis and Pacifica are imaginary, but can you think of anything your government provides as an entitlement that should be an investment? □





How We'll Know When We've Won

“Are we winning?” That’s a query I hear almost every time I speak to an audience about liberty and the battle of ideas. Everyone wants to know if we should be upbeat or distraught about the course of events, as if the verdict should determine whether or not we continue the fight. Too many friends of liberty rely on the prevailing wind to tell them whether, when, and how to proceed—and even how to feel about it at any given moment.

Personally, I take a long-term, optimistic, even-tempered, and self-directed approach that doesn’t depend upon the rest of the world. Each of us ought to do all we can to advance the cause and then let the proverbial chips fall where they may, taking comfort in the fact that we did our best as individuals, regardless of the outcome. Moreover, I remain supremely confident that, as FEE’s Leonard Read put it, “truth will out” and liberty will indeed triumph *because it is right*. Pessimism is a self-fulfilling opiate anyway, so I never let it enter my mind.

But this begs an even more important question, one posed to me recently when I cited powerful intellectual trends as evidence that we are indeed winning. The question was, “How will we know when we’ve won?”

In the largest sense, “winning” means achieving a civil society in which people both preach and practice respect for life and prop-

erty. It means we each mend our own ways and mind our own business. It means we rely upon voluntary association and individual compassion, not coercive arrangements and political redistribution. It means minimal government and maximum self-reliance. And when we get there, the battle of ideas will still not be over because people, being less than perfect, can always *unlearn* the truths they’ve learned.

In a narrower, more concrete sense, we’ll know we’ve won when very specific changes—in thought and policy—have come about. I’ve compiled a few here in a list that is by no means complete. Consider it nothing more than a beginning.

We’ll know we’ve won:

• **When “liberalism” once again is synonymous with liberty;**

In his *History of Economic Thought*, Joseph Schumpeter noted that liberalism initially described the view of those who believed that “the best way of promoting economic development and general welfare is to remove fetters from the private enterprise economy and to leave it alone.” In today’s American parlance, it means quite the opposite. Schumpeter regarded it as “a supreme, if unintended, compliment” that “the enemies of the system of private enterprise have thought it wise to appropriate its label.”

Liberalism is too good a term to allow it to be the booty of statist. Let’s retake it, and let those who fight to preserve the failed big government status quo be known as the real “conservatives.” When that happens, we’ll

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have won much more than just the semantic high ground.

• **When “public service” is regarded as what one naturally does in the *private* sector;**

Government employment, even when the employee is running roughshod over the rights and property of others, wears the prestigious mantle of selfless service to humanity, a cut above what motivates people who *don't* work for the government. But in many cases, a government worker's genuine *public* service actually begins when he secures an honest living in the *private* sector—producing goods and providing services that improve the lives of others who patronize him because they choose to, not because they're forced to.

Conquering diseases, inventing labor-saving devices, feeding and clothing millions, and countless other private, often profit-motivated activities are no less indicative of service to the public than just about anything the government does. The next time someone tells you he's running for office or seeking a government job, ask him if this means he is planning to leave public service.

• **When an “entitlement” is a paycheck, not a welfare check;**

My hat's off to whoever started the bad habit of calling government handouts “entitlements.” The term cleverly solidifies and perpetuates the very programs it labels—programs that take something of value from those who earned it and bestow it on those who didn't earn it and may even value it less.

A paycheck for work performed is a genuine entitlement. A claim against that paycheck by those who would rather vote for a living than work for one is neither genuine nor something to which one is entitled in a free society. Let's correct the thought patterns that allow the current misuse of the term to undergird the modern welfare state.

• **When citizens muster at least as much interest in a *spending* revolt as they often exhibit for a tax revolt;**

Almost everyone favors lower taxes, at least for himself, but that doesn't necessarily mean everyone also favors less government spending. Sometimes, the same people who advocate lower taxes are in line for whatever they can slurp from the public trough.

It's not enough to ask your congressman not to take from you. You must also demand that he not *give* you anything either, at least nothing that isn't rightfully yours in the first place.

• **When government stops distributing its coercive powers to special interests;**

Government isn't the only outfit that employs legal and often unwarranted force against people. Others do it, too, if government first grants them the power to do so.

The best example is today's labor unions. With special privileges given them by government, they force millions into their ranks or into financially supporting causes to which they may object. For instance, the U.S. Supreme Court affirmed in its 1988 *Beck* decision the right of each and every worker not to be assessed a penny by his union for political activities without his consent, but almost no one at any level of government seems interested in enforcing that ruling.

We should work for the day when a citizen's *Beck* rights are widely regarded to be as important as his *Miranda* rights.

• **When self-improvement is understood to be the indispensable first step to reforming the world.**

If every person set about to make himself a model citizen, he would have a full-time, lifetime job on his hands. Many succumb, however, to the temptation to meddle in the affairs of others—and even the best of intentions often ends up yielding conflict and harm.

The steady progress of mankind derives from the progress of *individual* men and women who, one at a time, decide to make the best of what God gives them. Be a model, not a burden, and watch how quickly you encourage others to be the same.

A pretty tall order, you say? Yes, it is, and there are plenty of other benchmarks I could have added to this list to make the order even taller. Few things that are worthwhile are attained or retained easily. Winning the battle for liberty is among the most animating contests I can imagine, in part because the benchmarks along the way are as right as is the ultimate objective. □

Transit's Transition from Socialism

by Daniel B. Klein, Adrian T. Moore, and Binyam Reja

In the United States, transit services have long been in decline. Despite federal, state, and local subsidies to municipally owned bus services, ridership has been dwindling and productivity has declined. The traditional approaches to running transit systems—government planning or operation of bus and rail, government subsidization of private operations, and heavy regulation of all transit modes—have failed, and there is little hope of their coming right.

Street-based transit in the United States today is predominantly bus service, but at other times and places streets have also been serviced by smaller vehicles that follow a route but not a schedule—called jitneys. Jitneys have numerous advantages over buses. They are smaller and speedier, stopping less often and negotiating traffic more adeptly. They are highly flexible in their entry and exit from the market, and can respond immediately to market conditions. A jitney may be nothing other than an ordinary sedan driven by a commuter on his or her way to work, stopping to pick up paying passengers. American transit policy has forsaken jitneys.

International events of the past ten years have been an object lesson in the limitations of government enterprise. The whole world moves toward the market economy. Yet in

urban transit in the United States, we still have heavy government intervention and, if you will, socialism. How do we make a “transition” to a market economy in urban transit?

Establishing Private Property Rights

A functioning market depends on private property rights. A fundamental resource of the transit sector, a resource too long ignored by transportation scholars, are the curb areas, bus stops, and sidewalk areas where passengers congregate and vehicles stop. Scholars have taken for granted the government ownership and management of these resources. But why not let these resources be governed by market forces operating within the rule of law? The way to give a sound foundation to a bona fide market in urban transit is to establish privately held rights in curb zones and bus stops.

Local officials must not only encourage private management of these resources, but also give legal definition to the resources and enforce rights held therein. Local policymakers need to discover a legal framework within which a system of free enterprise will function. Even the free-market theoretician Friedrich Hayek sees an important role for legal constructivism on the part of government: “The functioning of a competition . . . depends, above all, on the existence of an appropriate legal system, a legal system designed both to

Daniel Klein, Adrian Moore, and Binyam Reja are the authors of Curb Rights: A Foundation for Free Enterprise in Urban Transit, recently published by the Brookings Institution.

preserve competition and to make it operate as beneficially as possible."

An important feature of transit service is generating passenger congregations, that is, sufficient riders at scheduled stops to form a kind of critical mass of ridership. But to succeed, a service provider's investment in cultivating passenger congregations through dependable service, advertising, and so forth, must be recoverable. It must be protected from interloping by jitneys. This protection depends on the nature of curb rights. Variations in curb rights explain a wide diversity of transit experiences.

Many studies of transit markets show that transit services are gored by one of the two horns of a dilemma. Some markets enable scheduled operators to appropriate the value of passenger congregations, but this is achieved by granting them exclusive rights, not only to waiting passengers at specified curb zones, but to the entire route. This is the predominant arrangement in the United States today. Thus the first horn of the dilemma is transit monopoly.

Other transit markets avoid all regulation and have a sort of lawless competition. This occurs in some less developed countries and in illegal jitney markets in New York. Lawless competition precludes monopoly and indeed gives rise to freewheeling services like jitneys. Yet it impales transit service on the other horn of the dilemma. Scheduled service does not cultivate passenger congregations because constant interloping will expropriate the investment. In densely populated markets, transit services are somewhat chaotic and unpredictable. In sparse markets, the interloping totally destroys the market, like a parasite consuming its host; unless there are subsidies to bus service, the result is no service at all.

The horns of dilemma can be avoided, however, by a locally planned system of property rights. American cities can have the best of both kinds of markets—scheduled bus service, and unscheduled but faster and more flexible jitneys. The solution is based on a new idea: create exclusive and transferable curb rights (to bus stops and other pickup points) leased by auction. This way scheduled service would have exclusive protection where its passengers congregate, and jitneys would be able to pick up passengers elsewhere along the route, at curb zones designated as commons. Curb rights holders would be free to contract with bus companies and other service providers. They would do so as they see fit. Once a sound foundation of property rights is established, central planning becomes unnecessary.

The proposed system would give life to transit entrepreneurship. Within the property rights framework based on curb rights, entrepreneurs would be free, able, and driven to introduce ever-better service, revise schedules and route structures, establish connections among transit providers, facilitate passenger interchange, and use new pricing strategies. Alongside scheduled bus service, jitneys would respond flexibly to weather, time of day, special events, and other changing conditions. They would offer service on a short-term basis, fill market niches, provide courtesy door-to-door service, or simply pick up customers on the way to work—whatever the market would bear. Yet the plan would avoid the problems associated with lawless competition, like interloping, chaos, conflict, and lack of trust. Within a suitable framework of property rights the invisible hand will be able to do in transit what it does so well in other parts of the economy. □



Slugging It Out

by C. Daniel Bradford

Several years ago I was transferred by the military from Georgia to the Washington, D.C., area. Because real estate is so expensive in the area immediately adjacent to the capital, most people live in the outlying bedroom communities. As the head of a large household I was forced by economic necessity to move to one of these communities. My first day driving to work gave me a taste of how bad the traffic can be here. It took me 2½ hours to drive the 25 miles from my house in Prince William County to my office in Arlington. My average one-way commute was between 75 and 90 minutes.

I knew there had to be a better way. As I looked for alternate ways to get to work I studied the different options, including Metro Bus and Northern Virginia Rail.

As a Metro Bus rider, I would have to drive my car to a "Park & Ride" lot purchased by tax money, and then get on a bus to Washington, D.C. The bus is inconvenient and the one-way cost is more than I pay for gas for a round trip in my car.

Years ago a rail line into Prince William County was proposed to alleviate the traffic congestion on I-95. After many delays, it is now in service, but the fare is more than the bus, and there is serious talk of charging riders to park their cars in the rail station lot. To top it off, the rail that carries passengers into D.C. is not the same line that runs through D.C., so I wouldn't be able to directly transfer to another line.

C. Daniel Bradford is a major in the Army and works for the National Guard Bureau in Arlington, Virginia.

From Intervention Comes Opportunity: The "Slug" Line

To relieve traffic congestion on I-95 the State of Virginia built a separate set of traffic lanes that flow north in the morning and south in the evening. Legal use of these lanes during peak hours requires at least three people in the car. These lanes are called HOV-3 lanes, or High Occupancy Vehicle-3 persons. These lanes travel at a much higher average speed and are much less congested and less prone to accidents.

Individuals who work in the metropolitan area drive to commuter lots in their communities and park their cars. They then stand in a queue and wait for drivers who are traveling to their general destination. As a driver comes to the queue he announces his destination and how many riders he needs. Riders join the driver and they enter the HOV-3 lanes.

This system works. The riders need to get to work. The driver wants to drive his car and needs extra riders to use the HOV-3 lanes. The driver drops off his riders and everyone goes on his way. No money is exchanged. Each has benefited from the voluntary exchange: the riders (slugs) get to work and don't have to worry about driving or parking and the driver (slugger) gets the use of his car and the legitimate use of the HOV-3 lanes. In the evening the process is reversed. In the 30 years riders have been slugging it out, there has not been a single reported incident of violence. I find it saves me about a half hour when I pick up slugs. I have never had to stand in the "Slug Line" for more than ten minutes.

Several years ago I was in a store that has a parking lot that is used as a commuter lot. I thanked the owner for allowing us to use his parking lot as a "Slug Line." He said that a few years before, agents of the government bus service asked him to refuse the use of his parking lot to the "Slug Line." They found it was significantly cutting into their ridership. They wanted a more captive clientele. The store owner refused, and the "Slug Line" in that area continues.

The "Slug Line" may not be for everybody, but it provides a market solution a great many prefer over the government solutions to the traffic congestion in northern Virginia. □

Letters from Russia

by Dennis L. Peterson

Grigory enjoyed studying English. He also wanted to write, especially if it would help him improve his English. One day, near the end of 1979, his love of the language and his desire to write led to a clash with Soviet authorities.

"I was at the post office," Grigory recalls, "and suddenly noticed that a woman in front of me in the line was having her letter registered with the address written in English on the envelope. She was mailing a letter to someone in the USA!"

Grigory had long dreamed of corresponding with an American. An idea flashed into his head, and he began to memorize the name and address on the envelope. When he got back home, he immediately wrote a short letter to the man, a John Geiss, asking for his help in finding an American pen pal.

"Of course, I never received any reply," Grigory explained in a letter to me, "for the simple reason that my letter never got to that man, and, as I understood later, it had not reached any farther than the Krasnodar Territorial KGB department."

Later, in the summer of 1980, a short, bald man visited Grigory at his home and "invited" him to the local police station for a "conversation." Right away, Grigory knew that the man was a KGB officer from the nearby city of Krasnodar.

"At first, he asked me a few questions about my life, about the amount of my disability pension, about my service in the Soviet Army,

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and about [an] accident that happened to me in the Far East. Then he asked me about why and how I had learned English and what kind of books I liked to read.

"I already knew what I should answer him. I told him that I enjoyed reading books by Soviet writers translated into English, then I named the titles of some very 'Soviet' books that proclaimed the communist ideals and several procommunist newspapers, such as the *Moscow News Weekly* and the British *Morning Star*.

"The man seemed quite satisfied. But then, toward what I thought was to be the end of our 'conversation,' he asked me straight, 'Who is John Geiss?' I told him *almost* the whole truth about getting the address at the post office and of my desire 'to brush up on my English' by exchanging letters with a native speaker."

Grigory's "conversation" with the KGB lasted for two hours before they were finally convinced that he was not a dangerous criminal or an enemy of the state and released him. But their method had been effective in subduing yet another innocent but inquisitive citizen; Grigory did not try again to write to anyone outside the Soviet Union until 1994, well after the fall of the Soviet regime.

Meet Greg

I first became acquainted with Grigory ("My friends call me Grisha or Greg") when in 1994 I responded to a notice in *Focus on the Family* magazine seeking people interested in helping common Russian families by becoming their pen pals. Greg's applica-

tion to the program revealed that he was my age, was married, and had two young children—very similar to my own family situation. Most importantly, he added, “I’m fond of reading (I can’t live without books).” Upon our first exchange of letters, we became friends, and our correspondence continues to this day.

Greg was born November 22, 1954, in Krasnoarmeiskaya, a small town about 50 miles southwest of Krasnodar, Russia, about an hour’s drive from the Black Sea. His mother died of cancer when he was a teenager, and his father died five years later. As a teenager, he worked for a brick mason by day and at night listened surreptitiously to broadcasts by the British Broadcasting Corporation (BBC), the Voice of America, and Radio Free Europe. He also was able to obtain underground literature (manuscripts and photocopies) that found its way into Russia in one way or another.

“Even as a teenager, I could sense that everything was NOT really that which the ‘officialdom’ had been trying to ‘feed’ into my mind,” he wrote in one letter. “I was puzzled that so many Russians had been leaving for ‘the rotting West’ but almost NONE had been coming over to ‘the Socialist paradise’ from Western countries. Why was the KGB jamming mercilessly the Russian-language programs of the BBC, the Voice of America, and Radio Free Europe? I was inclined to think that they had done the jamming because they didn’t want us to hear the truth. . . . And they succeeded in it all right because many things have become known to us ONLY after the perestroika had begun. It made me so uneasy that I decided to start learning English.”

In 1973, Greg was drafted into the Soviet armed forces. There he served in a special unit called a “team special” of the “internal troops,” which were responsible for tracking and capturing dangerous criminals accused of murder and robbery. During his military years (through 1977), the doubts that he had first had as a teenager about the Soviet economic and political system only intensified. Also, in 1976 and 1977, he experienced an “adventure” that was to change his life forever.

A Young Soldier’s Ordeal

One day, while he was stationed in the Far East, his unit was ordered to pursue and recapture “two dangerous criminals who had escaped from jail.” During their escape, the two men had killed a taxi driver, stolen his cab, and used it to speed their escape. They also robbed several shops along the way and killed a shop assistant. They fled into the *taiga*, an area of dense forests between the tundra and the steppes. Nature intervened, however, and they were caught in a terrible snowstorm. Their corpses were found later in the *taiga*.

Meanwhile, Greg and three of his fellow servicemen had also been lost in the storm. Fortunately, they stumbled upon a hut in the wilderness, and all but one of them survived the storm and were rescued three days later. They were taken to a hospital suffering severe frostbite, especially on their hands and feet. Each of them lost digits or limbs as a result of their ordeal. Greg spent 20 days in the intensive-care unit. Over the next four months, he underwent three operations on his hands, leaving him with no fingers, only stubs.

While in the hospital, Greg became deeply depressed and even considered committing suicide. What could he do with such a handicap? How could he marry, rear children, and have a normal family life when no woman would want a husband with such an appearance and physical limitations? But a nurse in the hospital encouraged him to continue his struggle despite his handicap. It was then that he decided to pursue with gusto his study of English.

Later, he met his wife, Valya, who was a saleswoman in a local public catering establishment. They now have two young children, a daughter, Natasha, and a son, Vasya. On Greg’s meager disability pension of approximately \$100 a month and what little income he can derive from teaching martial arts to local students (a “forbidden” activity that resulted in his arrest several times in 1985–86), teaching English, and translating various consumer product manuals from English to Russian, they live on a plot of land in Krasnoarmeiskaya. They manage to get through the winters on the yield of their vegetable

garden, fruit orchard, and various poultry they raise.

Persistence

In spite of economic hardships, Greg always finds ways to further his pursuit of English, primarily through reading books, many of which were forbidden during the "stagnation period" of Leonid Brezhnev.

"It is no joke," Greg emphasizes, "to have lived so many years under the pressure of the 'Soviet ideology,' which, in essence, was an ideology of the herd: 'the whole country is building socialism, and you are sticking out with your selfish and petty problems!' That idea was often suggested in the Soviet literature and in the Soviet cinema, putting the individual good aside and proclaiming and eulogizing the nebulous good of 'the entire Soviet people/nation.' There was no room in that ideology for an individual with his own concerns and problems."

Today he reports, however, that "the information is more truthful than it has ever been; owing to the 'glasnost,' there are no 'forbidden themes.' It is very easy to get any books *in Russian* on almost any subject that may interest me, but it is extremely difficult, next to impossible, to get good books (especially original works by American authors) *in English*."

That's why he is so eager to maintain a fervent correspondence with me. I have tried to supply him with a regular flow of good reading material: newspaper and magazine clippings, classic American novels, religious and philosophical works, copies of *The Freeman*, Henry Hazlitt's *Economics in One Lesson*, and more.

"I seem to have become 'addicted' to our correspondence," he once wrote, "and I begin to feel uneasy if I haven't received a letter from you within a certain period of time. Each of your letters is just like a good 'dose' of a drug, indeed, which makes me experience some kind of euphoria and lifts my spirits for the next few days."

Greg especially wants to know of any mistakes he might make in his letters. He regularly asks me to critique his letters and to point

out any errors in his usage and vocabulary, a difficult task because he commits so few errors.

Much of what Greg writes concerns the economic and political conditions in his country.

"I hope that these reforms are becoming irreversible," he states. "I am all for these reforms even just because I may read whichever books I wish to read, watch any movies I choose to watch, do my kung-fu exercises without making a secret of it. . . ."

"Today, many people are complaining in Russia that the life has become more difficult than it had been under the 'Soviet Power.' (Those who had endured much suffering during the communist regime don't think so!) They are now sitting around and doing nothing, waiting for President Yeltsin and his government to guarantee them a new and happy life, having become accustomed to the promises of the communists to lead the Soviet people 'through all the temporary difficulties straight to the radiant future.'"

"Of course, there are a lot of problems in Russia today," Greg concedes, "and many people have to rack their brains about solving their 'meat-and-potatoes' problems of everyday living. Nevertheless, life is going on. Frankly, I prefer to be 'a free man conducting my own life' rather than live like a rabbit in a cage, which has a lot to eat and a lot to drink but has no freedom."

Optimism and Realism

Greg is eternally an optimist: "Although my financial situation has changed but very little (for the better) since the disintegration of the Soviet Union, I think that life, on the whole, has turned for the better in Russia."

He is also quick to recognize the problems that have accompanied the coming of the new freedom: "Too many people have mistaken freedom for permissiveness, and a lot of them take advantage of the situation. You know, this rapid 'switchover' from communism to capitalism has been like 'a bucket of cold water pouring over one's head' for many people. Some people who had been quite satisfied and self-assured under Soviet power



Greg, with one of his children.

are at a loss now; many of them have become frustrated and have gone 'on the sauce,' becoming alcoholics and drug addicts, but others (mostly those people who had been 'losers' in Soviet times) have become rich during the 'transitional period.' It is rather interesting to observe this process. . . . In my opinion, the free market gives people more chances to succeed in life than our 'developed socialism' had given to the Soviet people. (One has only to have 'a good head on one's shoulders' and not be a sluggard—'consider the ant.')

"Our Russian tragedy over the decades," Greg speculates, "is perhaps due to our 'short memories' and 'unlimited patience.' Just a few years have passed, but many people must have already forgotten the empty shelves in shops, the food cards, the soap cards, etc. There were times when we couldn't even buy a bar of soap without a special 'soap card' permitting one to buy ONE bar of soap per month for each member of a family. That was the condition to which the communists had brought our country!

"The individual's rights, interests, and aspirations were considered 'low and selfish' in the great light of 'building socialism' on the way to the 'radiant future.' Where is that

future now? It is almost as far away as it had been before, and if 'the glorious communist party' takes over again, there may be such a horrible bloodshed as the world has never seen.

"Perhaps it isn't easy for you to understand how an entire nation could put up with the regime," Greg suggests, "because you've never experienced that kind of oppression and never lived in *Soviet* Russia (God forbid!). The 'all-powerful tentacles' of the KGB had eyes and ears in practically every community, enterprise, and office. Any dissidence was nipped in the bud mercilessly and (I must admit) most effectively, even to the point of arresting anyone who made the slightest negative comment.

"There was also another factor: it had been some kind of mass hypnosis, some kind of psychic phenomenon. Many people *TRULY* believed in the 'glorious communist party and its great achievements on the way to the well-being of all the Soviet people.' Communism was the *religion*; to be more exact, a very wisely and adroitly (cunningly) designed substitute for religion."

Hope for the Future

As much as Greg favors the economic reforms, he fears that they are going too slowly "and not quite the way they should be going."

"I'm inclined to think that what we now have in Russia is neither communism nor capitalism. Some people will call the current situation *bardak*, a very strong Russian term meaning 'discord' or 'chaos.'"

In the midst of these confusing times, however, Greg's love of learning and language and his desire for self-improvement continue to sustain him.

"It had been my dream for years to have pen friends in the United States, in fact, since the day when I started learning English. Who would have been able to foresee that 24 years later (in spite of the so-called Iron Curtain, Cold War, and arms race) I would have gotten pen friends in America! Can you imagine that just six or seven years ago I might have been arrested for any connections with Americans?

When I first started learning your language in 1970, the Soviet communist power was very strong, and it was just incredible to imagine that some day one would be able to correspond with Americans and, all the more, to receive boxes, packages, or parcels from America!"

In another recent letter, he revealed that he was planning to use his enthusiasm and abilities with English to improve his economic situation.

"I've decided that I should do what I can do best—teach your language to those who would want to learn it. I'm going to insert an ad on local TV, the so-called 'running line,' which will say something like this: 'ENGLISH LESSONS. SPECIAL METHOD AND PROGRAM. SPEAK, READ, AND WRITE ENGLISH. EXPERIENCED TEACHER.'"

Somehow, I believed, he would succeed as an educational entrepreneur. My faith in him

and the free market was not misplaced. In the most recent letter from Russia, Greg reported with pride that as the result of running his TV ad, he had garnered three students for his private language lessons. When his next disability check arrives, he plans to run the ad again. Meanwhile, his kung-fu classes are opening for a new season. And he's planning to write an article for *The Freeman*.

Who knows how many more fellows like Grigory there are in the former Soviet countries, just waiting for a continuing contact with someone in the West who will help them learn and apply the freedom philosophy. An entire generation suffered under totalitarianism; now we have the opportunity to help the new generation make the most of their fledgling freedoms. Perhaps they will be the ones who will develop Russia into an example of freedom in action from whom even Americans can learn some valuable lessons. □

Reflections on a Failure

by Donald G. Smith

The waning days of the twentieth century will undoubtedly bring a spate of books and articles on the people and events that shaped the era. Certainly the two world wars will be high on the list for examination, along with radio and television, air travel, transcontinental highways, and motion pictures. There will be new biographies on such century-molders as Churchill, Roosevelt, Marconi, Lindbergh, Einstein, Edison, Ben-Gurion, and Hemingway.

I would submit as an entry one that prob-

ably outshines them all: the failure of socialism. Had socialism merely been tried in some remote commune and allowed to die a quiet death, the significance would not have been so great. But socialism failed on center stage before a packed house. It was undeniable, it was conclusive, and it was probably the biggest flop in recorded history.

Socialism had a run that lasted from 1920 until 1991. The Union of Soviet Socialist Republics had an opportunity to succeed unmatched by any social or economic movement. For nearly 70 years, the Soviets had absolute control over a landmass greater than that of the United States and Canada

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combined. They had no political opposition, offering a clear shot at effecting any plan that they wanted to put into action.

The Soviets possessed immense national resources, including the largest forested area in the world. No single continent could begin to match the standing timber resources that lay within the boundaries of the U.S.S.R. Yet, they were forced to import lumber from Sweden. Our own State of Washington turned out more board feet of lumber in any year of the Soviet Union's life span than the entire socialist operation could get to the sawmills.

In minerals, an enormous potential was again largely untapped. The Soviet Union contained copious supplies of virtually every important mineral within its borders. Despite possessing 53 percent of the world's supply of iron ore, the U.S.S.R. lived with a chronic shortage of iron and steel products. The Soviets also led the world in crude oil and natural gas reserves—again, resources that remained largely in the ground.

Other riches included an estimated 800 million tons of manganese, as well as generous deposits of gold, silver, tungsten, mica, copper, nickel, and molybdenum. Within Soviet borders lay more than 60 percent of the earth's phosphatic rock resources, but little was put to use.

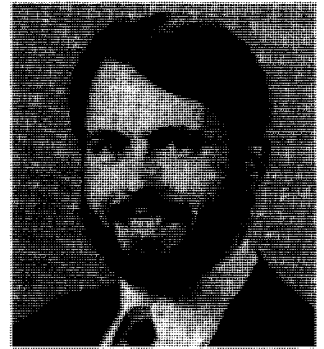
Soviet agricultural potential staggered the imagination, but the country could not feed itself. Its citizens suffered constant shortages because farmers were unable to grow enough food and could not bring what they did grow to the consumer.

The underlying cause of this colossal failure can be described in one word: socialism. Because of a top-heavy and strangulating bureaucracy, minerals remained in the ground, trees stayed in the forests, and crop yields were always below expectations. Manufactured goods were shoddy, behind schedule, and forever in short supply. Elevators

didn't work, buses and trucks broke down constantly, and the telephone system was about on a par with that of Bolivia. Much has been written about the perennial housing shortage and there wasn't the slightest hope of improvement at the time of the Soviet breakup. Two, sometimes three, families shared a bathroom in 1991, a rate unchanged since 1920.

Socialist apologists like to offer the "Great Patriotic War" as an excuse for the lack of economic development. After all, they argue, the nation was largely destroyed by the German invader and therefore no one can reasonably expect an economy to bounce back from such an onslaught. We might ask, however, why the Soviet Union couldn't defend itself against a much smaller nation that was fighting a two-front war. The Soviets had a great advantage over the Germans in natural resources and most certainly in manpower and yet they were soundly beaten on their own home ground for the first two years of fighting; or until the Germans simply ran out of gas. They had been in power for 20 years, the German invader for only seven. What had they been doing since 1920?

When we read the story of the Soviet Union, we usually see the terror of Joseph Stalin highlighted and, of course, the great red menace that spread its shadow across the landscape. The whole sorry operation would certainly receive the lowest marks on any scale of humanity and common decency. More important in the long run, however, is the failure of socialism. The one time that it was given a green light, the chance to show what it could do without a shred of opposition, it fell flat on its face. The 70-year span of the U.S.S.R. proved conclusively that socialism is an idea whose time will never come because it doesn't offer the slightest incentive for anyone to make it work. Common sense tells us that this is true. The increasingly distant memory of the Soviet Union proves it. □



Medicine for the Sick

The Drug War: seldom has so much harm been done to so many for so little purpose. Among the most tragic victims are the sick and terminally ill who desire marijuana to ease their pain. Consider Todd McCormick. Though only 26, he suffered through ten bouts with cancer, beginning at the age of two. He first smoked marijuana to relieve the dizziness and nausea caused by his treatment for a chest tumor. Now cancer-free, he still endures constant back, hip, and neck pain. Without marijuana he couldn't even walk, he explains. But despite a prescription from a Dutch physician, he was arrested in 1995 for marijuana possession and faced up to 30 years in prison before charges were dropped.

The first petition to shift marijuana from a Schedule I to a Schedule II drug, like morphine, which would allow it to be prescribed, was filed in 1972. The Drug Enforcement Administration wouldn't consider the idea until a federal court order in 1986. Two years later an agency hearing examiner endorsed the proposal. The DEA again refused to act. In its eyes, the desperately ill were no different than common criminals.

At least then there was a small escape hatch: 30 patients received marijuana from the federal government. But in 1991 the Department of Health and Human Services canceled the program. "If it's perceived that the Public Health Service is going around

giving marijuana to folks, there would be a perception that this stuff can't be so bad," explained one official. It's surprising the government tolerates the use of morphine in hospitals.

HHS officials said they would instead provide Marinol, a synthetic form of marijuana's psychoactive ingredient. But those suffering from AIDS, cancer, and glaucoma say that Marinol isn't as effective. Explained Barbara Jencks, who before her death from AIDS was arrested for using marijuana to combat AZT-induced nausea, "I've got to smoke marijuana. I've got to, or I'll die." Many others say essentially the same thing. Indeed, why else would people like Todd McCormick risk arrest?

Doctors also favor the medicinal use of marijuana. In one survey more than 70 percent of American cancer specialists said they would prescribe marijuana if it were legal; 44 percent said they had urged patients to break the law if necessary to acquire the drug. The British Medical Association found that nearly 70 percent of physicians believed marijuana should be available for therapeutic use.

Even President Bush's Office of Drug Control Policy criticized HHS when it closed the medicinal marijuana program. Deputy Director Herbert Kleber termed the initiative a "compassionate" option for the very ill. Another senior staffer, Ingrid Kolb, complained that "for HHS to treat this matter as just another bureaucratic decision is unconscionable and, to me, shows an intolerable lack of compassion." HHS remained unmoved.

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Nothing changed when President Bill Clinton took office, even though his Surgeon General, Joycelyn Elders, endorsed making marijuana available to the seriously ill.

Indeed, last fall the administration opposed ballot initiatives in Arizona and California to legalize medicinal use of marijuana. Voters ignored the President, so the administration is now working to block the laws. Only a recent court injunction currently prevents the DEA from prosecuting doctors who recommend pot and stripping them of their right to prescribe pharmaceuticals. Even more bizarre are threats to block the nomination of Massachusetts Governor William Weld as ambassador to Mexico because he favors allowing the medicinal use of marijuana.

The fact that so many officials are working so hard to pre-empt such limited state initiatives demonstrates a hard truth: The Drug War has failed. The federal government has been fighting the drug war for decades. The result? Adolescent drug use is rising. In 1995 more than one-third of high school seniors said they had used pot the previous year, up from 22 percent in 1992.

So what does Washington want to do now? Escalate the drug war. Eric Holder, now Deputy Attorney General, advocated tougher penalties for marijuana offenses when he served as the U.S. Attorney for Washington, D.C. "Marijuana violence is increasing. We need to nip it in the bud," claimed Mr. Holder.

Illegal Markets Spawn Crime

Unfortunately, new enforcement initiatives will only worsen the problem. The crime surrounding marijuana that Holder complains of results not so much from drug use, but from drug prohibition. No one argues that pot is criminogenic. People don't smoke marijuana and then commit crimes.

Rather, killings and robberies inevitably accompany illegal markets. Dealers fight over turf; sellers and customers rob one another. This was evident during Prohibition—the ban on alcohol could not have been better designed to benefit organized crime. Similarly, marijuana and opium have been legal in America for more years than they have been

prohibited. Only after the government forbid their sale earlier this century did crime envelop them.

A different argument is made by the DEA's Peter Gruden. The marijuana being sold today, he warns, is far more potent than that available a decade or two ago. However, this, too, is a result of prohibition. It has always been easier to find and confiscate marijuana, a bulkier substance, than drugs like cocaine and heroin. Thus, dealers have had a continuing incentive to produce a more compact, easily concealable version of the drug. This incentive was intensified by the government's increasing interdiction of shipments from Mexico and discovery of outdoor plots in America. Production shifted indoors to hydroponic (water-based) cultivation, which yields more concentrated marijuana.

Finally, Gruden complains that kids increasingly deal pot, with lookouts as young as 11. This has nothing to do with marijuana as such, however: in the 1980s Washington, D.C., found itself not only arresting a far higher number of juveniles for drug offenses, but also arresting a far higher percentage for trafficking. This is also a result of drugs being illegal: drugs are marketed by criminals, who have no compunction about involving kids, who in turn know that they will receive lesser penalties if they are caught. Notably, children don't wear beepers around school selling cigarettes and beer. The drug laws are as dangerous as drugs to kids.

Upping the penalties for marijuana offenses and imposing minimum sentences for nonviolent offenders would only increase the incentive to rely on kids. And it wouldn't end drug abuse. Nationally there were nearly 600,000 arrests in 1995 for marijuana, over 80 percent of them—an incredible half million—for possession alone. Pot arrests are up 50 percent over the Bush years. Someone is arrested for a marijuana offense every 54 seconds in America.

Sending more people to jail would, however, further overwhelm a bulging prison system that already holds three times as many prisoners as in the early 1980s. The result would likely be rising pressure for the premature release of violent criminals around the

nation. Today many rapists and murderers spend less time in prison than do drug offenders.

Turning drug use, at base a moral and spiritual problem, into a criminal crusade hasn't worked. Despite 10.5 million arrests for pot offenses between 1965 and 1995, more than 60 million Americans have used marijuana. As the police have collared even more people during the 1990s, drug use by children

has risen. Arresting and jailing even more people wouldn't yield better results.

It's time to change course. People shouldn't smoke marijuana, but then, they shouldn't smoke cigarettes either. That doesn't mean the answer is prohibition. Instead of reinforcing the failed policies of the past, the federal government should end its misguided war on marijuana, starting with its attack on the suffering and dying. □

BACK IN PRINT !

Critique of Interventionism

BY LUDWIG VON MISES

New Introduction by Hans F. Sennholz

The economic principles that Ludwig von Mises expounded in these six essays during the 1920s have endured; they are as valid today as they were in the past. In this volume, Ludwig von Mises emphasizes again and again that society must choose between two systems of social organization: either it can create a social order that is built on private property in the means of production, or it can establish a command system in which government owns or manages all production and distribution. There is no logical third system of a private property order subject to government regulations. The "middle of the road" leads to socialism because government intervention is not only superfluous and useless, but also harmful.

ISBN 1-57246-058-X • 136 pages • paperback \$12.95



Published by

The Foundation for Economic Education, Inc.

Irvington-on-Hudson, NY 10533

To order, call (800) 452-3518 or fax (914) 591-8910

A Century of Forest Service Ineptitude

by John A. Baden and Andrew C. St. Lawrence

This year marks the centennial of the National Forest System. This is America's best example of centralized government planning and management, our glorious experiment in "sylvan socialism."

In the *Federalist Papers*, the authors urged America to consider each law and policy as an experiment to be evaluated and perhaps modified. The end of a 100-year experiment is an appropriate time to review and evaluate the National Forest System.

The end of the nineteenth century was marked by enthusiastic reformers, Progressives who sought to harness the power of government to achieve positive ends. The Forest Service, the Bureau of Reclamation (1902), and the Park Service (1916)—all Progressive Era creations—provided models for environmental management by bureaucrats. According to Robert Nelson, in his book *Public Lands and Private Rights*, "The progressives sought to curb the subservience to special interest that in their view had all too often corrupted the activities of the federal government." The Forest Service was supposed to serve as an example of government promoting efficiency and innovation.

Unfortunately, Progressive Era reformers' political economy was far less sophisticated than the Founding Fathers'. Lacking understanding of how the world works, they blended hopes with expectations. Ideally, their bureaucracies would foster efficiency and innovation. But did they?

"Bureaucrat" is a term of derision in almost every language. This is no accident. Bureaucracies, regardless of their mission, eventually tend to be run for the people in them, and the clientele they benefit. The Forest Service is no exception.

The Forest Service was to use scientific information to maximize long-term productivity of forested lands. In the beginning, before the Forest Service focused on timber harvest, it was custodial—building trails and fighting fires. Its agents quickly gained a reputation as no-nonsense good guys operating in an untamed region. In Norman Maclean's acclaimed novel *A River Runs Through It*, the Forest Service is portrayed as a tough, down-to-business agency that succeeded. However, much has changed since the Forest Service exemplified efficiency and community well-being.

John A. Baden is chairman of the Foundation for Research on Economics and the Environment (FREE) and the Gallatin Institute, an organization for writers of the West. Andrew C. St. Lawrence, an intern at FREE and the Gallatin Institute, is a student at Montana State University studying animal and range science.

Following the Money

In 1995 the U.S. Treasury spent over \$499 million in taxes on national forest timber sales. The Forest Service retained more than \$345 million from the sales. After deducting

the cost of constructing logging roads and making payments to the counties where logging occurred, the Treasury saw only a \$44 million return from the sales. This made the logging of federal forests in 1995 a \$455 million net loser for taxpayers.

What happened in 1995 is not an anomaly. In 1993 and 1994 the Forest Service claims that timber sales made roughly \$600 million. But actual returns to the Treasury were \$800 million less than cost of funding the sales. Since the Forest Service has gone into the business of offering timber for sale, it has routinely lost money.

Overdue Exposure

Although the Forest Service continuously loses taxpayers' money, mainstream journalists have generally failed to criticize the agency. At least until recently. The cover story of the June 1997 issue of *Harper's*, by Seattle-based writer Paul Roberts, exposes the Forest Service as an inefficient and corrupt agency.

At last, influential writers are beginning to recognize what economists and policy analysts have long realized: government bureaucracies are inefficient and insensitive managers of environmental resources. *Harper's* benchmarks the upscale media's awakening to the malfeasance and crass incompetence of a "model" government agency.

A Growing Bureaucracy

Conventional wisdom long held that the Forest Service was an institution worthy of emulation. Gifford Pinchot, the founder of the Forest Service, thought the agency would be run by experts and not politicians. Prior to World War II, the Forest Service was highly acclaimed, according to Herbert Kaufman, author of *The Forest Ranger: A Study in Administrative Behavior*, as being "a model of public-spirited bureaucratic efficiency." Although it was isolated from presidential whims, it was not immune to overzealous congressional appropriations committees. Randall O'Toole, a forest economist with the Oregon-based Thoreau Institute, states that "for the last 50 years, appropriators

have funded the national forests mainly as pork."

Until the post-World War II housing boom, the Forest Service acted primarily as caretaker of the national forests. The housing boom of course required timber. Delighted to oblige the timber demands of a sprawling country, peddling timber became the new focus of the agency. Offering timber for sale allowed the agency to rapidly expand, neglecting other management objectives. The first postwar budget (1947) saw a scant 25 percent increase in "forest protection and management" while funding for roads and trails jumped 250 percent, most of which was allocated to building timber access roads. As the agency grew, it strayed from its idealistic beginnings into a typical bureaucratic agency.

In the 1970s, a few scholarly mavericks realized that the Forest Service had grown to be a grossly inefficient organization. Management decisions were pathologically based on increasing the agency budget. Selling timber was the means to expand budgets while ignoring taxpayers. It was apparent that the agency had shifted its focus from benefiting the American people to benefiting its own.

Over the years forest managers gradually increased the amount of timber offered for sale. Higher production meant greater budgetary allotments. Typically the Forest Service receives 99 percent of the requested timber funding while wildlife funding is less than 80 percent of what is requested; and recreation, watershed, or reforestation receives less than 70 percent of what it asks for. In a recent speech, Secretary of the Interior Bruce Babbitt stated that tying the Forest Service budget to the level of timber sale contracts is "effectively instructing foresters to work on a commission basis." The incentive is to focus on timber production while neglecting other forest resources.

Salvage Sales Savage Forests

But growing environmental concern produced environmental rules and regulations that threaten timber sales, the core of the Forest Service. With increasing environmental constraints, the Forest Service sought new

ways to justify ecologically destructive timber sales. The 1976 National Forest Management Act allowed the Forest Service to sell burned or diseased trees under the title of "salvage sales." The "Salvage Act" gave the Forest Service license both to sell timber, which secures the Forest Service budget, and to appease the public by claiming the sales as "sound ecosystem management."

The Forest Service budget benefits in several ways from salvage sales. All receipts from salvage sales are kept in a fund to be used for future salvage operations. This effectively makes salvage sale funding immune to reductions in the federal budget. In addition, because salvage sales are exempt from irksome environmental restrictions, the timber harvest can be increased.

And, since salvage sales qualify as "emergencies" they can exceed the 40-acre, clear-cut limit. Although clear-cuts can quickly denude a forest, they greatly increase the amount of timber available for sale in an area. In addition to increased clear-cutting, logging is allowed on previously off-limit, environmentally or geologically fragile forests. These salvage sales are a temporary salvation for a timber-hungry Forest Service. As a 1992 Forest Service memo stated, "Even if a sale is totally green, as long as one board comes off that would qualify as salvage on the Salvage Sale Fund Plan, it should be called salvage."

For a generation, Forest Service inefficiency and corruption have been recognized by economists and policy analysts studying the agency. The *Harper's* introduction of Forest Service deficiencies into mainstream publication is timely indeed. The centennial of this failed experiment in centralized planning is hardly a time for celebration.

What to Do

The time has come to turn management of national forest over to more responsible and responsive organizations. While the Progressives' belief in expert management made sense, its fatal flaw was the assumption that federal experts would be insulated from pork-barrel politics. But this is not how it works.

Private tree farms are forced to optimize

production since they are responsive to market forces and do not receive financial backing from the government. Port Blakely Tree Farms, established in 1864, is a glowing example of durability in the timber industry. Port Blakely can attribute much of its longevity to properly managing its resources. But optimizing natural resources means far more than just focusing on timber production. It includes management practices that allow for additional land uses that respond to the demands of recreationists and wildlife enthusiasts. Better ecosystem management fosters profits and a diverse collection of marketable items.

Private tree farms do not hold all the answers to reform. Often, the highest economic use of national forests lies in recreation, watershed, and habitat protection rather than commodity production. Obviously, when a company can only capture revenue from timber, it will slight other values.

Existing commercial forest lands should be auctioned off, with environmental constraints (such as riparian area protection), to the highest bidder. The bidding would be open to timber companies and environmental groups alike. Market forces would ensure that the land would go to the highest valued use and, together with environmental constraints on harvest, assure responsible stewardship.

A public, non-government trust could oversee the management of noncommercial areas. Endowment boards, like those running museums, hospitals, and private schools, would operate under a legal charter to steward individual forests. After the transition from federal ownership, each forest's individual trust would be "on its own." The board, established by local environmental groups, business leaders, and citizens, would be charged with promoting ecologically sensitive economic activities as part of their trustee responsibility.

A new era is upon us. The *Harper's* article marks a milestone in the way the public views inefficient bureaucracies. It will require imagination and entrepreneurship to devise institutions that will eliminate activities harmful to both taxpayers and ecosystems. □

Cast a Giant Ballot

by Clifford F. Thies

The late Roger MacBride is perhaps best remembered as the person who brought *Little House on the Prairie* to television. For some readers of this magazine, he was the person who, through the casting of a single vote, transformed the fledgling Libertarian Party into the most important third party in America. These two feats were not independent.

In 1971, the Libertarian Party was organized because of the argument that neither of the major parties was committed to liberty, and the naïve idea that a few people—none of whom commanded any significant resources—could do something about it. A philosophy professor (John Hospers) was nominated for president, and a cub reporter (Toni Nathan) covering the party's first convention for vice president. These candidates were placed on the ballots of only two of the nation's 50 states. Including write-ins from other states, the ticket got 8,000 popular votes out of 77 million cast, not even as many as were received by the Prohibition Party's ticket.

It was at this point that Roger MacBride entered the scene. Because the Republican Party ticket won the popular vote in Virginia, that party's slate of candidates for the Electoral College—which included MacBride—was elected. Being nominated for the Electoral College is usually a ceremonial honor bestowed on party loyalists. While pledged to

honor the popular vote, the members of the Electoral College are not constitutionally bound to do so, and—from time to time—certain of them have cast their ballots for persons other than the candidates of their party. MacBride's doing so on behalf of the Libertarian Party like a bolt from the blue sparked life into the neophyte organization.

It is important to point out that Roger MacBride's vote for the Libertarian Party ticket was only partially motivated by philosophy. Following their re-election, Richard Nixon and Spiro Agnew were each forced to resign from office: Nixon for obstruction of justice in conjunction with the Watergate affair, and Agnew for tax evasion while governor of Maryland. MacBride was protesting their already obvious corruption as well as their policies. Of course, as Lord Acton observed, corruption is the inevitable consequence of the all-powerful state.

That Roger MacBride cast his electoral vote other than for the candidates to which he was sworn shouldn't have been very surprising. As a young man, he wrote a scholarly little book, *The American Electoral College*, in which he presented his own views on our indirect method of voting for the president and vice president.

While appreciating many of the criticisms of the Electoral College that have been advanced, Roger MacBride declined from endorsing a major overhaul. He was persuaded that a sufficient reform would be the election of members of the Electoral College by congressional district with an additional two electors from each state elected at-large (as opposed to the general ticket system, which elects the slate of candidates receiving a plurality of the popular votes cast statewide). In fact, in the last few years, the states of Maine and Nebraska have implemented this method.

By "breaking up" the election of the members of the Electoral College, it would be more probable that occasions would arise when no ticket gained the majority needed for election. Presently, the predominance of the general ticket system almost guarantees a majority in the Electoral College to the ticket gaining a plurality of the popular vote, e.g., both of Bill Clinton's elections. But, with

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district-based voting, a strong independent or third-party candidate might be able to pick up enough electoral votes to deny the ticket receiving a plurality of the popular votes a majority of the electoral votes.

With no ticket having a majority in the Electoral College, it would seem that the election of the president would be thrown into the House of Representatives, and of the vice president into the Senate. *However*, a sufficient number of the electors pledged to independent or third-party candidates could vote for their "second choice." "This amount of independence," said MacBride, "is certainly the very minimum to be expected from Electors." Indeed, MacBride entertained the specific possibility that the district method would reinvigorate the original idea of the Electoral College, so that the electors would be "influenced but not governed" by the popular vote.

How is it that a person who so clearly expressed his view that electors should be "influenced but not governed" would be nominated for the Electoral College? Either the leaders of the Republican Party of Virginia back in 1972 were men and women of great integrity, or else they didn't know Roger MacBride. I'll leave it for the reader to decide.

In 1976, Roger MacBride was named as the Libertarian Party's candidate for president. I should mention that this was back in the days when the party nominated persons rich enough to largely self-finance their campaigns. It was during this campaign that the Libertarian Party actually developed into a viable third party, gaining ballot status in 36 states and something more than 200,000 votes.

During the mid-1980s, the grassroots activists of the party declared themselves free of persons of wealth. In 1984 and 1992, the party nominees for president were furthermore of no renown outside the organization. And, while the organization grew in its ability to gain ballot status for its candidates, its votes slacked off from peak totals. MacBride, among other people, drifted out of the party. Then, during the late 1980s, Roger MacBride re-entered politics, helping to organize the Republican Liberty Caucus.

My last memory of Roger MacBride was at a dinner party two weeks before his March 5,

1995, death. Epicurean and gentleman that he was, Roger suggested we go to a French restaurant that he considered to be the best in town. We greatly enjoyed ourselves, as we always did in his company. If, as the evolutionists claim, we are no more than self-aware matter, then Roger was more self-aware than most, for he enjoyed life.

Living Life to the Fullest

This brings me to the connection between Roger's political activity and his creative work. Roger MacBride led a full life. He went to the best schools—Exeter, Princeton, and Harvard Law, was a Fullbright Scholar, wrote several scholarly books, produced two television series, wrote children's novels, was a state legislator in his native Vermont, had homes in Miami Beach and Naples, Florida, as well as in Biddeford Pool, Maine, and enjoyed scuba diving off the coast of Australia. This is what freedom is about. Freedom is not an abstraction, or some unattainable ideal, it's about living life. And, this is true whether one lives the life of a sophisticate or lives the simple life depicted in the *Little House* series.

As a young man, Roger MacBride was "adopted" by Rose Wilder Lane, the daughter of Laura Ingalls who, along with Isabel Paterson and Ayn Rand, was one of the three founding mothers of the modern libertarian movement. Where Ms. Rand's strain emphasized the Western (or "Greek") concepts of reason and individualism, Ms. Lane's strain emphasized the Eastern (or "Hebrew") concepts of emotion and community. Rose Wilder Lane, although herself something of an agnostic, and a thoroughly cosmopolitan person, unabashedly presented the freedom philosophy as part of—indeed, as the essential part of—our Semitic religious tradition, and the defining feature of the American experience. And Roger MacBride did exactly the same.

Roger MacBride began the closing chapter of his campaign book, *A New Dawn for America*, with the Old Testament story in which Israel demanded a king. A king, warned the prophet Samuel, will take your lands, your children, your goods and your freedom, and

you shall cry out in that day. Still, Israel demanded a king. And, such is the nature of all governments, whether authoritarian kings, or democratic presidents. "Why," asked MacBride, "would anyone willingly submit to its false Authority?"

Roger MacBride sensed that those who put their belief in the state violate the commandment to put no god before the one true and transcendent God, and that they did so because it doesn't take much to believe in the all-too-real force of the state. That force—the police and military, the jails and torture chambers, the firing squads and gas chambers—is quite tangible.

Time and again, Roger MacBride spoke with compassion for those who were victimized by their own decisions. Concerning drugs, MacBride wrote "Why should not you and I, it is argued, who hate the very thought of drug addiction, and who would use every resource at our command to prevent a loved one's becoming addicted, why *shouldn't* we force our values on another? Hard case, I agree. But the rational answer is clear: force is no answer, love and persuasion may be." And again: "[T]here *are* serious issues of moral conduct. Fortunately there are many institutions other than government that can appropriately deal with these matters. To handle the task of teaching and maintaining desirable standards of behavior, logic and experience dictates reliance on the individual, the home, the family, the schools, the churches and synagogues, and the almost infinite number of other voluntary associations which now exist in every nook of the country."

Clearly, Roger MacBride was not a libertine, and did not advocate decriminalizing vices for lack of care about other people. He advocated decriminalization because he believed, firstly, that each person had a God-given right to be free, and, secondly, that it was more effective to attempt to dissuade people from vices through fraternal and charitable efforts.

This bleeding-heart libertarianism was the reason for the enormous success of the *Little House* saga that Roger MacBride advanced both through his involvement in the television series and his continuation of the series of children's novels, with *Little House on Rocky*

Ridge and Little Farm in the Ozarks. The "rugged individuals" of the American frontier were rugged individuals who were members of families, and rugged individuals who were members of the communities in which they lived. It was because the love they received from their families and neighbors was secure, that the pioneers were free. They didn't need big government because they had one another.

I remember Roger telling me of some of the conflicts between him and Michael Landon in producing the *Little House* television series. For example, Roger insisted that the children run around in bare feet, which would have been historically accurate, while Michael Landon insisted that the children wear shoes, since the television audience, not knowing the circumstances involved, would have thought that the parents were neglecting their children if they didn't provide them with shoes. As a result of their collaboration, Laura Ingalls's story—somewhat compromised—was successfully brought to a mass audience.

I also remember giving autographed copies of Roger's novels continuing the *Little House* series to my daughter Adele on the occasion of her twelfth birthday. How could I communicate to her what I knew of the meaning of life, so she could more fully enjoy this wonderful gift she had received? I know that she will have to discover this for herself, but I thought that the vicarious enjoyment of the life experiences contained in these books could help her to do just that. I know, too, that Roger loved his daughter, Abigail. He dedicated his second *Little House* novel to "my daughter Abby, who shares with me the legacy of Rose. In them both, God got it right."

For many of us, Roger MacBride was like Benjamin Franklin, an older and wise man who joined with us in a revolutionary cause. Three years before his death, Roger said that we were going to see the rebirth of liberty in our country. He was hopeful of observing that rebirth himself. Now, with his departure, we are hopeful for his observation of this rebirth from afar. And, we must be resolved to continue in this effort. Although we are now without his leadership, we will always have his inspiration. □

Affirmative Action: Institutionalized Inequality

by Walter Block and Timothy Mulcahy

In 1961 President John F. Kennedy established a program of “affirmative action” with the declaration of Executive Order 10925. He defined the initiative as “public and private programs designed to equalize hiring and admission opportunities for historically disadvantaged groups by taking into consideration those very characteristics which have been used to deny them equal treatment.”¹

Upon first glance, this policy seems like a well-intentioned, well-deserved method of reparation. Affirmative action programs do indeed intend to set things right. However, implementation poses a clear and puzzling contradiction. In order to repay one group, the government proposes to take away the freedom of others. This includes, but is not limited to, infringing upon the right of employers to hire whomever they choose. It also discriminates against prospective applicants for jobs or to schools who are immediately put at a mandated disadvantage simply because of their race or gender.

Discrimination against minorities based solely on skin color or ethnic origin is an ignorant and unfortunate practice. However, it is our right as free individuals with personal liberty to hold whatever opinions or prejudices we choose. If we are to be logically consistent, this right must be carried over to the employer to hire people based on which-

ever characteristics he chooses. If an employer had a deep aversion to people with brown eyes and hired people accordingly, it would be a violation of his rights to force him to hire brown-eyed people. Then there is nepotism: a private bank owner who hires his cousin rather than another, more highly qualified applicant who is not a member of his family.² Should this man be punished by law? Clearly the answer is no. Certainly not if we value the right of free association. Laws prohibiting people from interacting with others, whomever they choose, for whatever reason, are a violation of their freedom to associate. We hold this right well-nigh sacred in some arenas: dating, friendship, marriage. No one has a legal obligation, say, to be colorblind (or gender blind) in his choice of a marriage partner. If affirmative action is such a moral, appropriate policy, why do not even its most fervent advocates counsel its use in such personal arenas?

The Price of Discrimination

As it happens, the market serves to eliminate discrimination, its legal, moral, and logical status notwithstanding. In a free market, employee compensation can only be truly successful if skill and productivity serve as the only basis for choice. According to economist Thomas Sowell, “The competitiveness of the market puts a price on discrimination, thereby reducing it but not necessarily eliminating it.”³

By this, Sowell means that in a competitive market the person being discriminated against is not the only one who is penalized. If an

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employer refuses to hire all blacks based solely on their skin color, and in the process hires less qualified whites, a competitor who chooses employees based on productivity will end up with the cheaper, more highly skilled work force and outperform the racist. Eventually enough other firms will realize they can outperform their racist counterpart by hiring based on productivity, and he will tend to be pushed out of the industry when his business fails. In this manner, the free market provides a clear incentive not to discriminate according to race.

A classic example of this is the signing of Jackie Robinson by the Brooklyn Dodgers in 1947. By voluntarily excluding blacks from baseball, the owners had, in fact, neglected a large pool of talented athletes. When the Dodgers turned to this sector of the labor market, "... they acquired a competitive advantage which other teams could not allow to continue indefinitely."⁴ If the other teams had continued to discriminate against blacks, eventually they would have lost more and more games, and like a firm in any other industry, would have faced failure.

Consider how an affirmative action policy would affect the National Basketball Association.⁵ Today, in a free market for basketball players, the majority of players in the NBA are black. Were we to apply affirmative action here, the law would require fair representation of whites, Hispanics, and Asians. That even the most radical advocates of this policy never so much as contemplate such a course of action constitutes further indication of its intellectual bankruptcy.

If the government mandated that white players be given preferential treatment because they are underrepresented in the NBA, the overall quality of the game would suffer, as lesser qualified whites took the place of more highly qualified blacks, simply because of their skin color. The fan would most likely not be pleased with the fact that he would be receiving less for his ticket dollar than in a free market, where the most productive, most qualified players were on the floor. This watered-down product would ultimately lead to reduced ticket sales and the turning to substitute goods, namely other forms of entertainment.

Affirmative action should be rejected by Americans of all races. It unfairly places whites at a disadvantage by limiting choice. For nonwhites, it is a slap in the face: there is an institutionalized implication that they need government aid. It tends to exacerbate existing stereotypes and deepen racial rifts. It breeds contempt in the workplace, placing doubt in the minds of some whether their co-workers received the job based upon merit. It is a direct assault on the pride of the minority worker who has worked hard to improve himself, and has earned his position honestly.⁶ It is also a disincentive for others to invest time in education and self-improvement.

Affirmative action is an immoral policy that must be ended. Instead, we must legalize a situation where everyone is viewed without color. In this "colorblind" society the free market would ensure equality in the sense that people would be judged according to their ability and qualifications, rather than by irrelevant, artificially imposed qualities.⁷ In this sense, while every member of society may not succeed equally in a market, they will sink or swim based on their personal merit and be ensured an equal opportunity in the purest sense. Of course, if private people, groups, or individuals, wish to pursue affirmative action, reverse discrimination, or even the other variety against which our "civil rights" legislation was created to combat, the law of free association gives them the right to do just that.⁸ In this paper we were mainly concerned to reduce *government* discrimination, surely a very different matter. □

1. Donald Altschiller, ed., *Affirmative Action* (New York: The H. W. Wilson Company, 1991), p. 5.

2. Steven M. Cahn, ed., *The Affirmative Action Debate* (New York: Routledge, 1995), p. 39.

3. Thomas Sowell, *Markets and Minorities* (New York: Basic Books, 1981), p. 40.

4. *Ibid.*, p. 40.

5. Following the same train of thought as in previously mentioned examples, if a team in a free market discriminated using something other than productivity, it would lose both games and money.

6. Walter Block and Michael Walker, *Discrimination, Affirmative Action, and Equal Opportunity* (Vancouver, B.C.: The Fraser Institute, 1982).

7. Terry Eastland, *Ending Affirmative Action: The Case for Colorblind Justice* (New York: Basic Books, 1996).

8. Walter Block, "The Economics of Discrimination," *Business Ethics*, vol. 11, 1992, pp. 241-54.

Capitalism and Cooperation

by Allan Levite

In a 1989 article appropriately titled “The Triumph of Capitalism,” socialist economist Robert Heilbroner, who deserves to be commended for his honesty, observed: “. . . at this moment socialism has no plausible economic framework.”¹ Perhaps socialists have finally reached the point where they will no longer argue that socialism or communism can ever outperform capitalism, confining themselves to the old argument that socialism is a more *moral* system than capitalism.

Morality, however, is not something that can be demonstrated by facts. It is an outgrowth of shared values, such as cooperation. In the past, socialists have tried to convince people that their doctrine not only adhered to this commonly accepted behavioral norm, but actually epitomized it. The program of utopian socialist Robert Owen, for example, was referred to as a system of “Mutual Cooperation and Community of Goods.”²

By using the word *cooperation* as its own exclusive property, socialism has always implied that capitalism produces competition at the expense of cooperation. Without a doubt, capitalism involves competition, but socialism seems to view competition as entirely harmful, placing little value on its role in economic improvement. Competition between products, however, launches the best ones to the forefront, while the makers of inferior products suffer losses. Price competition results in lower prices for consumers, and even when

price “wars” are not taking place, competition keeps prices down.

But in the midst of making these complaints about capitalism’s alleged suppression of cooperation, socialists joined liberals in complaining about oligopolies, price-fixing, and other efforts by manufacturers to divide up markets and keep competitors out—activities that would necessarily *involve* cooperation between manufacturers who were trying to *avoid* competing with each other. Under American law, conspiracies to fix prices and allocate market shares became illegal. Although socialists would probably applaud the motives behind antitrust laws, it would be hard to deny that one of the aims of these laws was to *prevent* cooperation between capitalists.

Who Doesn’t Cooperate?

Despite socialism’s refusal to recognize it, capitalism is founded on cooperation, and not only between capitalists within a given industry who might seek to regulate their markets and freeze out competitors. The farmer cooperates with the milling company, selling it grain at a price freely agreed upon by both. The railroad cooperates with the miller and ships the grain at agreed-upon rates to an agreed-upon destination, where both miller and railroad know that factory workers will cooperate by being on hand to receive and process it. The supermarket cooperates with the food processing company, buying the finished products and reselling them, and honoring the manufacturer’s coupons. In

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turn, the manufacturer cooperates with the supermarket by reimbursing it for coupons received. The bank cooperates with both by enabling them to make these millions of transactions very efficiently, and to transfer large sums electronically or by check. Banks also cooperate with families by making secured loans (e.g., mortgages), enabling them to buy homes, which also pleases real estate and residential construction companies.

Consumers have cash to pay for what they buy because they have cooperated with their employers by showing up for work on time and performing labor, for which the employers cooperate by paying them. Consumers also cooperate with supermarkets by buying the products and paying cash (and sometimes even by returning shopping carts to the rack).

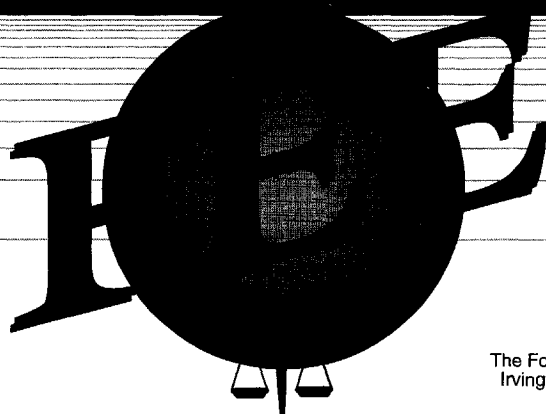
Actually, even if relations between merchants and their suppliers are not taken into account, there is nothing new about inter-firm cooperation due to mutual self-interest. About a century ago, fire insurance companies began to suspect that electrical equipment was causing building fires, and backed William Henry Merrill's idea for an independent testing laboratory for electrical products. Thus was born Underwriters Laboratories Inc., an independent, not-for-profit, nongovernmental organization that now conducts over 77,000 product investigations each year. Manufacturers voluntarily submit products to UL for testing and safety verification, and use of UL is not required by law. But few electrical manufacturers would even consider marketing an electrical product without the UL's coveted seal of approval, which is placed on more than nine billion products annually, and is known and trusted the world over.³ Here is an organization that fulfills the function of a government bureau, helping make sure that products comply with rigid safety standards—all without costing the taxpayers a cent—and accomplishes all this because capitalists *want* to cooperate with it! As this example illustrates, self-interest does not necessarily lead to competition at the expense of cooperation.

Capitalism also features cooperation in a more formal sense: what is now known as *strategic partnering*. Despite this impressive new description, joint ventures and licensing

agreements have taken place for quite a long time, and newer industries have merely adopted these standard practices. In the computer industry, for example, it is routine to buy a hardware device and find it "bundled" with software made by a different company, whose software the hardware company had licensed in order to include with their own product. Many companies have also been making agreements with other firms, by which marketing, manufacturing, or research will be conducted jointly between them. IBM, for example, jointly built a \$200-million plant with Toshiba, for the manufacture of screens for laptop computers. IBM also began in 1991 to jointly develop dynamic RAM chips with the German electronics firm Siemens. In Japan, Mitsubishi sells IBM mainframes under its own name, which augments IBM's own sales efforts.⁴ No U.S. manufacturer produces its own color television sets, VCRs, or CD players; all electronics products sold under the Kodak, General Electric, RCA, Zenith, and Westinghouse brands are made by these firms' foreign alliance partners and imported into the United States.⁵

Cooperation, Not Collusion

This cooperation between competitors is a far cry from the collusion that some capitalists have used on occasion to stifle competition or restrict output. Such conspiracies attracted criticism from writers and politicians, but the agreements never lasted long. The reason why Adam Smith observed that capitalists were always colluding to try to control markets is that markets were always changing, making yesterday's agreement obsolete and constantly necessitating a new agreement to try to hold together the previous conditions. Today, different reasons have been inducing capitalists to cooperate, and with different results. The fragmentation and spiraling complexity of today's mass markets have made it increasingly difficult for any single firm to possess everything it needs to succeed. Such agreements as those entered into by IBM were designed not to restrict output or control markets, but to acquire the skills, resources, or markets that one firm lacked and could



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October 1997

A Free-Market Case Against Open Immigration?

Recently, upon finishing Leonard Read's superb book *Anything That's Peaceful* (FEE, 1964), I felt a surge of thankfulness and honor. I'm thankful that such a wise man lived and wrote, and I'm honored to now lead the organization that he founded. Leonard Read was truly a great liberal — a liberal, of course, in the original and correct meaning of the term. Genuine liberals (as opposed to the statists who today in America have stolen this noble name) never fancy themselves fit to interfere coercively in the lives of others. As Read expressed his liberal philosophy, all peaceful and voluntary actions among adults should be immune to state interference. The only justifiable use of physical force is to defend against another who has initiated coercion.

What a marvelous and workable principle on which to build civil society! Both theory and history prove that this principle generates peace, stability, prosperity, and a culture that is rich and diverse. And yet so many people are distressingly hostile to this principle.

Leftist hostility is predictable. After all, leftists are virtually defined as those who see state-initiated coercion (or the threat thereof) as a magic potion capable of conjuring up all imaginable good and ridding humankind of all existing evils.

It is bothersome, however, to find such hostility among those who claim to be friends of liberty and free markets. In particular, during the past few years a number of pro-market writers have argued against a policy of open immigration. While the airing of different sides of the immigration argument is surely useful, I personally find such arguments as presented to be wholly unpersuasive — and even, in some cases, distressingly illiberal.

The most popular version of the so-called libertarian case against immigration runs something like this.

Each private property owner has the moral right (and should have the legal right) to ban from his property, or to admit onto his property, anyone he chooses. In a free society, no one is coerced into unwanted associations with others. Therefore, because in a fully free society all land would be privately owned and government would be limited (at most) to keeping the peace, immigration policy in this society would be whatever each private property owner decides it to be. If I wish to let 100 unskilled Irish peasants onto my property, so be it. If my neighbor chooses never to admit onto his property even people from across the street, so be it. There would, in fact, be as many immigration policies in the fully free society as there are landowners. As a practical mat-

ter, immigrants would be people who contribute through gains-from-trade to domestic citizens.

But we do not live in a fully free society. Like it or not, we're stuck with a large and intrusive government. And this same government happens to own enormous tracts of land and public facilities. Given that excessive government is a reality that isn't soon disappearing, the best that citizens of a democratic society can hope for on the immigration front is that their overly powerful government mimics the immigration policies that a fully free society would adopt. Because there would be no free admission in a fully free society, there should be no free admission in today's less-than-free society. Indeed, open immigration today is tantamount to forced integration. Citizens who do not wish to associate with foreigners are forced to do so by a government that too freely admits foreign immigrants. And because force is bad, forced integration—a.k.a. open immigration—is bad.

This argument for limiting immigration appears in several different variations, but the above rendition captures the main theme. It is mistaken.

First, to ask government to mimic the outcomes of a pure private property rights system is to overlook the single most important reason why government should be strictly limited. Unlike owners of private property, government can resort to force to increase the size of its property holdings and the value of its portfolio. Government is *not* an owner of private property. Restrictions on government discretion are appropriate precisely because government possesses a legitimized monopoly on coercion.

Consider, for example, the constitutional protection of free speech. Would it be sensible to argue that, because each private-property owner has the right to regulate what is said on his property, government in our less-than-libertarian world should have the power to regulate speech uttered in public places or over public airwaves? Of course not. But such an argument is analogous to the argument for government restrictions on immigration.

Secondly, labeling open immigration as "forced integration" is disingenuous. Such a practice is identical to labeling the First

Amendment's protection of free speech as "forced listening." But keeping government from regulating speech is not at all the same thing as forcing people to listen. Likewise, allowing people to immigrate to America is not the same thing as forcing Americans to associate against their wills with immigrants. Under a regime of open immigration, I need not hire or dine with anyone whom I don't wish to hire or dine with. Indeed, whenever government restricts immigration it coercively prevents me, as an American, from hiring or dining with whoever I choose to hire or dine with. An immigrant who receives no welfare payments engages only in consensual capitalist acts with those (and only those) domestic citizens who choose to deal with the immigrant. Just as trade restraints are, at bottom, restrictions on the freedoms of domestic citizens, so, too, are immigration restraints restrictions on the freedoms of domestic citizens.

Thirdly, even if some coherent justification could be given in the abstract for restricting immigration, it is curious in the extreme that any proponent of liberty is willing in practice to trust government with the power to pick and choose which foreigners we domestic citizens will be permitted to deal with on our home shores. There is no reason to suspect that government will exercise this power more prudently and intelligently than it exercises other powers.

Whether or not immigrants increase or decrease measured GDP or per-capita income is an empirical question that can be answered only by sound empirical research. (Economist Julian Simon has carried out much of this research; he finds that immigrants promote prosperity.) But the moral case for open immigration is paramount. That case is this: a geopolitical border is a grotesquely arbitrary reason to prevent people from dealing with each other in whatever peaceful ways they choose.



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obtain only from another—which, in return, would receive something it lacked. Sometimes, the parties to such agreements are competitors, but these partnering agreements are cooperative, not collusive. In the fast-changing world of today's capitalism, competition and cooperation are becoming indistinguishable.

This does not mean that this increased cooperation will result in rigid oligopolies in which the major players share resources and keep out the newer, smaller players, because the cooperation *itself* was forced upon the major players by the same technological changes that tore apart their previous market structures. If anything, strategic partnering bodes well for small, emerging firms, because instead of having to compete against the giants, they will find themselves in a better position to offer skills or facilities to the large firms. IBM North America already has over 4,000 "partners," many "creating highly specific software for smaller customers."⁶

Indeed, partnering and "outsourcing" show no signs of leading to increased market concentration or reduced levels of competition, because, as one study has shown, 70 percent of all the alliances of this type that cross national borders break up within a short time.⁷ While there are still oligopolistic markets, and mergers that turn large firms into even larger ones, it is overlooked that capitalism has produced a constantly increasing number of different industries and markets, just as it has generated an ever-expanding number of products. This fact refutes the old Marxian idea of a trend toward a final, very small group of giant, highly profitable firms that buy up failed rivals until they control everything.

To those who lack understanding of how markets operate, such increased concentration may have even appeared to be happening during the 1960s, which featured the rise of the "conglomerates"—corporations that acquired smaller firms that belonged to completely different industries. For example, in 1969, Quaker Oats, a well-known food products company, acquired Fisher-Price Toys. But Quaker sold Fisher-Price in 1991, two years before tobacco giant Philip Morris sold

Birds Eye frozen vegetables to Dean Foods.⁸ The furniture company I worked for in the early 1970s was acquired by a food conglomerate, which soon regretted its decision, for the furniture company proved unprofitable. A few years later the food company closed it down.

While large firms often find it advisable to diversify, they do not simply buy up everything in sight just so they can own everything. They do not want to own assets that fail to make money. A division that becomes unprofitable will be "spun off," and since few conglomerates will show equal profitability for each of their divisions, there will always be some divisions that are *less* profitable than others, even if they are all making money. The incentive exists to *sell* the less-profitable divisions and retain only the most lucrative ones—the "core competencies"—and rely on outsourcing for the rest. Thus, although partnering and outsourcing will increase inter-firm cooperation and help make firms more competitive, the increased reliance on agreements as opposed to acquisitions will prevent ever-increasing economic concentration.

Words and More Words

In spite of this trend toward increased collaboration between corporations, many writers still cling to the idea that capitalism is competitive in ways that forestall cooperation, while other forms of economic organization (such as socialism) would engender *true* cooperation. Discovering the basis of this interpretation, however, involves sociological rather than economic analysis. The great economists F.A. Hayek and Ludwig von Mises were well aware of the importance of the intellectual class and the extent to which it had embraced socialism. This was discussed in Hayek's article "The Intellectuals and Socialism" and Mises's book *The Anti-Capitalistic Mentality*. Both Marxism and socialism are doctrines that claim to exist to improve the condition of the working classes, but the doctrines themselves were the products of intellectuals. For example, when Karl Marx and Friedrich Engels began to call themselves the Communist Party, they asked

socialist friends in Brussels to join, recruiting 15. Of this total of 17 members, including themselves, 15 (88 percent) were *writers*.⁹ To a very great extent, socialism has always been the product of what is now called the “knowledge class,” the “information elite,” or “symbolic analysts”—academics, writers, journalists, and others who make their living by processing and analyzing documents and ideas.

Because socialism was originated by the social class that lives by words, it has always been highly productive in the use of labels, slogans, and buzzwords. Despite its failure as an economic system, socialism has never lacked the ability to have itself described in the most glowing terms, which explains why the cooperation produced by capitalism is not called cooperation, and why the jealousy and friction produced by socialism’s arbitrary division of goods is called cooperation. Because the origin of this descriptive divergence is sociological rather than logical, the triumph of capitalism over socialism is unlikely to affect it.

Instead of resorting to the use of favorable labels (such as “cooperation”) for the things they approve of, and unfavorable labels such as “dog-eat-dog competition” for the things they disapprove of, it would have been more accurate for socialists to eschew these devices in favor of such descriptions as profit-making and non-profit-making. For it is clear that socialism does not distinguish “cooperation” from “competition” by the nature or results of these acts, but by the intentions of their initiators. No matter how much cooperation goes into a profit-making activity, socialists will claim that it is competitive rather than cooperative, and will treat economic competition as destructive and divisive, as if it could never contain cooperative elements.

Socialists were aware, of course, that the parties to a transaction must cooperate with each other in order to make the exchange, but insisted that this cooperation was merely formal, hiding a deeper relationship that is actually exploitative, and which “forced” one of the parties to act. Yet even a highly paid athlete might consider himself to be exploited, because although he is a millionaire,

his employer makes a great deal more money from his performance than he does. Still, most people would disagree, because his earnings are high, and even socialists do not spend their time complaining about the exploitation of highly paid employees. This indicates that socialism does not *always* define exploitation as a relationship between persons occupying positions of greatly unequal power. A very highly paid worker, such as a film star, might make a great deal less than his employer, but could hardly be considered powerless: some film stars become directors and even producers!

Therefore, at *some* wage level, the amount of remuneration is what determines whether exploitation exists. But if a sufficiently high wage negates exploitation, it means that workers can decide that if their wages exceed a certain level, they are not being exploited, making their decision to accept employment at those wage levels a free and unencumbered choice. If workers use their wage levels as an indicator of whether they are exploited, then the indicative point can be set at *any* level, and an unemployed worker might very well consider *any* job offer to be an acceptable bargain. What is a bad wage offer now might be a good one later, depending on one’s circumstances, in the same way that a good price now might be a bad price later.

This refutes the notion that workers who are not receiving as high a wage as they would like are not cooperating willfully with their employers, even though they show up for work on time and do their jobs. From the employee’s viewpoint, the remuneration is *always* insufficient. No matter what the agreed-upon wage is, workers seek the highest wages they can get, just as merchants seek the highest prices they can get. They will *always* conclude that if conditions had been more favorable, they could have gotten more. To call this “exploitation” because the worker was “compelled” by economic circumstances to accept a job at lower wages than he wanted is no different from saying that a merchant who is “forced” to offer close-out prices on his goods is “exploited” by consumers because they would not offer him the higher prices he wanted. To make an offer and settle for the

best deal available, in the absence of the *ideal* deal—which is never available—is a function of self-interest, and it is difficult to say with a straight face that people who are following their self-interest are being exploited.

Intellectuals and Sacrifice

When the interests of two parties intersect, cooperation results, and a transaction occurs. If socialists consider an activity to be cooperative only if it lacks the element of personal gain, then the socialist definition of cooperation must include, if not focus on, some element of self-sacrifice. From this standpoint, "cooperation" must be mainly an act of renunciation or submission. "Cooperation," however, sounds much better to working-class people than renunciation or submission, so this favorable word is used instead. It is the foundation of *sacrifice* that best explains why capitalistic endeavors cannot qualify as "cooperative" under the socialist definition. Governments can disburse goods or cash to their citizens, but only by taking them from other citizens. However, all *market* exchanges of goods or services reap gains for both parties. Sellers value the money they receive for their goods more than the goods themselves, and buyers value the goods more than the money, otherwise the exchanges would not have occurred. Whatever name might be given to such transactions, the two parties have in fact cooperated with each other, and sacrifice was absent.

The intellectual class, however, might well have felt uncomfortable about its separation

from the workaday world. Its members grasped pens and spent long hours in cafes, while others had to swing hammers and wield sewing needles to make their living. Capitalism's replacement of sacrifice with gain did not constitute a happy change for such remorse-ridden thinkers who, unlike working-class people, place a high value on sacrifice because it alleviates their uneasiness, while gain only adds to it. They could not change reality, but they could, at least, *rename* it, especially since the application of names and labels was their natural function. Accordingly, economic sacrifice soon became known as "cooperation," while gainful cooperation became "dog-eat-dog competition."

It is time to start insisting that the labels used to describe economic activity give a more accurate depiction of that activity and its results. □

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Education and the Free Society

by Linda C. Raeder

The classical-liberal philosophy of limited government and the rule of law is in danger of being consigned to oblivion. Enemies of the free society have successfully appropriated the time-honored “liberal” name and transformed it into the pseudo-liberalism of contemporary statism.

Part of the responsibility for that transformation undoubtedly belongs to the defenders of liberal constitutionalism. We have obviously failed to “make the case,” either rationally or imaginatively, for the free society as traditionally understood in the West. Hence we are in danger of losing not only our understanding of the relationship between limited government and human flourishing, but also of the very meaning of constitutional government. Nor have we sufficiently attended to the formative role of culture in the maintenance of the constitutional ethos. It is imperative, however, that the classical understanding of liberal order remain a living understanding, particularly within the academy. Yet it is well known that many academics are hostile not only to the classical-liberal order but also to the moral and philosophical heritage of Western civilization which produced that order. Those of us who would preserve the free society must not abandon the scholarly forum.

The abandonment of the modern university to the enemies of the free society is, moreover, bound up with the transformation of the meaning not only of “liberalism” but of all the major concepts through which we articulate our political, social, and moral self-understanding. The notions of freedom,

law, rights, democracy, constitutionalism, and morality have all been distorted in service of limitless government. Even well-meaning people, for instance, no longer seem to understand that the American framers did not establish a “democracy,” but rather a constitutional government, one characterized by limited power and the rule of law.

Today, however, “democracy” is often touted as if it were equivalent to liberal constitutionalism and the free society; any distinction has been largely lost. In a similar manner, the traditional notion of right has undergone a pernicious transformation. A right, as historically conceived in the West, did not refer to a positive entitlement to government services but to a largely “negative” protection against arbitrary governmental interference with one’s beliefs and activities.

Moral standards have also been significantly redefined. Traditional Western morality was concerned with personal motives and actions, not with social outcomes, emotional pleas for collective “compassion,” or commitment to a chimerical “social justice” to be achieved through organized political coercion, as it often is today.

The ongoing destruction of the free society has long been abetted by those who bear responsibility for the transmission of our cultural heritage—university professors and others involved in higher education. To preserve the traditional Western understanding of freedom-under-law, we must redress that imbalance, first, by restoring the classical-liberal philosophy of limited government as a focus of scholarship, and, second, by becoming exemplars of its ethos. Moreover, and perhaps even more importantly, we must

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counter the prevailing trend toward the politicization of the academy.

Perhaps it is not coincidental that both the free society and higher education stand at present in such a precarious state. From Aristotle to modernity, liberal education has been one of the chief foundations of civilized order in the West. Such an education, or "drawing forth," aims to cultivate a mind disposed to the pursuit of truth, a process that depends upon the active assimilation of culture, conceived as an integrated body of knowledge unified by reference to the comprehensive whole of reality. Professional specialization was conceived to be an outgrowth of, not a replacement for, such an assimilation. Moreover, liberal education was sharply contrasted with mere technical or practical training in service of utilitarian ends; the personal comprehension, character, and existential orientation produced by a truly liberal education was long regarded as its own reward.

A liberally educated person is more than superficially familiar with the great contributions in various fields. He is especially well acquainted with history, a knowledge which supplements his own necessarily limited experience of human events and widens his necessarily limited cultural perspective. Release from the parochialism of the present, however, is not the only beneficent effect of a traditional liberal education. Such an education is intimately bound up with the transmission of the culture and thus with the maintenance and advancement of civilization.

Ignorance of our heritage returns us to the level of primitives ceaselessly reinventing the wheel, particularly in political and moral matters. Or else it fosters the emergence of that quintessentially modern character, the arrogant rationalist proudly proclaiming the sovereignty of his fictitious "autonomous" reason. As both Burke and Hayek so eloquently warned, however, the rationalistic hubris of such persons, which leads them cavalierly to dismiss the "wisdom of the ages," is a grave threat to the preservation of civilization, which crucially depends upon the preservation of the suprarational knowledge embodied in tradition.

The political order of any society is a

reflection of the values, beliefs, and character of the persons who compose it; modern Western society, no less than the *polis*, is man writ large. The constitutional order that is the free society aims to permit its members freedom to pursue their self-chosen ends, in the belief that such freedom is indispensable to the realization of human potential. No society can endure, let alone flourish, without a certain degree of order. Since a free society seeks to minimize governmental coercion, and thus the external imposition of order, its order must come from within. A free society thus places special demands on its members: they must be both internally self-governing and willing to observe those moral and political rules that alone permit the common good to prevail over partisan and special interest. Moreover, since a free society encourages people to pursue their own ends, the quality and tone of such a society are utterly dependent upon the quality of its members' aims.

All of these factors point toward the crucial significance of education to both the preservation and tenor of a free society. Freedom has proved so fragile historically because the demands it makes on human beings are so severe. Freedom requires a large measure of self-restraint: freedom demands that we do not violate our neighbors, either individually or through the collective process that is politics. Without the willingness to pursue our ends within moral and legal bounds, to defer to the higher moral and political law that is the substance of constitutionalism, freedom-under-law degenerates into license, politics into the war of all-against-all. Although it goes against the grain of the prevailing "modern liberal" ideology, one cannot escape the fact that the formation of character through moral education, a process in which family, religion, formal study, imitation, practice, and mystery all play significant roles, is the *sine qua non* of the free society.

In conclusion, those of us who are concerned with preserving the hard-won fruit of individual freedom face a formidable challenge. We must make that tradition come alive again. And the only way to do so is through persuasion and personal witness, the only means suitable to the education of a free people. □

The Proper Attitude Toward the Proper Role of the State

by Joseph S. Fulda

That the proper attitude toward the overreaching state is, depending on the size and scope of the Behemoth, anxiety, fear, fright, or terror is a given among classical liberals. What is not always understood is the danger that the State poses even in its necessary and proper functions: protection against private coercion from within, protection against state coercion from without, and the orderly adjudication of disputes. It is the first of these functions of government whose danger is least understood, it being generally acknowledged by true liberals that the remaining functions have often been used as justifications for the expansion of the welfare-warfare state and a redistributionist judiciary, respectively, both of which pose obvious and considerable threats to individual liberty.¹

We must start by acknowledging, with Thomas Paine, that "Society is produced by our wants and government by our wickedness. . . . The first is a patron, the last a punisher. Society in every state," writes Paine, "is a blessing, but government, even in its best state, is but a necessary evil. . . . Government, like dress," he continues, "is the badge of lost innocence; the palaces of kings are built upon the ruins of the bowers of paradise."² Chasing down criminals and incapacitating them is an unfortunate necessity, but there can be no

denying that it is a necessary *evil*, since it consumes vast resources unproductively: Nobody gains anything of value from the anti-crime enterprise; even if it is done perfectly, all we can say is that nobody will lose anything of value, either. This is what Thoreau meant when he wrote, "I believe 'That government is best which governs not at all'; and when men are prepared for it, that will be the kind of government which they will have. . . . For government is an expedient by which men would fain succeed in letting one another alone."³

But, then, this is not quite true. Some do gain something of value from the anti-crime enterprise: the legions of officers of the State who are charged with the task. As former California Republican Assemblyman Patrick J. Nolan reminds us: "[O]ur judicial and penal systems are just like every other bureaucracy. . . , with 'the judicial-penal complex spend[ing] lavishly trying to convince us they are doing all they can to protect us and if they had a little more money they could get the job done.'"⁴ Like the "military-industrial complex" of which conservative President Eisenhower warned, Nolan warns of the dangers of a judicial-penal complex that has every bit as much potential to go awry. And, not only do some gain from the anti-crime enterprise, even when this dismal task is done perfectly some also lose: the taxpayers who must support the legions of crime-fighters. And when government goes awry, quite unlike the case

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of the outlaw, "our calamity is heightened by reflecting that we furnish the means by which we suffer."⁵ And the judicial-penal complex has gone awry, vastly expanding its powers and revenues in recent years as the private property of innocent citizens is routinely seized under so-called civil asset forfeiture laws. These laws—which in some jurisdictions have created a virtual reign of terror by law-enforcement officials—effectively allow government agents to take whatever they want, from whomever they want, for any reason whatsoever and with little chance of its possession ever being regained by its rightful owners. (All that is needed is for the agent to invent an anonymous tip that the property was in some way used in an illicit activity and the property may be seized with a veneer of legality.) Instead, the property forfeited normally winds up lining the pockets of law enforcement.⁶

But the real problem is that the anti-crime enterprise is not, indeed *cannot*, be done perfectly: No human institution, social or governmental, proper or improper, is perfect. Inevitably, the granting of monopoly power to the State to retaliate for acts of coercion will lead to abuses of that power. Power, after all, is rarely held without abuse; monopoly power is *never* held without abuse. But though this monopoly power is necessary to rein in crime, it is far more frightening—if quieter—than the power of the ordinary criminal over the law-abiding citizen. As Albert Jay Nock observed, the State is "*the organization of the political means*,"⁷ and is therefore at least as much more to be feared over the ordinary criminal as is organized crime. What is to be feared, moreover, is not mere *potential*, but the actuality that over 40 percent of our productive efforts are seized by the State without just cause. I know of no study claiming that even the more dismal neighborhoods in America suffer comparable losses to crime (with some notable exceptions involving organized crime, of which overreaching government is but a species).⁸ Nor is it mere property that government *actually* deprives us of; many tens of thousands of peaceful citizens languish in penitentiaries, prisons, and jails for what Nolan describes as "bureaucratic 'crimes' arising from disputes with government em-

ployees over billing procedure, loan documentation, late filing of documents or other violations of statutes that are technical in nature."⁹ And, of course, tens of *millions* of citizens simply adapt their *whole manner of living* to the demands of the State—daytime as well as nighttime—rather than face the terrifying prospect of incarceration.¹⁰

Nor is it sufficient that the government maintains "swarms of officers to harass our people, and eat out their substance,"¹¹ it also has recently begun coöpting the entire corpus of the citizenry into joining the anti-crime enterprise. For example, in one of the worst decisions handed down in the last century, the U. S. Supreme Court recently ruled, by a 5–4 margin, that the civil-asset forfeiture laws *are* constitutional even when the owner is completely innocent of any crime.¹² The reasoning used was that citizens have a duty to the State not to negligently allow their property to be used for unlawful purposes. Under this theory, businesses, homes, cars, and boats have been seized when owners have not been sufficiently vigilant in preventing some occupant from doing something—usually something petty, like a minor violation of a drug statute—illegal. Indeed, this decision reverses almost 800 years of jurisprudence: It was Magna Carta which first declared that no person's property shall be seized but upon the judgment of his peers for violating the law of the land.

A second example whereby the State would make of everyman a policeman is in the dubious area of sexual-harassment law. It is not sufficient that sexual harassment—whatever that may *actually* mean—is a civil rights violation, but companies, universities, and contractors are held responsible for the acts of their agents—even when, as is so often the case, the alleged offense is outside the scope of the agency of the individual and the institution is not only not a party to the offense but not even cognizant of it. Again, the theory is that private enterprises must not through their negligence and lack of vigilance allow their agents to commit these wrongs or *they* will be held responsible for behavior they are neither aware of nor condone. They are thus forced to become the junior partners of law

enforcement—enforcing the law in their private domains under threat of substantial civil liability.

Yet another example by which the government would coöpt the citizenry is the New Jersey initiative¹³ encouraging drivers to use their car phones to report speeding cars and other miscreant drivers—this notwithstanding that the use of car phones is far more dangerous¹⁴ than is speeding.¹⁵

And, from Virginia comes a legislative proposal requiring citizens to police other citizens: Owners, managers, and operators of parking lots, rental housing, shopping centers, airports, docks, and shipyards must report a large number of details about the vehicles stored in their facilities so as to facilitate state personal property tax collection. If they do not act as government informants, it is proposed that they be criminally liable.¹⁶ All these examples—and there are countless others—of government devolution of its responsibilities (whether overreaching or proper) on the citizenry bespeak a mindset present in the now-fallen totalitarian regimes of the East: They are hardly fitting for the land of the free.

Yes, we must have government: Our civilization is indeed “built upon the ruins of the bowers of paradise.” But even when it is putatively exercising its proper functions, the proper attitude toward the State remains eternal vigilance tinged with fear. □

aside by a judiciary intent on the most narrow construction of the fifth and fourteenth amendments’ guarantee that “no person shall be deprived of . . . property without due process of law.”

7. Albert Jay Nock, *Our Enemy, The State* (Fox & Wilkes, 1994), p. 24. The astute reader will recall that Nock starts his second chapter by taking issue with Paine and distinguishing between “government,” the term he uses for the proper functions of the polity, and “the State,” the term he defines as above. But although Nock was fully aware of the propensity for “government” to turn into “the State,” he could not know, writing in 1935, as we do having borne witness to the full horrors of the Third Reich and the Soviet Union, just how untenable that distinction is, given that an effective “government” must have a monopoly on the very powers that allow it to turn into “the State.” Following standard practice, we use the two words interchangeably.

8. But a fascinating study has come out showing that when the Russian economy was privatized by selling off state enterprises, all those who could afford to buy were connected to the Communist Party and organized crime and today, the report claims, over 40 percent of the Russian economy is controlled by organized crime. (Jonathan Lynn, “Organized crime controls nearly half of Russia’s economy, U.S. study says,” *Seattle Post-Intelligencer*, March 20, 1997, p. A4. The study was conducted by Louise Shelley of American University and appeared in *Transition*, the newsletter of the World Bank.) Clearly, some form of stake-claiming, perhaps allowing joint ownership, perhaps involving a lottery, would have been a better way to unload government enterprises.

9. K. L. Billingsley, *op. cit.*, p. 203.

10. A small but telling example of this accommodation occurs to me as I write this. The tax (FCC line charge, municipal surcharge, county emergency services surcharge, New York State/Metropolitan Transportation Authority surcharge, New York gross receipts tax surcharge, New York Entertainment & Information Sales Tax, New York State sales tax, New York City sales tax, Federal excise tax) on my local telephone bill is some 30% of the total. For a while, it was possible to avoid most of the above by using a long-distance carrier. So, when I dialed any number outside of New York City—proper, such as nearby suburbs, I habitually punched in 10288 first, so that my call was carried by AT&T. We are so used to accommodating the demands of government—relative to the accommodations made because of the more recent crime epidemic—that we hardly notice all the routines we go through just to carry out ordinary activities—even in the quiet of our homes! A more common example is the selection of an out-of-state mail-order vendor solely to avoid sales tax and regardless of whether the vendor offers the best quality for the (nominal) price.

11. Declaration of Independence.

12. *Bennis v. Michigan*, 116 S.Ct. 994 (1996).

13. See Michael Drewniak, “Road safety: Drivers, make it your calling,” *Star-Ledger*, February 11, 1997, pp. 13, 18. The article reports on both the initiative and the civil-liberties concerns it sparked.

14. See Ted Sherman, “Study: Car phones heighten crash risk,” *Star-Ledger*, February 13, 1997, pp. 1, 22. The article cites a study by Donald Redelmeier and Robert Tibshirani of the University of Toronto which appeared in the *New England Journal of Medicine*, but also contains much information specific to New Jersey.

15. This point is made eloquently by Steven G. Maurer, “Car phone follies,” *Star-Ledger*, March 2, 1997, Section 10, p. 2.

16. For a discussion of this proposal, see *Privacy Forum Digest* 6:3 available by listserv, gopher, and ftp, as well as on the Web, from vortex.com.

1. For an early, very powerful statement of this, see Jonathan Swift’s *Gulliver’s Travels*, Part IV: “A Voyage to the Houyhnhnms,” Chapter 5 in its entirety.

2. Thomas Paine, *Common Sense* in *The Life and Major Writings of Thomas Paine* (Philip S. Foner, editor; Carol Publishing Group, 1993), pp. 4–5.

3. Henry David Thoreau, *The Variorum Civil Disobedience* (Walter Harding, editor; Twayne Publishers, 1967), pp. 31–32.

4. Quoted in K. L. Billingsley, “Economics 101—From Prison,” *The Freeman* 45(April 1995): 202–203.

5. Thomas Paine, *op. cit.*, p. 4.

6. See James Bovard, “Seizure Fever: The War on Property Rights,” *The Freeman* 46(January 1996): 6–13. Under the seizure laws, the actions are nominally against property, not against owners. Unfortunately, due-process protections have been swept

Algernon Sidney: Forgotten Founding Father

by Chris Baker

Algernon Sidney (also Sydney) was an English martyr for republican government. He was executed in 1683 for allegedly conspiring to kill King Charles II; his political writings were used as “evidence” against him. His uncompromising spirit inspired both the Glorious Revolution of 1688 and the American Revolution of 1776.

Born in 1622, Sidney was the second son of the Earl of Leicester and a nephew of the poet Philip Sidney. He was raised at the family’s estate in Kent. His father, Robert, was a diplomat who owned a vast library, which included classics of religion, philosophy, and history. As an adolescent, Sidney traveled with his father to Denmark, France, and Rome. In Paris, he met the Dutch-born diplomat and political theorist Hugo Grotius, who was representing Sweden at the French court.

In 1646, Sidney was elected to what came to be known as the Long Parliament—so named because it was in session for eleven years. The increasingly fanatical Puritans ordered King Charles I’s execution in 1649. Being a man of reason, Sidney did not support execution—he always sought justice, never vengeance. Cromwell dissolved Parliament in 1653, but Sidney refused to leave his seat until the Lord Protector’s troops forcibly removed him.

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With his life now in danger, he fled to the Netherlands.

Sidney returned to his seat in 1659 and was one of three men sent by England to negotiate peace in the war between Denmark (which also controlled Norway) and Sweden. Up to this time, the Danes controlled land on both sides of the narrow passage connecting the Atlantic Ocean and the Baltic Sea and charged exorbitant dues to all ships that passed through. The treaty ending this war gave Sweden total control of their side of the waterway. The Baltic Sea was opened to all nations and has remained so to this day, except in times of war.

Parliament crowned Charles II, son of Charles I, king the next year. Sidney refused to apologize for his earlier actions and did not return to England after his successful diplomatic mission. The king’s assassins would make two attempts on his life. In the mid-1660s, Sidney unsuccessfully appealed to French and Dutch leaders, hoping to enlist their aid in the republican cause. He also indulged in his first love—books.

He was allowed to return to England after his father’s death in 1677 and began working with William Penn for religious freedom in both England and Pennsylvania. Not even the new colony was liberal enough for Sidney. He believed that it left too much power in the chief executive’s hands.

He met with other republicans (who were forming the Whig Party) and made an unsuc-

cessful run for Parliament. At that time, many republicans—including Sidney—were receiving money from the French ambassador. France, the major European power at the time, hoped to keep its archrival weak and divided.

In 1680, Robert Filmer's *Patriarcha* was published. Filmer (who had died in 1653) argued that absolute monarchy was a natural form of government, existing from the creation. Fathers governed families, and the right to rule passed on to the eldest son. Sidney penned his *Discourses Concerning Government* in response to Filmer.

Fearful of a "popish plot," the Whigs believed that Charles, with the encouragement of his Catholic brother James, was attempting to re-establish an absolute monarchy. Charles II dismissed Parliament in 1681. Unable to check the crown by lawful means, some Whigs considered assassination. The defiant Sidney was arrested on June 26, 1683, for his alleged part in the "Rye House Plot." The prosecution searched his home and found his writings, which he claimed were not intended for publication. Convicted in a dubious trial, Sidney was beheaded on December 7, 1683.

Sidney was not totally opposed to monarchy. "The best Governments of the World have bin [sic] composed of Monarchy, Aristocracy, and Democracy," he believed. "The difference therefore between good governments and ill governments is not, that those of one sort have an arbitrary power which the others have not, for they all have it; but that those which are well constituted, place this power so as it may be beneficial to the people, and set such rules as are hardly to be transgressed; whilst those of the other sort fail in one or both these points."¹

But he did believe uncompromisingly in the right of revolution. He saw government as a contract among the people. He wrote: "God leaves to Man the choice of Forms in Government; and those who constitute one Form, may abrogate it. . . . The general revolt of a Nation cannot be called a Rebellion. . . . Laws and constitutions ought to be weighed . . . to constitute that which is most conducing to the establishment of justice and liberty."² Sidney

saw this necessity because: "Many things are unknown to the wisest, and the best men can never wholly divest themselves of passions and affections . . . nothing can or ought to be permanent but that which is perfect."³

To retain its liberty a society must be composed of people who are willing to question the authority of "superiors." "Who will wear a shoe that hurts him, because the shoe-maker tells him 'tis well made? . . ." Sidney asked. "Such as have reason, understanding, or common sense, will, and ought to make use of it in those things that concern themselves and their posterity, and suspect the words of such as are interested in deceiving or persuading them not to see with their own eyes. . . . A general presumption that Kings will govern well, is not a sufficient security to the People . . . those who subjected themselves to the will of a man were governed by a beast."⁴

A more accurate title for the *Discourses* might be *History of Liberty*. Throughout the book are references to the works of Hugo Grotius, Livy, Niccolò Machiavelli, Cornelius Tacitus, Plutarch, Plato, and Aristotle. Sidney was most impressed by the Bible, Livy's *History of Rome*, and Grotius's *The Law of War and Peace*. The history of the Roman Republic and its decay into empire and eventual ruin especially fascinated him.

Sidney saw history largely as an eternal conflict between virtue and vice. This idea appeared throughout:

... the strength, virtue, glory, wealth, power, and happiness of Rome proceeding from liberty, did rise, grow, and perish with it.

Whilst liberty continued, it was the nurse of virtue; and all the losses suffered in foreign or civil wars, were easily recovered: but when liberty was lost, valour and virtue were torn up by the roots, and the Roman power proceeding from it, perished.⁵

Sidney also noticed the pattern in their vanquished opponents: "All the nations they had to deal with, had the same fate. They never conquer'd a free people without extreme difficulty. . . . But the greatest kings were easily overcome." This occurred because

"such principles as make men honest and generous, do also make them lovers of liberty, and constant in the defence of their country. . . ." Free societies were more prosperous, could afford war, and recover from it. He added: "That is the best Government, which best provides for war."⁶ The wars of the twentieth century, the most violent ever, would prove him correct.

Dictatorships were impractical because—as Friedrich Hayek would later observe in *The Road to Serfdom*—the worst find their way to the top. "The histories of Greece," Sidney noticed, "Sicily, and Italy shew that all those who made themselves tyrants in several places, did it by the help of the worst, and the slaughter of the best." Tyrants "hate virtue for its own sake, and virtuous men for being most unlike to themselves."⁷ This philosophy has proved even more true in today's welfare states, "people's republics," and other anti-capitalist economic systems.

This did not mean that Sidney was a pragmatist. His main concern was not whether a political system "worked." He was convinced that republican government did function well, and he knew how and why.

Sidney was a pioneer in natural rights theory. "The common Notions of Liberty are not from School Divines, but from Nature . . .," he declared. "'Tis hard to comprehend how one man can come to be master of many, equal to himself in right, unless it be by consent or by force. . . . No right can come by conquest, unless there were a right of making that conquest. . . ." In summary, he understood that: "To depend upon the Will of a Man is Slavery."⁸

Liberty was consistent with equality before the law. "That equality which is just among equals," he wrote, "is just only among equals; but such as are base, ignorant, vicious, slothful, or cowardly, are not equal in natural or acquired virtues, to the generous, wise, valiant, and industrious. . . . There may be a hundred thousand men in an army, who are all equally free; but they only are naturally most fit to be commanders or leaders, who most excel in the virtues required for the right performance of those offices."⁹ His idea of

equality did not even resemble the corrupt concept of equality that is worshiped in the world today.

Agreeing with Aristotle that man is a rational animal, Sidney believed that a life of virtue was a life of reason. "Man's natural love to Liberty is temper'd by Reason, which originally is his Nature," he declared. "The truth is, man is hereunto led by reason which is his nature. Everyone sees they cannot well live asunder, nor many together, without some rule to which all must submit. This submission is a restraint of liberty, but could be of no effect as to the good intended, unless it were general; nor general, unless it were natural."¹⁰ He not only knew that a free society would prosper—he knew why a free society had to prosper.

While his better-known contemporary John Locke harshly criticized self-interest, Sidney seemed to favor it. He believed that "man naturally follows that which is good, or seems to him to be so. Hence it is that in well-govern'd states, where a value is put upon virtue . . . men are from the tenderest years brought up in a belief, that nothing in this world deserves to be sought after, but such honors as are acquired by virtuous actions: By this means virtue itself becomes popular."¹¹

Sidney's political philosophy had one fatal flaw, which Locke also accepted. He believed that "if he enter into the society, he is obliged by the laws of it."¹² (Locke called it tacit consent.) Yet Sidney was the most radical man of his time. While Locke earned fame and prestige, Sidney became famous mostly for his "treason." Had he lived out his life, he might have had as much influence as Locke, whose major works were all published after the bloodless revolution of 1688. Published in 1698, the *Discourses* are the product of a great mind whose greatness would not be understood until long after his death.

After the death of Charles II in 1685, James II took the crown, and a friendly (at that time) Parliament met for the first time in four years. The new king's preferential treatment of Catholics vindicated the Whigs' fears. When the queen gave birth to a son in 1688, even the once-conservative Parliament supported revolution. James's troops and his daughter

Anne deserted him. His older daughter, Mary, and her husband, William of Orange, claimed the throne. Parliament passed a bill of rights and absolved Sidney the next year.

Influence in the American Colonies

John and Samuel Adams, George Mason, James Madison, and Benjamin Franklin all acknowledged Sidney's influence on American political thought. A group of Virginians (Patrick Henry included) founded Hampden-Sydney College in 1776 and named it in his honor (and John Hampden's). And in 1825, as founder of the University of Virginia, Thomas Jefferson issued this statement: "Resolved, that it is the opinion of this Board that as to the general principles of liberty and the rights of man, in nature and in society, the doctrines of Locke, in his 'Essay concerning the true original extent and end of civil government,' and of Sidney in his 'Discourses on government,' may be considered as those generally approved by our fellow citizens of this, and the United States."¹³

In the nineteenth century, when so many of his theories proved true, his popularity declined sharply. The *Discourses* were out of print in America from 1805 to 1979. His countrymen preferred to remember his collaborations with foreign leaders. Winston Churchill called him "indomitable." The Catholic Lord Acton wrote that it was "humiliating to trace a political lineage to Alger-

non Sidney, who was the paid agent of the French king."¹⁴ The Anglo-Americans also lost their faith in liberty.

But Sidney's influence remains. Massachusetts adopted its motto from a quote which had appeared on an earlier edition of the *Discourses*: "*Ense petit placidam sub libertate quietem* [By the sword we seek peace, but peace only under liberty]." His most famous quote appeared in Franklin's *Poor Richard's Almanack*: "God helps those who help themselves." American slavery abolitionists like William Lloyd Garrison borrowed another line: "That which is not just, is not Law; and that which is not Law, ought not to be obeyed."¹⁵

Samuel Adams gave Algernon Sidney the most accurate label of all—"patriot." In a nation of liberty-loving people, he can be nothing less. □

1. Algernon Sidney, *Discourses Concerning Government*, ed. Thomas West (Indianapolis, Ind.: Liberty Classics, 1990), pp. 166, 570.

2. *Ibid.*, pp. 20, 519, 461.

3. *Ibid.*, p. 461.

4. *Ibid.*, pp. 12, 13, 398, 401.

5. *Ibid.*, pp. 149, 161.

6. *Ibid.*, pp. 143, 432, 209.

7. *Ibid.*, pp. 186, 266.

8. *Ibid.*, pp. 8, 32, 17.

9. *Ibid.*, p. 80.

10. *Ibid.*, pp. 191, 192.

11. *Ibid.*, pp. 253.

12. *Ibid.*, p. 104.

13. Thomas Jefferson, *Writings*, ed. Merrill Peterson (New York, N.Y.: Library of America, 1984), p. 479.

14. Lord Acton, *Essays in the History of Liberty*, ed. J. Rufus Fears (Indianapolis, Inc.: Liberty Classics, 1986), p. 47.

15. Sidney, pp. 210, 380.

The Legal Assault on Competence and Honesty

by David R. Henderson

In October 1993, when Northwest Airlines announced that it had agreed to rehire pilot Norman Prouse as a ground trainer, a company spokesman acknowledged that "some Northwest employees might be bitter." The reason: three years earlier, Mr. Prouse, after an all-night drinking binge with the two members of his flying crew, had flown a plane from Fargo to Minneapolis early the next morning. Whereas FAA rules prohibited flight crew members from operating planes if they had a blood-alcohol level higher than .04 percent and Minnesota law defined drunk driving at .10 percent, Prouse's level, measured three hours after the plane had taken off, measured a whopping .13 percent. The three drinking buddies were thrown in prison, and, after emerging, Prouse entered a rehabilitation program. But the Americans with Disabilities Act (ADA), which President Bush had signed in 1990, protected alcoholics who entered rehab, and Northwest, which could have tried to cover itself under an exception, instead claimed virtue for rehiring an employee who had broken its rules and lied about it. By July 1995, Northwest confirmed that Mr. Prouse was again flying.

In the early 1990s, a UCLA heart surgeon spread hepatitis B to 18 patients: apparently the virus passed through the holes in his gloves. "The hospital's decision to allow the

surgeon to keep on operating even after he was found to be infected," said a hospital spokesperson, was "in compliance with federal regulations." The particular federal law the spokesperson was referring to was, once again, the ADA. Laurence Gostin, a prominent advocate of the ADA, wrote, "Seen through the lens of the ADA, public health regulation may be regarded as discrimination against people with disabilities." The ADA also protected a manic-depressive against an employer who did not want to hire him as a crane operator. Under Michigan's "discrimination law," a jury, citing narcolepsy as a protected category, awarded \$610,000 to—a surgeon!

These are a few of the many stories that Walter Olson tells in his new book, *The Excuse Factory: How Employment Law Is Paralyzing the American Workplace* (Free Press, 378 pages, \$25.00). If it were just a series of well-documented horror stories about how employment law makes it hard for employers to fire incompetent and dangerous employees, Olson's book would be well worth the price. In that respect alone, *The Excuse Factory* is better than Philip Howard's excellent book, *The Death of Common Sense*. Indeed, with his exquisite mixture of anger and humor, Olson, a fellow at the Manhattan Institute, writes like a modern Voltaire.

But *The Excuse Factory* is more than just a collection of stories. Olson explains *why* they happened. He writes of the key articles in

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various law reviews, the key court decisions, the important legislation, and the important players. He then connects the dots, showing how all those factors came together to create a nightmare of contradictory regulations that would humble Kafka. And he does so with the style and drama of a detective novel.

Ever since slavery ended in the United States, the law governing employment in America had been the so-called "at will" doctrine, which treated employers and employees equally. Just as employees were free to quit without cause, employers were free to fire without cause. But in 1967 Lawrence Blades, a professor at the University of Kansas, argued in a law review article that being fired had harsh consequences for employees. The "ever-increasing concentration of economic power in the hands of fewer employers," wrote Blades, meant that employees would "become even more easily oppressed." Blades's prediction of fewer employers, Olson notes, was "a singularly bad bit of market forecasting." To right the alleged wrongs, Blades advocated letting employees sue employers who fired without "good cause." Dozens of other law review authors piled on, and, by the 1980s, few law professors could be found who would defend employment at will. Later, Harvard law professor Alan Dershowitz asserted, "Suing is good for America."

By Dershowitz's criterion, America prospered. In 1980, the Michigan Supreme Court concluded that a statement in a Michigan Blue Cross employee handbook that employees would be released "for just cause only," was a binding contract. Previous courts had never read such statements that way. "Wielding novel legal arguments like a miracle Ginsu knife," writes Olson, "the court in short order reduced the half-dozen old contract doctrines to cole slaw." The court went further. Jurors didn't have to worry, the judges said, about whether an employer had acted in good faith, but instead could substitute their own judgment. In another ruling handed down the same day, the Michigan court said that verbal statements of praise, even those made by a long-departed supervisor, could be treated as an oral contract. By 1990, writes Olson, courts in at least 38 states and federal appeals courts

in at least 19 cases cited the Michigan Blue Cross decision approvingly. Employment at will was gone.

Also gone was the legal recognition of employers' right to refuse to hire, even if their grounds for refusal were reasonable. Courts ruled against a company that refused to hire a crane operator who had been convicted of first-degree murder, because the offense had not been recent and was not closely related to the job. Admitting that a convicted forger's offense was relevant to a job at a photographic studio, a court said the six-years-old offense was not recent enough. Another court found against a company that was reluctant to hire a convicted shoplifter as a dock worker. Its reason: the items he stole weren't very valuable! Courts even have decided that if an employer asks an "improper" question at a job interview—about, for example, such irrelevant details as whether the applicant has a criminal record, a history of mental illness, or a problem with alcohol—the employee has a "right to lie."

But one law the courts couldn't control was the law of unintended consequences. There are many. One is the virtual elimination of job references. Standard policy at most companies today is to admit that, yes, the former employee who asked for a reference did work here, in this position, between these dates, period. The reason: an employer who says that the employee was fired or was incompetent or assaulted his fellow workers could be sued for defamation, malice, or "conscious indifference." Some courts even order employers to provide favorable references to workers who have sued them. This is far more intrusive than simple censorship: it is an outright invasion of the employers' minds.

Another consequence of the laws is that employers end up with less competent employees. Because tests of physical strength have "adverse impact" on women, for example, virtually every large U.S. city government has been sued over the physical tests they use to hire police and firefighters. The San Francisco fire department, which had formerly asked recruits to lift a 150-pound sack up a flight of stairs, now lets them drag a 40-pound sack—across a smooth floor. Although easing

standards has not substantially increased the number of women hired—Olson estimates that only about one percent of firefighters nationwide are women—an unintended consequence is increased hiring of weak men.

Ever wonder why companies often announce generally available severance packages to large numbers of employees rather than pruning out the ones they want to get rid of? Olson shows how this now-common practice is a way around the age-discrimination law and other employment laws. Employers cannot be legally safe by firing just employees beyond a certain age, nor can they be legally safe by firing just the incompetent or less competent employees. A further unintended consequence of the laws is to make career and retirement planning difficult for employees. Now, if employees quit without being offered a severance package, they might miss out on one offered the next month.

One of the most ominous consequences of the changes in employment law is the stifling of free speech. In 1992 a federal court ordered that workers in a government office be prevented from making remarks contrary to the religious beliefs of their fellow employees. But making remarks contrary to other people's religious beliefs is precisely one of the kinds of speech that the founding fathers meant to protect with the First Amendment. The First Amendment says there shall be "no law . . . abridging the freedom of speech"? What part of "no law" don't those judges get?

When you read Olson's book, you see how superficial is the current conservative push for ending quotas in hiring. "If official encouragement for preferences were withdrawn tomorrow," he writes, "the great bulk of litigation would continue, and so would most of the managerial headaches." You also see how callous, hypocritical, and possibly outright evil some of the advocates of the new employment

law are. Take, for example, the many congressmen who voted to eliminate mandatory retirement for almost all employers, but to keep automatic retirement at age 55 for firefighters and police who guard *federal* installations. The congressmen presumably understood that alertness and strength decline with age, but cared only when it affected the places they worked. Or take Warren Rudman's claim, when he was a U.S. Senator from New Hampshire, that the Senate's rights in dealing with their employees should be "absolute" because otherwise the Senate would be subject "to the whims of a U.S. district-court judge" who "would have the power to overrule the considered judgment of 100 members of this body." Why didn't Rudman use the same arguments to defend the rights of other employers? Finally, take Ira Glasser, then executive director of the American Civil Liberties Union, which has been in the forefront of the battle to prevent employers from firing employees. When he had a disagreement with an employee, he ordered, "Please leave the building and take only personal possessions with you."

Olson notes that when association is compelled, as the law now does, what suffers most, ironically, is diversity. "A nation that truly cared about diversity would allow the flourishing of both bawdy calendars at some workplaces and Bible readings at others," he writes. Fortunately, Olson offers a solution: freedom of association. With employers and employees free to deal with each other—or not—employees can choose employers whose desires and characteristics fit their own, and so can employers. Olson writes: "[L]iberty—the simple policy of refusing to force others to deal with us against their will and without their consent—turns out to be the best method to elicit the greatest willingness and enthusiasm to cooperate from those who might do us good." □

Benjamin Constant— Liberty and Private Life

by Jim Powell

The French thinker Benjamin Constant was, according to respected Oxford University scholar Isaiah Berlin, “the most eloquent of all defenders of freedom and privacy.” Constant’s most important contribution: he recognized that “the main problem . . . [is] how much authority should be placed in any set of hands. For unlimited authority in anybody’s grasp was bound, he believed, sooner or later, to destroy somebody.”

Constant described the dynamic of collectivism that would become a scourge during the twentieth century. For instance: “the primitive conquerors were satisfied with outward submission; they did not inquire into the private lives or local customs of their victims . . . the conquerors of today are resolved to gaze over the level surface of their empire and to encounter no deviation from uniformity . . . local interests and traditions contain a germ of resistance, which a centralized authority tolerates unwillingly and attempts to eradicate at the first opportunity. It finds the isolated individual easier to deal with; without effort it crushes him beneath its mighty weight.”

He denounced war, “the greatest offense that a government today can commit. It

destroys every social guarantee without compensation; it jeopardizes every form of liberty; it injures every interest; it upsets every security; it weighs upon every fortune. It combines and legitimizes every kind of internal and external tyranny.”

Constant believed the key issue is to keep political power out of private life. “For forty years,” he reflected, “I have defended the same principle: freedom in everything, in religion, in philosophy, in literature, in industry, in politics—and by freedom I mean the triumph of the individual both over an authority that would wish to govern by despotic means and over the masses who claim the right to make a minority subservient to a majority. . . . The majority has the right to oblige the minority to respect public order, but everything which does not disturb public order, everything which is purely personal such as our opinions, everything which, in giving expression to opinions, does no harm to others either by provoking physical violence or opposing contrary opinions, everything which, in industry, allows a rival industry to flourish freely—all this is something individual that cannot legitimately be surrendered to the power of the state.”

Constant made some spectacular flip-flops, he had tangled love affairs, and he ran up big gambling debts, so he was an easy target for criticism. These things, noted intellectual historian Biancamaria Fontana, “were all distinctive marks of a traditional aristocratic

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education. Though they may strike the modern reader as adventurous and romantic, there was nothing especially odd or unusual about them. What was truly eccentric about Constant's life was . . . the unsettling extent of his cosmopolitanism." He moved easily among intellectuals in France, Germany, Holland, Belgium, and Britain, as well as his native Switzerland. He absorbed the ideas of Baron de Montesquieu about law and the ideas of Adam Smith and Jean Baptiste Say about markets. He was a friend of Wilhelm von Humboldt, Johann Wolfgang von Goethe, and Johann Christoph Friedrich von Schiller. In the French Chamber of Deputies, Constant championed civil liberties with the legendary Lafayette.

Victor Hugo believed that Constant was "one of those rare men, who furbish, polish, and sharpen the general ideas of their times." Said Lafayette: "Endowed with one of the most extensive and varied esprits which has ever existed . . . the master of all the languages and literatures of Europe, he united to the highest degree sagacity . . . and the faculty, especially attributable to the French school, of making clear abstract ideas."

Constant was an eyeful. "His appearance was striking," noted biographer J. Christopher Herold, "tall and gangling, in his late twenties; a pale, freckled face surmounted by a shock of flamboyant red hair, braided at the nape and held up by a small comb; a nervous tic; red-rimmed myopic [blue] eyes; ironic mouth; a long, finely curved nose; long torso, poor posture, slightly pot-bellied, long-legged, wearing a long flapping riding coat—a decidedly gauche, unhandsome, yet interesting and attractive figure of a man, certainly somebody altogether out of the ordinary."

By his fifties, Constant had become a familiar figure as a member of the Chamber of Deputies, the French elected legislative body where he was an outstanding champion of freedom of speech and freedom of the press. Baron de Loeve-Weimars recalled Constant "dressed in his gold-embroidered deputy's uniform so as to be ready to address the House from the tribune where it was obligatory to wear this formal dress. His hair was blond and turning white, and on his head he

wore an old round hat. He carried under his arm a coat, books, manuscripts, printer's proofs, a copy of the budget and his crutch. Once he had got rid of all these impedimenta and was seated on his bench, on the far left, he began to write and send off an unbelievable quantity of letters and notes to people . . . answered the questions of all those crowding around him."

According to historian Paul Thureau-Dangin, "At first sight one would never have said that he had the usual qualities necessary to make an orator. He seldom improvised without having a pen in his hand; but his pen had the quickness of speech, and sometimes he wrote out his reply in full while still listening to the harangue he was to refute. He normally read his speeches from little pieces of paper which he was constantly obliged to put in order. . . .

"With his clever rather than highly coloured speeches, subtle rather than powerful in their delivery, he showed great skill in argument, rare presence of mind, he had a way of saying everything, despite legal restrictions, so that even the most intolerant audience understood what he was implying, and he was nimble enough to slip through his opponent's fingers and to stand up for himself even in the tightest corner."

Beginnings

As Constant began the story of his life, he wrote that "I was born on 25 October 1767, in Lausanne, Switzerland, the son of Henriette de Chandieu, who was from a formerly French family which had taken refuge in the Pays de Vaud for religious reasons, and Juste Constant de Rebecque, a colonel in a Swiss regiment in the service of Holland. My mother died as a result of giving birth, a week after I was born."

He had a succession of tutors and read eight to ten hours a day. After trying to get him admitted to Oxford University (he was too young), Juste sent him to the University of Erlangen (Bavaria), where he began learning German and became addicted to gambling. Then he transferred to the University of Edinburgh where faculty included such dis-

tinguished friends of liberty as Adam Smith, Adam Ferguson, and Dugald Stewart. Constant mainly studied history and Greek. After two years, he went to Paris and studied with the intellectual Jean-Baptiste-Antoine Suard—his friends included Scottish philosopher David Hume, English playwright David Garrick, English novelist Lawrence Sterne, French mathematician Jean le Rond d'Alembert, French philosopher Marquis de Condorcet, and Lafayette. Before Constant was 18, he had learned to get along in three languages, and he was exposed to the ideas of brilliant thinkers.

In May 1789 he married Baroness Wilhelmina von Cramm, lady-in-waiting for the Duchess of Brunswick, but she didn't share his intellectual curiosity, and they were divorced.

Constant watched the French Revolution as it lurched from constitutionalism to Jacobin Terror. "I am currently busy reading and refuting Burke's book against the French levellers," he wrote a friend. "This famous book contains as many absurdities as it does lines, and thus it is highly successful in all English and German circles. He defends the nobility, the exclusions of the *sectaires*, the establishment of a dominant religion, and other things of this nature. . . . I believe, as you do, that what we are witnessing is fundamentally knavery and fury. But I prefer the knavery and fury which overthrow citadels, destroy titles and similar follies, and place all religions on an equal footing, to those which seek to preserve and hallow these wretched monstrosities. . . ."

Madame de Staël

On September 18, 1794, Constant met Germaine de Staël on a road between Nyon and Coppet, Switzerland. She was the 28-year-old daughter of Suzanne Curchod, former lover of historian Edward Gibbon, and Jacques Necker, a Geneva banker who had served as the last finance minister under French King Louis XVI and had lent him some 2 million francs. She was married off to Eric-Magnus de Staël, impecunious Swedish aristocrat who became ambassador to France. He got some of her money, and she got better

connections at the French court. Madame de Staël emerged as the most influential woman in Europe—brilliant, bold, vain, and sensuous.

She launched a fabled salon that attracted the leading lights of French life, including Condorcet and Lafayette. As Constant described his impressions of her: "I have seldom seen such a combination of astounding and attractive qualities; so much brilliance coupled with so much good sense; such expansive, positive kindness; such immense generosity; such gentle and sustained politeness in society; such charm and simplicity; such absence of all restraint within the circle of her intimates." Constant particularly admired her for operating a remarkable network to help friends escape from the French Reign of Terror.

One of Madame de Staël's friends, Jean Lambert Tallien, launched the political attack on Maximilien Robespierre that brought his overthrow and execution in July of 1794, ending the Reign of Terror. Almost a year later, May 25, 1795, Constant and Staël ventured to Paris and witnessed the ruins of revolution amidst runaway inflation. They found many neighborhoods deserted. All around they saw signs saying that properties which the government had confiscated were for sale. Impoverished aristocrats held tag sales on the streets, offering their clothing, furniture, draperies, statues, anything that might fetch money for food. "The capital of the world," according to Staël's friend Henri Meister, "looks like an immense junk shop."

On September 23, 1795, the ruling Convention approved the third constitution since the Revolution began. This one established an executive consisting of a five-person Directory and a two-chamber legislature. The franchise was limited to those of substantial means. Members of the Convention wanted to retain their power, so they proposed a law which would require that two-thirds of the new legislature come from the Convention. Constant launched his political career by writing three articles opposing the proposed law, published in the June 24, 25, and 26 issues of *Nouvelles Politiques*—a newspaper edited by his former tutor Jean-Baptiste-Antoine Suard. He and Staël were accused of being

dangerous counterrevolutionaries, and they left Paris.

Napoleon's Ascent

Staël's friend Paul Barras, a member of the Directory, turned his mistress, Josephine de Beauharnais, over to an unemployed military commander named Napoleon Bonaparte. During the Revolution, Napoleon had emerged as a Jacobin and, after the government declared war against Britain and Holland in February 1793, then against Spain the following month, the country was soon surrounded by enemies. Napoleon demonstrated his resourcefulness by driving British and Spanish forces out of Toulon, about 40 miles east of Marseilles on the Mediterranean. This throttled royalist hopes of inciting an anti-Jacobin rebellion throughout southern France. In December 1793, amidst the Reign of Terror, the Convention named Napoleon a brigadier general. When royalist forces threatened to crush the Convention, Barras summoned Napoleon, and on October 5, 1795, he unleashed his artillery.

In April 1796, Napoleon struck at the Sardinian army and crushed it. By boldly throwing himself into battle when his subordinates got bogged down, Napoleon captured Milan, the financial and cultural capital of Lombardy—and his awed men began calling him "*Le Petit Caporal*" ("the Little Corporal"). At Castiglione, Napoleon faced an Austrian army that had grown until it was three times bigger than his own forces, but he took some 15,000 Austrian prisoners. Outnumbered by another Austrian army at Lodi and Rivoli, Napoleon won again as he killed some 30,000 Austrian soldiers. He set up administration of his spoils—about half of Italy—then returned triumphant to Paris.

On September 4, 1797 (known as 18 Fructidor on the revolutionary calendar), Napoleon helped Barras seize power, expelled Directors who wanted to restore the Bourbon monarchy, suppressed royalist newspapers, and deported 165 dissidents to French Guiana. Horrified at the prospect of seeing the Bourbons back in power, Constant praised Barras.

Napoleon thirsted for military glory, so he sailed for Egypt, which he hoped to capture and thereby cut off Britain from its Indian empire. The campaign was a disaster, and Napoleon was lucky to escape back to France—without his army or his fleet.

France was a mess. There was unrest because of high taxes, forced loans, military conscription, and the seizure of gold, silver, and works of art. Poor people resented greedy government officials who seized their crops and their sons. There were price controls, chronic shortages, and endless lines for the simplest things like bread. Armed gangs terrorized merchants and travelers. In once-prosperous Lyons, an estimated 13,000 out of 15,000 shopkeepers had been driven out of business. Directors responded by ordering dissidents arrested, suppressing newspapers, and deporting editors. French forces were driven out of Germany and Italy. Napoleon's stunning gains had been lost. On November 9, 1799 (18 Brumaire), Napoleon decided it was time for him to seize power, and Constant and Staël supported him as a lesser evil than Jacobins or Bourbons.

Napoleon established a façade of representative government. There was a Tribunate whose members received a 15,000-franc salary and were expected not to cause any trouble. Constant was appointed a Tribune, but in his first address, January 5, 1800, he presented a case for freedom of speech. He denounced Napoleon's demand to have himself named Consul for Life, which took place August 2, 1802. This meant gaining absolute power and suppressing civil liberties. "These intellectuals are like vermin in my clothes," Napoleon remarked, "I shall shake them off." Constant was dismissed. "He put himself into opposition, thinking I would pay a high price for his co-operation," Napoleon recalled later. "He should have known that I do not buy my enemies; I stamp on them."

Exile

Madame de Staël fled with Constant to Coppet, her family estate near Geneva. Then they traveled to Weimar, Germany, where he worked on a history of religion. He got to

know Johann Wolfgang von Goethe (1749-1832) and Johann Christoph Friedrich von Schiller (1759-1805).

After the death of her father, Jacques Necker, Madame de Staël turned for consolation to Constant, but he yearned to be free of her dominating influence. "Never have I met a woman who is so incessantly exacting," he noted in his diary. "One's whole life (every minute, every hour, every year) must be at her disposal. When she gets into one of her rages, then it is a tumult of all the earthquakes and typhoons rolled into one. We must part . . . it is my sole chance for a peaceful life." During their years together, she wrote about French and German romanticism, but Constant's important political writings came after their romance ended in 1808.

He had already been at work two years on his autobiographical novel, *Adolphe*. It chronicled the doomed on-again, off-again affair between aimless Adolphe and a Polish woman named Ellenore. For years, Constant held public readings of the evolving story, which almost everybody assumed to be about himself and Madame de Staël. The novel wasn't published until 1816. By then, Constant had married Charlotte von Hardenberg, who offered him the closest thing to domestic harmony he would ever know.

Meanwhile, Napoleon had emerged as a world-class monster. As historian Paul Johnson wrote, Napoleon "created the first modern police state, and he exported it. Austria, Prussia, and Russia all learned from the methods of Joseph Fouché, Bonaparte's minister of police, from 1799 to 1814. . . . Over 2 million people died as direct consequence of Bonaparte's campaigns, many more through poverty and disease and undernourishment. Countless villages had been burned in the paths of the advancing and retreating armies. Almost every capital in Europe had been occupied—some, like Vienna, Dresden, Berlin, and Madrid, more than once. Moscow had been put to the torch. . . . The wars set back the economic life of much of Europe for a generation. They made men behave like beasts, and worse."

In late November 1813, Constant started writing a pamphlet, *De l'esprit de conquête et*

de l'usurpation, which developed a sophisticated, new vision of liberty. He focused not on politics, which had preoccupied the leading thinkers for decades, but on private life. He insisted that commerce was the standard-bearer of civilization and peace. The Hanover edition appeared on January 30, 1814. This was followed by a London edition (March), and two Paris editions (April, July).

Constant offered historical perspective, writing that "what we now call civil liberty was unknown to the majority of the ancient peoples. All the Greek republics, with the exception of Athens, subjected individuals to an almost unlimited social jurisdiction. The same subjection of the individual characterized the great centuries of Rome; the citizen had in a way made himself the slave of the nation of which he formed a part. He submitted himself entirely to the decisions of the sovereign, of the legislator; he acknowledged the latter's right to watch over his actions and to constrain his will."

Constant observed how tyrants demand conformity. "The love of power," he wrote, "soon discovered what immense advantages symmetry could procure for it. While patriotism exists only by a vivid attachment to the interests, the ways of life, the customs of some locality, our so-called patriots have declared war on all of these. They have dried up this natural source of patriotism and have sought to replace it by a factitious passion for an abstract being, a general idea stripped of all that can engage the imagination and speak to the memory."

Napoleon Deposed

The British and their allies entered Paris on March 31, 1814. On April 6, the Senate, whose members were nominated by Napoleon and given the power of overthrowing laws considered unconstitutional, voted to depose him. He found sanctuary on the island of Elba, between Corsica and western Italy. At the same time, the Senate assigned some respected liberals like the economist Destutt de Tracy (1754-1835) to help draft a new constitution. It soon became clear that the British favored the restoration of the Bourbon mon-

archy as the best bet for peace—the Bourbon heir Comte de Provence, Louis XVIII, had been an exile in Britain.

Upon his return to France, Louis XVIII set aside the Senate's draft constitution, and in May 1814 he issued the *Declaration de Saint-Ouen* promising toleration and yet another constitution. The resulting *Charte*—presented as a gift from the king—assured religious toleration and equality before the law. It affirmed the abolition of feudal fees and church tithes. It accepted the *Code Napoleon*. There was an ambiguous commitment to freedom of the press. It specified that private property which had been seized during the Revolution wouldn't be taken away from those who had acquired it during subsequent decades. There would be a two-chamber legislature: the king would name members of the House of Peers, and voters would elect members of the Chamber of Deputies. Louis XVIII acknowledged the inevitability of some constitutional limitations on government power, but he certainly didn't intend to introduce British-style parliamentary government to France.

Ultra-royalists, led by the king's brother, the Comte d'Artois, considered the king a sellout for accepting so many changes from the Revolution and Napoleonic era. They denounced Louis XVIII as a "crowned Jacobin" and "King Voltaire." As the first French political party, the Ultras demanded that royalists take over the administrative bureaucracies Napoleon had established. They wanted royalists who had fled the Revolution either to get their property back or be compensated. They urged that dissidents be suppressed. When the king cut back the army, the Ultras exploited bitterness among former soldiers who needed money. And the Ultras fanned resentment against the continued Allied occupation of France and interference in French affairs. Ultras gained respectability from the intellectual counterrevolution against liberalism.

Constant responded to the Ultras by writing pamphlets that helped educate French people about parliamentary government for the first time. For instance, in *Les Reflexions sur les Constitutions (Reflections on Constitutions and the Necessary Guarantees)*, he in-

sisted that the king must be politically neutral as in Britain, ministers must be responsible for government policy, and there should be an unpaid, elected legislature. He asserted the primacy of civil liberties, including trial by jury and freedom of the press. When government censors suppressed this pamphlet, Constant wrote another, *De la liberté des brochures, des pamphlets et des journaux (The Freedom of Pamphlets and Newspapers)*.

Napoleon's Return

On March 1, 1815, Napoleon escaped from Elba and landed on the Cap d'Antibes, near Cannes, with about 800,000 gold francs and 1,100 soldiers. As they marched north toward Paris, more soldiers joined them.

Although Constant had loathed the Bourbons, he gave Louis XVIII credit for acknowledging some liberal principles, and he wrote an attack on Napoleon, published in *Journal de Paris* on March 11. He followed this with a March 19 attack in *Journal des débats*: "Napoleon has not promised clemency. . . . He is Attila, he is Genghis Khan, but more terrible and more odious because the resources of civilization are his to use. I have sought liberty in all its forms; I have seen the king ally himself with the nation." Constant added what would prove to be embarrassing hyperbole: "those who love liberty, will prefer to die upon the steps of a throne by which that liberty is safeguarded and assured."

The next day, Napoleon entered Paris with his Polish Hussars, and Constant went into hiding at Angers, about 150 miles southwest of Paris. When he heard that Napoleon had declared a general amnesty, he met Napoleon's brother Joseph Bonaparte at the Palais Royal and provided assurances of his cooperation. Joseph Bonaparte claimed that Napoleon learned his lesson and would support constitutional government. The emperor would purportedly need the help of respected liberals like Constant, and, accordingly, he was ushered into the Tuileries palace for a face-to-face meeting with Napoleon on April 14. "I need the support of the nation," Napoleon told Constant. "In return, the nation will ask for liberty; she shall have it."

Constant's friends like Lafayette hooted at the idea of Napoleon as a born-again liberal. Constant countered: "I did not for one moment believe in the sudden conversion of a man who for so long had exercised so absolute an authority. . . . I wanted to find out for myself what we could still hope for, whether his bitter experiences had in any manner altered his mind."

Constant adapted the constitution which had been accepted by Louis XVIII, and on April 24 Napoleon accepted a modified version. To avoid public debate, Napoleon presented it as a mere addition to existing laws—*Acte Additionnel aux Constitutions de l'Empire*. There were many features which reflected Constant's views, but the *Acte Additionnel* stressed monarchy much more than Constant would have liked. The *Acte Additionnel*, known as *La Benjamine*, was approved in a plebiscite and proclaimed June 1.

Principles of Politics

Constant had been working on *Principes de politique* (*Principles of Politics*), and it was published in May as an analysis of constitutional principles. "The citizens possess individual rights independently of all social and political authority," he wrote, "and any authority which violates these rights becomes illegitimate. The rights of the citizens are individual freedom, religious freedom, freedom of opinion, which includes the freedom to express oneself openly, the enjoyment of property, a guarantee against all arbitrary power. No authority can call these rights into question without destroying its own credentials."

Ultras demanded power to enforce virtuous behavior, but Constant warned that "Arbitrary power destroys morality, for there can be no morality without security; there are no gentle affections without the certainty that the objects of these affections rest safe under the shield of their innocence."

Constant challenged the doctrine that unlimited power was acceptable as long as it was exercised in the name of popular sovereignty: "When sovereignty is unlimited, there is no means of sheltering individuals from govern-

ments. It is in vain that you pretend to submit governments to the general will. It is always they who dictate the content of this will, and all your precautions become illusory."

He reaffirmed the urgency of limiting government power: "You may divide powers as much as you like; if the total of those powers is unlimited, those divided powers need only form a coalition, and there will be no remedy for despotism. What matters to us is not that our rights should not be violated by one power without the approval of another, but rather that any violation should be equally forbidden to all powers alike."

But before anything could come of the new constitution, the Prussian general Marshal Blucher and the British Duke of Wellington gathered 213,000 British, Prussian, Dutch, and Belgian soldiers and on June 18, 1815, routed Napoleon at Waterloo, near Brussels. Napoleon demanded dictatorial power, but Lafayette, a member of the Chamber of Deputies, demanded Napoleon's abdication. He was banished to a shabby, pink six-room house (shared with his top officers and families) on St. Helena, a British-controlled volcanic island in the South Atlantic Ocean about 1,140 miles west of South Africa, where he was to die six years later. Allied armies entered Paris on July 7, and the following day Louis XVIII was again installed at the Tuileries palace.

Constant offered an apology to Louis XVIII, and the king let him stay in France. Constant settled down with his wife, Charlotte. (Madame de Staël died of a stroke in Paris, July 17, 1817, at 51.) While trying to jump over a garden wall, he injured his hip, and for the rest of his life he needed crutches to get around.

Ultra-royalists gained a majority in the Chamber of Deputies, and they did everything they could to undermine Louis XVIII. They made divorce illegal, imposed restrictions on publishing and established the *Cours Prévo-tales*, a court to deal with defendants accused of treason. People were arbitrarily arrested, jailed for weeks without being brought to trial, then hit with long prison sentences. The Allies feared that such policies might trigger a new revolution, and they urged Louis XVIII to dissolve the Chamber of Deputies, which he did.

In 1817, the liberal-leaning Minister Elie Décazes pushed through an extension of the voting franchise to every Frenchman over 30 who paid more than 300 francs of taxes—about 88,000 out of an estimated 30 million people. Constant and Lafayette were elected from Sarthe, a district in central France. They emerged as leaders of the new Liberal party. By 1819, a new law granted more freedom of the press.

Political debates intensified. Ultras promoted their views through newspapers like *Quotidienne* and *Drapeau Blanc*. Moderates had the *Journal des Débats*. Constant edited *Minerve Française*, and there was *Constitutionnel*, another liberal newspaper.

Constant defied laws against seditious speech and writing—court decisions couldn't be appealed, and sentences were carried out within 24 hours. He produced dozens of newspaper articles and pamphlets, and he delivered hundreds of speeches. Nobody was as steadfast a champion of freedom of speech and freedom of the press. He went on to launch a campaign against the African slave trade. He kept attacking slavery for years through articles, speeches, and debates.

Constant hailed commerce which "inspires in men a vivid love of individual independence. Commerce supplies their needs, satisfies their desires, without the intervention of the authorities. This intervention is almost always—and I do not know why I say almost—this intervention is indeed always a trouble and an embarrassment. Every time collective power wishes to meddle with private speculations, it harasses the speculators. Every time governments pretend to do our own business, they do it more incompetently and expensively than we would."

On December 22, 1824, Louis XVIII died, and he was succeeded by his Ultra-royalist brother, the Comte d'Artois, who became Charles X. He pushed for a succession of laws to imprison people found guilty of offending Catholic clergymen; to give Catholic clergy the power to appoint all teachers in primary school and to control secondary schools; and to make it illegal for anybody to publicly question the doctrine of the divine right of

Deputies from a Paris district, led the opposition.

Constant's health deteriorated seriously during 1830. His legs became swollen. He experienced paralysis in his feet, tongue, and other parts of his body. He was confined to his house at 17 rue d'Anjou, Paris. He told a friend: "I have been unable to sustain an hour's conversation."

On May 7, the king dissolved the Chamber of Deputies and called new elections, but Liberals won 274 of the 417 seats. On July 25, the king dissolved the new Chamber of Deputies, which hadn't yet met, and announced a tougher censorship policy aimed at suppressing political pamphlets—nothing under 25 pages could be published without prior approval of censors. Journalists spurred by Louis Adolph Thiers issued a call for resistance, and the next day merchants closed their shops throughout Paris. There were riots July 28 and 29 in which some 2,000 people were killed. The king had dispatched 40,000 of his best soldiers to achieve colonial glory in Algiers, so he was caught unprepared.

Lafayette wrote Constant: "A game is being played here in which our heads are all at stake. Bring yours!" He got out of bed but soon encountered barricades that blocked many of the streets in Paris. When he finally made it to the Chamber of Deputies, they resolved to depose the king and name as the successor the Duc d'Orléans who, though related to the Bourbons, had fought as a republican during the French Revolution. Constant was among those who secured his agreement to honor the fundamental protections specified in the *Charte* of 1814. Soon afterward Charles X abdicated.

Constant died on December 8, 1830, with his wife, Charlotte, at his side. He was 63. There was a funeral service December 12 at a Protestant church on rue Saint Antoine. As his coffin was brought to the Cemetery of Père Lachaise, people waved the tricolor flags of the Liberal Party. Lafayette told the crowd: "Love of liberty, and the need of serving her, always ruled his conduct. To say this is a justice due him, over his grave, by a friend who, less trusting and temperate than he, was nevertheless the confidant of his most intimate thoughts."

And there was this letter to Constant's wife, Charlotte, signed by 13 people in the French colonies of Martinique and Guadeloupe: "How could we forget the Honourable Deputy who by his efforts did so much to abolish, at least in part, the revolting ill-treatment of which we were the victims. . . . The entire family of coloured peoples dares to hope that in your justifiable grief you will deign to accept the expression of the regrets which his loss inspires in us—the loss of a man who was always the staunchest supporter of our rights."

Constant's most influential ideological successor was Alexis de Tocqueville (1805-1859). "The last generation in France," Tocqueville wrote, "showed how a people might organize a stupendous tyranny in the community at the very time when they were baffling the authority of the nobility and braving the power of kings. . . . When I feel the hand of power lie heavy on my brow, I care but little to know who oppresses me; and I am not the more disposed to pass beneath the yoke, because it is held out to me by the arms of a million men . . . unlimited power is in itself a bad and dangerous thing."

Although the French liberal journalist Edward Laboulaye brought out an edition of Constant's works in 1861, collectivism was coming into fashion, and Constant was re-

membered as an author of French romantic literature (mainly *Adolphe*). This view continues in some quarters—a 1993 biography of Constant, by French literature professor Dennis Wood, belittles his political philosophy. Elizabeth Schermerhorn's 1924 biography remains the best in English.

But twentieth-century government horrors have brought recognition that Constant had fantastic insight. Political theorists F.A. Hayek and Isaiah Berlin helped revive interest in Constant's political writings during the 1950s, and there was a new Paris edition of his works in 1957. In 1980, the Institut Benjamin Constant got started in Lausanne, Switzerland, and the first English-language assessment of Constant's political contributions was published—*Benjamin Constant's Philosophy of Liberalism* by Brown University political science professor Guy H. Dodge. Cambridge University Press published the first English translation of Constant's major political writings in 1988. New documents have come to light, and since 1993 the prestigious German publisher Max Niemeyer Verlag has issued the first three of a projected 40 volumes of Constant's publications, memoirs, and correspondence. Let us hope that more people will discover the genius of this great thinker for liberty. □

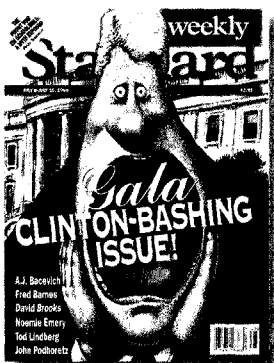
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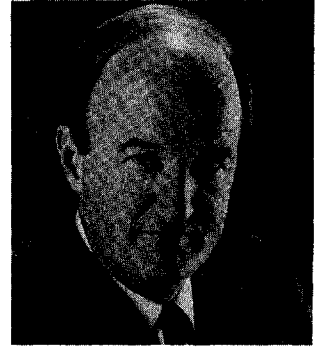
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Preaching to the Choir

"Love your enemies, for they tell you your faults."

—*Poor Richard's Almanac*

This past summer I attended the annual meetings of the Eris Society, an organization created by investment writer Doug Casey. The purpose of the Eris Society is to expand our horizons, meet new people, make us think, and challenge our views on politics, economics, science, and philosophy. Most of the members of the Eris Society are, like Doug, libertarians. And so, not surprisingly, 18 of the 25 speakers were libertarians, even though the format of the Eris Society is officially nonpartisan. Libertarians are not alone in seeking out their own. People seem more comfortable among friendly voices. Agreement among friends seems more agreeable than argument among critics.

And yet, like many of you, I enjoy a good argument. Contending with those who disagree—sometimes violently—teaches me far more about the weakness of my arguments than talking to colleagues who nod their head. And there is nothing more satisfying than convincing an opponent of the truthfulness of a theory or policy.

Undoubtedly one of the reasons the Chicago School of free-market economics has been more successful than the Austrian School is because members of the Chicago

School have traditionally addressed the entire economics profession in mainstream journals and books, while Austrians typically spend most of their time writing and chatting among themselves.

In the early 1950s, Ludwig von Mises was invited by a major Ivy League university to give a one-hour lecture on his vision of free-market economics. He declined the invitation, arguing that it would be "impossible for me to present the operation of the market economy in a short lecture."¹ What a pity! Surely he could have countered the anti-capitalist mentality on this major campus, even if he were limited to an hour lecture. He might have changed the minds of only one or two students or faculty members, but that's a beginning. Eventually one or two become a group and a group becomes a school and a school becomes a movement. . . .

I always make it a point of talking, corresponding, and reading the works of non-believers and critics. I enjoy reading John Kenneth Galbraith, Robert Heilbroner, Paul Samuelson, and Alan Blinder. I've made a point of seeking them out at annual meetings of the American Economic Association. You may have noticed that I frequently cite critics in my columns, not because I agree with them, but because they offer a useful counterpoint. And maybe I've even had an impact. Sure, I gain much from reading Milton Friedman, Ludwig von Mises, Henry Hazlitt, and other free-market economists, but it's not enough to preach to the choir.

I know many of you have a hard time

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listening to the opposition. They make your blood boil and you may be tempted to throw their book aside, walk out of their lecture, or make a snide remark. It's hard sometimes to be civil to a speaker you strongly disagree with. R. M. Hartwell, former president of the Mont Pelerin Society, urged members to be "masters of the art of civilized discourse, eschewing rudeness and what Adam Smith called 'the insolence and brutality of anger.'"²

Reading the Critics

In addition to books, there are several publications I read on a regular basis to find out what market critics are thinking and saying. Bernard Saffran writes a column in *The Journal of Economic Perspectives*, "Recommendations for Further Reading," which summarizes interesting articles written by economists of all schools of thought.

Another publication I read regularly is *Challenge* magazine, published bimonthly by M. E. Sharpe (80 Business Park Dr., Armonk, New York 10504, (800) 541-6563, \$45 a year). Most of the contributors are what we might term "social democrats," economists who favor various forms of government intervention. A recent issue included "The Case for Subsidizing Wages," by Edmund Phelps; "The Future of Macroeconomics," by James Tobin, Alan S. Blinder, and James K. Galbraith; and an article on how privatization of Social Security hurts women. *Challenge* occa-

sionally includes an article from a free-market economist, but invitations are definitely limited.

Creating a Dialogue

One of the best publications offering a dialogue among economists and social thinkers across the spectrum is *Critical Review*, published quarterly by a foundation established by Howard and Andrea Rich, who also operate Laissez Faire Books (*Critical Review*, P. O. Box 1254, Danbury, Connecticut 06813, (203) 794-1312, \$29 a year). The editor, Jeffrey Friedman of Yale University, selects a subject in each issue and invites a variety of viewpoints. For example, a past issue (Fall 1991) devoted to "Big Business" included a negative review by industrial organization expert F. M. Scherer of D. T. Armentano's *Antitrust and Monopoly: Anatomy of a Policy Failure*. Another issue (Summer 1996) highlighted "Critics of Capitalism" and included a debate between Steve Horwitz and Greg Hill on Keynesianism and market failure. *Critical Review* offers a delightful "interdisciplinary" forum for market advocates to take on market critics, and vice versa. The result is always a lively, yet scholarly, debate. □

1. Ludwig von Mises, *Planning for Freedom*, 4th ed. (Libertarian Press, 1980), p. 166. Mises declined to identify the name of the university.

2. R. M. Hartwell, address before the Mont Pelerin Society meetings in Vienna, Austria, September 1994.



BOOKS

The Cross and the Rain Forest: A Critique of Radical Green Spirituality

by Robert Whelan, Joseph Kirwan, and Paul Haffner

Action Institute for the Study of Religion and Liberty & William B. Eerdmans Publishing Company • 1996 • 163 pages • \$16.00 paperback

Reviewed by Ken Ewert

Strident, apocalyptic environmentalist rhetoric has become a regular feature of American life. Vice President Al Gore intones that, "We must make the rescue of the environment the central organizing principle for civilization." Other ecoprophets demand a halt to economic growth, an end to market economies and industrial development, and an abandonment of the notion of "progress." Apparently we must repent of unenlightened desires to improve the quality of human life.

While perhaps not yet accepted by "the man on the street," these extreme ideas are more than trendy prattle at yuppie (vegetarian) dinner parties. The widespread preaching of environmentalism in public schools—from kindergarten through university—will have its implications. Already, according to one survey, 63 percent of schoolchildren have lobbied their parents to recycle, and the situation has one author suggesting that the traditional classroom three "Rs" are in danger of being replaced by the enviro three "Rs"—reduce, reuse, and recycle.

While numerous free-market rebuttals have been penned against radical environmentalism, for the most part these works have taken aim at the proverbial tip of the iceberg. Radical environmentalism is primarily a religion. And, as *The Cross and the Rain Forest: A Critique of Radical Green Spirituality* makes clear, it must be examined and critiqued as one. This small book, authored by Robert Whelan, Joseph Kirwan, and Paul Haffner, is a worthy start. Well researched and providing a wealth of quotations, *The Cross and the Rain Forest* is an insightful look at the philosophical footings of environmentalism.

While the roots go back much further, in 1966, the historian Lynn White gave what proved to be

a significant speech entitled *The Historical Roots of Our Ecologic Crisis*. In this speech White attributed the "ecologic crisis" to the Christian tradition. Christianity, White wrote, "insisted that it is God's will that man exploit nature for his proper ends." In what became a famous phrase, White proclaimed that Christianity was "the most anthropocentric religion the world has seen." He lamented that Christianity made science and technology possible by displacing the pagan animistic belief that everything has its own *genus loci*, or guardian spirit.

Prophetically, White called for a new religion to replace Christianity. Modern environmentalism is a significant facet of this new religion. A tired and intellectually anemic Christianity is being deposed by a very old "new" religion: neo-paganism. The current battle, then, rages not over scientific facts or economic realities, but over religious presuppositions. The decisive questions are not regarding ozone depletion or species extinction. The questions are religious: Is nature made for man, or is man made for nature? Is man uniquely created in the image of God, or is he merely one (possibly carcinogenic) part of nature? Does sin consist of breaking the laws of a holy God, or does it consist of unapologetically using nature? Is the gospel the good news of God's saving work, or the command that man conform himself to his "natural environment"?

The Cross and the Rain Forest cogently illuminates the religious nature of the conflict—a conflict not destined to be settled merely by appeal to scientific evidence or economics. The ultimate victor in this battle will be the most powerful gospel. □

Ken Ewert is the editor of U-TURN, a quarterly Biblical worldview publication.

The Economic Laws of Scientific Research

by Terence Kealey

New York: St. Martin's Press • 1996 • 396 pages • \$75.00 cloth; \$19.95 paperback

Reviewed by George C. Leef

Americans have come to accept that a vast number of important functions can only be done if they are run by or at least subsidized by the state. According to conventional wisdom, government has to provide lighthouses, bus service,

income security, schools, disaster relief, and much more. To that list we should add scientific research. Scientific research, it is generally assumed, is a "public good" that would be underprovided if left up to the market. Therefore, the government needs to supply enough funds to make sure that we don't miss out on scientific breakthroughs.

Like much that passes for conventional wisdom, this belief is mistaken, so argues Terence Kealey in *The Economic Laws of Scientific Research*. Kealey, a clinical biochemist at Cambridge University, has penned a thought-provoking book that blends economic theory with the history of science to challenge the idea that we need or even benefit from government support for scientific research. It is a book that buttresses free-market theoreticians, who will no longer have to say, "Well, in theory, there is no reason to believe that we need to subsidize scientific research." Kealey's book gives us a detailed treatment of the issue that should prove to be extremely valuable in arguing against this use of tax dollars.

Government funding of science turns out to be no better than government funding of business; the political system can no more pick winners and losers in scientific research than it can in markets for goods and services. A case in point: In 1833, Charles Babbage came up with an idea for a mechanical computing device, and managed to persuade the British government to give him £17,000 for the construction of his so-called "Difference Engine." After squandering the funds and having produced nothing, Babbage asked the government for more money for a different project, his "Analytical Engine." When it denied his request, he denounced the government for its "indifference toward science." Twenty years later, two Swedish engineers managed to build the "Difference Engine" with a grant of less than 5 percent of what Babbage spent. But they found that there was no market for the invention. Politicized science turns out to be just as wasteful as politicized housing, education, transportation, or anything else.

But if government doesn't fund scientific research, won't the "free rider" effect kick in and give us too little science? Won't organizations sit back and wait for others to undertake the basic research and then jump in to capitalize on it, getting a "free ride"? Like other claimed "free rider" problems that ostensibly call for some coercive "solution," the supposed need for government involvement in science disappears upon close examination. Kealey argues that scientific knowledge is never free. A firm can't keep up with, much less utilize current science unless it maintains a scientific staff that is

working in the field. And there is no more need for the state to subsidize a firm's costs of acquiring scientific knowledge that might prove profitable than there is for it to subsidize the acquisition of any other kind of useful knowledge.

Moreover, the author argues, government funding of science may well be a negative-sum game. Governmental money does not *augment* private scientific spending; it *replaces* it, often at more than a one-to-one ratio. Thus, we get less scientific research that someone thought held enough promise to justify voluntary expenditure (i.e., was expected to pass the test of the market) and more scientific research of the sort that appeals to federal grant administrators. That is a bad trade-off indeed.

The Economic Laws of Scientific Research also obliterates the "market failure" argument used to justify government intervention. There is no defect in the market for scientific information that requires us to tax the populace, send money off to Washington, and then rely on bureaucratic granting agencies to make the optimal use of it by shipping it off to scientists who want support. We would be better off if we took the government out of the loop.

Terence Kealey has written a witty, well-argued book showing for the nth time that the market outperforms its statist alternative. An excellent addition to the literature of market success and government failure. □

George C. Leef is the book review editor for The Freeman.

PBS: Behind the Screen

by Laurence Jarvik

Prima Publishing • 1997 • 362 pages • \$25.00

Reviewed by William H. Peterson

If PBS won't do it, who will?"

Clever PBS slogan all right, but as to the part about "who will?"—how about the Discovery Channel, the History Channel, A&E, and other upscale, if for-profit, TV channels? Recall, PBS stands for *Public*—repeat, Public, which means, translated, government-supported—*Broadcasting System*, a 1,000-station radio and TV network of news, instruction, and entertainment.

Currently PBS is the recipient of much sought-after federal funding to the tune of some 14 percent of its estimated \$2 billion budget, or about \$280 million, while garnering but two percent of the U.S.

audience. Viewer, listener, foundation, and corporate support along with some state and community funding cover the rest of the budget.

One rub with government funding, says Laurence Jarvik, then of the Capital Research Center, a Washington-based think tank, is its liberal ideology, an ideology that permeates its programs.

A related rub is its forcing legions of nonviewers and nonlisteners of PBS, who happen to be taxpayers, to fund something not of their choice. These trapped forgotten men and women prefer to watch football, baseball, basketball, sitcoms, movie reruns, local and national news, and the like on ABC, CBS, NBC, and Fox-affiliated TV stations, yet they must pay up nonetheless. Jarvik also charges wasteful redundancy in the 300-station PBS TV network. (I attest the charge: As a D.C. resident I easily tune in either PBS Channel 26 in D.C. or PBS Channel 22 in Baltimore.)

Jarvik concedes the many quality shows presented by PBS, including "Nova," "The Civil War," and "Masterpiece Theater," with its own unforgettable "Upstairs, Downstairs" series. He is also struck by William F. Buckley Jr.'s "Firing Line" and Milton Friedman's "Free to Choose" series for their conservatism/libertarianism.

But he charges that "Firing Line" represents "the triumph of tokenism" and all manner of subtle and unsubtle putdowns of host Bill Buckley and his producers. And he recounts the trials and tribulations of getting "Free to Choose" on the air. President Gerald Ford appointed conservative economist W. Allen Wallis as PBS board chairman. Wallis quit after a year, "disgusted" at the PBS lack of balance—its liberal ideology. For example, well before "Free to Choose," PBS staged liberal John Kenneth Galbraith's "Age of Uncertainty" TV series, with host Galbraith ever calling for state interventions as solutions of national economic problems such as high unemployment. Galbraith touted Keynesian fiscal measures and other central planning ideas. Natch.

Friedman's name, when it came up, was anathema to PBS executives. They rejected his laissez-faire policies, his seeing government as the problem and not the solution. Wallis says PBS viewed Friedman as "a fascist, an extreme right-winger and didn't want anything to do with him." That would've been the end of the story were it not for a fluke: a *conservative/libertarian* PBS station manager of WQLN in Erie, Pennsylvania, and a gifted fund-raiser, Robert Chitester.

Chitester had also found the Galbraith series statist and one-sided. He drove over to the nearby University of Rochester campus to lunch with its renowned chancellor, the self-same W. Allen Wal-

lis. Chitester asked Wallis to name someone to rebut Galbraith. Wallis suggested Friedman. Chitester agreed and raised the necessary seed money. Friedman was at first reluctant, but wife Rose helped persuade him. So was born an amazing counter-Galbraithian PBS TV series, Friedman's "Free to Choose," still available on videotape. The rest, as is said, is history.

Concludes Laurence Jarvik in this excellent exposé of politically correct PBS: "If one truly values freedom, especially freedom of speech, one must honestly recognize that a free marketplace of ideas cannot possibly exist in an intellectual and administrative environment hostile to the very concept of the free market itself."

Amen.

Dr. Peterson, adjunct scholar at the Heritage Foundation, is the Distinguished Lundy Emeritus Professor of Business Philosophy at Campbell University, Buies Creek, North Carolina.

Faith of Our Fathers

edited by Mary Sennholz

The Foundation for Economic Education • 1997
• 398 pages • \$19.95 paperback

Reviewed by Norman S. Ream

Although it cannot be established that Alexis de Tocqueville actually wrote his much quoted words to the effect that "America is great because America is good," that conclusion seems more and more to be verified by the passage of time as the greatness of America fades along with its goodness.

Tocqueville was convinced, as have been the majority of our best historians, that Americans of the eighteenth century were dedicated to the moral and ethical precepts of Jesus and the New Testament. That indeed was the "Faith of Our Fathers." The idea that many of the Founding Fathers were atheists and agnostics is completely false. Not only were most of them devoutly religious, they firmly believed that liberty and justice depended on an observance of the moral and ethical demands of the Christian religion. A people desiring individual freedom and national prosperity had of necessity to be guided by high standards of morality and ethics and a condition could grow and develop only out of a strong religious faith. These were the ideas whose consequence would be "one nation under God with liberty and justice for all."

These are also the ideas and principles that have

been nourished and advocated by The Foundation for Economic Education and its journal, *The Freeman*, for the past several decades. Now Mary Sennholz has culled from that journal 25 of the best articles concerning the faith that made America great, the ideas and principles that produce a happy and prosperous citizenry and how the great blessings of liberty can be preserved. As the editor states in her introduction, "The moral and self-evident truths that guided our Founding Fathers may not be fashionable in our time, but they are as inescapable and inexorable as they have been throughout the ages. We are free to ignore and disobey them, but we cannot escape the rising price we must pay for defying them."

The book is in four sections designated: I. The Spirit of '76; II. A Biblical View; III. The Rights of Man; and IV. The Crisis of Our Age. Among the authors well known to *Freeman* readers are Clarence Carson, George Roche, F. A. Harper, Ben Rogge, John Williams, Ed Opitz, and Erik von Kuehnelt-Leddihn. The authors agree that the crisis facing America today is not an economic nor a political one but a moral and spiritual one. It is a crisis of character that has produced a crisis of behavior, a poverty of values caused by a poverty of faith.

It is within the limitations of this Faith of Our Fathers that the authors included here believe any economic and political system must operate if it is to preserve and protect individual freedom. It is a faith in universally valid principles and objective truths which hold man to be ultimately responsible for his own welfare and considers it immoral for government with its monopoly of power forcibly to take from one citizen in order to give to another. Hence this faith becomes the source of the free-market philosophy.

Again, as the editor insists, "To the Founding Fathers, the God of nature and the God of Scripture was the same God. Surely there were differences in the understanding of natural law and the interpretation of revealed law, but the differences did not raise a doubt on the common bond, the Judeo-Christian faith. It was a spiritual and moral foundation on which America was built."

It is the same spiritual and moral foundation that shall make it possible for us to endure as a "great and good" nation with liberty and justice for all. □

Norman S. Ream is a retired minister living in Estes Park, Colorado.

The Cross and the Rain Forest

A Critique of Radical Green Spirituality

Robert Whelan • Joseph Kirwan • Paul Haffner

"Their facts are right. Their ideas are important. Their writing is clear. Read it."

—Julian L. Simon

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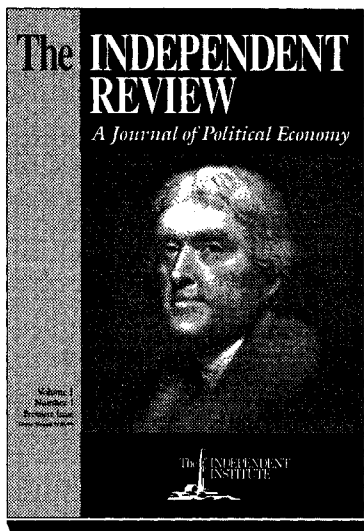
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Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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Public School Failures, Homeschool Successes

Once almost unheard-of and usually relegated to the province of educational quackery and political or religious radicalism, the homeschooling movement has in the last few years blossomed into a serious educational option. A recent study by the National Home Education Research Institute and the Home-school Legal Defense Association demonstrates just how serious an alternative it has become. Conducted by researcher Dr. Brian D. Ray, the report made a number of startling finds:

- The number of students being home-schooled across the nation is between 1,103,000 and 1,348,000.

- The total number of homeschoolers equals the public school enrollments of the states of Alaska, Delaware, Hawaii, Montana, North Dakota, Rhode Island, South Dakota, Vermont, and Wyoming combined.

- Homeschoolers outperform public school students by 30 to 37 percentile points on all subjects on standardized achievement tests.

- Whether the parents ever held a teaching certificate had virtually no impact on student scores. *Even homeschooled students whose mothers never finished high school scored 55 percentile points higher than public school students in similar circumstances.*

- Homeschoolers scored between the 82nd and 92nd percentiles regardless of their families' incomes.

- Students scored at the 86th percentile whether states imposed strict or minimal regulations.

- Homeschooling parents pay an average of \$546 per year, whereas the average per-pupil expenditure by public schools is \$5,325, excluding all capital costs.

- Homeschoolers' test scores tend to increase the longer they are homeschooled, going from the 59th percentile for those who have been homeschooled for one year to the

92nd percentile for those who have been homeschooled for seven years.

- More than half (53 percent) of all homeschoolers visit a library at least once or twice a month; 38 percent of them make three to five visits a month.

- The average homeschooled child is involved in 5.2 community activities, such as volunteer work, classes outside the home, group sports, and church. An astounding 98 percent are involved in two or more activities.

- Only six percent of homeschoolers, in contrast to 62 percent of public school students, watch three hours or more of television each day.

- About 61 percent of homeschoolers are in grades K–6, more than 18 percent are in grades 7–8, and almost 20 percent are in grades 9–12.

- Three percent of homeschooling parents

intend to continue doing so through grade 6 or less; 89 percent plan to homeschool through grade 12.

In short, homeschooling not only works, but is helping to erode the public school monopoly. The more this message gets out, the more serious will become the homeschooling option.

—DENNIS L. PETERSON

Mr. Peterson is a homeschooling parent and a frequent contributor to The Freeman, Teaching Home, and other periodicals.

A copy of the complete study, Strengths of Their Own—Home Schoolers Across America: Academic Achievement, Family Characteristics, and Longitudinal Traits, may be obtained from the National Home Education Research Institute, P. O. Box 13939, Salem, Oregon 97309, (503) 364-1490.

Forty Years Ago in *The Freeman* . . .

Leonard E. Read: “Change is a law of all living things. That which is not growing is atrophying; that which is not progressing is retrogressing; that which is not emerging is regressing. *The authoritarian act, or even thought, is time off from growth, progress, emergence.* One cannot be attentive to the inner self while exerting coercion on others. The person who has me on my back holding me down is as permanently fastened on top of me as I am under him. To me, at least, this explains why Lord Acton was right when he said, ‘Power tends to corrupt and absolute power corrupts absolutely.’

“For any person to become aware of how little he knows—not a very difficult attainment—is a sure way to reduce the number of authoritarians by one. Who knows? The awareness might even catch on. And, if it did?

Millions of us would forsake society’s most corrosive pastime—meddling in the affairs of others—meddling not only through the political apparatus, but personally. Millions of us could then concentrate on the wholly rewarding venture of freeing ourselves from our own fears, our own superstitions, our own imperfections, our own ignorance. The individual human spirit, neglected while we play the futile and authoritarian game of imposing our wills on others, cries out for its freedom.”

V. Orval Watts: “Every human being’s progress depends on the amount of effort that he himself exerts in pursuit of good purposes.

“Among the essential conditions for this effort are the opportunities, the risks, and even the obstacles, of freedom.”

—NOVEMBER 1957

The Central Economic Fallacy of the Century

by Steven Yates

The late Murray N. Rothbard once published a major article titled “Ten Great Economic Myths.” Included on Rothbard’s hit list were the notions that deficits are the cause of inflation and that economists can accurately forecast the future. One myth that he didn’t cite dominates Washington today: that the economy can be successfully “managed” from some central point. This idea underlies, directly or indirectly, all of the others Rothbard mentions.

Unfortunately, society’s intellectual, political, and economic “mainstream” still accepts what should be called the Central Economic Fallacy of the Twentieth Century. The “mainstream” just doesn’t get it. Thus, we continue to see a basic progression. First, government subsidizes *x* or regulates *y* to correct for some government-diagnosed problem *z*. Unwanted side effects result, and *z*, assuming it exists, often grows worse. Government intervenes again to fix the side effects and redouble its efforts to battle *z*. More undesirable side effects result. And the process continues, with government growing inexorably as interventions accumulate. More and more of the economy is micromanaged through increasing webs of subsidy, regulation, and quick fix.

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The logical end result, as Ludwig von Mises has shown in great detail, is socialism.

Economic micromanagement has been developing at a steadily increasing pace since the Progressive Era, which initiated the social-activist view of government—that only government can effectively address social problems like poverty. Progressivism began a new round of interventions in an economy in which major industries were already well subsidized. Federal Reserve manipulation of the currency—namely massive credit expansion followed by deflation—caused the stock market crash of 1929 and the Great Depression. Then Franklin Delano Roosevelt’s interventionist policies deepened rather than relieved the economic crisis. (See, for instance, Rothbard’s *America’s Great Depression*.)

World War II gave an entire generation of young men and women something to do when there were few jobs at home. But what would veterans do when they returned home? The federal government quick-fixed the problem with the G.I. Bill, creating a new national myth: everyone should go to college. Colleges, rearmed with massive quantities of federal and state dollars, became universities and opened their doors to more and more people. The supply of college graduates in the labor market soared. Soon advanced degrees began to decline in value.

Here we see perhaps the worst feature of the Central Economic Fallacy: massive over-

production in certain areas and equally significant shortages in others. (The Soviet economy was only the extreme case of this phenomenon.) In the United States, the growth of university graduate programs has led to a glut of Ph.D's, many of whom are unable to find desired academic employment. This situation has now spread to the hard sciences and includes people such as Alan Hale, co-discoverer of the much-watched Hale-Bopp comet. On the other hand, labor shortages have developed in a variety of occupations not requiring a college degree: carpentry, masonry, and other skilled trades best learned through the apprenticeship and therefore not amenable to the assembly-line approach taken by government-supported schools.

The welfare system is another consequence of the Central Economic Fallacy. The War on Poverty, one of the mainstays of the 1960s, has failed. It left an entire generation with a sense of entitlement and destroyed families by making fathers superfluous. Overall, the system rewarded a range of irresponsible conduct and encouraged dependency, reducing recipients' need to mature, set goals, and become productive members of society. Sons, in particular, lacked responsible role models. An unfulfilled sense of entitlement helped generate resentment and encouraged criminal violence.

Dimly aware that something is wrong, the federal government is now desperately maneuvering to cut at least some of its dependents loose through "welfare reform." Thus

far, these efforts do not question the Central Economic Fallacy. For government needs to end, not reorganize welfare, and at the same time dismantle the subsidies and regulations making jobs so hard to come by.

The Central Economic Fallacy has given the country a soaring national debt and myriad job-destroying regulations, diminished the value of higher education, inflamed racial turmoil and other social divisions, pushed taxes upward, devalued the currency ("inflation"), increased the population of chronic dependents, and worsened crime. In fact, as documented by James Bovard in *Lost Rights*, the federal government now undertakes many activities more worthy of a police state than a free society. At the same time, our nation faces serious moral and cultural crises, threatening its very foundations.

For decades, critics of the Central Economic Fallacy have been ignored or dismissed out of hand. But so disastrous have been its consequences that even fans of expanded government have a difficult time denying that the Central Economic Fallacy has run its course. That anything as complex, intricate, and constantly changing as the American economy in the 1990s can be micromanaged from a central point is the overwhelming folly of our time. We have no alternative but to get rid of it. And we have to do so while recognizing that many leaders in academia, business, the media, and politics may never get it. □

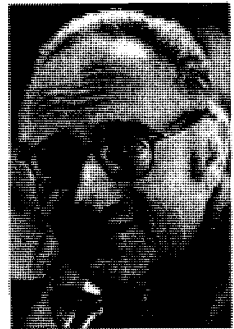
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Aid to Owners of Dependent Enterprises

by Charles W. Baird

There is widespread support for ending welfare, and for nudging, or pushing, welfare recipients into self-sufficiency through employment. Congress even voted to end Aid to Families with Dependent Children (AFDC), though President Clinton and the Republican Congress have since backpedaled.

However, there has been no similar attempt to eliminate what might be called Aid to Owners of Dependent Enterprises (AODE). All three levels of government—federal, state, and local—are in the game. The federal government currently spends more than \$65 billion a year on what both Representative John Kasich and Ralph Nader call “corporate welfare.” State and local governments spend billions more under the euphemism of “industrial development incentives.”

For example, the federal government subsidizes commercial ads for companies like the Gallo Winery in foreign countries. The state of California recently sold a former hospital to Sun Microsystems Computer Co. for less than one-half of its fair market value. Both Oakland and San Francisco have given subsidies to privately owned professional football teams to construct and upgrade stadiums.

What Should Government Do?

In a totalitarian state there is no private realm of human action. Every aspect of life is subject to political control. Even if the people who wield public authority are democratically elected, government can be totalitarian.

In a free society, however, government is constitutionally restricted to a set of enumerated powers—i.e., government is limited. Far from having total control, government is kept in its cage precisely so most human action will occur in the private realm. There, individuals are left to pursue their own ends, free from government interference, as long as they do not coerce or attempt to coerce others. Every incursion by government into private affairs, no matter how well-intentioned, is a threat to liberty. AODE is such a threat.

All private enterprises should be free to succeed or fail on their own. When an entrepreneur gets an idea, it is up to him to assemble the necessary resources and turn his idea into action neither assisted nor burdened by government. Success or failure should be determined by the value consumers place on the product or service. The coordination between producers and consumers evident in a market economy emerges spontaneously out of the production-and-exchange activities of millions of individuals, all trying to do the best they can with the limited resources and knowledge they have. Prices of inputs and outputs, and the profits and losses that result,

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are signals that direct individuals into the most socially beneficial activities. Any government interference with this market process, beyond enforcing the rules of voluntary exchange, distorts those signals, and thereby impedes, or even cripples, the process.

All government agencies are staffed by human beings. The sum of the economically relevant knowledge possessed by separate individuals in an economy is always far greater, and more accurate, than the sum of such knowledge possessed by individual bureaucrats in any government agency. Thus, while markets do not generate perfect outcomes, governments inevitably make far more mistakes than do markets.

What to Do?

AODE takes at least four forms: tax breaks, financial aid, regulatory relief, and protection against competition. General tax breaks applying to all firms are always desirable. Americans are overtaxed: federal, state, and local taxes consume over 40 percent of national income. All taxes—income, sales, excise, death, capital gains, property, and payroll (and any I have omitted)—should be reduced. But they should be reduced for everyone, not just for a specific firm or a specific industry.

For example, the federal government gives tax breaks worth \$500 million a year to producers of ethanol, a corn-based substitute for gasoline. Seventy percent of that goes to one company—Archer Daniels Midland, a \$10 billion agribusiness. This is AODE at its worst. Of course, people like Ralph Nader and Robert Reich who criticize business tax breaks really only want to increase taxes. So targeted tax breaks should be eliminated only if the resulting revenue increase is handed back to taxpayers through general tax cuts. Killing the \$500 million ethanol boondoggle could finance a small reduction in, say, the payroll tax.

Financial aid to specific firms and specific industries—whether in the form of direct cash payments, below-market interest rates on loans, or direct payments for training of employees—by any level of government is never justified. All such subsidies should be

terminated and taxes cut accordingly. For example, eliminating just half the business subsidies in the federal budget would free up enough money to completely eliminate the federal capital gains tax.

Reductions in regulations, except those which proscribe coercion, are always desirable. States that try to lure businesses by offering better regulatory environments deserve applause. Even regulatory breaks for only specific firms warrant support, since once a state starts lifting the regulatory burden, even for one firm or one industry, interstate and inter-local rivalry will encourage the practice to spread.

Of course, such competition bothers some analysts. For instance, Melvin Burstein and Arthur Rolnick, economists at the Federal Reserve Bank of Minneapolis, have urged Congress to use the Commerce Clause of the Constitution to outlaw interstate competition aimed at attracting investors. They argue that the cost of such “economic war among the states” takes money away from legitimate public goods. But the set of legitimate public goods on which states should spend more money is either empty or nearly empty. Moreover, the original intent of the authors of the Commerce Clause was to knock down state interferences with free movements of goods, services, and resources among the states. The one good aspect of state (and local) AODE is to lower taxes and regulations, thereby encouraging interstate mobility of goods, services, and resources. Congress ought to exercise its legitimate Commerce Clause powers to encourage states to generalize the tax and regulatory incentives they now offer to particular firms and particular industries. This would promote interstate commerce.

Another form of AODE is protecting specific competitors against competition. For example, the federal government imposes steel import quotas to protect domestic producers from foreign competition. This one item costs the American economy around \$7 billion a year in the form of higher prices for steel and products produced with steel. The state of California regulates the amount of land that can be used to produce navel oranges in order to shield incumbent growers

from competition and limit price competition. New York City prohibits private vans and jitneys from competing with city-franchised and/or city-owned, monopoly transit systems. None of these restrictions are justifiable, since they benefit the few at the expense of the many. Such policies are, to quote economist Dwight Lee, "malice in plunderland."

In sum, we should end corporate welfare as we know it. However, we should not permit

this worthy idea to be misused to increase government intervention. End the subsidies. Convert specific tax breaks to general tax reductions. Convert specific regulatory breaks to widespread regulatory relief. Finally, get all governments out of the business of protecting particular competitors and into the business of protecting competition. In short, rebuild the Founders' original wall of separation between the public and private realms of human action. □

The Socialist Dream Lives

by K. L. Billingsley

The United Nations development agency recently rated nations on how they combat poverty, thereby providing valuable lessons in economics, politics, and even diplomacy.

At the head of the list stands Trinidad and Tobago, a tiny Caribbean nation noted mainly for tourism. The islands' economy cannot provide enough jobs for its citizens, who emigrate in search of work. How the U.N. developers came up with Trinidad as the model poverty fighter remains mysterious but their second-place ranking, Cuba, provides some clues.

Before the demise of the Soviet Union, the Marxist-Leninist Cuban regime of Fidel Castro, the world's longest-running dictator, fought even the communist reforms of glasnost and perestroika. The USSR duly passed into history and its Eastern Bloc colonies began throwing off their chains, trading the crackpot theories of Karl Marx for the free-market economics of Ludwig von Mises and Friedrich Hayek. But in Cuba, Fidel remained

true to the socialist faith, even without the billions in annual Soviet subsidies.

While other Latin American nations turned to democracy and capitalism, Cuba not only rejected the free-market reforms but cracked down on private activity and political dissent. Alone in the hemisphere Cubans suffered rationing and true deprivation. By Cuban statistics, the country's GNP has fallen by about 20 percent, with the true figure likely much worse. The average Cuban worker, according to the island's government, earns 203 pesos a month, which at official rates translates to about \$140 per year.

For a time they had used various walls in Havana as a posting board for classified ads. But when this proved too popular, Cuba's communist government banned the practice as a "vestige of capitalism." Most recently, the regime has declared Havana off-limits to those streaming in from the countryside in search of work and food. Contrary to what the regime's foreign apologists maintain, the U.S. embargo does not explain the island's plunge into an abject poverty rivaling that of Haiti.

There is nothing the United States makes

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that Cuba cannot freely buy from other nations, which have lately been investing in Cuba in defiance of U.S. policy. Canada's Sheritt International Corporation has invested \$675 million in Cuba. Of the annual \$10,000 Cuba gets for each Sheritt worker, the government keeps \$9,784, a tax rate of 97 percent. Yet Cubans, now desperate to survive, line up for the jobs.

Any sober analysis reveals Cuba as a destroyer of wealth and a creator of poverty. A regional economic power before Castro, the regime has caused its citizens to flee by the thousands, often risking their lives to do so, leaving loved ones behind. That should come as no surprise because Marxism-Leninism is history's greatest creator of poverty, misery, and mass death. Nations that are barren of liberties are also barren of groceries. Yet the United Nations development agency ranks Cuba ahead of Chile, Singapore, and Costa Rica, which far outstrip it in wealth.

According to the U.N., nations can eliminate poverty by "combating gender inequal-

ity," and "narrowing the differences between genders and social classes," along with "reforming trade policies," areas in which Cuba apparently ranks high. But those countries that have increased national wealth and actually lifted people from poverty have done so by the very means rejected by Cuba, the free market, individual responsibility, privatization, and low government regulation.

If the U.N. truly wanted to help nations lift their citizens from poverty, it would advance these proven measures and oppose the statist dictatorships. Instead, the U.N. offers tired political and bureaucratic solutions, proving once again that the socialist dream can thrive even when the evidence against it stands stronger than ever.

For the world's poor that is a tragedy and there seems little reason American policy-makers should support an international bureaucracy which rewards dictatorships for having created poverty while downgrading productive democracies that have created wealth. □

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Educating the Difficult

Whenver the issue of “school choice” comes up for discussion, somebody inevitably will claim that the private sector can’t be trusted to serve the kids who are, for one reason or another, difficult to educate. Government schools are depicted as democratic, egalitarian institutions that take on all comers, including the toughest cases. Private alternatives are alleged to be inherently elitist organizations that “skim the cream” and leave the challenging kids to their courageous and altruistic public counterparts. This perspective is pure myth.

The fact is that children who are troubled, neglected, learning or emotionally disabled, or otherwise have special needs are often not well served in the conventional public school setting. They need help from nongovernmental sources, from people who know that you don’t have to be a civil servant to be either civil or a servant.

The private sector, including private sectarian schools, religious schools, nonpublic agencies, and homeschools, offers a wide variety of education programs for this difficult-to-educate population. When public schools or agencies cannot serve a particular student, they sometimes contract with a private-sector body to do the job. The Directory for Exceptional Children lists roughly 3,000 special-education schools and facilities in the private sector nationwide. Their costs of ed-

ucating a student vary widely, depending in large part on the nature of the disability category served, and may also include the cost of medical care and transportation.

Examples include Sobriety High in Edina, Minnesota, which educates 9th through 12th-grade students in recovery from chemical dependency. The famed Boys Town, based in Nebraska, directly cares for more than 27,000 boys and girls each year in 14 states and the District of Columbia. The Helicon Shelter Education Program, a division of Children’s Comprehensive Services, provides certified teachers, materials, curriculum, and academic record-keeping on site at 27 emergency foster-care shelters throughout the state of Tennessee.

According to a study from the Reason Foundation in Los Angeles, about half of the nation’s children who suffer from traumatic brain injuries are placed in private settings. Students with Serious Emotional Disturbance (SED) account for 40 percent of the disabled students enrolled in nonpublic schools. Private-sector institutions are providing education for the mentally retarded, the autistic, the deaf and blind, and those with orthopedic impairments as well. Some of these institutions decline government support, but many do not.

Roman Catholic Church organizations alone operate nearly 200 schools throughout the United States specializing in educating children with disabilities. Among them are the St. Lucy Day School in Pennsylvania for children with visual impairments; the Mary

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Immaculate School in Toledo, Ohio, which serves learning disabled and children affected by crack cocaine; and St. Coleman's Home in New York for children with autism and emotional disturbance.

According to Tom Bushnell, president and director of the National Challenged Home-schoolers Associated Network, some 30,000 American children with disabilities are home-schooled. Says Bushnell, who personally homeschools a blind daughter, a child with Down's syndrome, and a child with cerebral palsy, "Sometimes it's easier to do it yourself than fight. When you have to go to an IEP (Individualized Education Plan) meeting and face a multidisciplinary team of six or eight professionals, it's stressful. It's you against the world. Parents get tired of fighting." And, says Bushnell, parents sometimes worry that the adversarial relationship with the public schools will affect the quality of care the schools give their child. "Would you want someone who you had to fight in an IEP meeting to put a catheter into your child?"

The Reason Foundation report quotes another homeschooling parent, Devorah Weinmann. After the local public school psychologist refused to allow Weinmann's learning-disabled daughter to start school one grade level below her age group, this dedicated mother opted to do the job herself and explained her decision this way: "She (her daughter) had been through five [foster care] placements by the age of four-and-a-half. She went through hell and back to become fairly secure. [The schools] weren't looking at her as an individual. . . . She would just be shuffled along until she failed. I said, 'I'm not doing this.'"

In Michigan, private-sector help for difficult-to-educate children is a story crying to be told. A report from the Mackinac Center for Public Policy is now helping to tell it. For example: the Manor Foundation in Jonesville is both a residential school and a treatment facility that admits children with problems that include pervasive development disorder, early infantile autism, schizophrenia, im-

paired hearing, and even the trauma of sexual abuse.

Starr Commonwealth, an Albion-based organization with six Michigan sites, has been serving children and families since 1913 as a private-sector alternative for violent, troubled, and dispossessed children. It raised more than \$15 million from private sources in a recent year.

St. Peter's Home for Boys in Detroit, operated by the Episcopal Diocese of Michigan, provides residential care and schooling for boys between ages 11 and 19 who require placement outside their homes. The Home's mission is deeply rooted in an emphasis on the dignity of each individual that arises out of explicit ethical standards.

Our Lady of Providence Center in Northville admits mild, moderate, and severe cases of developmentally disabled girls over the age of 10 and women under 40 in its residential program and school. Its acclaimed programs that teach self-help and work skills alongside spiritual values have benefited hundreds since 1957.

The problems these and other private institutions are solving are often problems no government organization would be equipped to address with maximum effectiveness, even if it were legal for it to try. Those situations, which require spiritual guidance and restoration of moral values rooted in a religious context, are simply beyond the reach of public employees.

Difficult-to-educate students present multiple challenges to educators and policy-makers. The public schools serve the majority of these students, but they do not educate everyone. Often in partnership with public schools and public agencies, but sometimes operating entirely on their own through exclusively private support, nonpublic schools and organizations are meeting the special needs of a great number of students. As Americans continue to debate the direction of education reforms, they should not sell short the achievements of these private institutions. □

Global Interventionism and the Erosion of Domestic Liberty

by Ted Galen Carpenter

“Perhaps it is a universal truth that the loss of liberty at home is to be charged to provision against danger, real or pretended, from abroad.”

—JAMES MADISON TO THOMAS JEFFERSON
May 13, 1798

There is a tendency of many people to separate domestic and foreign issues. For instance, many supporters of the free market advocate government activism abroad. But categorizing issues as “foreign policy” or “domestic policy” can be artificial and misleading. Developments in one arena frequently interact with and affect developments in the other. Most analyses of this phenomenon have focused on how domestic attitudes and interests influence the style and substance of foreign policy. Less attention has been paid to the opposite phenomenon—the impact of foreign policy aims or requirements on domestic institutions and practices. Yet that feedback may ultimately have a more important impact on the health of American liberties.

The foreign policy of the United States has obviously changed dramatically since “isolationism” held sway at the end of the 1930s. Over the past half century, the republic has acquired and maintained a host of global political and military commitments. Washing-

ton has linked America’s security to that of the other hemispheric nations through the Rio Treaty and has done the same with Western Europe through NATO. It has negotiated multilateral pacts such as ANZUS (with Australia and New Zealand) and concluded bilateral security treaties with such nations as Japan, South Korea, and Pakistan.

Such formal arrangements, however, do not fully measure the extent of U.S. obligations in the world. The Truman Doctrine, promulgated in March 1947, pledged the United States to assist other nations confronting either external aggression or subversion by “armed minorities.” Washington attached no discernible geographic limits to that promise of assistance, and it served as the explicit or tacit basis for U.S. involvement in numerous Third World struggles throughout the Cold War. In the late 1950s, the Eisenhower Doctrine committed the United States to “secure and protect the territorial integrity and political independence” of Middle Eastern nations from “any nation controlled by International Communism.” The so-called Carter Doctrine, proclaimed in early 1980 following the Soviet invasion of Afghanistan, made the United States the gendarme of the Persian Gulf. That commitment, which was fulfilled on a grand scale during the Persian Gulf crisis of 1990–1991, remains in effect. In addition to the presidential doctrines, the United States has informal but real security arrangements with Israel and several other countries.

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All told, the United States is committed to help defend dozens of nations. Moreover, growing U.S. involvement in peacekeeping operations authorized by the U.N. Security Council (most notably in Somalia) and “out of area” operations conducted by NATO (as in Bosnia and Macedonia) is likely to increase the total. That expansion of obligations is most evident in the Clinton administration’s plan to enlarge the membership of NATO to include several Central European nations—and perhaps someday most East European nations as well. Five decades after the dawn of the Cold War, and more than six years after the end of that bitter rivalry, U.S. foreign policy remains interventionist on a global scale.

This policy has had a pervasive impact on the Republic’s domestic affairs. In ways both obvious and subtle it has transformed the nation economically, socially, and politically. Some of those changes are unarguably positive. Concern about how America was perceived throughout the world—especially in the emerging nations of Asia and Africa, in which the United States was competing with the Soviet Union for influence—was a significant factor impelling political leaders to abolish the legal framework of racial segregation in the 1950s and 1960s. The odious Jim Crow system probably could not have endured in any case, but the fact that it was a liability to American foreign policy undoubtedly hastened its demise.

Other domestic changes caused or at least facilitated by Washington’s policy of global interventionism, though, have been far less benign. The early twentieth-century social critic Randolph Bourne observed that “war is the health of the state,” by which he meant that governmental power inexorably expanded at the expense of individual freedom during periods of armed conflict. Robert Higgs’s seminal work, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (1987), documented that observation, showing how many of the powers now routinely exercised by the federal government were not acquired during such spasms of domestic “reform” as the Progressive Era, the New Deal, and the Great Society. Instead,

they emerged because of national mobilizations to fight the two world wars. Moreover, the New Deal and the Great Society were explicit attempts to replicate in peacetime the mobilization of human talent and natural resources that had occurred during wartime.

Enhanced State Power Remains

Even when the nation terminated its war mobilizations, a sizable residue of enhanced governmental power always remained. Manifestations of that “wartime” authority would later surface during peacetime—often in unexpected ways. For example, President Richard Nixon based his 1971 executive order imposing wage and price controls on an obscure provision of the Trading with the Enemy Act of 1917, enacted during the early days of World War I but still in effect decades later.

These surviving wartime powers have also been an important factor in the permanent expansion of the size and scope of the political state. One “temporary” measure enacted during World War II was the withholding provision of the federal income tax. That device has had the insidious effect of disguising the true tax burden on most Americans by “painlessly” extracting the money from their payroll checks before they get an opportunity to see (and use) those funds. For such taxpayers the category of gross salary or wages is little more than a meaningless bookkeeping entry on their payroll check stubs.

One suspects that citizens would be decidedly less willing to carry their current bloated tax burden if they had to write annual or quarterly checks to the IRS. Indeed, it is likely that there would have been a massive tax revolt long before the federal government began consuming more than a quarter of the nation’s gross domestic product. It seems more than a coincidence that the two groups that are not subject to the anesthetic of withholding taxes (sole proprietors and independent contractors) have most militantly opposed high taxes. A wartime innovation has thus become an important permanent building block of the leviathan state by continuing

to conceal the real tax burden from most Americans.

Perpetual Crisis

Bourne's observation about war being the health of the state is not sufficient, however. It is not only an actual state of war that creates the regimentation and massive violations of civil liberties he feared. An atmosphere of perpetual crisis and preparation for war can produce the same result. The creation of a national security state to wage the Cold War produced many of the same domestic problems and distortions associated with periods of actual combat in earlier eras. America has been essentially on a war footing for more than half a century, and the result has been a significant erosion of liberty. Perhaps most ominous, the end of the Cold War has not produced a retrenchment in either the nation's foreign policy or pervasive garrison-state mentality.

There are numerous examples of undesirable changes in America's domestic system brought about by Washington's global interventionist foreign policy. Waging the Cold War led to the creation of a large and expensive military establishment. Despite the end of the Cold War, military spending (currently \$268 billion a year) consumes nearly four percent of America's GDP. U.S. military outlays dwarf those of other industrialized countries. For example, Japan spends just \$45 billion and Germany a mere \$30 billion. Each American must pay more than \$1,000 a year to support the military; the burden for each German is about \$260 and for each Japanese about \$240. That huge disparity is one tangible measure of the financial costs of sustaining a foreign policy based on maintaining U.S. global "leadership" and responsibility.

In addition, government continues to guide the American economy in the name of national security, much as it would during a wartime mobilization. In marked contrast to the pre-World War II era, the national security apparatus wields considerable economic power. The emergence of multibillion-dollar defense firms whose principal (and, in some cases, sole) customer is the Pentagon is tes-

timony to that fact. There are also restraints on commerce that would have been unthinkable only a few decades ago. Embargoes have been imposed on trade with certain countries deemed to be adversaries of the United States—including such a mortal threat to American security as Burma. In addition to such formal sanctions, there exists a variety of restrictions on the export of technologies that the government decides (often arbitrarily) could have military applications or national security implications. The tug of war between the Clinton administration and the business community over encryption policy is only the most recent example.

An interventionist foreign policy has not only facilitated the expansion of federal governmental power at the expense of the private sector, but has also produced ominous changes within the federal government itself. The conduct of foreign affairs during the Cold War enhanced the power of the executive branch to an unhealthy degree. Fulfilling global obligations placed a premium on the reliability of Washington's commitments as well as the speed (and often the secrecy) of execution. The procedural demands of an interventionist foreign policy are fundamentally incompatible with the division of responsibilities and powers set forth in the Constitution and generally adhered to throughout America's history. Extensive congressional participation in the foreign policy process involves the possibility of delay, the disruption of national unity, and the creation of doubts about the nation's constancy.

The Imperial Presidency

Maintaining a global interventionist policy has led inexorably to the emergence of an "imperial presidency." Chief executives have grown accustomed to using the military according to their personal definitions of the national interest, frequently without even the semblance of congressional consent. The congressional war power, stated in clear and concise terms in the Constitution, has become moribund. Harry Truman's unilateral decision to commit more than 300,000 U.S. troops to the Korean conflict in 1950 remains the

most brazen episode of the imperial presidency, but it was hardly the only one during the Cold War. Nor has such executive usurpation of the congressional authority over matters of war and peace abated now that the Cold War is over. The Clinton administration's dispatch of 20,000 U.S. troops to Bosnia as part of a multilateral peacekeeping and nation-building mission confirms that the imperial presidency is alive and well.

The consequences of interventionism are not confined to changes in the nation's political and economic systems. Individual citizens find their liberties circumscribed in a variety of ways. Throughout most of our history, Americans routinely exercised the right to travel outside the country without having to beg permission from Washington. That has changed dramatically during the past half century. Foreign travel and participation in events held in other nations are no longer an inherent right of American citizenship; such activities are often used as pawns to serve foreign policy objectives. Certain countries are declared off-limits to U.S. citizens if Washington deems it in the national interest, and ostensibly nonpolitical events such as the Olympic Games have become tools of diplomacy. Americans whom the government brands as threats to national security are subjected to passport revocations and various forms of harassment.

Undermining Foreign Policy Debate

The garrison-state mentality fostered by an interventionist policy leads to practices that undermine both the legitimacy and the feasibility of debate on defense and foreign policy issues. Indeed, policymakers habitually regard public or congressional scrutiny as an obstacle to be avoided or removed. To thwart such oversight, they have sought to maintain a monopoly of information by misusing the secrecy classification system. Information that contradicts official versions of events or might cast doubt on the wisdom, legality, or morality of a presidential policy is kept from the prying eyes of potential critics. The cult of secrecy surrounding defense and foreign policy issues

has evolved as an indispensable corollary of global interventionism. As Washington's overseas commitments have grown, so too has the scope of information—including much that is essential to any public debate on foreign policy options—concealed from the American people and even their congressional representatives.

Interventionism has not only encouraged foreign policy elitism and secrecy, but has also promoted a pervasive intolerance of alternative views on national security issues. Too often, dissent has been viewed as synonymous with disloyalty. The McCarthy era in the early and mid-1950s was the most infamous example of an intolerant loyalty crusade, but it was hardly unique. Precedents for what became known as McCarthyism were established during and immediately following World War I as well as the period just before American entry into World War II. Moreover, the Truman administration utilized the politics of loyalty even during the earliest stages of the Cold War to quash dissent.

The practice of smearing and harassing foreign policy critics did not expire with the junior senator from Wisconsin. The FBI, the CIA and other intelligence services, and even elements of the military conducted sophisticated programs to spy on, disrupt, and discredit opponents of the Vietnam War. And they usually did so with the full knowledge and approval of high-ranking officials in the Johnson and Nixon administrations. Disclosure of such tactics led to reforms designed to prevent a repetition, but events during the Reagan years indicated that those changes were largely ineffectual. Evidence surfaced that opponents of the administration's Central America policy were routinely harassed by agents of the Customs Service and the FBI upon returning from trips to that region. Even more disturbing were revelations that the FBI secretly investigated the Committee in Solidarity with the People of El Salvador (CISPES) for more than two years despite a dearth of evidence that the group was engaged in any unlawful activities. Congressional allies of the Bush administration smeared critics of the Persian Gulf War as apologists for Saddam Hussein.

Managing the News

Because dissent is often equated with disloyalty, the national security bureaucracy has waged a determined effort to co-opt, intimidate, and exclude the press on foreign policy issues, since members of the news media who question the logic of policy decisions or the veracity of officials raise doubts about the wisdom of U.S. globalist strategy, thereby sowing division among the American people. That is especially true of those individuals who dare to penetrate the veil of secrecy and reveal evidence that might discredit that strategy.

During both world wars and the first two decades of the Cold War, the government primarily sought to enlist the press as an instrument of the nation's foreign policy, and did so with considerable success. (Although officials preferred to stress co-option, even in those periods the threat of intimidation, exclusion, and outright censorship lurked in the background.) As the press became more critical of U.S. policy during the Vietnam War, confrontation increasingly replaced co-option. During the Nixon administration, reporters who published stories based on leaked classified information were threatened, together with their sources, with prosecution for espionage. The alleged authority for such prosecutions was a statute, passed in the initial stage of World War I, that was aimed at preventing spies from giving militarily relevant information to enemy governments. A campaign to treat embarrassing disclosures as a form of espionage re-emerged during the Reagan and Bush administrations, and the government scored an ominous legal victory by successfully prosecuting defense analyst Samuel Loring Morison for the "crime" of leaking classified information, not to a foreign government, but to *Jane's Defence Weekly*.

In addition to resurrecting that technique of intimidation, the national security bureaucracy found an ingeniously effective method of stifling hostile press coverage of military operations. When the United States invaded the tiny Caribbean nation of Grenada in the autumn of 1983, the Pentagon simply barred the media. For more than 48 hours, the

government enjoyed the luxury of exercising absolute control over information about a significant and controversial military operation. In so doing, it established a tempting precedent for an exclusionary policy to be invoked in similar—and perhaps far larger and more prolonged—interventionist enterprises. Indeed, when U.S. forces invaded Panama in December 1989, the techniques used in Grenada were applied again, albeit in a slightly more subtle fashion. Reporters were delayed and kept away from the scenes of military action and were instead given guided tours of such important sights as Panamanian dictator Manuel Noriega's pornography collection.

Government manipulation of the media reached its apogee during the Persian Gulf War. Military officials herded reporters into organized pools monitored by "public affairs" personnel and barred them from attempting to reach front-line areas on their own. Meanwhile, correspondents were fed a steady diet of briefings (i.e., propaganda) by the military, replete with videotapes showing the clean-kill capabilities of smart bombs and other high-tech U.S. weaponry. The press corps became little more than a transmission belt for the Pentagon's version of events. Consequently, the American public saw astonishingly little of the bloody reality of the war (especially the extent of Iraqi casualties) and learned even less about the complex roots of the Gulf crisis.

The politics of loyalty, the pervasive cult of secrecy, and governmental attacks on the press all have one thing in common. They have the effect (and perhaps the intent) of hobbling public debate on both the substance and the execution of U.S. foreign policy. A strategy of global interventionism, to be effective, requires domestic unity and conformity. Those requirements run directly counter to the values of political pluralism and unfettered debate so essential to the maintenance of a democratic system. An interventionist foreign policy promotes the growth of a centralized and remote political structure, creates economic regimentation, and undermines a variety of civil liberties, especially freedom of expression.

Another ugly manifestation of interven-

tionism was the policy of conscripting young Americans into the military and sending them off to fight in distant wars. That infringement on their liberty was exacerbated by the fact that most of those struggles were murky geopolitical conflicts that bore little if any relevance to America's vital security interests. Many of the unfortunate conscripts returned home maimed in body or mind; many others failed to return at all.

The military draft became an important device to sustain an interventionist strategy in both world wars and throughout the most virulent stages of the Cold War. It also became the quintessential symbol of the domestic regimentation that global interventionism promotes. It is no coincidence that ardent global interventionists are usually among the most relentless supporters of efforts to restore conscription, either directly or in the guise of a more comprehensive national service system.

"For the Security of the Nation"

Perhaps the most corrosive domestic effect of Washington's interventionist foreign policy has been on national attitudes. Americans have come to accept governmental intrusions in the name of "national security" that they would have ferociously opposed as blatant power grabs in earlier eras. Politicians gradually learned that the fastest way to overcome opposition to schemes to expand the state was to portray initiatives as necessary for the security of the nation. Sometimes such reasoning has been exceedingly strained. The statute that first involved the federal government in elementary and secondary education was titled the National Defense Education Act. Similarly, the legislation funding the interstate highway system was the National

Defense Highway Act. It is surprising that the sponsors of Medicare didn't fashion their bill as the "National Defense Elderly Care Act."

Not only has the national security justification been cynically used to defuse opposition to mundane welfare state and traditional pork-barrel initiatives, the rhetoric of war has come to dominate the national discourse to an unhealthy degree. We have seen the "war" metaphor used promiscuously, including Lyndon Johnson's War on Poverty, Jimmy Carter's Energy War, the war on drugs, and more recently "wars" on cancer and illiteracy. Language matters, and the fondness for such rhetoric is a revealing and disturbing indicator of how deeply the garrison-state mentality has become entrenched.

The adverse domestic consequences of global interventionism raise serious questions about the future of individual liberty in the United States. At the dawn of the Cold War, social commentator Garet Garrett warned that America could not indefinitely remain a republic at home while taking on the trappings of empire abroad. He noted a fundamental contradiction between the desire to play the role of global policeman and the objective of maintaining long-standing American traditions of limited government, free enterprise, and individual liberty. Garrett's warning is even more applicable today. Americans are rapidly reaching the point where they must confront a stark choice. Either the United States will adopt a more circumspect role in the world in order to preserve domestic freedom, or that freedom will continue to erode (perhaps beyond the point of recovery) to satisfy the requirements of a globalist foreign policy. That choice will determine not only how the United States is defended but whether this country retains the values and principles that make it worth defending. □



The Seven Deadly Sins of High Taxes

by Christopher Lee

By justice a king gives stability to the land, but he who imposes heavy taxes ruins it.

—PROVERBS 29:4
(New American Bible)

In a free society government has an important but limited role to play. Adam Smith, for instance, acknowledged the necessity of providing national defense, maintaining law and order, implementing a system of weights and measures, as well as defining and protecting property rights. Further, he advocated government provision of goods for which there were substantial positive spillovers, though experience has led many modern classical liberals to question the appropriateness of this role. Even in Smith's vision, however, the ultimate public good is a nurturing environment within which voluntary exchange can flourish. Government should be umpire and rule maker, not participant, in the economy.

Of course, to perform any of these functions government requires taxes. All taxes are costly, since they divert resources from other useful purposes. Moreover, most taxes distort the economy. The deadweight costs associated with the tax wedge are a fact of life. If government were to concentrate on its proper objectives, it is likely that the benefits of

government operations would outweigh its costs. But government is now far too large, and is generating more costs than benefits.

A 1995 International Monetary Fund study concluded that every one percent rise in taxes cuts GDP output per worker by about two percent. In the same year Congress's Joint Economic Committee estimated a deadweight cost of 40 cents per dollar of additional government spending. An earlier analysis published in the March 1985 *American Economic Review* figured the deadweight cost per dollar of tax to be between 20 and 50 cents. Not surprisingly, high-tax U.S. cities are losing jobs to low-tax cities and high-tax states are losing jobs to low-tax states. Similarly, countries with highly interventionist governments are growing more slowly than countries with less state intervention.

The perceived benefits of government are well understood. The distorting effects of taxes are generally less visible. These could be called the seven deadly sins of high taxes.

1. Favoring leisure over work.

Few people would work as hard as they do for as long as they do except for the fact that they receive payments which can be exchanged for goods and services. Most would consume more leisure if its price were lower, just as they would consume many other goods if their prices were lower.

The price of leisure is the income forgone

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when one does not work. In a mythical no-tax world in which one could earn \$10 per hour, \$10 would also be the price of an hour of leisure. But taxes change that. With a 30 percent marginal tax, the price of leisure artificially falls to \$7 because that is all one gets to keep after taxes. This increases the consumption of leisure. Yet it is work that is necessary to create wealth (which, ironically, ultimately makes more leisure possible). The size of the economic pie is arbitrarily reduced.

2. Work takes inefficient forms.

A capitalist economy is a positive-sum game. As a result of free exchange, the size of the economic pie is continually increasing. One reason for this is the phenomenon of economic specialization. People tend to specialize in those activities in which they have the greatest comparative advantage, thereby increasing their output. They then obtain the other things that they desire through exchange.

Consider an accountant in a mythical zero-tax world. If he earns \$25 an hour, he will hire other people to mow his lawn, paint his house, and perform similar tasks so long as they charge less than \$25 an hour. But taxes change this. With a 50 percent marginal tax, the accountant ends up earning only \$12.50 for every additional hour of work. Instead of hiring a painter who charges, say, \$15 an hour, the accountant will paint his own house. In this example, this results in a loss of economic output to society of \$10 an hour.

3. Favoring consumption over investment.

Consider an individual living in our mythical tax-free world who is attempting to decide whether he or she should invest \$10,000, and thereby earn \$700 per year forever, or spend the \$10,000 on a vacation. He cannot decide between the two because, in the language of economics, he is indifferent.

Taxes change that. Suppose a tax of 50 percent on marginal income is imposed. Now a \$10,000 investment will generate only a \$350

income stream. If he was indifferent before, he will choose the vacation now. As a consequence, high taxes reduce the opportunity cost of consumption relative to investment, reducing the capital stock and ultimately economic growth.

4. Reducing respect for the law.

When government concentrates on its core functions, taxes are relatively low and the benefits are clear. As a consequence, tax evasion is minimal. But as government grows, it tends to operate increasingly for the benefit of one group at the expense of another. People feel less moral imperative to pay their taxes. Some lobby for “loopholes” and other tax breaks. Others creatively “interpret” the law. And higher tax rates increase the financial return on avoidance and cheating.

Today, *Money* magazine estimates that tax resistance denies the government \$150 billion annually. It is not a much larger step from tax evasion to broader disregard of the law. Yet stricter enforcement measures both threaten individual liberty and consume valuable economic resources: as a result, the size of the economic pie is again made smaller.

5. Encouraging the development of the underground economy.

A related impact of higher taxes is the people’s desire to put commercial transactions “off the books.” It has been estimated that the following percentages of services are supplied by the underground economy and escape taxation.

Lawn and garden maintenance	90 percent
Domestic help	83 percent
Child care	49 percent
Home repair/improvements	34 percent
Laundry/sewing services	25 percent
Appliance repairs	17 percent
Car repairs	13 percent
Haircuts/beauty services	8 percent
Catering	8 percent

It is, of course, difficult to estimate the total output of the underground economy. Estimates range from 4 to 25 percent of GDP. Even 10 percent would represent \$700 billion. Moreover, nations with higher tax rates, such as Italy, have even larger underground economies.

Commercial activity hidden from the tax collector represents a drag on the economy. It takes an effort to remain undetected. Payments must be "washed" or otherwise hidden from view. Double sets of books must be maintained. Often vendors are unable to maintain permanent retail establishments or advertise normally. In addition, respect for the law again is reduced. Indeed, the very nature of such secret activities, and the likelihood of coming into contact with others engaged in similarly illegal activities, may facilitate the expansion into genuine criminal enterprises.

6. Encouraging nonproductive rent-seeking.

One can acquire resources from one another through voluntary exchange or coercive transfer. Voluntary exchange is a positive-sum game, increasing the wealth of everyone involved. Coerced transfers, however, make everyone worse off. The case of theft is obvious: not only are resources devoted to commit crimes and defend against crime, but goods are taken away from those who value them the most and use them most efficiently.

Forced transfers through the political process—what goes on in Washington every day—have a similar impact. As government collects, and hands out, more money, various groups have a greater incentive to try to become a beneficiary of government largess and to protect their wealth from the attempts of others to gain from coerced transfers. Practical evidence of this effect is the steady move of corporations and associations to Washington, D.C., the growth in the number of lobbyists, and the steady increase in campaign contributions and spending.

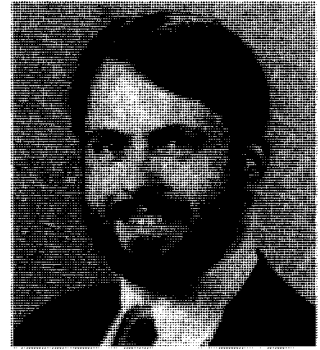
7. Fostering envy.

An egalitarian society will also be a poor society. No society has yet found a way to induce individuals to work hard, invest in human capital, and engage in enterprises for uncertain profits if they are unable to earn a differential return. But these are all essential elements of wealth creation. In short, unequal income distributions are necessary for economic growth which benefits all people, poor and rich alike. (Of course, the poor in the United States today are poor only relative to the rich in the United States. Compared to people through human history, the poor are rich indeed.)

In a market economy one can, with considerable conviction, maintain that income is not "distributed" in the sense that social planners use that term. Income is earned through a combination of hard work, imagination, and faith in one's ideas and in the future. Eighty percent of those who make up the Fortune 500 list represent "new," not inherited, wealth. As such, the money belongs to those who earned it and should not be forcibly redistributed by government. Even if the rich have a duty to give to the poor, other people have no right to steal, acting either as individuals or collectively through government.

But when the government starts to make widespread wealth transfers both directly by taxing and spending and indirectly by regulating, it inflames envy. In such a world, many people believe that they have a claim not only to a portion of the nation's overall wealth, but to the wealth of anyone earning more than them. Society risks slipping back into the jungle described by Thomas Hobbes in *Leviathan*, in which work is in vain because the fruits thereof will be taken from the producer.

When properly constrained, government can be a productive institution. Even then, it should perform its functions with utmost efficiency and minimal economic distortion. But we have gone well beyond the point of positive marginal benefits and that improvement now requires a much smaller government. In deed as well as word we need to resolve that "The Era of Big Government Is Over." □



Closing Special Interest Government

The federal government was originally conceived as an institution with limited, enumerated powers. However, over time interest groups and politicians cooperated in vastly expanding federal powers. Indeed, Congress has routinely conferred political status upon influential interest groups, such as labor, by creating their own cabinet departments.

The Bureau of Labor was established in 1884, from which sprung the Department of Commerce and Labor in 1903, only to split into two separate departments in 1913. Today the Department of Labor runs a national unemployment insurance system, regulates employment hours and wages, offers a hand to unions under the guise of monitoring employee-employer negotiation, conducts training programs, and generally oversees the workplace.

It should come as no surprise that organized labor has sought a formal beachhead in government. After all, business enjoys manifold subsidies from the Department of Commerce, whose primary function is to enhance corporate profits. But even many private firms today see the federal government as a kind of negotiator-in-chief when it comes to other companies' labor disputes. During the United Parcel Service strike, the *Chamber of Commerce* called on President Clinton to order the workers back to work and the company back to the negotiating table. Although the Presi-

dent declined to do so, he did pressure the parties to reach an agreement. Moreover, he, like his predecessors, had no principled objection to using his power, having ended the earlier strike against American Airlines as it began.

Here, as elsewhere, government has metastasized beyond any conceivably appropriate role. Labor relations are a private matter. Government should act only as impartial arbiter, preventing either side from using violence to achieve its ends and providing the framework for adjudicating disputes—are both sides living up to their contract? But questions as to whether workers join or are represented by a union, and what terms employees and employers agree on, should not be answered by government.

Of course, the Labor Department was not created out of a principled desire to solve problems. Rather, it was essentially a payoff to labor unions. The bias was most evident during the New Deal, though many of those laws live on. Losers are not just companies faced with government-backed unions, but workers who don't want to support a union. Individual choice has never been seen as a virtue by government.

The Labor Department has not limited itself to regulating employment relations. It grabbed a growing piece of the welfare state when Washington's crusades like the War on Poverty created new government programs hither and yon. Although the old Health, Education, and Welfare picked up the majority of welfare programs, Labor got ahold of

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a host of employment-related initiatives, ranging from job training to voluntarism.

It is perhaps here that Congress should start. The agency's training programs have, in the main, proved to be abject failures. Scores of government efforts have had only minimal success in providing workers with more remunerative and permanent work. And that should come as no surprise, since government has no incentive to narrowly tailor public initiatives to individual needs. Congress should leave training to workers and employers.

Unemployment insurance discourages not only work, but also private savings to cushion a period of joblessness. Congress should abolish the program or, as second best, leave it with the states. One of the virtues of federalism is allowing different communities to handle problems like unemployment differently.

Congress should also roll back federal regulation of the labor market. The minimum wage destroys jobs, since it prices out of work anyone who lacks sufficient education, experience, and skills to earn the minimum. Were this not the case, the government could make everyone rich by imposing a minimum of \$100 or \$1,000 an hour. Similar in effect is the Davis-Bacon Act, which requires the payment of union-scale wages for federally funded construction projects.

Restrictions on overtime and other work conditions are equally misguided. Employees and employers should be free to bargain over the terms of their employment. Different workers are likely to prefer different packages of benefits; there is no reason for Washington to decide, say, the overtime pay rate, or under what circumstances companies can instead offer comp time.

Similarly, the government should not be in the business of promoting labor unions or aiding corporations. Early in its history Washington favored the latter; more recently it has leaned towards the former. But, again, federal regulation, though justified as helping working people, actually interferes with the right of employees to choose the employment conditions they prefer. At the same time, restrictive regulations bar workplace flexibility—which

benefits employees and employers alike—and penalizes blameless companies for transgressing rules designed to give organized labor an unfair boost in representation elections. Congress should, among many other things, end exclusive representation by one union, restrictions on labor-management cooperation, and the requirement that firms hire union organizers as employees.

Especially important is statutory enforcement of the 1988 U.S. Supreme Court decision, *Communications Workers of America v. Beck*, which grants workers the right to a refund of any union dues used for political purposes. One of the first acts of the Clinton administration was to repeal federal rules requiring that unions give an accounting to their members. As a result, most labor unions today flout the law, collecting dues with the implicit aid of the federal government for use in partisan political campaigns.

Congress should also dismantle the Occupational Safety and Health Administration (OSHA). Despite imposing annual costs estimated to run between \$11 billion and \$34 billion on the economy (the agency's nitpicking regulation is legendary), there is no evidence that OSHA has improved U.S. workplace safety. The rate of employee fatalities has been falling for six decades, and is affected more by insurance requirements and tort litigation than by OSHA. (After all, it is not good business for companies to end up with dead workers.) At the same time, there has been little drop in workplace injuries since the creation of OSHA. The most realistic assessment of the maximum benefit of OSHA regulation is about \$4 billion, which falls somewhere between one-third and one-ninth of the cost imposed by the agency on the U.S. economy. Repeal, not reform, is warranted, leaving workplace safety constrained by a variety of more cost-effective mechanisms, including private lawsuits and market pressure.

Such tasks as collecting statistics and figuring the rate of inflation (Bureau of Labor Statistics), could be transferred to the Census Bureau. Oversight of private pensions (Pension Benefit Guarantee Corporation) could be shifted to the Treasury Department, with

the agency stripped of its role as guarantor—which poses multibillion dollar liabilities for taxpayers—and focused instead on ensuring that private companies fulfill their contracts to former employees.

The federal government has grown dramatically and inexorably because politicians desiring to expand their power have joined with

interest groups desiring to benefit from that expansion of political power. The Labor Department is an example of a government bureaucracy that should not exist: a wasteful amalgam of special-interest subsidies and officious government interference. This would be a good place for Congress to begin paring government back to its essentials. □

TV Taxes

by Raymond J. Keating

Christmas arrived early for TV broadcasters this year. Way back in March the federal government played Santa Claus.

Over a four-day period, from March 31 to April 3, Washington gave away the proverbial store to the nation's over-the-air television broadcasters. A major step by the Federal Communications Commission (FCC)—taken per a Democratic White House and Republican Congress—and a decision by the U.S. Supreme Court will both prove quite costly for taxpayers, consumers, and the U.S. Constitution. It is corporate welfare run amok.

Broadcasters were handed tens of billions of dollars worth of broadcast spectrum, free of charge.

Earlier this century, the government asserted the right to manage the spectrum, the airwaves over which television, radio, and other forms of communication are transmitted. This year the federal government flexed its industrial-policy muscles, decreeing that American consumers should watch digital-quality television (with its purported better picture and sound) whether they want to or not. Broadcast television stations will use

their new, free-of-charge channels to send out digital signals of their commercial TV service, currently delivered through less efficient analog signals; some frequencies will be left for subscriber-paid services. Broadcasters will simultaneously send out their analog and digital signals for about the next decade, after which the old signal will end, with that section of the spectrum supposedly returned to the government for auction.

In effect then, over the coming decade the broadcasters, backed by the federal government, will push consumers to buy new digital TV sets or set-top converters for their old TVs. This amounts to a TV tax on consumers, potentially running into hundreds of dollars for converters and thousands of dollars for digital televisions. At the same time, were the spectrum auctioned off, rather than given away, billions of dollars in revenues could be collected and used to retire a bit of the federal government's outstanding debt. Indeed, at this point Washington's lone goal should be to extract itself from any involvement in the broadcast spectrum—but for safeguarding property rights—and the best means to do so would be to auction off the entire spectrum, allowing the marketplace, not government, to decide the future of over-the-air telecommunications.

Mr. Keating serves as chief economist for the Small Business Survival Foundation and is the author of New York by the Numbers: State and City in Perpetual Crisis (Madison Books).

As for the promise by broadcasters to eventually return their old spectrum, don't hold your breath. If consumers resist paying the TV tax and stay with their old televisions, the broadcasters could keep all of their spectrum for some time. Either way, it's a lose-lose proposition for taxpayers.

The Must-Carry Rule

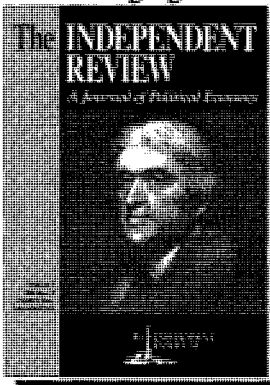
Meanwhile, also in March, the Supreme Court struck another blow for industrial policy and the TV broadcasters by upholding a 1992 federal law mandating that cable television systems carry local broadcast stations, i.e., the must-carry rule. In the continuing, perverse "tradition" of judicial activism, the Court utilized, as Justice Sandra Day O'Connor put it in her dissent, "a highly dubious economic theory" to uphold the law. The economic viability of local broadcast

stations was considered as an issue by the Court, while the First Amendment (i.e., free speech) and the Fifth Amendment (i.e., takings) were discounted.

In the case of must-carry, the federal government has decided that a local broadcast station must be seen by cable TV subscribers over other stations such as C-Span and ESPN. Of course, this law violates private-property rights, interferes with the superior workings of the free market, and overrides what consumers may actually demand.

Government should neither be guiding the development of television technologies, nor ensuring the economic viability of local broadcasters. If only we could click off government officials, who insist upon ignoring the free market and the U.S. Constitution, as easily as we turn off the often moronic television shows the broadcasters offer over the airwaves. □

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How Fair Is “Fair Housing”?

by George C. Leef

Owning property used to mean that you had the right to do with it as you pleased. You could sell it, rent it, or give it away. You could also refuse to do so. Some people might be disappointed by your decision, but all they could do was to search elsewhere for what they wanted. There was no legal recourse for having been told “No.”

But now there is. Thanks to federal and state “housing discrimination” statutes, would-be purchasers and renters can collect damages if they can show that the owner “discriminated” against them, which means they were told “no” without what the government regards as a good enough reason. The government now casts a long and ominous shadow over the housing market. It is one more slash in the death of a thousand cuts being administered to property rights in America. Just ask John Hoffius.

Hoffius owns several apartments in Jackson, Michigan. He was approached by an unmarried couple who wanted to rent one of his units. He declined to do so on religious grounds, stating that he believed it was wrong for a couple to live together out of wedlock. He couldn’t stop them from cohabiting, but he could prevent them from doing so on his property. So he thought.

The couple filed suit, seeking damages of \$10,000 each. Of course, they were not really harmed. John Hoffius took nothing of theirs.

Their only damage was having devoted a small amount of time to applying for his apartment. Nevertheless, the misnamed American Civil Liberties Union and a bevy of “fair housing” groups joined in.

So far, two courts have ruled in favor of Hoffius, but the case is now on appeal to the Michigan Supreme Court. Even if he ultimately prevails, he will have lost, since defending the suit has cost him thousands of unrecoverable dollars. (The law allows the plaintiff to recover attorneys’ fees if he wins, but not the defendant.) But Hoffius has been fortunate. In California, Evelyn Smith lost a similar case when the California Supreme Court decided that forcing landlords to rent to unmarried couples did not put a “substantial burden” on landlords’ religious freedom.

Many housing “discrimination” cases are brought (or threatened) each year. Often, they are instigated by organizations like the Fair Housing Center of Metropolitan Detroit (FHCMD). The budget for FHCMD comes largely from the federal government, augmented by some private donations. It advertises for individuals who have “suffered discrimination” and, after learning about their experiences, usually sends in “testers.” If “discrimination” is found, then an FHCMD attorney contacts the owner to say that they will file suit unless the owner settles.

In the case of *Darby v. Heather Ridge Apartments*, the plaintiffs alleged racial discrimination. The Darbys, a black couple, sought to rent an apartment, but were informed that no units would be available for more than a month. However, white appli-

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cants were told that there were units immediately available. The plaintiffs sued and won \$450,000 in damages.

Racial discrimination like this is both immoral and irrational. However, just because an act is immoral and irrational doesn't mean anyone has been directly harmed (in contrast to more nebulous emotional hurt). Except for the loss of some time, the Darbys were no worse off than if they had never stopped at Heather Ridge. But they hit the jackpot with a jury that "wanted to send a message."

Lawsuits Abound

That the law is simply viewed as a tool for enrichment is evident from *Lawson v. Paragon Properties*, in which a black couple applied for apartments at two different complexes. Within days, they had been accepted at one, but the other took three weeks to reject their application. Rather than simply move in where they'd been accepted, the Lawsons filed suit against the other complex and wound up with an award of \$17,500. In cases like this, the law seduces people into needless, wasteful litigation.

Another fount of lawsuits is the legal obligation not to discriminate against people who have "disabilities" and need "accommodation" in housing. In *Herzberg v. Plymouth Heritage Apartments*, Cindy Herzberg sought to rent an apartment. But she needed an access ramp to the unit for her wheelchair. The owner said Ms. Herzberg would have to pay for the ramp, which would cost some \$1,700. Herzberg cried "discrimination!" and the case wound up before a mediation panel that decided it was unreasonable of the owner not to want to spend \$1,700 in constructing the ramp. The mediators tacked on an extra \$10,000 in damages to teach the owner to be more sensitive.

Sometimes advertising provides the excuse to sue. In 1996, FHCMD won an arbitration award of \$569,000 against the owners of Henry Ford Village in Dearborn. For more than two years, FHCMD had monitored the advertising of the Village. Among hundreds of ads, only one showed any nonwhite people.

There was no evidence the complex treated whites and blacks differently, only that its advertising seemed to convey a preference for whites. The arbitrator ordered the company to shell out \$469,000 over the next three years to hire a "manager of affirmative marketing," retain a consulting firm to help devise an "affirmative marketing plan," include an "Equal Housing" logo in all advertising, and pay FHCMD \$100,000.

One can have sympathy for the objectives of groups like FHCMD even while abhorring their methods. Housing discrimination is offensive, but it is a rare phenomenon simply because it usually proves costly to the one practicing it. If a landlord has a vacant apartment and turns away decent, paying tenants because of something he doesn't like about them, he loses revenue. There are nearly always others in the marketplace who are happy to rent to those who were rejected. "Fair housing" centers would perform a more valuable service if they assisted people who encountered discrimination to bypass it, by finding places where they would likely be accepted.

Unfortunately, however, discrimination suits hold out the prospect of great windfalls for plaintiffs, attorneys, and "fair housing" centers. Why do something peaceful but not very profitable when you can use the law to shake down property owners?

Persuasion, Not Force

Housing activists might respond that only the threat of lawsuits will change attitudes. Possibly so, although persuasion and positive incentives are usually more effective than force. In any case, an important part of freedom is tolerating those who do not share our values and beliefs. People have no more a right to use force to make people have the "right" attitude toward prospective tenants than to make people have the "right" attitude toward the Social Security System, opera, or immigration.

Instead, those committed to "fair housing" should use noncoercive means to accomplish their ends. If, for example, they have evidence that a landlord discriminates in ways they

deem to be inappropriate, they could publicize this fact and organize a boycott. But doing so requires persuading other people to cooperate with you, and that is more difficult than convincing a few jurors to indulge in vicarious generosity. Moreover, those adamantly opposed to any kind of housing discrimination could cooperate to buy "bad" landlords out of not only their property, but the business entirely. If activists aren't willing to put up their own money to achieve their objective,

why should they be allowed to take the easy route of a lawsuit?

Like so many other pieces of statist legislation, the "fair housing" laws are misnamed. There is nothing fair about coercing people who have simply decided to contract in ways that some other people find objectionable. If all "fair housing" statutes were repealed, then housing activists would have to use their own time and money to assist those for whom they express so much concern. □

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Technology and the Work Force: Work Will Not End

by Donald K. Jonas

In his recent provocative book *The End of Work*, Jeremy Rifkin joins a growing chorus of social pessimists who argue that advanced technology leads to a concentration of wealth in the hands of “the elites” followed by wholesale unemployment for the masses. Some critics contend that if we continue our pattern of adapting technological advances to the work force, in the very near future all work will literally end.

In fact, these techno-pessimists are wrong. Rather than ending, work is evolving. New technologies are changing the skill requirements of workers, not making workers obsolete.

The technocratic straw man constructed by these critics of the absorption of technology is comical in its simplicity. Technology does not, in and of itself, destroy jobs. Nonetheless, we are inundated with heartbreaking stories of individuals pushed out of the job market, usually by ruthless corporate villains intent on using advanced technologies to cut jobs.

One such indictment was Donald Barlett’s and James Steele’s “America: Who Stole the Dream?”, which ran in newspapers across America during the late summer of 1996. The ten-part series relied on anecdotal stories of technologically displaced workers. In virtually every case, Barlett and Steele used a downsized worker to “prove” their unsubstantiated

rule. These stories of personal tragedy echo the events of a century ago as Americans left the farm for the factory. At that time, William Jennings Bryan, the Democrats’ nominee for President in 1896, cried, “Burn down your cities and leave our farms, and your cities will spring up again as if by magic, but destroy our farms, and the grass will grow in the streets of every city in the country.” Populists tried in vain to hold on to the agrarian lifestyle by resisting the relentless march of industrialization.

Their attempt failed miserably. Whereas in 1790 farmers comprised 90 percent of our population, by 1900 they accounted for just 38 percent; today, just over two percent of Americans are farmers. But this decline did not represent an “end to work,” and grass does not now grow in our city streets. Although many farmers have felt the pain of job loss, the new opportunities presented by the growing industrial age amply compensated for these short-term dislocations. Today one sees striking parallels between the dislocated farmer at the turn of the twentieth century and the laid-off industrial worker at the dawn of the 21st century. Both cases involve immediate but short-term discomfort for many in the work force while the displaced workers adapt to the new and more profitable opportunities made available by technological change.

Numerous social theorists have tried to describe this social change, calling it a “post-industrial age,” an “information age,” and

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even a “postmodern era.” In today’s society knowledge and the ability to process information have become central to one’s economic success. Workers who do not measure up to this standard can experience significant anxiety and pains. Nevertheless, the evidence soundly contradicts the apocalyptic ramblings of Rifkin and his associates who fear that advanced technologies will destroy all jobs.

As these writers spread their fatalistic vision of America’s future work opportunities, one should note that we’ve been hearing this refrain repeatedly for hundreds of years. “Technology” (along with its partner in crime, “globalization”) gets blamed for destroying the labor market. But as Perry Pascarella has argued, “Technology is created by humans to assist us in our work . . . technology makes no promises of improving our lives. But it does give us the economic power to improve our lives in economic dimensions.”

Throughout the course of history new technologies have been introduced to the economy that drastically change how we work. Consider these brief examples, cited by Michael Rothschild in *Bionomics*:

- Gutenberg’s movable type press in 1440 is often hailed for democratizing information and spreading religion to the masses. From a techno-pessimist viewpoint, however, Gutenberg’s invention was hell on the scribe business, reducing it by 98 percent in a few short years. But this technological advancement opened up previously undreamed-of opportunities for work.

- The invention of the “power loom” in Britain in the early 1800s allowed steam-driven machines to mass-produce cloth. The hand-loom operators displaced by this new technology, fearful for their livelihood, attempted to stop technological progress by destroying these new machines. The Luddites, as they became known, would have prevented the labor-saving power loom from improving the efficiency of British cloth manufacturing, increasing production, lowering prices, and opening up new markets.

- The internal combustion engine, while creating thousands of new jobs in the nascent automobile industry at the beginning of the twentieth century, wreaked havoc on the

carriage-making industry: between 1909 and 1919, carriage-making employment fell from 70,000 to 26,000. Employment in the new automobile industry, however, soared from 85,000 to 394,000, far outstripping the job losses in the displaced carriage industry.

- Employment in the telegraph industry peaked at 87,000 workers in 1929 and then declined to a mere 24,000 workers by 1970. Did those jobs just disappear? Glance over to the telephone industry, which by 1970 had created 536,000 new jobs.

It is useful to probe a bit deeper into the thoughts of the modern technological pessimists. Consider:

1. **Hype:** Jeremy Rifkin claims that “The ranks of the unemployed and underemployed are growing daily in North America.”

Reality: It is simply untrue that unemployment is rising in America. Alan Reynolds reports that unemployment due to job loss is very near a record low, approximately 2.5 percent, and is as low as it was at the peak of past cycles in 1979 and 1989. The overall unemployment rate remains very low and in recent years the U.S. economy has created more jobs than it has displaced. Since 1991 the U.S. economy has lost 14 million jobs and created 15.5 million new ones.

2. **Hype:** Rifkin also contends that “While some new jobs are being created in the U.S. economy, they are in the low-paying sectors and generally temporary employment.”

Reality: During recent years most service-sector job growth has occurred in higher-paying managerial and professional-specialty jobs. Further, according to the Bureau of Labor Statistics (BLS), most of the net growth (68 percent) in full-time jobs between February 1994 and February 1996 occurred in job categories paying above the median wage. Most of these jobs were in occupations in the top third of wage levels.

3. **Hype:** Peter Cappelli in his 1997 book *Change at Work* argues that “It has been very difficult for displaced workers to find new jobs since the mid-1980s.”

Reality: According to recent statistics,

most displaced workers who lose their jobs quickly end up making more money than before. An August 1996 Federal Reserve survey found that fired executives and managers were finding jobs with the same or better salaries in an average of 2.8 months in 1996, down from 3.2 to 3.3 months in past years.

4. Hype: Donald Barlett and James Steele contend that after the American worker, the "biggest loser has been the small business owner. Unlike multinational corporations that have closed factories and shifted production abroad to take advantage of cheap labor, small companies seldom have that option. These businesses are being squeezed out."

Reality: Small businesses are a major source of employment in America's information-age economy. The Small Business Administration notes that businesses with fewer than 500 employees represent 54 percent of all American jobs. Small business firms today account for more than 70 percent of all job growth in the American economy. Cognetics, a Massachusetts market research firm, estimates that there are roughly 300,000 U.S. companies with fewer than 50 employees that are growing at better than 20 percent per year.

5. Hype: Rifkin says that "The fact is that while less than one percent of all U.S. companies employ 500 or more workers, these big firms still employed more than 41 percent of all the workers in the private sector at the end of the last decade. And it is these corporate giants that are re-engineering their operations and letting go a record number of employees."

Reality: Despite the highly publicized layoffs by large companies such as AT&T, big firms in general are not firing as many employees as many critics think. A recent survey by the American Management Association (AMA) found that although two-thirds of 1,003 major companies surveyed in 1995 had gone through at least one work force reduction since 1989, two-thirds of these 1,003 firms employed as many or more workers in June 1995 as in January 1990.

6. Hype: Rifkin argues that "Men and women who just a few short years ago were taking home wages in excess of \$30,000 consider themselves lucky to find jobs as janitors or security guards for \$5 an hour. For them and their families, the post-World War II dream of being part of the middle class is over."

Reality: Citing the University of Michigan's Panel Survey on Income Dynamics (which has tracked the individual earnings of over 50,000 Americans since the late 1960s), Federal Reserve Bank of Dallas economist W. Michael Cox finds that wages for America's workers are actually rising. Cox notes that only five percent of those who started out in the lowest income bracket in 1975 remained in this bottom tier by 1991. Furthermore, approximately four out of every five Americans in this lowest bracket had made it into the middle class, and 30 percent of these individuals vaulted into the highest income bracket by the early 1990s.

It is true that earnings for those with at most a high-school diploma have fallen, which suggests that low-skilled people face tremendous challenges that will become even more daunting. But the techno-pessimist interpretation of the economic statistics is one-sided. The terrifying claim that computers are eliminating jobs is simply not supported by the evidence.

The typical pessimistic analysis argues that American workers are being permanently left behind as businesses automate production facilities through the introduction of advanced computers and other sophisticated technological tools. As computers become more integrated into the American work force, the argument goes, workers will become less necessary.

It is too early to argue such a point, however, especially in light of history. A major, transforming tool like the computer may take years to become fully integrated into the economy. Paul David of the Center for Economic Policy Research at Stanford University figures that it took more than 50 years to fully assimilate the shift from steam to electromechanical technology, which began almost a century ago. Some of the most

beneficial impacts of electromechanical technology, especially in terms of increased work opportunities, did not arise until nearly two-thirds of the way through the transition. Workers acted on their incentive to retrain for jobs in the newly altered economy, just as they had done during previous economic revolutions. Similarly, today's computer revolution is restructuring, not destroying, the work force.

Of course, these pessimists believe that, even with massive retraining and re-education, there will not be enough high-tech jobs to go around. But Perry Pascarella argues that pessimism is "an easy game to play" because technological disaster always seems to be just around the corner. Social critics have forever warned of a coming technological catastrophe, be it a nuclear mishap, an environmental disaster, or some other cataclysmic event. But we're still here.

Admittedly, not all is rosy for America's

short- and long-term economic future. Existing government policies currently pose a barrier to the market process of "creative destruction" that will create new work opportunities in the new economy. There are many wide-ranging proposals, from regulatory reform to competitive educational changes, that we should seriously consider as we exit the industrial age in order to raise America's growth rate above its currently sluggish levels.

We live in a rapidly changing, globally competitive technological marketplace. Society is in the midst of a major transformation away from the industrial age into the information age. There is real value in peeking into the future. But the technological pessimists are using glasses that are too intellectually biased to yield results that even approach practical reality. Although nothing is certain, one prediction is likely to come true: work has not ended. □

Business and Morality in a Free Society

by Edward W. Younkins

Few would deny that capitalism is the most productive and efficient economic system, especially after the collapse of Soviet Communism. But some critics still contend that capitalism is not a moral system.

Yet morality is impossible unless one is free to choose between alternatives without outside coercion. Since capitalism is based on freedom of choice, it provides the best environment for morality and character develop-

ment. In addition, business success not only requires but also rewards virtuous behavior by participants in the market.

Morality Requires Freedom

All human beings have natural rights either endowed by their Creator or inherent in their nature, and have a moral obligation to respect the rights of others. Natural rights impose the negative obligation not to interfere with someone else's liberty. Thus, it is morally illegitimate to use coercion against someone

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who does not first undertake the use of force. The role of government, as recognized by America's founders, is to protect man's natural rights.

This kind of freedom involves far more than simple democracy. It demands a protected private sphere within which an individual can pursue his freely chosen norms, actions, and ends without the arbitrary intervention of others. And this freedom is necessary for individual morality.

There can be no morality without responsibility and no responsibility without self-determination. Responsible self-determination implies rationality, honesty, self-control, productiveness, and perseverance. In order to provide the maximum self-determination for each individual, the state should be limited to maintaining justice and defending against internal or external coercion, thus protecting life, liberty, and property.

A social system such as capitalism is a system of relationships and cannot be moral or immoral in the sense that a person can be—only individuals can be moral agents. However, a social system can be moral in its effects if it promotes the possibility and likelihood of moral behavior by individuals who act within it. It follows, then, that there is a moral imperative to create a political and economic system that permits the greatest possibility for self-determination and moral agency. Capitalism is that system.

Capitalism is itself only a means and requires its individual participants to decide on the ends to be pursued. No economic system can make people good. The best that an economic system can do is to allow people to be good. But morality and virtue require that individuals be free to be immoral and of bad character. Only when an individual has choice and bears responsibility for his actions can he be moral. Capitalism, more than other economic systems, allows the exercise of individual free will. Thus, though capitalism cannot guarantee a moral society, it is necessary for one.

Human development usually requires more than material wealth. However, prosperity

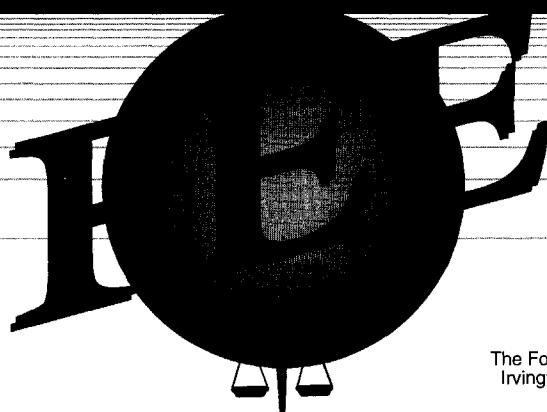
enables individuals to cultivate their talents, abilities, and virtues. Thus, capitalism, the best system for wealth creation, permits individuals to spend less time on physical concerns, leaving them more time to engage in higher pursuits.

The Moral Responsibility of Businessmen

At the same time, the achievement of prosperity tends to reward moral behavior. Businesses—more particularly, their owners, managers, and other employees—have moral obligations. They must respect the natural rights of other individuals, which includes honoring contracts, not engaging in fraud, not using coercion against others, and honoring representations made to the local community. Moreover, businessmen should not support government economic interventions, such as price supports, tariffs, and subsidies, even though doing so might result in higher profits. To do so would involve the use of coercion, one step removed.

Living up to these virtues will aid businessmen in the pursuit of profit. The free market rewards polite, cooperative, tolerant, open, honest, realistic, trustworthy, discerning, creative, fair businessmen. Lying to and cheating other businesses, misleading consumers, and mistreating workers all have serious adverse consequences. In the long run, profitable businesses tend to be operated in accordance with the basic ethical principles most people hold dear.

Under capitalism a business transaction takes place by mutual agreement for perceived mutual advantage. Through voluntary exchange buyers and sellers can promote their own interests only by serving the interests of others. By protecting individual choice, capitalism not only generates enormous wealth, but also creates an environment in which virtue can flourish. In the end, capitalism is not only the most productive and efficient economic system. It is also the most moral economic system. □



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November 1997

Juvenile Delinquency

Government brings out the kid in all of us. This truth is key to political understanding.

Nanny-state activities are government's best-known way of babying its citizens. States insist that drivers buckle up; the Clinton administration never tires of scolding cigarette smokers and tobacco companies; Congress now dictates the amount of time that women must remain in the hospital after giving birth, as well as the amount of water that we free citizens are allowed to have in our toilet tanks; and the Americans With Disabilities Act hovers over us like a diabolic schoolmarm made paranoid by the mistaken belief that her charges act with no purpose in life other than to commit malicious injustices to the handicapped. These are only a few of the tens of thousands of instances of how our nanny state abuses and insults us.

But the nanny state's frightfulness doesn't end with these particular abuses and insults. Its pernicious effects run much deeper. In particular, the more we relinquish decision-making responsibility to government, the more childlike we become.

Consider the response of a New Jersey woman to my suggestion that New Jersey's prohibition on self-service gasoline

stations be lifted. "Oh, no!" cried the woman, "that would be disastrous! People here don't know how to pump their own gasoline. They'd spill it all over the place!"

As it happens, my wife hails from New Jersey. Until she moved to Virginia at the age of 26, she had never before filled her own gasoline tank. Sure enough, the first time she tried to gas up at a self-service pump in Virginia, she squeezed the pump handle before inserting it into her gasoline tank. The result was quite a mess—and, with fresh gasoline sprayed all about until the shop attendant washed it away, also quite dangerous.

My wife (who now regularly, and expertly, refuels her car herself) learned how to pump gasoline the hard way. Had she grown up in a state that trusted its citizens to pump their own gasoline, she would never have squeezed the pump handle before popping it into her tank. New Jersey's prohibition on self-service gasoline stations prevents people from gaining useful experience. In its own (thankfully small) way, this prohibition keeps people from fully growing up.

While the nanny state stunts personal growth, the political process encourages childlike behavior in a less obvious and more pernicious way. A mark of immaturity-

ty is the inability or unwillingness to make sound decisions—failure to weigh carefully the present and future benefits and costs of available alternatives. Because children cannot be trusted to make sound decisions, adults don't give them much decision-making responsibility.

Why don't parents let eight-year-olds decide how to spend the family income? Because with eight-year-olds in charge, the family would vacation for months on end at Disney World—and be broke in short order. When spending their parents' money, eight-year-olds ignore the costs and long-run consequences of extended stays with Mickey Mouse, focusing only on the immediate thrills of such vacations. People who consistently act in ignorance of long-run consequences are rightly called "childish."

By this criterion most voters behave childishly. Citizens in the voting booth help decide a multitude of important issues. Should Congress increase subsidies to farmers? Should the federal government fund high-tech research? Should the state government pay for a fancy domed stadium to attract an NFL franchise? The idea of democracy is that citizens, by voting, collectively make such decisions.

But citizens have no incentives to make mature decisions in the voting booth.

First, voters are typically asked to decide how to spend other people's money. Just as children have no trouble spending mom and dad's money, voters have no trouble voting for pet projects to be financed largely by others.

Second, no single vote counts; no single vote decides the outcome of an election. So, no matter how a voter votes—no matter how absurd, unrealistic, or destructive a voter's wish may prove to be—the fact that no single vote counts means that no single voter incurs any material cost of voting in whatever way strikes his fancy.

Imagine a child on the knee of a shopping-mall Santa. Because it costs the child nothing to request truckloads of playthings, the child asks for everything that pops into his mind, giving no thought to

costs or harmful side effects. But because Santa forgets each child's request as soon as the child leaves, the child on Santa's knee is in a harmless fantasyland.

But suppose that all the shopping-mall Santas tallied up the wishes of all the kiddies and then tried to make these wishes come true. Society would be awash in toys, desperately short on many of life's necessities, and drowning in debt!

Citizens in a voting booth are much like children on Senator Santa's knee. Enter the voting booth and vote for the candidates promising the greatest amount of wizardry! Because your vote is not decisive, you suffer no personal repercussions in the voting booth of using your ballot to express all sorts of fantasies. Of course, every other voter is in an identical position.

Thus, democratic elections encourage voters to behave irresponsibly in the voting booth, just as sitting on Santa's knee encourages little children to rattle off long wish lists of toys. But unlike shopping-mall Santas, voting booths tally up voters' dream-world requests and pass these requests onto government. Politicians try in vain to satisfy these unsatisfiable requests.

Compare democratic voting with private decision-making. Perhaps a car buyer dreams of owning a car that gets 100 mpg, packs herds of horsepower, and is safe as a tank. Automakers will supply such cars to buyers willing to pay the price. But because such cars must be paid for by each individual buyer, no buyer indulges these costly fantasies. Each buyer settles for a less fanciful car because each buyer prefers to save the extra money it would cost to buy the fantasy automobile.

Such rational weighing of costs and benefits is the mark of maturity. Pathetically, democratic voting encourages too many otherwise mature adults to behave like spoiled brats propped on Santa's knee.



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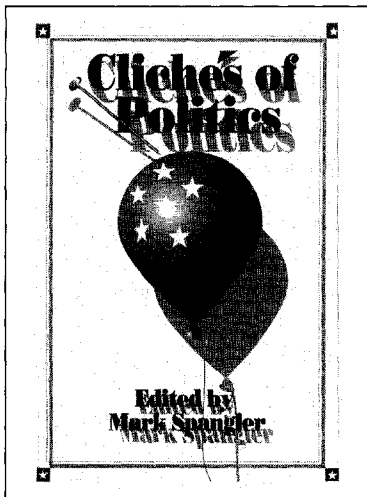
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The Minimum Wage

by Kevin Sohr and Walter Block

The second stage of the minimum-wage increase approved by Congress last year recently took effect. What will the impact be on the economy and particularly on unskilled workers? Economists have long argued that minimum wage increases cut employment, particularly of minorities and teenagers. But supporters of the minimum wage, now backed by some economists, claim that government-legislated wage hikes do not necessarily lead to less employment, and may even create more jobs for the unskilled. So does the minimum wage benefit or injure workers?

Traditionally economists have maintained that the free market establishes the wages for all workers so that they receive the value of their output. If Sam is earning \$2 an hour while generating \$2.50 worth of goods and services for Firm X, then Firm Y would have an incentive to offer Sam \$2.01 per hour. Firm X would then counter with \$2.02 and the cycle would continue until Sam was paid \$2.50 an hour. No firm would bid higher because he was simply not worth it. What happens when the minimum wage is set by law at \$3.00? According to classical economists, Sam will lose his job.

But David Card (now at the University of California, Berkeley) and Alan Krueger of Princeton University have challenged the traditional model. In 1992 New Jersey increased its minimum wage while neighboring Penn-

sylvania held its rate constant. In a study published in 1994 Card and Krueger concluded that employment in New Jersey's fast-food industry actually rose after the wage hike. In contrast, industry employment fell in Pennsylvania. How can this be? The Card-Krueger study leads us to believe that employers demand more labor as its price rises. Such counterintuitive findings require a deeper look.

The Card-Krueger model's method of data gathering has been widely questioned. Via phone surveys, the team interviewed managers from 321 fast-food franchises in New Jersey and 78 in Pennsylvania. This is a very small number of firms to use as evidence for such significant findings. Also, the information given by stores may not be accurate. Burger King managers are not statisticians or even bookkeepers; the study should have employed repeat interviews by a second set of researchers.

Moreover, while the law went into effect on April 1, 1992, the interviews regarding the impact of the legislation were conducted between November 5 and December 31 of that year. By using such a limited window, just seven to nine months after the implementation of the law, Card and Krueger did not give the market sufficient time to develop alternatives, such as automation, to low-skilled labor. (Had they conducted interviews on April 1, their results would have shown zero impact.) Milton Friedman rightly argues that "It takes time for firms . . . to shift to ways of doing things which place less reliance on unskilled labor."

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Yet another possible fault with their findings is the actual significance of the minimum-wage increase. At the time of the hike, two-thirds of the restaurants were already paying more than the minimum. In these cases the market had already provided lower-skilled workers with high wages.

Moreover, even if employment did increase in the fast-food industry when the minimum wage rose, this result is still not necessarily good for society. Economists David Neumark and William Wascher have found that an increased minimum wage will decrease the number of teens enrolled in high school and raise the proportion who are unemployed. Why this paradoxical result? The higher minimum encourages more skilled teens to drop out, while making it more likely that those who were already working will lose their jobs.

The dramatic conclusions of the Card-Krueger project contrast sharply with its poor quality. Observes economist Robert Barro: "An annoying feature of the Card-Krueger research is their eagerness to use their findings to discredit the law of demand. . . . It shows extraordinary arrogance to use tenuous empirical evidence . . . to proclaim the first documented case in which demand curves fail to slope down. A more reasonable view is that the demand curve is just fine, and the Card-Krueger empirical analysis needs repairs."

Moreover, the minimum wage is not an equal opportunity destroyer. Teens in general suffer more from this law than do adults. Each succeeding increase in the minimum wage has negatively impacted teenage unemployment rates. Just as the minimum wage attacks the young more than the old, it also harms blacks more than whites. Observed Milton Friedman more than three decades ago: "Of all the laws on the statute books of this country, I believe

the minimum wage law probably does the Negroes the most harm." Each increase in the minimum wage has been followed by an immediate widening of the unemployment rate gap between black and white teens. Prior to the 1949 increase the two rates were virtually identical; immediately a gap was created. Every subsequent increase led to a dramatic increase in non-white unemployment while the white level stayed relatively stable.

The problem is not racism, but lack of employment skills. Friedman explained that black "youngsters are less productive than white youngsters. They tend to have a lower level of education, a lower level of skill." This being the case, any given level of mandated wage is likely to trap more black than white youth.

The one advantage low-skilled workers might have over their skilled counterparts is price competition, offering to work for less. But the minimum wage makes such an offer illegal. Thus, the minimum wage hurts those whom it is intended to most help: unskilled laborers.

Given its disastrous consequences, why does the minimum receive so much support? It preys on people's good intentions. Voters think: Poor people are not making much money. How can we help them? Mandate that their bosses pay more. When a politician opposes an increase, people hear "I want poor people to earn less money."

The minimum wage keeps rising. The impact will continue to be to hurt poor, young, black, and unskilled workers. Despite the highly publicized study by Card and Krueger, the economic evidence overwhelmingly indicates that the minimum wage destroys jobs. □



Loved to Death: America's Unresolved Health-Care Crisis

by Michael J. Hurd

The Canadian health-care system of single-payer, socialized insurance is in trouble. Yet Congress and the president continue to push the American system in the same direction.

As Canada's national government slashes spending on medical care in order to reduce the deficit, local provinces are reducing medical staff. In Ontario, pregnant women are being sent to Detroit because no obstetricians are available. Specialists of all kinds are in short supply. Patients have to wait eight weeks for an MRI, ten weeks for referral to a specialist, and four months for heart bypass surgery.

Does this sound like the utopian care Canadian politicians promised their constituents? The hard truth is that socialized medicine is destroying health care in Canada.

Most Americans do not understand that we are headed down a similar path in this country. The same mistaken economic and philosophical ideas that created socialized medicine in Canada are leading to semi-socialized medicine in the United States. The increase in managed care, bureaucracy, waiting lists, and expense is largely the fault of the government. In its zeal to "compassionately" meet all of our health-care demands, the government is loving us to death.

How? First, the government pays, through

Medicare and Medicaid, over 40 percent of all health-care expenditures. This massive infusion of cash into what were originally unregulated fee-for-service programs fueled demand for medical services, and thus inflated prices. Second, Washington allows tax write-offs to businesses for health insurance, but does not tax workers for the benefits. Consequently, employers have tended to provide comprehensive insurance.

Thus the vast majority of health care is paid for by a third party. Doctors do not have to worry if they are charging too much; the health insurance company (or the government, in the case of the elderly and poor) will pick up the tab. Patients do not have to shop carefully based on prices. Imagine if a third party picked up the tab for any other commodity—such as groceries, rent, television sets, or automobiles. Prices would skyrocket because the consumer would feel no pressure to spend carefully.

While the insurance companies and government, which are paying the bill, cannot shop for the consumer, they can place controls on the patient's freedom of choice. In the 1980s, Medicare officials began to set price controls ("Diagnostic Related Groups," or DRGs) on treatments for the elderly. In the 1990s private health insurance companies followed suit, by expanding Health Maintenance Organizations (HMOs) and other forms of managed care that often arbitrarily decide who may and may not receive treat-

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ment. Yet there was no alternative to such cost-saving steps, since without some kind of controls the price of medicine would rise ever higher. In that case there would have been pressure on the government to take over altogether, yielding something akin to the Canadian system: monopolistic, post office-style medical care.

Yet the growth of managed care has resulted in American patients encountering problems similar to those faced by Canadians—waiting lists for appointments, arbitrary treatment decisions made by bureaucrats rather than by physicians, and new price and treatment controls in government programs such as Medicare. Today the United States teeters on the brink of a Canadian-like system.

A Free Market in Medicine: The Unknown Ideal

How did we get to this point? And, more importantly, how can we reverse course and prevent a plunge into the disaster that Canada now faces? The answer is real capitalism.

Patients would be free to pursue any treatment they wanted. They would also be responsible for payment, encouraging them to select the best price available among competing medical providers and hospital insurance carriers.

Doctors and hospitals would be free to charge what they believed their services were worth; but they would also have to compete in a marketplace where they risked losses if they charged significantly more than their competitors or more than what most people were willing to pay. Patients, shopping as informed consumers in the marketplace, would do the cost-cutting that the HMOs and government bureaucrats currently do far less efficiently. Just as capitalism (or, more specifically, the law of supply and demand) succeeds in making food, computers, and other goods widely available at prices everyone can afford, so too with medicine and hospitalization insurance—if only the government would get out of the way and let the marketplace work.

The basic principles of economics would work no differently in the medical marketplace than in any other. The fact that medical treatment can be a matter of life or death does not prevent economic principles from operating. On the contrary, the life-or-death nature of medical treatment makes it all the more urgent that the government allow the marketplace to function rationally.

Restoring the marketplace requires aggressive free-market reforms. This means adjusting the tax law to end the subsidy for expensive comprehensive insurance. Moreover, Medicare should be privatized. One possibility would be to maintain the program for the current elderly, offer a phase-out option utilizing medical savings accounts (akin to IRAs) for the middle-aged, and inform young people that they will be responsible for saving for old-age medical care.

Socialist Principles Remain

The problem is not just getting people to understand economics, however. Despite the collapse of communism throughout the world, and the failure of welfare-state democracies in Western Europe, American politicians of all stripes still insist that more government control over health care is needed.

How can this be? In a recent Canadian survey, the majority of respondents stated that their socialized system, for all its problems, reflected their collective “generosity and compassion,” and gave them at least one clear claim to being “morally superior” to the United States. Imagine! A socialist system that provides—indeed, even mandates—pain, suffering, inefficiency, and stagnation is considered to be morally superior to a capitalistic system which (when allowed to function without interference) promotes competition, technological superiority, affordability, and individual respect. In other words, it is better for everyone to have mediocre (or worse) medical care, as is the case in Canada, than it is for there to be any variation in care. Unfortunately, Americans, too, are increasingly choosing this same ethical perspective.

The "Right" to Health Care

This attitude is reflected in the belief that health care is a "right." Dr. Ted Rumble, an orthopedic surgeon in Toronto who is cooperating with the doctors' protest movement in Canada, summed up the issue: "The public doesn't want a high quality medical system, it wants a free system." My own experience suggests that Rumble's statement applies as much to the United States as to Canada. Many people resent the fact that they cannot have something for nothing, particularly medical care. In a way, who can blame them? Government health policies already make nearly everyone dependent on a third party. So many American adults feel that their medical care should just be available—somehow—as if health care grew on trees.

The result is a refusal to deal with reality. The mere fact that health care, or whatever else, for that matter, does not grow on trees is irrelevant. "There ought to be a law" to make the desired good or service grow on trees. Of course, politicians are always delighted to participate in the charade, if it means advancing their short-term interests.

This is evident in Canada, where frustrated citizens don't want to replace the socialized system with a free market, but rather, to increase government's power to limit "unnecessary" medical visits. In a word: rationing. The childish attachment to the idea of government medicine, in Canada and elsewhere, appears at times almost mystical. A *New York Times* reporter has described the "sacred place in the shrine of Canadian values" its citizens seem to hold for its disastrous medical system. Similar sentiments are obvious in Great Britain, where former Prime Minister Margaret Thatcher could implement no real reforms in the socialized medical system, despite its obvious failures.

Incredibly, the Canadian survey actually found people divided over whether doctors should tell patients that their treatment may not be the best available. (A similar debate is

currently underway in the United States over whether HMO doctors should tell their patients when they are being denied superior treatment.) A significant number said they would have more peace of mind simply not knowing. Psychologists call this "denial."

Doctors Fight Back: Medicine's Last Chance

In the midst of the Canadian health-care crisis (and the growing American one) there exists one hopeful development: the protest of Canadian doctors against the socialized system. More and more doctors are refusing to accept new referrals. They are pressuring the government to reduce what it takes from them for alleged "administrative costs." They have also fought the government's attempt to force urban Toronto doctors out of their practices into more rural areas farther north. Some 700 doctors fled Canada for the United States last year, more than twice the number who emigrated ten years ago. If Canadian physicians can find the courage to fight irrational and unjust government mandates, then perhaps American doctors—who still enjoy more freedom than their Canadian counterparts—can muster the same courage.

Doctors must not be afraid to point out that capitalism delivers the goods. Because it respects the rights of the individual, it is the only proper, humane, and moral social system. Moreover, great medical care would never have been possible in a society that did not respect the rights of doctors. When told about a patient's refusal to pay for his services, Dr. Aaron Shutt, a fictitious surgeon in the CBS television series "Chicago Hope," stated: "It's not about money. It is about respect. Surgery is my art. It's my craft. It's mine to sell; it's mine to give away. People . . . think it's free for the taking. Well, it's not. And I'm going to do something about it."

It's time for all doctors to do something about it. □



Electrical Utilities: The Final Deregulatory Frontier

by Doug Bandow

Up into the 1970s electrical utilities were one of the least likely candidates for deregulation. The industry was littered with local and regional government enterprises and state and federal subsidies. Private power companies were thought to be “natural monopolies” and therefore were established as monopoly franchises regulated by government commissions. The public interest was thought best served by suppressing competition and guaranteeing a set rate of return.

Since then the world has changed greatly. In the United States controls have been lifted or reduced in the airline, banking, broadcasting, citrus, energy, natural gas, oil, rail, telecommunications, telephone, and trucking industries. The move to freer markets has been even more significant abroad, affecting not only Third World states but also the one-time communist empire.

Moreover, states, the federal government, and foreign nations have begun to apply the same principles to power generation. A test group of New Hampshire residents has been bombarded with offers from some 30 different power producers as part of a New Hampshire pilot program; bills have dropped by an average of 15 to 20 percent. Potential savings from full competition could range up to 40 percent. Merely a one cent per kilowatt-hour drop would save \$28 billion nationally. Pres-

sure is growing to transform the entire industry through competition. Observes Elizabeth Moler, chairman of the Federal Energy Regulatory Commission, “The future is here, and the future is competition.”

The Electricity Market

Monopoly provision of power was not inevitable. Early power companies, which date to 1879, relied on public streets to transmit electricity. Many municipalities granted competing franchises. In 1905, however, New York and Wisconsin began the shift toward government control. What Robert Bradley of the Institute for Energy Research terms “the cumulative march of regulation” reflected the reigning Zeitgeist of the Progressive Era, with its belief in public management.

The formal justification was that competition was wasteful. Electrical generation and transmission, it was said, was a “natural monopoly.” In fact, regulation turned into a happy meeting point for activists philosophically predisposed to government control, if not ownership, and businessmen who preferred guaranteed returns to the vagaries of the marketplace. Research indicates that regulation was first imposed where electrical rates and producer profits were lowest—suggesting vigorous competition. The result of regulation was to raise both.

The ultimate outcome of this shift from competition to regulation was a mixture of

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government enterprises, government-subsidized cooperatives, and regulated monopoly franchises. As early as 1882 municipalities had begun to establish their own utilities. Federal power generation began in 1909, after President Theodore Roosevelt ended private access to public waterways. In 1933, Congress created the Tennessee Valley Authority, which combined federal power with economic development and pork-barrel politics. Also important are rural cooperatives, which were originally established to bring power to America's less developed areas.

But still most important are the investor-owned utilities (IOUs). The IOUs were granted geographically exclusive franchises and subjected to extensive state review, usually by an independent commission whose members were appointed in some states and elected in others. Nevertheless, state authorities had trouble controlling interstate power transfers and regulating multi-state holding companies. In response to these perceived problems, Congress passed legislation authorizing the Federal Power Commission to regulate interstate transmission of power.

The process worked relatively smoothly until the so-called energy crisis of the 1970s. In large part this reflected the fact that until then electricity prices had been generally falling or rising only slowly. That changed in the 1970s, however. Rates began to move upward with successive oil price shocks. Compliance costs with the Clean Air Act, passed in 1970, and other environmental regulations significantly affected the cost and pace of new plant construction. Rising interest rates had a particularly injurious impact on the capital intensive electricity industry. Higher electricity charges sparked public opposition.

As the existing industry structure shuddered, some regulators and politicians began to look at the possibility of relying on market forces. By the end of the 1980s, proposals for deregulation were percolating in more than 20 different states. Congress passed the Energy Policy Act of 1992, which allowed the Federal Energy Regulatory Commission (FERC) to require IOUs to "wheel" bulk power (wholesale to other utilities) on their transmission lines. Thus, independent power

producers could produce energy for sale to utilities. In 1994 the California Public Utility Commission voted to take the logical next step of retail competition. A number of states are now proceeding with plans to test retail wheeling. Some of the same ideas have been advanced overseas, particularly in Europe.

Even industry executives, many of whom remain fearful of such changes, recognize that deregulation is coming. Exactly what form that should take for utilities remains highly controverted. Nevertheless, the end point is clear: market forces should be allowed to determine the generation and provision of power.

Government-Owned and Subsidized Power

The first step in any deregulation program should be to level the energy playing field. While IOUs have, at least until recently, benefited from their status as protected monopolies, they have faced competition from public and quasi-public entities with even greater advantages. Government-subsidized power comes in several forms.

One is the roughly 1,800 municipally owned utilities across the nation, which account for about 15 percent of power distribution. Local public systems typically charge less than their private equivalents, but this reflects government favoritism, not economic efficiency. Being exempt from most state and federal taxes, municipals face an overall tax burden about one-seventh that of IOUs.

Municipalities also can issue tax-exempt bonds, which require lower interest rates. Many states provide subsidized credit, further advantaging municipals. The federal government provides preferential access to power generated by its power-marketing authorities, which sell power for 2.5 cents per kilowatt-hour, barely 40 percent of the national average. Finally, urban systems are usually exempt from regulation by state commissions. These generous subsidies go to wealthy cities like Aspen and Los Angeles.

Similar in certain ways are the 900 cooperatives (owned by their customers), which

account for about eight percent of the country's energy demand. They are also generally exempt from state and federal taxes and receive preferential access to federal power. Moreover, they have their own federal agency, the Rural Utility Service, formerly the Rural Electrification Administration (REA), with no purpose in life other than to transfer taxpayer resources to the co-ops.

Even when the REA was created in 1935 the agency's primary justification was political. Although only 12 percent of American farms then had electricity, IOUs were steadily expanding service in rural areas. The REA became a political behemoth constantly in search of new tasks to fulfill, expanding into phone service, and, briefly during the Carter administration, cable television. Unfortunately its activities have come at high cost: as much as 40 percent of its roughly \$43 billion loan portfolio may have to be written off.

The agency has lost all pretense of purpose. Today more than 99 percent of farms have electricity. Co-ops now largely serve urban and suburban America. Indeed, supposedly rural co-ops service exotic Hilton Head Island and elite Vail, as well as the suburbs of Atlanta, Dallas, and Washington, D.C.

All told, it has been estimated that municipal and cooperative utilities receive about \$8.7 billion worth of government aid every year. Looking at the subsidies from a different perspective, the federal government alone is forgoing revenues—taxes on municipalities/co-ops and their investors, and charges for federal power—of about \$8.4 billion annually. State and local governments are yielding up a similar \$2.7 billion in revenue. The rates of municipals and cooperatives would have to rise by 17 percent and 16 percent, respectively, without the subsidies.

The federal government runs six major power generation and distribution systems. Created first, in 1933, was the Tennessee Valley Authority, which was to provide power to citizens within its own region. Congress financed the construction and initial operation of what has become a multi-billion-dollar system. Again, the initiative was pre-eminently a political move, since the federal government had consistently rejected propos-

als to allow comparable private power development. Although no longer the recipient of annual appropriations, the TVA can still borrow at below-market rates through the Federal Financing Bank. It is also not subject to the same taxes as are IOUs.

Similar in purpose, if somewhat more limited in scope, were five other regional enterprises, known as power marketing administrations (PMAs). The first was the Bonneville Power Administration, created in 1937 to provide power to the Northwest. Here again the federal government financed power construction and operation and offered preferential access to its cut-rate power to public utilities or private cooperatives. Today the PMAs encompass 129 power plants and produce about six percent of the nation's electricity.

As America moves toward a competitive system, cities should simply sell off their public power systems—collectively worth an estimated \$17 billion. These systems, along with the co-ops, should be stripped of their preferential treatment, both exemption from taxes and access to federal power.

All of the federal enterprises should also be privatized. Doing so could bring in between \$20 billion and \$40 billion. At the very least, Congress could begin privatizing individual dams and plants and circumscribing the operation of the PMAs. It certainly should cut off new taxpayer subsidies—\$312.5 million last year. The PMAs should sell their power at market rates, which could bring in up to \$3.6 billion. Congress should cut off the PMAs' subsidized borrowing, worth about \$1.2 billion a year.

Subsidies to Alternative Producers

The so-called energy crisis of the 1970s sparked federal interest in both alternative sources of power and conservation. Support at times veered toward fanaticism—federal controls over office temperatures, massive subsidies for uneconomic energy sources like synthetic fuels, and more. A more moderate manifestation of this sentiment was the Public Utilities Regulatory Policy Act of 1978 (PURPA).

Utilities were required to buy energy from "qualifying facilities," co-generators and independent producers that met specific criteria, at the "avoided costs" of building new generating facilities or purchasing elsewhere, the interpretation of which was largely left to state regulatory commissions. Today the contribution of co-generation remains modest, while that of other non-utility generators has become significant.

Although the law forbade commissions from setting prices higher than the "avoided cost" of additional generation capacity, they had significant discretion in deciding what constituted avoided costs, and some set unrealistically high prices. Among the QFs that sprang forth were "windfarms," solar power projects, and small hydro systems across the country. Many of these contracts live on, with long-term prices set well above market rates. The result is to inflict high-cost energy on IOUs, costs which must be passed on to consumers. All told, Resource Data International, Inc., figures that PURPA will inflate utilities' costs by \$37 billion through the year 2000. Some estimates run higher.

PURPA should be repealed. There is no reason to continue requiring utilities to purchase inefficient, wasteful, high-cost energy. The only issue is whether to grandfather in existing QFs. Some \$40 billion has been invested in independent power projects across the country, a substantial portion of which would be a risk without government protection. However sympathetic their case—they did, after all, make their investments in reliance on the existence of PURPA—vesting property rights in an existing regulatory regime risks imposing losses on even more innocent parties (in this case, consumers and utilities) and ossifying whatever system happens to exist (since the compensatory costs are potentially so high).

Promoting Other Social Objectives

One method politicians use to win votes at other people's expense is to require utilities to promote a variety of social objectives. For instance, concern about the poor has led to

special "lifeline" rates, subsidized by other ratepayers. Environmentalists have been assuaged by the requirement that utilities offer mandatory energy audits, subsidize energy conservation, and the like.

Unfortunately, mixing purposes (energy production and poverty relief) almost always gives the worst of both worlds—more costly service and worse policy-making. For instance, utilities have no more responsibility than supermarkets to lower their prices for lower-income people. Moreover, hiding poverty alleviation in utility rates distorts public decision-making.

Mandatory energy conservation also makes no sense. There is no energy shortage; supplies of recoverable petroleum reserves, for instance, have been increasing. The crisis of the 1970s reflected perverse government policy, not lack of energy. Nor is there any reason that the consumer who desires an audit—which will, of course, primarily benefit him or her—should not pay for it. Or a utility, believing such a program to offer a financial or competitive advantage, could offer such a service gratis. States should drop their mandates and the federal government should avoid imposing its own. In short, deregulation should mean deregulation.

Holding Company Regulation

In 1935 Congress passed the Public Utility Holding Company Act (PUHCA). The legislation broke up large holding companies that controlled multiple utilities. The basic justification for the Act reflected more New Deal ideology than genuine economic problems. Observes Richard Gordon of Pennsylvania State University: "The evidence suggests, however, that the holding company development process was one of competition to effect what seemed a badly needed rationalization of the then-prevailing structure." PUHCA disassembled economical operations and encouraged other, less economical integration. Equally important, the statute hampered future integration, forcing IOUs to rely on voluntary cooperation, which, though often successful, lacked the legal certainty of formal integration.

The law makes no more sense today and should simply be repealed. If utilities are going to be subject to competition, they need the freedom to structure themselves to best meet the new competition.

The Electric Grid

The development of a national transmission network, or grid, has helped make an electricity free market possible. Within the larger regional networks (east, west, and Texas) exist smaller networks and power pools of cooperating utilities. This electricity superhighway is, of course, privately owned by the IOUs. However, their ownership is often recognized only in the breach. PURPA allows QFs, essentially competitors of the private utilities, to request that FERC require one or more utilities to wheel their power. Later legislation did the same thing for additional independent power producers. In 1996 FERC issued two orders further opening up transmission lines to competitors.

A move to retail wheeling would likely extend this control far further. This is not an economically inevitable outcome of deregulation—the market could be left to develop with IOUs in full control of their transmission facilities, which would obviously limit competition until alternative grids were established. But alternatives would arise, absent the existing government monopolies: already cable TV, gas, and phone companies, railroads and other enterprises own significant rights of way. In fact, William Niskanen of the Cato Institute suggests that the government not mandate access, and instead allow utilities to charge the market price for transmission; provide “the same access to public rights of way that have been granted to the utilities”; and allow other companies with their own rights of way, such as railroads, to develop transmission facilities. Major consumers and groups of consumers would also have an incentive to develop their own grids.

Moreover, a range of academic research raises serious questions about the ability of regulation to ultimately have much impact on industry profits or services. Competition is a much better protector of consumer interests.

Nevertheless, legislators are unlikely to leave IOUs with even a temporary unregulated monopoly. Thus, most proposals for moving to retail wheeling would expand government control by mandating that utilities carry power for their competitors. In the short term (until the construction of alternative distribution facilities), retail competition is possible only through regulation. However, such regulation would amount to a takeover of the utilities’ resource, effectively an exercise in eminent domain by government which, under the Fifth Amendment, should require compensation. (Such an action would not necessarily meet the current court test of the Fifth Amendment, which allows a plethora of *de facto* takings through regulation.)

The issue is not the cost to the individual utilities involved, though wheeling is not free. There is a more basic question: the right to property, which requires a legal ability to exclude others. Forcing IOUs to transmit electricity on behalf of others, particularly their competitors, obviously circumscribes the right of utilities to their transmission systems. For such a violation, or “taking” (if only partially) at the hands of government, they deserve compensation. Moving to a free market means just that, and one important aspect of which is to respect private property, even that owned by utilities.

“Stranded Costs”

Although competition would prove enormously beneficial to consumers, its impact is likely to be less benign on existing producers. The most important problem of reconciling the old order with the new is the treatment of past utility generation investments which were to be paid off through regulated utility rates in coming years.

The basic difficulty is quite simple: investment decisions made in a system of guaranteed contracts for wholesalers, protected monopoly for retailers, and political interferences by legislators and regulators, will not necessarily be the same as the best decisions in a free market. As a result, warns a study by the Edison Electric Institute: “if utility rates were ‘brought to market’ immediately by

competition, some costs associated with generation investments, purchased power commitments and other deferred costs would be 'stranded'."

In fact, stranded costs occur throughout the economy in the sense that competition and technological innovation constantly make some investments uneconomic. These are almost always uncompensated. However, stranded costs that result from changes in government policy, such as deregulation, raise additional issues. After all, investors in competitive markets understand the risk of change better than investors in regulated industries.

Estimates of the value of utility assets that would be "stranded," and not likely to be recovered, once prices are competitively set, range from \$20 billion to \$500 billion, with \$100 to \$160 billion the most common. In an industry with \$175 billion in shareholder equity, even a partial write-down would result in significant shareholder misery. It would also have a major impact on investors holding utility bonds.

Not surprisingly, the IOUs argue on behalf of recovery of stranded costs. They mix equity and efficiency arguments, grounded in what economists William Baumol and J. Gregory Sidak call an "implicit regulatory compact." That is, utilities agreed to invest in exchange for the promise of a reasonable rate of return.

Although utilities understandably desire full coverage for investments devalued by deregulation, as a general principle it is neither fair nor practical to turn regulatory expectations into property rights. The very pervasiveness of regulation makes fiscally infeasible any uniform attempt to compensate for regulatory expectations. Nor would it seem appropriate to dump that burden on consumers who were the very people paying artificially high prices in the past. Indeed, the basic principle might be termed: he who lives by the sword dies by the sword. That is, investors who put money into a regulated industry must understand that the regulations are artifacts of government policy and not property rights. That means they can be changed. And those changes are a risk of the investment.

Nevertheless, the utility industry presents some special circumstances that make the

case more difficult. Although industry regulation is pervasive, it usually has not been structured to so consistently encourage high-cost capital investment. Government limits on profit-taking also raise issues not present with simple restraints on competition. Since IOUs were denied the ability to make potentially lucrative returns on those investments when regulated, they reasonably argue for recovery or mitigation of the losses as government lifts the regulation. On the other hand, however unfair deregulation might seem in such a case, the IOUs and their investors always knew that the law and rules could change. Indeed, the 1970s should have brought that lesson home to some degree, since once-routine rate increase proceedings became increasingly contentious. A fair bottom line would suggest showing some sympathy for the utilities' position, but leaving them with the majority of the downside risk for their investments.

Another issue involves particular obligations imposed on the industry but not new competitors. For instance, to maintain PURPA in an otherwise deregulated market would force utilities to pay above-market prices for energy, hardly a prescription for effective competition. Similar are energy conservation programs, low-cost "lifeline" initiatives, and other money-losing initiatives now imposed on utilities but for which the costs have been recoverable when competition is banned and rates are regulated. As argued earlier, government should end its forced exactions. If not, the utilities deserve compensation.

In short, distinctions should be drawn based on responsibility (utility decision or regulatory change) and potential for mitigation (also by utility or government). The presumption should be that in cases where government caused or failed to mitigate the stranded costs (like PURPA), they are recoverable. Where the stranded costs were caused or not mitigated by industry, the presumption would be only limited reimbursement.

The utility market, especially with the advent of wholesale retailing, is a national one. Over the years Congress has intruded in a number of ways. Thus, deregulation requires at least some action at the national level.

Whether Washington should establish the basic framework or draft the detailed blueprint for deregulation is less clear. At one level, it makes sense to provide for a consistent development of the national electricity marketplace. Thus, the case for federal preemption is strong.

Nevertheless, federalism is an important principle. Although today honored more in the breach than in practice, there is a principled argument for devolving policy decisions and shrinking the power of the Leviathan now centered in Washington. In this case the federal government might bar barriers to interstate commerce (such as excessive "exit" fees for current customers to switch utilities), but allow states to impose a variety of regulations (such as DSM programs and stranded cost recovery) on any company serving residents. Allowing states to test different policy options would be particularly helpful in cases where the best policy outcome is unclear.

Where Do We Go from Here?

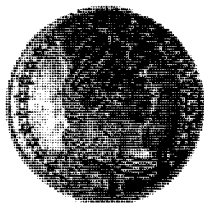
The electricity industry is almost certainly heading into a period of unparalleled change. Given changing demand, economics, and

technology, the electricity sector is facing revolution rather than reform. At such a time every government statute, regulation, and preconception should be put into play. Whatever the exact transition, the ultimate goal should be a deregulated free market of the sort that characterizes most of the rest of the economy. Said Alvin Duskin of U.S. Windpower: "There has to be some solution to the regulatory process that doesn't include more regulation."

The prescription of a free market does not mean that government should design the market. Only by freeing up both consumers and producers will we likely reach the most efficient end-point. But getting from here to there, wherever it is, will not be easy. The policy ideal is relatively simple: repeal most everything. Politics is likely to get in the way, of course, and compromise is inevitable. But there's no reason for pre-emptive surrender, offering supposed deregulation measures that would impose new restrictions.

Deregulation's time has come. Then the American people will eventually enjoy the benefits of freedom when they turn on the light or heat just as they do now when they purchase the lamps and furnaces which run on electricity. □

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Edward Coke—Common Law Protection for Liberty

by Jim Powell

Why were civil liberties first secured in England?

One important reason was the development of common law principles and precedents independent of a ruler. Edward Coke (pronounced “Cook”) was more responsible for this than anybody else. Murray N. Rothbard called him a “great early seventeenth century liberal.” Winston S. Churchill observed that “His knowledge of the Common Law was unique.” Historian George Macaulay Trevelyan considered him “one of the most important champions of our liberties.” F.A. Hayek referred to him as “the great fountain of Whig principles.”

Coke had a gift for expressing common law principles in unforgettable ways. “The common law,” he wrote, “is the best and most common birth-right that the subject hath for the safeguard and defense, not merely of his goods, lands and revenues, but of his wife and children, his body, fame and life. . . . No man ecclesiastical or temporal shall be examined upon secret thoughts of his heart. . . . the house of an Englishman is to him as his castle.”

As a lawyer and judge, Coke worked with

arguments based on precedents, which one might think would mean that if he couldn’t cite precedents he didn’t have a case. But he was the best at discovering precedents for liberty. If at times he claimed that precedents went back farther and proved more than they actually did, he was almost always right about fundamental principles.

His *Reports* and *Institutes* did much to give the English a coherent constitution. Even his rival Francis Bacon conceded: “Had it not been for Sir Edward Coke’s reports . . . law by this time had been almost like a ship without ballast; for that the cases of modern experience are fled from those that are judged and ruled in former times.”

Although Coke embraced conventional religious beliefs, he did much for religious toleration. As Chief Justice of common law courts, he worked to keep many cases out of ecclesiastical courts that sentenced religious dissenters to be tortured, imprisoned, or burned. He appointed Puritan ministers to the churches he owned. He hired an independent-minded secretary named Roger Williams, who went on to establish Rhode Island as a sanctuary for religious toleration. At Coke’s death, his personal library included major Puritan writings of the previous half century.

Coke was more than a jurist; he deserves much credit for the emergence of representative government. Under Queen Elizabeth I, Parliament was a cipher for the monarch.

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Members of Parliament lacked the ideological vision as well as practical experience to provide effective opposition or leadership. In 1621, 1624, 1625, and 1628, Parliament spearheaded attacks against the ministers of James I and Charles I. Parliament articulated constitutional principles and took initiative in formulating policy. Coke certainly wasn't the only important figure in these parliaments, but he framed the issues, served on more parliamentary committees, delivered more committee reports and speeches than anybody else. He did much to secure the principle that ministers must be accountable for their actions—a critic remarked that Coke “would die if he could not help ruin a great man every seven years.” His ideas helped inspire the revolution which, two decades later, toppled Charles I.

“Coke’s great influence both in the Commons and in Parliament as a whole is easily explained,” according to Wesleyan University historian Stephen D. White. “His extensive governmental experience both in and out of Parliament and his formidable legal reputation naturally brought him respect from other members. He had held many high offices in both central and local government. . . . He had participated in every meeting of Parliament since 1589, had served as Speaker of the Commons in 1593, and was an expert on parliamentary precedents and procedure. And his published writings and his years as a judge and legal officer of the crown had established his reputation as the most eminent legal authority of the era.”

Coke has had an enormous influence in America. Coke’s principal legacy: the independence of the judiciary and the principle that judges may overturn statutes which are contrary to the Constitution.

An Imposing, Difficult Man

Biographer Catherine Drinker Bowen noted that “Coke stood out above a crowd, a noticeably handsome man, tall, big-boned, inclined to sparseness. His face was oval and a trifle long; between mustache and pointed short beard the lower lip showed full and red. Dark hair, cut even with the ears, had as yet

no trace of gray but had begun to recede at the temples, accentuating the height of his forehead. Coke’s eyebrows were heavy and smooth, his complexion somewhat swarthy; there were few lines to his face. His eyes, large, dark, and brilliant, bore the watchful look of a man ambitious and self-contained.”

Coke, to be sure, was often a difficult character. “Pedant, bigot, and brute as he was,” historian Thomas Babington Macaulay wrote in his essay on Bacon, “he had qualities which bore a strong, though a very disagreeable resemblance to some of the highest virtues which a public man can possess. . . . He behaved with gross rudeness to his juniors at the bar, and with execrable cruelty to prisoners on trial for their lives. But he stood up manfully against the King and the King’s favourites. No man of that age appeared to so little advantage when he was opposed to an inferior, and was in the wrong. But, on the other hand, it is but fair to admit that no man of that age made so creditable a figure when he was opposed to a superior, and happened to be in the right.”

Edward Coke was born with law in his blood, February 1, 1552, in Mileham, Norfolk, England. His father, Robert Coke, was a lawyer practicing in London and Norfolk. His mother, Winifred Knightley, was the daughter of an attorney.

After attending the Norwich Free Grammar School for seven years, Coke entered Trinity College, Cambridge, and was four years there. Destined for a legal career, he began studying at Clifford’s Inn in 1571 and the next year transferred to Inner Temple. These were guilds where young men went to acquire knowledge of common law that would be needed for professional practice. Common law was the law applying to everyone. It included Saxon legal customs, standard commercial practices for resolving disputes, parliamentary statutes, judicial decisions and, yes, some royal decrees. In addition, there were treatises going back several hundred years, written by respected judges like Henry Bracton, Anthony Fitzherbert, John Fortesque, John Glanville, and Thomas Littleton. Students of the common law had to learn “law French,” the language of common law plead-

ings, and Latin, the language in which medieval court records were kept. Coke began a lifelong practice of arising at 3:00 A.M. so that he could gain several hours for learning more about law before the day began.

Coke started practicing law in 1578. He spent a lot of time in Coventry, Essex, Norwich, and London, and he always had a notebook which he filled with his observations about courtroom proceedings. He was to continue recording his observations for more than four decades—they became the basis of the published works that secured his reputation.

When Coke was 30, he married 17-year-old Bridget Paston, who descended from a wealthy Suffolk family and came with a dowry of £30,000. He developed ties with Lord Burghley, a councilor to Queen Elizabeth. After a succession of minor positions, he was appointed Solicitor General by Queen Elizabeth in 1592. She named him speaker of the House of Commons the following year, and in 1594 chose him over Francis Bacon to be attorney general.

Francis Bacon

Bacon and Coke were to be rivals for nearly three decades. Bacon, nine years younger than Coke, was the son of an Elizabethan courtier, the Lord Keeper of the Great Seal. Bacon's father died before he could buy his son an estate, so he had to work for a living. He learned law at Gray's Inn, then pulled political strings and got elected to Parliament in 1584. He urged religious toleration for loyal citizens, but otherwise he was a thoroughgoing government man. As a consequence, he acquired estates and secretaries, including Thomas Hobbes, who later distinguished himself as a theoretician for political absolutism.

In his lucid essays (first edition, 1597), Bacon expressed admiration for Machiavelli's political writings and declared that governments shouldn't be judged by the moral standards that apply to ordinary people. Bacon made clear his distrust of Parliament and his belief in political absolutism. He approved of war because it promoted a strong state.

Coke, meanwhile, prospered as a vigorous defender of royal prerogative and enforced laws against religious dissenters. His wife died, and he soon remarried Lady Elizabeth Hatton, granddaughter of Lord Burghley and niece of Robert Cecil, the most influential minister of Queen Elizabeth and, for a while, of her successor, James I. This second marriage was rocky, but it brought him even more property.

Coke, unlike Bacon, was critical of patents of monopoly which the government had issued since 1552 to generate revenue. The patents were issued for mechanical inventions, chemical processes, and other things. There were many complaints because patents of monopoly benefited a few individuals at the expense of everybody else. Coke handled some of the most important cases against monopolists. As he explained, "it appeareth that a man's trade is accounted his life, because it maintaineth his life; and therefore the Monopolist that taketh a man's trade, taketh away his life."

England had the lowest taxes in Europe, but toward the end of her reign Elizabeth needed more revenue. After the Spanish Armada was smashed in 1588, Spain built more ships for another possible attack on England, requiring new English defenses. Elizabeth was at war with France, too. Bacon recognized the danger of taxation. In 1593, he remarked: "wee breed discontentment in the people and in a cause of Jopardie her Majesties saftie must consist more in the love of her people then in their welthe."

The Ascension of James I

Elizabeth died on March 24, 1603, and was succeeded by the 37-year-old James VI of Scotland, who became James I of "Great Britain"—he revived the name from early medieval times. Elizabeth, he soon discovered, left a pile of debts. "My lord treasurer," wrote one official in September 1603, "is much disquieted how to find money to supply the King's necessities." This official found "all means shut up of yielding any relief." London bankers twice refused to loan the government any more money, claiming they had suffered

big losses because of the plague, but Venetian ambassador Nicolo Molin reported: "ill-will is also suspected as the cause."

A monarch was supposed to pay the cost of maintaining his palace and retainers with hereditary income, while Parliament financed national defense and wars. But James asked Parliament—taxpayers—to help cover his extravagant royal household expenses.

The king's personal habits made his political problems worse. "James was a loutish savage," wrote historian Paul Johnson. "When hunting, he liked to plunge his bandy legs into the stag's bowels. . . . He delighted in getting the young court ladies drunk, and seeing them collapse in vomit at his feet. He would sit there, laughing. . . . Everything James did, and everything he omitted to do, was certain to evoke protest."

Attorney General Coke made his reputation as a tough prosecutor in three sensational trials. First came the Earl of Essex, an adventurer who had blundered in Ireland, disobeyed Elizabeth's orders, and burst into her private quarters (1601); Walter Raleigh, who allegedly plotted against James (1603); and Guy Fawkes and his fellow Catholic conspirators who dug a tunnel for 35 barrels of gunpowder under Westminster Palace, which they hoped to blow up when the King and royal family gathered for the opening of Parliament (1605). Coke caused quite a stir as he repeatedly underscored key points, displayed his eloquent Latin, picturesque English, and formidable knowledge of legal precedents.

Bacon and Coke were at each other's throats. Parliament turned down James's request for more revenue, and he attempted an "end run" around Parliament by doubling tariffs, an idea backed by Bacon. James's "New Impositions" meant that imports were subject to the delay and expense of being inspected twice. John Bates, an importer of Venetian currants, tried to evade the "New Impositions" and was brought before the Court of the Exchequer. It ruled that tariff policy was the king's jurisdiction, not Parliament's. The House of Commons named a commission to look into the matter. Coke was the point man. He insisted the king's juris-

diction was to protect England against foreign enemies, but the "New Impositions" were for revenue, and Parliament's approval was required.

"It is odd, indeed," noted biographers Hastings Lyon and Herman Block, "that Bacon, the philosopher, should have failed to apprehend what Coke, the legist, apparently did see: namely, that if the enforced loans, benevolences and monopolies were permitted, the King would have a nearly complete system of extra-Parliamentary taxation, and Parliament would soon become an unnecessary assembly, with a consequent corruption of the State into tyranny."

Chief Justice of the Court of Common Pleas

In June 1606 James appointed him Chief Justice of the Court of Common Pleas, which mostly handled private actions between citizens. This was a position where Coke would have to do the king's bidding or be dismissed. The "New Impositions" didn't generate enough revenue, and soon James issued a writ which forced people in England's seaports to equip his fleet. (Elizabeth had issued such a writ but there was more political support for it because she faced the Spanish Armada.) Coke authored the "Protestations from the House of Commons," which declared, in part, that "from the time of Magna Carta the liberties, franchises, privileges and jurisdiction of Parliament are the ancient and undoubted birthright and inheritance of the subjects of England." This outraged James.

Coke clashed with the king on fundamental issues. "The state of monarchy," James maintained, "is the supremest thing upon earth. For Kings are not only God's lieutenants upon earth and sit upon God's throne, but even by God himself they are called Gods . . . for they exercise a manner or resemblance of divine power upon earth." James, like Elizabeth, considered judges to be agents of the crown. They certainly weren't supposed to render independent decisions.

English common law was a murky field, and Coke made the most of it when countering the king. Judicial decisions weren't systematically

based on precedents, because it was difficult to determine what the precedents were. "Argument from decided cases, though frequent and persuasive," noted English constitutional law scholar Charles M. Gray, "did not dominate courtroom dialogue. Prior decisions were sometimes followed by judges who professed not to agree with them, but they were sometimes rejected for reason or simply ignored."

On November 13, 1608, there was an epic confrontation between James and Coke. James described judges as "shadows and ministers." Coke replied that "the King in his own person cannot adjudge any case . . . but that this ought to be determined and adjudged in some Court of Justice, according to the law and Custom of England."

James countered "that he thought the law was founded upon reason, and that he and others had reason as well as the Judges." Coke: "God had endowed his Majesty with excellent science and great endowments of Nature. But his Majesty was not learned in the Laws of his Realm of England; and Causes which concern the Life, or Inheritance, or Goods, or Fortunes of his Subjects are not to be decided by natural Reason but by the artificial Reason and Judgment of Law, which requires long Study and Experience before that a man can attain to the cognizance of it."

James was outraged, as one observer reported: "his Majestie fell into that high indignation as the like was never knowne in him, looking and speaking fiercely with bended fist, offering to strike [Coke]."

Meanwhile, Coke labored to share his knowledge of common law. He had begun issuing an annual *Report* on cases in 1600, and he continued until 1616. The prefaces were in English, texts in "law French," and pleadings in Latin. "Anything that could be gleaned in Westminster, London Guildhall or the circuit courts in the counties he set down in his own form and fashion, adding comment, aside, comparison," noted biographer Bowen. "No law reports had hitherto been half so comprehensive; Coke must have lived and walked and sat and talked with notebook in hand. At once the books became—as Blackstone indi-

cated in 1765—an intrinsic authority in the courts of justice."

Bacon, whom James had named Solicitor General in 1607, considered the king *legibus solutus*—above the law. Lord High Chancellor Ellesmere, the highest judicial official, declared *Rex est lex loquens*—"the king is the law."

Bacon advised James, in *Peacham's Case*, to try influencing court decisions by presenting judges with the allegations in a case and asking their opinion before trial. Edmund Peacham was a Puritan minister who criticized a bishop's religious intolerance, for which he was brought before the High Commission. As Bacon reported to the king, "Upon these interrogatories, Peacham was examined before torture, in torture, between torture, and after torture; nothing could be drawn from him, he still persisting in his obstinate and inexcusable denials and former answers." Coke wouldn't cooperate with Bacon, saying that "taking of opinion is not according to the custom of this realm." Coke considered it unfair to present judges with allegations when neither a defendant nor defense counsel were present for cross-examination. Bacon told James that Coke's "over-confidence, doth always subject things to a great deal of chance." Peacham died in prison.

In *Bonham's Case*, Coke ruled that the common law stood above Parliament. The case involved Dr. Thomas Bonham, jailed for practicing medicine without a certificate issued by the Royal College of Physicians. He filed suit for false imprisonment. Coke observed that according to the Royal College's statute of incorporation, it pocketed half the fines from violators like Bonham. This, he noted, meant the Royal College was both a party and judge in every action. Citing a common law principle, *Aliquis non debet esse judex in propria causa* [Nobody should be judge in his own cause], Coke ruled: "in many cases the common law will control acts of Parliament and some times adjudge them to be utterly void; For when an Act of Parliament is against common right and reason, or repugnant, or impossible to be performed, the common law will control it and adjudge such

Act to be void." This was the most controversial decision he ever rendered.

James asserted his power by issuing proclamations that he insisted had the force of law. In September 1610, Coke presented his view of these proclamations to the Privy Council, which had the responsibility of advising the king on executive, judicial, and financial business and seeing that the king's will was done. "All indictments," he observed, "conclude with the words, Against the law and custom of England, *Contra legem et consuetudinem Angliae*; or against laws and statutes, *Contra leges et statuta*. But I never heard an indictment to conclude, *Contra regiam proclamationem*; against the king's proclamation." Coke went on to review the legal history of royal proclamations. Accordingly, the Privy Council resolved "That the King by his proclamation cannot create any offense which was not an offence before, for then he may alter the law of the land by his proclamation in a high point; for if he may create an offence where none is, upon that ensues fine and imprisonment. Also the law of England is divided into three Parts: Common Law, Statute Law, and Custom; but the King's Proclamation is none of them."

Coke issued "prohibitions" aimed at curbing the power of ecclesiastical courts, especially the High Commission, which imprisoned individuals for preaching Nonconformist doctrines. A prohibition ordered the ecclesiastical courts not to proceed with a case if there was any reason it might belong in a common law court. Coke defended his prohibitions by showing how they had long been issued by common law courts. Moreover, he explained how, during the past 60 years, the High Commission had expanded its power beyond what had been specified in any statute.

James called Parliament in 1610 because he needed money, but Members drew up a Petition of Grievances. Among the principles at stake: "there is none which they have accounted more dear and precious than this, to be guided and governed by the certain rule of law, which giveth to the head and the members that which of right belongeth to them, and not by any uncertain and arbitrary form of government."

James took offense: "We are an old and experienced king, needing no such lessons." Coke rose to defend the Petition: "I never spake but mine own conscience. The privileges of this House is the nurse and life of all our laws, the subject's best inheritance. If my sovereign will not allow my inheritance, I must fly to Magna Carta and entreat explanation of his Majesty. Magna Carta is called *Charta libertatis quia liberos facit*. . . . The Charter of Liberty because it maketh freeman. When the King says he cannot allow our liberties of right, this strikes at the root. We serve here for thousands and ten thousands."

James fumed, "The House of Commons is a body without a head. The members give their opinions in a disorderly manner. At their meetings nothing is heard but cries, shouts, and confusion. I am surprised that my ancestors should ever have permitted such an institution to come into existence. I am a stranger, and found it here when I arrived, so that I am obliged to put up with what I cannot get rid of."

James dissolved Parliament the following year, and Coke stood alone against the king. He issued two rulings that limited the discretionary power of the High Commission. James snapped that the rulings were "of a nature extraordinary and showing more the perverseness of [Coke's] spirit than any other prohibitions." James summoned Coke and several like-minded judges to explain themselves. Coke endured a three-day interrogation.

Chief Justice of the King's Bench

In 1613, Bacon had an idea for taming Coke: promote him to Chief Justice of the King's Bench, which handled criminal as well as civil actions; and promise him a seat on the 12-member Privy Council. "Coke will thereupon turn obsequious," Bacon assured James. Coke became Chief Justice of the King's Bench in October, but Bacon and James were in for a surprise.

Conflict developed when James granted two income properties to the Bishop of Coventry. The grant was contested by two men

who claimed the property was theirs—this became known as the *Case of Commendams* (which meant the bishop could collect the income while having somebody else perform whatever services might be required). Coke and his fellow judges were about to conduct a hearing on the dispute when James ordered them not to proceed, because his prerogative was at issue. Coke countered that “The stay required by your Majesty was a delay of justice and therefore contrary to law and the Judges’ oath.” Bacon, who had become Attorney General and a member of the Privy Council, denounced Coke, for behaving improperly. James stepped up the pressure. The judges relented, except for Coke who, a court reporter noted, told the king “That when the case should be, he would do that should be fit for a Judge to do.” Coke was dismissed as Chief Justice.

“Coke had not striven in vain,” noted historian George Macaulay Trevelyan. “He had enlisted the professional pride of the students of the common law against the rival systems of law specially favoured by the Crown in the Star Chamber, the admiralty and the Ecclesiastical Courts. He had turned the minds of the young gentlemen of the Inns of Court, who watched him from afar with fear and reverence, to contemplate a new idea of the constitutional function and of the political affinities of their profession, which they were destined in their generation to develop in a hundred ways, as counsel for England gone to law with her King.”

Coke was so desperate to regain a high position that he pressured his 14-year-old daughter, Frances, to marry John Villiers, the impotent older brother of James’s most influential adviser, George Villiers (later the Duke of Buckingham). Bacon filed a complaint against Coke for riotous behavior. This was surely the low point of Coke’s career. Although he didn’t get back his judgeship, he regained his position on the Privy Council. Apparently, the king and Buckingham still hoped that showing him some favor would undermine his independent spirit. Bacon was subsequently appointed Lord High Chancellor, which made him the highest-ranking person outside the royal family.

James summoned Parliament, which met on January 13, 1621, the first time in seven years. James again needed money, and Members intended to negotiate about their grievances.

Among other things, Parliament was intent on limiting royal power by rooting out corruption. The top target was Buckingham, who had gained considerable influence with the king. After he had sent Walter Raleigh to attack a Spanish settlement in South America, Buckingham did everything he could to appease the Spanish. For a half-dozen years, he schemed to marry James’s son Charles, heir to the throne, to the Spanish princess. Since the king still had unlimited sovereignty, it was presumed that a Catholic Queen would mean Catholic heirs, and Catholics could regain control of England.

Buckingham pocketed bribes from those who wanted to get a government job, get a monopoly, get out of jail or advance a lawsuit, and he was summoned before the House of Lords. He apologized for his brothers who had taken bribes and avoided prosecution by sheer political clout. The House of Commons turned to drafting a bill which would curb monopolies.

Bacon’s Downfall

The House of Commons then formed a Committee for Inquiring into Abuses in the Courts of Justice. A trail of dubious payments led to Bacon’s door. Coke soon emerged as the leading inquisitor. The inquiry against Bacon led eventually to the charge of bribery.

Coke objected to James’s proposal that a special commission should investigate the charges, because it couldn’t be counted on to recommend prosecution. Accordingly, Parliament began impeachment proceedings for the first time in 160 years. It reported a growing list of bribes. Since the bribes had been delivered in the presence of his servants, Bacon didn’t mount a defense. “Condemn and censure me,” he wrote the House of Lords—thereby offending the House of Commons.

He was impeached, dismissed as Lord High Chancellor, fined £40,000, imprisoned in the

Tower of London, then banished from London and the law courts. The historian Lord Acton later remarked, "the Commons, guided by the most famous English lawyer, Coke, struck down Bacon, and deprived the Stuarts of the ablest counsellor they ever had. Impeachment and responsibility of ministers remained."

Coke Imprisoned

On December 18, James dissolved Parliament, and soon afterwards Coke was summoned to appear before the Privy Council. "You have forgotten the duty of a servant, the duty of a Councilor of State and the duty of a subject," he was told. Guards escorted him to a damp, bitter-cold, urine-soaked cell in the Tower of London. Denied access to books, he wrote Latin verses with pieces of coal. He was interrogated by the President of the Privy Council who reported: "I charge you therefore with treason. I have heard you, Sir Edward, affirm that by law he is a traitor who goes about to withdraw subjects' hearts from their King." But after seven months of going through Coke's personal papers and investigating his affairs, crown officials concluded they couldn't find any evidence of wrongdoing. He was released. No charges were ever filed.

The Parliament of 1624 came on the heels of a four-year business depression, and there were a lot of complaints about monopolies. Coke led the attack against monopolies over wool, brick-making, glass-making, salmon fishing, and the transcribing of wills.

James died on March 27, 1625. He had achieved a long period of peace which enabled the English to prosper. But he left a debt of over £200,000. His 24-year-old son became King Charles I, and right away he began spending money at a reckless pace. Then, as Buckingham had arranged, he married the 15-year-old French Catholic princess, Henriette Marie, who came with an 800,000-crown dowry; the idea here was that if there wasn't going to be a marriage to promote peace with Spain, then there should be a marriage to help secure an ally against Spain if needed.

The wedding took place at Notre Dame de Paris, and Charles was represented by a stand-in, the Duc de Chevreuse, because of the risk of Charles falling in the hands of a foreign power. Buckingham himself escorted the new queen back to England, biographer John Bowle reported, with "fifteen lords, twenty-four 'knights of great worth', and far too many pages." Henriette Marie was accompanied by her servants—a bishop and 28 priests.

Thirty Years War

Charles summoned Parliament in May 1625 and faced mounting skepticism. For openers, Members were distracted because several thousand people a week were dying from plague in London. Buckingham had approved military adventures against France and Spain which were fiascos, convincing many Members of Parliament that the previous subsidy they approved was a mistake. Buckingham proposed more military adventures, one to attack Spain and another to save the Protestant Elector of Palatine—which meant becoming embroiled in the conflict that would become known as the Thirty Years War. Parliament voted for two small subsidies and authorized Charles to spend customs revenue only for a year. Charles was in trouble because the Lord Treasurer reported the government didn't have any money or credit left. Assuming Parliament would give him what he needed, Charles had drawn from his own resources to pay £136,000 for a subsidy to Denmark, wages for British soldiers serving in the Low Countries, and food and ammunition for the British navy. "By the grace of God," Charles remarked, "I will carry on the war if I risk my crown." He dissolved Parliament.

Short of money, Charles resorted to conscription. The government rounded up as many able-bodied men as they could find around the port towns. Reportedly many men paid bribes to avoid being conscripted. The government didn't spend money on army barracks, so it forced thousands of private individuals to feed and house the recruits.

This, of course, provoked widespread resentment, and the result was martial law. The first adventure, against Spain, was a fiasco which Charles and Buckingham tried to cover up, and by the end of the year Charles pawned some of his jewelry and silverware for more money.

Charles summoned Parliament again. In an effort to undermine resistance, he appointed his half-dozen most troublesome opponents, including Coke, as sheriffs, which kept them out of parliamentary proceedings for at least a year. But this enabled a formidable orator, John Eliot, to step forward as a leader. Though he had befriended Buckingham as a young man, he witnessed the return of wretched British soldiers from one of Buckingham's disastrous expeditions against Spain, and he resolved to bring down the Duke. Eliot declared that Parliament wasn't a tool of the king and that Members were morally obligated to follow their conscience. He urged that Buckingham be impeached.

Asked for further subsidy, Members of the House of Commons began impeachment proceedings against Buckingham. Charles responded by ordering Eliot and another outspoken Member, Dudley Diges, imprisoned in the Tower of London. But the Commons charged Buckingham anyway, for failing to suppress piracy in the English Channel, for choosing incompetent leaders of the Spanish expedition, for taking bribes and for scheming with Catholics. On June 12, 1627, Charles dissolved his second Parliament, saving Buckingham's skin.

"At the back of the Parliamentary movement in all its expressions lay a deep fear," explained Winston S. Churchill. "Everywhere in Europe they saw the monarchies becoming more autocratic. The States-General, which had met in Paris in 1614, had not been summoned again; it was not indeed to be summoned until the clash of 1789. The rise of standing armies, composed of men drilled in firearms and supported by trains of artillery, had stripped alike the nobles and the common people of their means of independent resistance. Rough as the times had been in the earlier centuries, 'bills and bows' were a final resource which few kings had cared to chal-

lenge. But now on the Parliamentary side force as yet was lacking."

Needing money, Charles resorted to high-handed revenue-raising measures, and on March 27, 1628, Charles summoned Parliament for the third time.

Parliament was aboil over squandered money, conscription, billeting of soldiers in private homes, forced loans. Citing common law precedents, Coke maintained that "the King cannot order any man arrested, because there is no remedy against him." Coke insisted people could be legitimately imprisoned only upon the order of a judge. On March 21, 1628, Coke presented a bill which specified that no one could be imprisoned more than three months without being brought to trial. The House of Commons approved resolutions saying that nobody should be imprisoned unless the government cited the alleged crimes, and the writ of habeas corpus must not be denied.

The House of Commons approved the subsidies that Charles asked for, provided he would agree to respect the liberties of Englishmen. Charles resisted, and the House of Lords was reluctant to break with him. The Lords eventually approved a declaration that the Magna Carta remained in force and that the king must not infringe on "any of his loyal people in the property of their goods or liberty of their person." But then the Lords hedged, suggesting that "as touching his majesty's royal prerogative intrinsical to his sovereignty and entrusted to him from God . . . in the case, for the security of his Majesty's Royal person, the common safety of his people, or the peaceable government of his kingdom, his Majesty shall find just cause, for reason of State, to imprison or restrain any man's persons, his Majesty would graciously declare that within a convenient time, he shall and will express the cause of the commitment or restraint, either general or special."

Coke thundered: "Is the confirmation of the Great Charter a matter of grace? What are just liberties? Who were the best of his Majesty's predecessors? We see what advantage they have that are learned in the law in penning articles above them that are not, how wise soever. What is intrinsical prerog-

ative? It is a word, we find not much in the law. Intrinsic prerogative is not bounded by any law, or by any law qualified. Admit this intrinsic prerogative, and all our laws are out. This intrinsic prerogative it appears is entrusted to the king by God. It is *jure divino* [divine law]. No law can take it away. His majesty can commit when he pleases."

When the king continued to resist, Coke proposed on May 8 that Parliament adopt a Petition of Right for the king's agreement on "1. The personal liberty of the subject. 2. His propriety in his goods. 3. Unbilletting of soldiers. And 4. Silencing of martial law in time of peace."

Charles dispatched a letter to the Lords, saying he must be able to imprison people without filing specific charges. For 18 days, the Lords tried to figure out how they could draft something agreeable both to Charles and the Commons. Then Coke rose in the Commons and spoke: "Let us palliate no longer. If we do, God will not prosper us. I think the Duke of Buckingham is the cause of all our miseries, and till the King be informed thereof, we shall never go on with honor or sit with honor here. That man is the grievance of grievances. Let us set down the cause of all our disasters and they will reflect on him."

On June 8, Charles met both Houses of Parliament at 4:00 in the afternoon. Then he signified the words of approval which gave a bill the force of law: "*Soit droict fait comme est desire.*"

"We reach here," wrote Churchill, "amid much confusion, the main foundation of English freedom. The right of the Executive Government to imprison a man, high or low, for reasons of State was denied; and that denial, made good in painful struggles, constitutes the charter of every self-respecting man at any time in any land. Trial by jury of equals, only for offenses known to the law, if maintained, makes the difference between bond and free."

Coke's Greatest Work

Coke retired to Stoke House in Stoke Poges, Buckinghamshire, just west of London, where he completed his life work.

Scholars traditionally wrote commentaries on established authorities, and that's how Coke proceeded with his greatest work. He prepared commentaries on Thomas Littleton's *Treatise on Tenures*, a fifteenth-century text about land law. "The ornament of the common law," Coke called it, "the most perfect and absolute work that ever was written in any human science, and as free from error as any book that I have known to be written of any human learning." Coke covered about 500 years of English property law.

His health declined in 1634. On June 9, he asked for a pen and paper to affirm his religious faith. While he lay dying, the government—"by order of his Majesty's Privy Council"—issued a warrant to search his house for documents which might threaten the monarchy. Police took manuscripts for his *Institutes* and for two unpublished volumes of *Reports*. Coke died at Stoke House on Wednesday, September 3, 1634, around 11 P.M. A month later, he was buried in the church graveyard at Tittleshall, about six miles southwest of Fakenham, Norfolk, next to his first wife.

Charles trashed Coke's principles. He did everything he pledged not to do in the Petition of Right, and he refused to call another Parliament for 11 years. But the principles had taken root. When the Long Parliament met in 1640, it arranged for publication of the *Institutes* because they "contain many monuments of the subject's liberties."

The Second Part of the *Institutes* appeared in 1642. In this commentary on Magna Carta and almost 40 other charters and statutes, Coke distilled the views he had promoted throughout his public life. He believed individual liberty was best protected by "due process of the common law." He asserted that "Generally all monopolies are against this great charter, because they are against the liberty and freedom of the subject, and against the law of the land." He affirmed that "The interpretation of all statutes concerning the clergy, being parcell of the lawes of the realme, do belong to the judges of the common law."

The Third and Fourth Parts of the *Institutes*

were published in 1644. The Third Part covered a variety of crimes. Coke defined a crime, explained the penalties, and covered the legal history of it.

The Fourth Part developed his familiar themes about the role of Parliament.

Coke urged his successors in the common law: "And you, honorable and revered judges and justices, that do or shall sit in the high tribunals or seats of justice, fear not to do right to all, and to deliver your opinions justly according to the laws; for fear is nothing but a betraying of the succors which reason should afford; and if you shall sincerely execute justice, be assured of three things: first, though some will malign you, yet God will give you his blessing; secondly, that though thereby you may offend great men and favorites, yet you shall have the favourable kindness of the Almighty, and be his favorite; and lastly, that in so doing, against all scandalous complaints and pragmatic devices against you God will defend you as with a shield."

Coke inspired freedom fighters in England and the American colonies. When Roger Williams established Rhode Island, he reflected in 1652: "how many thousand times since I had the honorable and precious remembrance of his person, and the life, the writings, the speeches, and the example of that glorious light. And I may truly say, that besides my natural inclination to study and activity, his example, instruction, and encouragement have spurred me on to a more than ordinary, industrious, and patient course in my whole course hitherto."

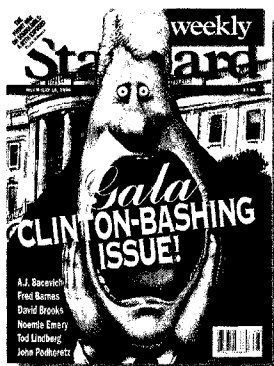
By the time of the Glorious Revolution (1688), long-standing English grievances had been resolved. The monarchy had a Protestant succession. There was a considerable degree of religious toleration. People were

protected from arbitrary search and seizure. They couldn't be held in prison unless formal charges were filed, alleging violation of a law. Above all, the power of the monarch was limited by Parliament which had achieved supremacy. Ironically, this meant judges couldn't overturn an act of Parliament. Judges could only rule that the government exceeded the powers granted by a statute—a situation which continues to this day.

The American Founders learned constitutional principles from Coke. Thomas Jefferson remarked that "Coke Lyttleton was the universal elementary book of law students and a sounder Whig never wrote nor of profounder learning in the orthodox doctrines of . . . British liberties." Patrick Henry, John Adams, John Quincy Adams, John Jay, Daniel Webster, and many other influential Americans read Coke. Joseph Story, who became a Jeffersonian Supreme Court Justice, wrote: "When I had completed the reading of the most formidable work, I felt that I breathed a purer air and that I had acquired a new power."

American constitutional historian Bernard Schwartz observed that "The influence of Coke may be seen at all of the key stages in the development of the conflict between the Colonies and the mother country."

Especially since the Constitution was ratified, an independent judiciary and judicial review have become bedrock principles of American law. While judges have made plenty of bad decisions, at least they have the power to strike down unconstitutional statutes, and sometimes they do. This is a big advance from the era when judges were everywhere intimidated into doing what a ruler wanted. Eloquent testimony to the vision, courage, and devotion of Edward Coke. □



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Great Turnabouts in Economics



"There is no harm in being sometimes wrong—especially if one is promptly found out."

—John Maynard Keynes

The gradual transformation of Paul Samuelson from Keynesian to classical economics (see my column in the September 1997 *Freeman*) is a major chapter in famous cases of economists changing their minds.

Nobody likes to admit he's wrong. You can probably count on your fingers the number of times scholars have renounced their theories and switched positions. Most academics have a tendency to cling to old dogmas, especially if they have built a reputation on a particular doctrine. We can only admire the scholar who is willing to change when he is convinced by the facts or a new theory. It takes a strong dose of courage and honesty to go against one's vested interest, especially after publishing books and articles on the subject.

Three prominent economists have admitted error and changed their thinking, and we can learn much from their experience.

George Stigler and Antitrust

George Stigler, the towering Chicago professor and Nobel Laureate, was a firm defender of antitrust laws in the 1940s and 1950s. He was influenced by Henry Simon, a

leading spokesman for the Chicago School. Simon taught that big business posed a serious problem in the United States and advocated the nationalization of railroads, utilities, and all other "uncompetitive" industries—all in a book ironically entitled *Economic Policy for a Free Society* (University of Chicago, 1948). Stigler moved in a different direction, advocating the breakup of "concentrated" big businesses and punishment of companies engaged in collusion. He appeared before Congress in 1950 and proposed that U.S. Steel Corporation be broken up.

By the early 1970s, however, Stigler had changed his mind. Influenced by the work of Aaron Director and Joseph Schumpeter and a new theory of oligopoly, he found himself shifting his views. "What is still more embarrassing is that I no longer believe the economics I was preaching," he declared.¹ Concluding that concentration did not necessarily lead to monopolistic pricing, Stigler switched positions and actively opposed most antitrust legislation.

Robert Heilbroner and Socialist Planning

For most of his life, Robert Heilbroner, author of *The Worldly Philosophers*, a best-selling history of economics, was a socialist. Under the influence of Adolph Lowe and the New School of Social Research, he became enamored with Marxism. When the Polish economist Oskar Lange assailed Ludwig von Mises's attack on socialist central planning in

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the 1930s, Heilbroner joined the rest of the profession and concluded that Mises was wrong and socialism could work.

By the end of the 1980s, however, Heilbroner dramatically altered his views. In a stunning series of articles in *The New Yorker*, he wrote that the long-standing debate between capitalism and socialism was over, and "capitalism has won."² In a follow-up article after the demise of the Eastern Bloc, he was even more explicit: "Socialism has been a great tragedy this century. . . . But collapse! No one expected collapse. . . . There is no doubt that the collapse marks its end as a model of economic clarity."³ Furthermore, the debate between Lange and Mises had to be re-examined in light of contemporary events. "It turns out, of course, that Mises was right," declared Heilbroner. Needless to say, Heilbroner's change of heart did little to endear him to the socialist camp.

Lionel Robbins and Austrian Economics

Not every event is positive for free-market economics. The most notorious example of switching sides occurred when Lionel Robbins, a major proponent of the "Austrian" school of free-market economics, converted to Keynesianism in the late 1930s and early 1940s. In the United States, several prominent classical economists had already changed views, especially Harvard's Alvin Hansen. But Robbins's conversion was infamous because, as chairman of the economics department at the London School of Economics, he had brought Friedrich Hayek from

Editor's Note: Congratulations to Mark Skousen on his debut as a columnist for *Forbes* magazine. (See the September 22, 1997 issue.) Mark will continue to write his monthly column for *The Freeman*.

Austria to England, and had been instrumental in translating and publishing Hayek's and Mises's works. He also wrote extensively about Austrian economics, including the illuminating *The Great Depression* (Macmillan, 1934).

However, he fell under the trance of John Maynard Keynes during World War II. In his autobiography, he repudiated the Austrian connection: "I shall always regard this aspect of my dispute with Keynes as the greatest mistake of my professional career, and the book, *The Great Depression*, which I subsequently wrote, partly in justification of this attitude, as something which I would willingly see forgotten."⁴

I should hope that if Lionel Robbins were alive today he would reconsider his views and see the Keynesian episode more of a "diversion" from sound classical economics (to use a term created by Leland Yeager) than as a "general" economic theory. □

1. George J. Stigler, *Memoirs of an Unregulated Economist* (Basic Books, 1988), p. 99.

2. Robert Heilbroner, "The Triumph of Capitalism," *The New Yorker*, January 23, 1989, p. 98. Note he wrote this article before the collapse of the Berlin Wall and the Soviet Union.

3. Heilbroner, "Reflections After Communism," *The New Yorker*, September 10, 1990, pp. 91-2.

4. Lionel Robbins, *Autobiography of an Economist* (Macmillan, 1971), p. 154.

BOOKS

Everybody Wins! A Life in Free Enterprise

by Gordon Cain

Chemical Heritage Press • 1997 • 342 pages • \$24.95

Reviewed by Robert L. Bradley, Jr.

On the surface, this autobiography describes how an individual well past retirement age restructured major assets in the domestic chemical/petrochemical industry through leveraged buyouts (LBOs) to create several billion dollars of wealth for himself and many associates. This interesting and unique business history aside, Gordon Cain's story has a much deeper message—how a “captain of industry” working in a market setting where political barriers and patronage do not apply can create great wealth and opportunities for thousands of people.

As Cain notes in his introduction, the book was inspired by the need to defend his honor against the commonly portrayed notion that debt-financed buyouts in the 1980s benefited a few quick-buck artists at the expense of displaced workers and the general good. He argues that the failure behind massive business restructuring is prior management, not new management. Draconian layoffs and abrupt change could have been mitigated by better managerial decisions and, in turn, more accountable boards of directors. It is passive boards, Cain contends, that can create the “Imperial CEO,” an example of that rare species called market failure. But even when the dirty work must be done, Cain explains, a sound entrepreneurial vision can more than offset the transition costs by empowering remaining workers, freeing marginal workers and other nonspecific assets to find more productive employment, and increasing output and lowering prices to benefit consumers.

Cain orchestrated five major business restructurings in the 1980s, all of them LBOs, that handsomely benefited himself, the institutional investors, over 100 key managers, and some 5,000 employees who received several times their salary in stock participation. His largest deal, circa 1989, was his best. Cain Chemical increased 44 times in value for shareholders in the nine months between

when Cain put the company together and Occidental bought it. (Cain did not want to sell, but too many people stood to make significant wealth for the first time.) Soon after, Cain opened up his copy of the *Wall Street Journal* to find a full-page advertisement with a “thank you, Gordon Cain” surrounded by signatures from all 1,337 employees, the lowest paid of whom had received a six-figure payout.

While returns of this magnitude always reflect fortuitous circumstances, Cain clearly was doing some highly innovative things that the incumbents (the asset sellers) were not. One innovation that simultaneously cut costs and enhanced corporate decision-making was to increase the involvement of rank-and-file employees. This was accomplished using Edward Deming's “total quality control” concepts and setting up employee stock ownership and profit-sharing plans. By betting on the collective wisdom and drive of the on-the-spot employees rather than intermediate management, Cain had tapped into the same knowledge dynamo that “Austrian School” economists such as Ludwig von Mises and F.A. Hayek had conclusively shown make market economics inherently more wealth-creating than centrally planned ones.

The double win of reduced management costs and improved decision-making allowed Cain to slash overhead from 15–20 percent of sales to around 5 percent of sales and make innumerable process improvements. This endogenous improvement, leveraged by debt financing, was powerfully joined by improved external factors driving the highly cyclic businesses he invested in. Cain repeatedly demonstrated that he understood where he was in the chemical-petrochemical price cycle better than the prevailing view. It is surprising, in retrospect, that so many companies would sell their assets to Gordon Cain.

The crucial element that put Cain's entrepreneurial vision into play was debt financing—and hence his inspiration to offer a revisionist view of the social beneficence of LBOs. Cain had very limited venture capital but a proven management record. Before, this would not have been enough to compete for corporate control. But in the early 1980s a new investment vehicle came of age—high-risk, high-return “junk” bonds to finance leveraged buyouts. Cain's success belies the widespread idea that “junk bonds” and LBOs were evil and fraudulent.

As unique as Cain's late success in business life was his appreciation and support for consistent free-market public policies. While many business executives typically are strong supporters of the free-market economy in the abstract, very few

resist the temptation to actively court government favor as short-run business interests dictate. The widely recognized "forest problem" of pervasive special-interest interferences with the market is really a "trees" problem of political opportunities to individual businesses. Cain, a man "not comfortable in either political party," never found himself in a business predicament of having to exercise the political means to get ahead. And he never forgot the lessons from a slim book he read when it was published in 1944: Hayek's *Road to Serfdom*. Now, with his newfound fortune, a personal lifestyle that has remained unchanged (except for a private plane that he apologizes for in the book), and a quest to improve society in the near term, he scoured the think-tank spectrum for foundations supporting limited government and libertarian ideals.

Cain's story offers much useful insight and experience about business restructuring, management philosophy, and public policy. Cain's revisionism casts fourth-and-long business restructuring in new light. Debt financing is shown to have a human face after all. And thanks in part to Cain's new competitive standard, America's chemical/petrochemical industry remains a world leader today. *Everybody Wins!* is thus a powerful antidote to many poisonous myths about capitalism. □

Mr. Bradley is president of the Institute for Energy Research in Houston, Texas.

Dynamics of the Mixed Economy: Toward a Theory of Interventionism

by Sanford Ikeda

Routledge • 1997 • xiv + 296 pages • \$69.95

Reviewed by E. C. Pasour, Jr.

In *Dynamics of the Mixed Economy*, a mixed economy is defined as any political-economic system that lies between the extremes of laissez-faire capitalism and pure collectivism. In a critique of interventionism published in 1929, Ludwig von Mises found the mixed economy to be contradictory, illogical, and inherently unstable. This finding, coupled with what we observe throughout the world, poses what is referred to in this book as the "Misesian paradox"—how can a mixed economy subject to these grave defects continue to be the most widespread and persistent form of political-economic system in the world today?

Ikeda extends Mises's work in light of recent

developments in market process theory to provide an explanation of the tendency of the state to expand and contract—swinging back and forth toward either more or less government control. The book draws heavily upon work by F. A. Hayek and Israel Kirzner—especially Hayek's notion of the spontaneous order and insights about the use of knowledge in society and Kirzner's concept of entrepreneurial discovery and critique of equilibrium analysis in mainstream economic theory. Readers not familiar with the ideas of Mises, Hayek, and Kirzner will find this book to be a hard read.

Why is it, as Mises argued, that government intervention tends to lead to outcomes that are inferior, as measured by the interventionist's own standards? Ikeda traces the unintended consequences to three factors—dispersed knowledge (discussed by Hayek a half century ago), radical ignorance, and systemic complexity. The interaction between government and market processes magnifies the problems created by dispersed knowledge and radical ignorance as the relative size of the public sector increases.

Moreover, the act of intervention itself weakens the moral aversion or psychological resistance to statism, further contributing to the growth of the public sector. In the case of direct income transfers, for example, intervention fosters a mentality of dependency and personal irresponsibility.

Further government action is then taken to cope with intervention-spawned problems. When the results of interventionism become sufficiently perverse, the mixed economy reaches the crisis stage and governmental officials must make a radical move—either toward more or less intervention. Despite the contradictions and instability, Ikeda concludes that the mixed economy will tend to be the most prevalent form of political-economic system and is likely to be more enduring than either pure collectivism or capitalism.

What are the implications for controlling Leviathan? While the inner contradictions of interventionism can be eliminated only by eliminating the state, Ikeda holds out some hope for a less drastic approach—the minimal state. The inherent tendency of government to grow in the minimal state can be overcome, he suggests, if the ideological preferences of public choosers for limited government are sufficiently strong.

Decision-makers in the political process face two kinds of problems: incentive problems, the focus of public choice theory; and knowledge problems, Ikeda's primary concern and that of Austrian political economy generally. In *Dynamics of the Mixed Economy*, Austrian and public choice

approaches are considered to be complementary but independent. This position, however, cannot withstand careful scrutiny.

The likelihood of increases or decreases in government intervention at any particular time is not independent of the institutional framework. The kinds of political structures and procedures in place, as emphasized in constitutional political economy (a public choice subdiscipline), can profoundly affect both the amount of transfer-seeking intervention and the likelihood that political decision-makers will act in ways consistent with the interests of the public-at-large.

Dynamics of the Mixed Economy contains a wealth of insights on the perils and results of government intervention—it also provides some hope for advocates of a free society. A strong ideological commitment of public choosers to limited government—preferences rooted in political philosophy, morality, and religion—can provide an institutional framework conducive to policies consistent with that goal. However, Ikeda is silent on the really important question—how can we achieve a consensus in favor of limited government? □

Dr. Pasour is professor of agricultural and resource economics at North Carolina State University, Raleigh.

Everything for Sale: The Virtues and Limits of Markets

by Robert Kuttner

Alfred A. Knopf • 1997 • 410 pages • \$27.50

Reviewed by Raymond J. Keating

Robert Kuttner's *Everything for Sale* carries the subtitle *The Virtues and Limits of Markets*. Unfortunately, Kuttner sees few, if any, virtues and many limits when it comes to free markets.

Of course, it will surprise few that Kuttner holds this view. After all, he is a ubiquitous, outspoken proponent of big government. Open a newspaper, a magazine, or turn on a public-policy-oriented television show, and chances are unusually high you will come across Robert Kuttner.

In television sound bites and his rather short newspaper columns, Kuttner manages to sound naïve, misguided, misinformed, and even dangerous, all at the same time. What *Everything for Sale* clearly demonstrates is that such cloudy thinking is not a function of the medium, but lies at the core of big-government liberalism.

In *Everything for Sale*, Kuttner conveniently argues against his own perverse, ill-informed ideas of what free markets are all about, forcing the reader to plod through a field of straw men which the author delights in knocking down. The most obvious of these straw men is his attack on perfect competition. Kuttner wrongly asserts that market proponents view the perfect competition model as a reflection of market realities; then he shows that markets are not perfectly competitive, proclaims market failure, and calls for widespread government intervention.

In reality, of course, few if any, economists see perfect competition as a reflection of actual markets. Indeed, most freshman economics students quickly understand this fact. As James Gwartney and Richard Stroup explain in their fine, market-oriented textbook *Economics: Private and Public Choice*, perfect, or pure, competition is an abstract, simplified model whose purpose is to “help us develop the economic way of thinking.” Beyond perhaps certain parts of the agriculture industry, this model has little direct application to the dynamic, day-to-day functioning of actual markets. However, the constant use of the perfect competition model in economics instruction, I think, can confuse people outside the economics profession, and apparently, as exemplified by Kuttner, a few inside it as well.

Kuttner also suffers from serious lapses in logic. Much of his case for continuing to regulate such markets as health care, banking, finance, labor, and so on, rests on nothing more than the idea that these markets have long been highly regulated. In the case of health care, for example, he goes so far as to assert inanely that true market reform “turns out to require massive government regulation.”

All of the trite liberal views of the marketplace are given full voice in Kuttner's book. The author sees markets *only* producing winners and losers. He seems incapable of grasping the fact the market produces winners on both ends of each transaction—both buyers and sellers are better off.

In Marxist fashion, Kuttner vastly discounts the critical aspect of individual freedom in the marketplace, favoring bankrupt notions of class warfare and exploitation instead. And, of course, in contrast to centuries of economic progress through free markets, the author believes that markets are inherently short-term in outlook, yet offers no evidence in support of this thesis. In addition, while Kuttner criticizes free-market economists for applying economic analysis to noneconomic decisions (a criticism that may apply to some but certainly not the majority of such economists, despite what Kuttner implies), he fails to consider the impor-

tance of incentives in his own analysis of straightforward economic decisions.

There is much in this book to identify the author as an extremist when it comes to his opposition to free markets and in his support of government action. Consider the following statements:

- “Yet in a Keynesian sense the war [i.e., World War II] was stunningly efficient.”

- “Trust, civility, long-term commitment, and the art of consensual deliberation are the antithesis of pure markets, and the essence of effective politics.”

- “[W]e need the habits and institutions of a strong democracy *precisely to keep markets in their place* and to provide resilience during those historical periods when the market goes haywire and makes ordinary people vulnerable to the appeals of tyrants.”

- “In this century, the expansion of state constraints on the market and the expansion of the province of personal liberties have gone hand in hand.”

Oddly, for the free-market reader, *Everything for Sale* is at once both frustrating and encouraging. The book frustrates due to its misrepresentations and misunderstandings of the workings and benefits of markets. However, the book proves to be so intellectually bankrupt that it should encourage those looking to advance economic freedom. If this is the best the opposition has to offer, free-market economics is in a much better position than many of us might previously have thought. □

Mr. Keating is chief economist for the Small Business Survival Foundation and author of New York by the Numbers: State and City in Perpetual Crisis (Madison Books, 1997).

A Sacred Union of Citizens—George Washington’s Farewell Address and the American Character

by Matthew Spalding and Patrick Garrity

Rowman & Littlefield • 1996 • 217 pages • \$27.95

Reviewed by George C. Leef

Of all the Founders, George Washington is the most famous, but arguably the least well known. Washington’s life is well chronicled, but when it comes to his thought, he is largely a mythic figure. People carefully study the writings of Jef-

erson, Madison, Hamilton, *et al.*, but as for Washington, he is known almost entirely for his deeds—defeating Cornwallis, presiding over the Constitutional Convention, serving as the first president—rather than for his words. What did he believe?

A Sacred Union of Citizens by Matthew Spalding (director of lectures and educational programs at the Heritage Foundation) and Patrick Garrity (senior fellow at the Claremont Institute) helps to answer that question by focusing on Washington’s most famous writing, his Farewell Address. The authors have produced a lovely volume that sheds a great deal of light on Washington’s own character and his hopes for a national character that would emerge in his countrymen. There are many good biographies of Washington, but for a vision into the workings of his mind, this book is an excellent beginning point.

The book is structured around the Farewell Address, its history and meaning. Interestingly, Washington did not actually deliver the address; rather, he sent it to Philadelphia’s *American Daily Advertiser*, where it was published on September 19, 1796. The message was the culmination of Washington’s public life and in it he painstakingly expressed (the authors even discuss some of the material he deleted and reproduce part of the handwritten manuscript showing some excisions) his counsel to the nation he had done so much to create. In fact, the Farewell Address is a lot like Washington himself in that many people have heard of it, but few know much about it. Many politicians, for instance, can tell you that in it, Washington advised against foreign alliances and interference in the affairs of other nations, but would be hard-pressed to relate any other idea contained in the Farewell Address.

For their benefit, here is one. The problems of political parties and factionalism concerned Washington as much as did the dangers of foreign entanglements. In Paragraph 21 (the entire Address consists of 50 paragraphs) he writes, “The alternate domination of one faction over another sharpened by the spirit of revenge natural to party dissension, which in different ages and countries has perpetuated the most horrid enormities, is itself a frightful despotism.” How very true.

Unfortunately, Washington did not immediately give a prescription for the avoidance of these evils, but elsewhere in the Farewell Address, Washington extolled the virtues of just minding one’s own business. If the character of most if not all of the people were to be formed around that simple maxim, people would turn away from the seduction of politics.

Washington also warned in the Farewell Address against allowing even the slightest weakening of the Constitution's restraints upon governmental power, writing, "But let there be no change by usurpation; for though this, in one instance, may be the instrument of good, it is the customary weapon by which free governments are destroyed. The precedent must always greatly overbalance in permanent evil any partial or transient benefit which the use can at any time yield." Alas, many members of the Supreme Court have been willing to ignore Washington's counsel, if they know of it at all. The Constitution's limits on government power have been shredded, thanks to the arrogance of justices who thought that achieving what they regarded as socially good results was more important than preserving the Constitutional plan of limited government based on a few enumerated powers and many unyielding restrictions.

Readers who take up this book expecting to find

unfailing Washingtonian support for minimalist government will, however, be disappointed. The authors note that he favored the establishment of a national university, for example, not seeing the long-run dangers of allowing the government to become active in the provision of education. He also favored a national bank and held an ambivalent attitude toward foreign trade, maintaining that the nation might develop better if the people produced more of their own goods. Bastiat came along half a century too late to have enlightened our First President on the folly of government involvement in any of these areas.

A Sacred Union of Citizens is an intriguing project, well executed. For Americans interested in learning more about the workings of George Washington's mind, this book is indispensable. □

Mr. Leef is the book review editor of The Freeman.

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(ISSN 0891-3811)

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Published by

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

Phone (914) 591-7230 FAX (914) 591-8910

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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

Property—Key to Self-Determination

Private property is at the center of the freedom philosophy. It has been said that all human rights are ultimately property rights. It has been said that the right to life is a property right in one's person. It has been said that without property rights, the right to life is an empty idea. Yet private ownership is an issue that divides people and dictates their positions on many other issues. We can say that the two great competing world views in political theory—individualism and statism—are irreconcilably at odds over the question of property. The conflict is more subtle than it used to be, but it is just as real.

The strictly economic virtue of property is hardly in dispute anymore. The collapse of communism and explicit socialism is interpreted by many people as a victory for private property. Even stalwart socialist economists have conceded this point.

While the economic function of property is now virtually unquestioned, there are political and social aspects to property that deserve attention. Property is vital to privacy. One protects one's privacy ultimately by invoking private property. (See Tibor Machan's article in this issue.) Thus, it is important for such things as freedom of religion (and nonreligion). It is required for freedom of the press and speech. Imagine a free press where private individuals could not own paper, presses, and ink. Property is at the center of every issue relating to human liberty.

Imagine a society in which all property was owned collectively. Actually, that is hard to imagine. Ownership refers to the power to use and dispose of things. Collectives as such cannot use and dispose. Only individuals can do so because only individuals can act. When "society" appears to own property, the actual power of use and disposal rests with a group of identifiable government officials. They are the de facto, if not the de jure, owners. Even in a democratic society, in which the people fill

political offices by voting, it is misleading to say the people collectively own and control property. The most we can say is that each citizen has a small say in who the *de facto* owners will be. In contrast, other apparent forms of "collective ownership," such as a corporation, suffer from no similar conceptual problem, since they are the result of explicit contractual relationships entered into by specific individuals. Moreover, and this is critical, each stockholder, unlike the citizen "owner," can sell his share of the company whenever he likes.

In a society in which all property was collectively owned, everyone would be, in fact, an employee and tenant of the government. That's not a comforting thought. Again, the right to cast a vote every four years for the administrators of the public's property would not make these circumstances any more comforting. Everyone would in a significant sense be at the mercy of the state.

To be sure, in a free-market society, many people also will be employees and tenants. But there are two important differences between that situation and collective ownership. First, in the market there is competition among employers and landlords; that process benefits employees and tenants. Second, a person's status as an employee or tenant can be temporary. An ambitious person can save or borrow the money to start his own business and to buy his own home. If the market is fully free, the possibilities for transforming oneself from an employee/tenant to an employer/homeowner are maximized.

This consideration, when added to the fact that private property is essential for a free press, free conscience, and privacy, adds up to a rather strong recommendation for property rights: they are crucial to self-determination. Let's define self-determination as the ability to influence the

direction of one's life in a major way within the context of one's talents and capabilities. (Obviously, factors outside of anyone's control may affect one's life.) It should be obvious that private property is an element without which self-determination is impossible. One will have little say over the direction of one's life if the state controls all economic life. In the marketplace, however, one has choices—even if one does not own land or a business. Secure ownership of one's wages and the acquisition through lease of living space provides control over one's own life that cannot be approached in any collectivist scheme. It is no coincidence that collectivists, while sometimes paying tribute to self-determination, don't really like when people assert too much power to determine their life course. (See Loren Lomasky's discussion of autonomy and automobiles in this issue.)

Few people call for full-fledged socialism anymore. Today semi-socialists favor heavy government regulation of property in the name of the environment or social justice or some such reason. But the principle remains. To the extent government regulates the use of private property, it steals the power of self-determination from people. (One example: if the government can wreck your retirement plans by declaring your property a wetland, what has happened to self-determination?) Nominal private property that is regulated by the state does not fully escape the flaws of socialism. Fascism, which is the name of such a system, is more like socialism than it is different. Nazism, that virulent brand of fascism, means national socialism.

If the freedom philosophy is to prevail, advocates of private property will need to make it clear that without full protection of property rights we are all poorer—and not just in the economic sense.

—SHELDON RICHMAN

Freedom and the Car

by Loren Lomasky

Years before the automobile evolved into a transportation necessity, before meandering muddled ruts were replaced by multilaned asphalt, pioneering motorists took to the roads for pleasure. Today tens of millions still drive for pleasure, but increasingly it is a guilty pleasure. From a multitude of quarters motorists are indicted for the harms they leave in their wake. Drivers generate suburban sprawl, exacerbate the trade deficit while imperiling national security, foul lungs and warm the atmosphere with their noxious emissions, give up the ghosts of their vehicles to unsightly graveyards of rubber and steel, leave human road kill in their wake, trap each other in mazes of gridlock, and, adding insult to injury, commandeer a comfy subsidy from the general public. It is only the presence of unconverted cigarette smokers that deprive them of the title Public Nuisance Number One.

Barring a radical re-engineering of America, there is no prospect that we will any time soon toss away our car keys. Cars (and trucks) are here to stay. But as the automobile enters its second century of transporting Americans from here to there, momentum for curbing its depredations grows. Construction of significant additions to the interstate highway system has ground

to a halt. Lanes on urban roads are declared off-limits to solo motorists. Federal fuel-efficiency standards require automakers to alter their mix of product to emphasize lighter, less gasoline-hungry cars. Taxes on fuel have been increased only modestly, but if critics of automobiles have their way, America will emulate Europe and the tax will go up by a dollar or more per gallon. The revenues will be directed toward more mass transit, pollution relief, and research on alternate modes of transportation. Some argue that employer-provided parking should be taxed as income to the employee or disallowed as a business expense to the provider. Others advocate following the model of Amsterdam by barring nearly all automobiles from entry into the center city. And supplementing policy proposals is moral suasion. In the name of social responsibility, individuals are urged to car-pool or avail themselves of public transportation; scrap their older, fuel-intensive vehicles; and to eschew unnecessary automobile trips.

Why this assault on the automobile? I have no wish to deny that some of the charges advanced by critics are true. Automobile carnage is indeed dreadful. The number of people killed each year on our roadways far exceeds the total who succumb to AIDS. Automobiles do pollute, all to some extent, some much worse than others. Anyone who has ever been trapped in rush-hour gridlock, fuming inside at the delay while being engulfed by the fumes outside spewing from ten thousand tail-

Loren Lomasky teaches philosophy at Bowling Green State University in Ohio. This essay was originally produced as a working paper for the Competitive Enterprise Institute. A longer version appeared in Independent Review.

pipes, knows that the simple job of getting from here to there in one's automobile can be the most stressful part of the day.

But even accepting all the above, it does not seem sufficient to explain the intensity of opposition directed toward the automobile. There are costs associated with any large-scale enterprise, and so a critique that merely reminds us of the nature and extent of these costs is only half useful. What is also required is, of course, a statement of the benefits derived from the enterprise and a plausible accounting of whether those benefits do or do not exceed the costs. How to identify and measure costs and benefits of automobile usage poses very difficult methodological problems that I shall not address here. I do note that the overwhelming popularity of the automobile is itself *prima facie* evidence that, from the perspective of ordinary American motorists, the liabilities of operating a motor vehicle are more than compensated by the benefits. Just as theorists speak of people "voting with their feet," we can count those who vote with their tires. And the vote is overwhelmingly pro-automobile.

Critics may contend, though, that the election has been rigged. They can maintain that it is the absence of public transportation and compact neighborhoods integrating commerce, industry, and housing that force us so often into our cars. And even if it is the case that each of us values the options and mobility that automobile transport affords, we might disvalue yet more the stress, delay, and pollution imposed on us by others.

There is at least this much merit to the critic's case: a purely behavioristic appraisal of automobile usage is insufficient for evaluating it. We need also to think more intently about how to classify and understand as a distinctive human practice the action of *driving a car*. Opponents of the automobile argue that the most telling way in which to understand this is: *creating a public bad*. That is the appraisal I shall dispute in this essay. My focus will not be on the many practical uses to which the automobile is put (driving to work, car-pooling

the kids, buying groceries). Rather, I shall concentrate on what is intrinsic to automobility. As such, automobility is complementary with *autonomy*: the distinctively human capacity to be self-directing. To be autonomous is, minimally, to hold values—ends taken to be good as such—and to have the capacity to direct oneself to the realization or furtherance of those ends through actions expressly chosen for that purpose. This is what motorists do. Therefore, insofar as we have reason to regard self-directedness as a valuable human trait, we have reason to think well of driving automobiles.

I am making a strong claim. Automobility is not just something for which people in their ingenuity or idiosyncrasy might happen to hanker. Rather, automobile transport is a good for people in virtue of its intrinsic features. Because automobility is a mode of extending the scope and magnitude of self-direction, it is worthwhile.

Moreover, the value of automobility is strongly complementary to other core values of our culture, such as freedom of association, pursuit of knowledge, economic advancement, privacy, even the expression of religious commitments and love. If these contentions are even partially cogent, then opponents of the automobile must take on and surmount a stronger burden of proof than they have heretofore acknowledged; for they must show not only that instrumental costs of marginal automobile usage outweigh the benefits, but they also must additionally establish that these costs outweigh the *inherent good of the exercise of free mobility*. That heightened burden will be difficult indeed to satisfy.

Movement, Choice, and Human Potential

Concern about automobiles may be a modern phenomena, but analysis of the distinctive nature of automobility is not. For Aristotle, being a self-mover is the crucial feature distinguishing animals from plants and, thus, higher forms of life from lower. That distinction is itself preceded by a yet

more basic one that separates the organic realm from that which is lifeless. To be alive is to be possessed of an internal animating force, *psyche*. The customary translation is "soul," but in the context of Greek biology that is misleading. For us "soul" tends to carry a theological and thus elevated sense, but in classical Greek thought it marks the divide between inert things and those imbued with a vital principle. At the highest level is the rational soul, the intelligence exhibited among the animals only by man.

The conception of motion has a wider scope than traveling from place to place. We retain residual traces of this broader meaning in expressions such as "a moving experience" and in the etymological history of "emotion," but in the philosophical language of the Greeks the more inclusive sense is primary. Any transformation of a subject from the potential to the actual with regard to some quality is deemed motion. Movement, therefore, is not simply descriptive of getting from here to there but is normatively rich. To move is to progress—though, of course, it can also be to backslide. For people there is not only a better and worse but a *chosen* better or worse toward which we deliberately direct ourselves. Crucial to the elevated status of human beings as compared to other beings is intelligent automobility.

Commuting and Community

Automobility is, by definition, promoted by the automobile. The complementary nature of autonomy and the automobile is only slightly less evident. Being a self-mover in the latter part of the twentieth century is, to a significant extent, being a motorist. Because we have cars to drive we can, more than any other people in history, choose where we will live, where we will work, and separate these two choices from each other. We are more able to avail ourselves of near and distant pleasures and to do so at a schedule tailored to individual preference. We are less constrained in our choice of friends and associates by accidents of geography. Our ability to experience an

extended immediate environment is notably enhanced. The automobile is, arguably, rivaled only by the printing press (and perhaps within a few more years by the microchip) as an autonomy-enhancing contrivance of technology.

No one who ever has been caught up in rush-hour gridlock will maintain that commuting to and from work is unalloyed joy. Competing with tens of thousands of other motorists for scarce expanses of asphalt can be reminiscent of the Hobbesian war of all against all. For critics of the automobile this is not a negligible point. But neither are its implications entirely clear-cut. Just as worthy of notice is how many people voluntarily subject themselves to that ordeal. Have they not realized how much time they are wasting behind their steering wheels? Such inadvertence isn't plausible. In their judgment, the costs of commuting are amply compensated by the benefits. The more the critics emphasize the magnitude of the costs, the more these critics underscore, knowingly or otherwise, the extent of the benefits.

Commentators from the Greek philosophers to Adam Smith to Karl Marx have noted that the nature of the work one does largely shapes the quality of life one leads. To do work suited to oneself in a satisfactory environment is for nearly all of us a great good, while to perform alienating labor under unfriendly and unhealthy conditions is a correspondingly great evil. Similarly, to reside in a comfortable and functional dwelling situated in a neighborhood one finds hospitable is also a considerable good. For most people throughout human history, neither occupation nor place of residence has afforded more than a negligible range of choice. One did the work one's father or mother did, or to which one had been apprenticed, or which was the kind of work available in that place. And one lived where one must or where one could.

The increased affluence and openness of liberal capitalist society has vastly expanded the range of choice. Previously one either lived close to one's work or else on a commuter rail line. But motorists are not bound by the geography of the New York,

New Haven & Hartford tracks. Depending on how much time they are willing to invest in transit, they can live at considerable distance from where they work while also being emancipated from mass-transit rigidities. Cultured despisers of suburban existence can and do decry this circumstance, but millions of Americans (and, increasingly, the rest of the world) disagree. It can hardly be denied that the suburbs are an object of choice by those who live there. To respect the autonomy of persons is to acknowledge that expanding their options with regard to work and residence is a plus.

Nineteenth-century socialist reformers decried industrial capitalism's exploitation of workers. Although it could reasonably be contended (as F. A. Hayek famously did in *Capitalism and the Historians*) that workers voluntarily abandoned their rural domiciles for the factory town only because they regarded it as a net improvement, it must nonetheless be conceded that their situation was not enviable. The work was grueling, and opportunities for self-directed choice were minimal.

Yet no syndicalist scheme or string of workers' cooperatives remotely approaches the automobile as an instrument of emancipation. Insofar as it extended the feasible range of commuting between residence and work place, the coming of the motor car augmented the bargaining power enjoyed by workers. In theory, under a legal regime of free contract, workers always enjoyed the right to terminate their employment when they wished to do so, but in practice this liberty often proved discouragingly costly. Automobility significantly lowered those costs. Detroit has done more for the liberation and dignity of labor than all the Socialist Internationals combined.

Liberation can also be observed when viewing the employment-residence nexus from the other direction. The ability to choose where one will live makes a considerable difference to the exercise of self-determination. Life in the suburbs is not inherently better than life in the central city, but it is different. To the extent that one possesses a real opportunity to choose be-

tween them, one is thereby able to give effect to significant values that shape a life. If one is mobile, the question of where to live is answered by an act of positive choice rather than through inertia or extraneous constraints such as the location of one's place of employment.

Choice of residence is a major avenue through which Americans exercise their right to free association. One thereby decides with whom one will live. And perhaps even more importantly, one decides with whom one won't live. An ethic that endorses autonomy must acknowledge that, the content of individual choices aside, it is a good thing that people are able to make up their own minds and then act on that decision concerning where they will live.

Mobility and Knowledge

For much the same reasons that automobility and autonomy are good things, so too is knowledge. Like self-moving, knowing affords us a firmer grip on our world. Indeed, choice and knowledge are complementary. We might say that choice without knowledge is blind; knowledge without choice is impotent.

Automobiles enhance mobility, and mobility enhances knowledge. Insofar as the area within which one is able to move is increased, so too is the range of one's knowledge-gathering capacities. Knowledge need not be grand or profound to be valuable in itself and as a complement to choice. If I drive north along the lake to see how the autumn leaves have turned and whether the Canada geese are still milling or have flown, then I may have gained experience that I take to be inherently valuable. Driving through the various neighborhoods of a city reveals where the bakeries and hairdressers and Thai restaurants are located, who is having a garage sale this week, and which parts of town are becoming distinctly seedier.

When the range within which one moves about becomes extended, so too does the range of one's potential base of knowledge. And the automobile is the quintessential

range extender, not only by lengthening the trips one can take but also by multiplying the number of available routes. Cars do not only go to malls and theme parks but also to libraries, universities, and museums. Urban centers of learning are rendered accessible on a regular basis to those who live many miles distant.

The Wheels of Privacy

Another complement to autonomy is privacy. Some quantum of privacy is requisite for self-determination. The automobile is for twentieth-century American society the quintessential bastion of privacy. For many of us it's the Honda rather than the home that is the castle. Ironically or not, those minutes between home and office on a freeway clogged past capacity with tens of thousands of other cars may be one's most private time of the day.

Social planners are wont to gnash their teeth at the number of motorists who could arrange to car-pool to work but instead "inefficiently" take up roadway space with a solitary-occupant car that could carry several times as many people. Diamond lanes and other inducements have only a limited effect on average occupancy statistics. This may be viewed as a failure of policy, but it can also be seen as a reasonable and in some ways estimable response to the valid human desire for privacy. Privacy in virtually all its forms, including that afforded by the automobile, is a good to which significant costs come attached. I shall not dispute here whether the costs incidental to automotive privacy exceed the benefits; my point is that there are genuine benefits from driving solo. Any cost-benefit analysis that aims to be unbiased must acknowledge that privacy is a good and then proceed from there.

Being alone is one aspect of privacy, but it is not, I believe, the most central. What is more salient is a (re)gaining of control over one's immediate environment. I may be surrounded by other people, but if I am able to determine to a significant degree what they shall be allowed to perceive of me and

know about me and impose on me, then to that extent I have retained a private self. Surely one reason for the fondness people often hold for their cars and for automobility in general is the scope afforded with regard to that sort of control. Pushing one button turns on the radio. Pushing another changes the station, lowers the volume, turns off the radio and switches to the tape player. It is one's own choice whether to listen to news reports, Beethoven, Beatles, or nothing at all. Next to the switches for the stereo are those for climate control, windshield washing, blinking one's lights, perhaps even a cellular phone. Individuals exercise control over the internal environment of their cars in a manner that is not possible with any alternate mode of getting around. Once we focus attentively on the good that is privacy, it will no longer appear obvious that rush-hour gridlock on highways is an unacceptably high price to pay for the opportunity to be one's own man or woman behind the wheel of one's own car.

The Road from Serfdom

In light of all these considerations, why has motoring fallen under such a cloud? Three possible reasons suggest themselves. First, although the critics acknowledge the range of goods afforded by automobility, they have identified accompanying evils that in their view drastically outweigh the goods. Second, the critics may be oblivious to the various autonomy-enhancing features of automobility. Third, they may recognize these features but regard them as goods of a much lesser status than I have claimed or, indeed, even as detriments.

Could the automobile's critics have failed to observe that cars support autonomy? If these effects were slight and subtle that might be a reasonable supposition. But we have seen that they are not, that when compared with alternate means of transportation the automobile stands out as the vehicle of self-directedness par excellence. Not to observe this would be like visiting the mammal area at the zoo and failing to notice

that the elephants are rather larger than the zebras, camels, and wart hogs.

I am convinced that the automobile's most strident critics are well aware of the fact that automobility promotes autonomy—and that is precisely why they are so wary of it. To be in the business of formulating policy is to be professionally predisposed to consider people as so many knights, rooks, and pawns to be moved around on the social chessboard in the service of one's grand strategy. Not all analysts succumb to this temptation, but many do.

People who drive automobiles upset the patterns spun from the policy intellectual's brain. The precise urban design that he has concocted loses out to suburban sprawl. If

people rode buses and trains whenever they could, less oil would be burned and fewer acres of countryside would be paved over. Perhaps communities of an old-fashioned sort would be restored. Perhaps the central city would come alive again other than between the hours of 9 and 5. Perhaps. . . . But why go on? These lovely visions are blocked by the free choices of men and women who resist all blandishments to leave their cars in the garage. They wish to drive. Automobile motoring is good because people wish to engage in it, and they wish to engage in it because it is inherently good. So the intellectuals sulk in their tents and grumpily call to mind utopias that might have been. □

The Mainspring of Human Progress

BY HENRY GRADY WEAVER
New Introduction by John Hood*

FOR SIX THOUSAND YEARS PEOPLE DIED OF HUNGER. WHY DON'T WE?

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ISBN 1-57246-064-4 • 272 pages • paperback \$12.95

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Visa and MasterCard orders: 1-800-452-3518

Paparazzi and Public Property

by Tibor R. Machan

In the wake of the crash that killed Princess Diana, many folks were hell-bent on convicting paparazzi anywhere they could be found. Hollywood celebrities flocked to television talk shows and even news programs to accuse tabloid publishers of complicity in various crimes that they say come about because of the sleazy journalism the tabloids practice.

As this is written, it appears the paparazzi who chased the car in which Princess Diana met her demise may have helped cause the crash. There are also the matters of the driver's apparent inebriation and the passengers' failure to stop the speeding; the paparazzi could have been dealt with differently.

Deeper questions remain. Do journalists have a right to gather the news by engaging in the kind of conduct they allegedly exhibited on the night of Diana's death? Why aren't outspoken celebrities vigilant in the defense of individual rights apart from their own privacy concerns? Nevertheless, the issue of the apparent clash between press freedom and privacy is important. How should the press's freedom be conceived of, especially in public places?

The press, of course, has no right to invade anyone's private property to obtain

stories or pictures. But what about public property? Journalists and photographers are able to operate on vast public domains of streets, parks, beaches, highways, and waterways. Because public areas exist, the press—including the paparazzi—are able to operate in intrusive ways largely with impunity.

If a paparazzo wants to invade someone's home or business to take pictures, that can be prevented, or at least discouraged, by the threat of prosecution for trespass. More directly, a security guard can expel a trespasser. But if he hangs out on the closest "public" street corner waiting for a prominent person to emerge from his home, it would be problematic to chase the photographer because public property supposedly belongs to us all.

Why "Public" Property?

The first point to be made then is that there is no reason for the existence of so many large public, meaning tax-funded, areas. In a free society, public spheres would be confined to where government houses its legitimate activities: military bases, courthouses, and so on. Even roads do not have to be public. They could well be the property of various transport, recreation, or other firms and would be better off for it. (Professor Walter Block explained this nicely in his essay on private roads in T. R. Machan, ed., *The Libertarian Reader* [Rowman & Littlefield, 1982].)

As long as public domains are so perva-

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sive, albeit unnecessarily so, some way of dealing with the clash of claims to their use must be found. In the United States and many Western countries, it is widely thought that when people occupy a public space, they can freely engage in any kind of conduct that does not involve direct personal injury to others, such as assault, rape, battery, or murder. On a few occasions that doctrine has been challenged, for example, when panhandlers or abortion protesters have made it nearly impossible for others to go about their business. Huge legal battles have ensued. (In one celebrated case, the American Civil Liberties Union sued on behalf of a homeless man of highly dubious personal hygiene, who sat in a municipal library glaring at other people. The library officials expelled him, but the man and the ACLU prevailed in court.)

Thus the legal right of those who use the street for transportation may clash with the legal right of those who use it for demonstrations or protests. It has been difficult to figure out which legal rights deserve greater protection. The institution of "public property" creates this problem. It generally doesn't exist on private property, where the owner sets the rules. (An exception is shopping malls, where some courts have said that owners cannot prohibit the distribution of leaflets.)

The same problem faces relatively free societies regarding the paparazzi and other news gatherers. Indeed, at times members of the press are convinced that their goal of gathering information justifies behavior that is quite aggressive and invasive, not to mention cruel and insensitive (as when they chase relatives of the victims of a plane crash to ask, "How do you feel about losing your children in this tragic accident?").

The Right to Know

The issue is often misunderstood when people think in terms of the "public's right to know." There is no such basic right at all—it's a myth. No one has a right to be informed by others unless they have freely committed themselves to provide such a

service. Then and only then does one have a (contractual) right to get the information in question. And the taxpayers, by virtue of their relationship to the government, may be said to have a right to know what the government is up to. On the other hand, if the public had a general right to know, holders and providers of information would, in effect, be the slaves of the public.

We know that if a person, celebrity or not, is doing something newsworthy in his private home, the press has no right to enter the property to investigate. If the public had a "right to know," this would not be the case. But scouting for news on private property without the owner's permission is an invasion of privacy and a violation of rights. No alleged "right to know" trumps such genuine basic rights.

Public property, again, muddies these principles. Theoretically, public spaces belong to everyone, so whatever goes on there in some sense is the public's business. But is that the same as the public's right to know?

The provisional solution to the clash of uses on public property, say, between the press and celebrities walking down the street, involves something that may not please the paparazzi: the law ought to clearly designate the purpose of public realms and make sure they are devoted primarily to that purpose. For example, if the paparazzi interfere with a celebrity's appropriate use of public property, for example, driving on a road, it would be (and is now) legally actionable.

The same, of course, would apply to any obstructive demonstration. When the Teamsters used public roads to block transportation to and from UPS centers, or when the Hare Krishna at public airports intrude on passengers going about their business, they are using public areas for objectives unrelated to the purposes for which those areas exist, namely, transportation. Likewise, in parks and on beaches, recreation comes before agitation and other activities. Until these assets are privatized, the only solution to the clash of uses is to consider the purposes served by public areas. These are usually expressed in the semi-

democratic procedures of federal, state, county, and city governments. For instance, when a sports arena is built by and for the public (taxpayers), in line with the outcome of a referendum, sports events must be treated as its primary function. Other uses are secondary.

A Responsible Paparazzi

The implication is that if the paparazzi, while on public property, cannot engage in their special activities without obstructing others who are using it for its primary purpose, they are violating rights. Furthermore, if they harm others or contribute to a dangerous situation, they are culpable. A steady prosecution of such conduct could abate some of the adverse, at times disastrous, consequences of the often zealous pursuits for which people use public spheres.

The press in America enjoys a special status among all the professions: it is explicitly, constitutionally protected from government regulation. This is, of course, good as far as it goes; all honest work should be protected from government regulation. But despite that status, people in the news-gathering business should not get the impression that for them everything is permitted. By having nearly unlimited access to public realms, the press already has the benefit of lower costs for its operations. Its raw material, the news that originates in public spaces, can be obtained without having to purchase it, quite unlike any other commercial undertaking. If the paparazzi had anything to do with Princess Diana's death, perhaps it will draw attention to this distorted legal situation and the dilemmas of so-called public property. The basic rights of the press will be best protected when all individual rights are protected. □

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Where Does Law Come From?

by Bruce L. Benson

The legal scholar Lon Fuller defined law as “the enterprise of subjecting human conduct to the governance of rules.”¹ It includes basic rules of conduct as well as institutions or mechanisms for clarifying, changing, and applying the rules. Furthermore, as David Hume observed almost two and a half centuries ago, a primary motivation for developing rules and governing institutions is the attempt by rational individuals to find ways to expand their personal well-being or wealth in the face of scarcity.² But, as Franz Oppenheimer explained, there are two ways for individuals to expand their wealth: “economic” processes, which consist of cooperative voluntary interaction, including production and trade; and “political” processes, which take wealth produced by others through the use or threat of force (or guile).³ Understanding the evolution of law requires recognition of the conflicting incentives to establish rules for the purpose of creating wealth versus rules for the purpose of expropriating it.

Wealth-Seeking and the Evolution of Law

How can law evolve from self-interest? Competition over the use of scarce resources is inevitable. Unilateral efforts to

turn a property claim into actual ownership requires a sufficiently strong threat of violence to exclude others from making conflicting claims. Since several individuals are likely to have similar incentives with regard to any scarce resource, violent competition could consume vast amounts of resources. Is such a Hobbesian “war of all against all” inevitable? No. For instance, individuals with similar capacities for violence (and therefore small expectations of winning a war) might agree to recognize an equal initial distribution of private-property rights to scarce resources. The incentives to live up to that agreement are largely positive: as a result of reciprocal commitments to respect property claims, individuals expect to grow richer by focusing resources on productive activities rather than on protective or aggressive activities.

Of course, a Hobbesian war can arise if some parties believe they are probably strong enough to take more wealth. But historical and anthropological evidence suggests that the earliest men lived in groups that were largely cooperative.⁴ This is not surprising since people’s capacity for violence was probably similar until wealth began to accumulate; thus, mutual deterrence tended to prevent the taking of resources, leaving cooperation as the only potential means of increasing wealth.

Even when one party’s capacity for violence is substantially greater than that of others, continual violent conflict is still not likely to occur. Indeed, if an individual has an absolute advantage in violence, he

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will be in a position to induce others to accept slavery, thus concentrating all property rights (including the ownership of other persons) and wealth in the hands of that one "authority." Of course, he will also have to maintain his position of dominance to assure continuation of that uneven distribution of rights and wealth. After all, the slaves' incentives to accept the situation are "negative"—they accept subjugation only when they expect it to be better than the high-probability alternative of losing everything.

Between the extremes of voluntary agreements and slavery many other nonviolent possibilities exist. Those possibilities entail forms of extortion, or "protection" from the very individuals demanding payment rather than from other threats. Some protection rackets involve large payments (for example, tribute or taxes), while others are characterized by dispersed private-property rights and modest payments to someone with a comparative advantage in violence.

It may well be that a person choosing to pay for "protection" could produce sufficient counterforce to overthrow the extortionist. But if the payment demanded is not too great, an individual capable of producing considerable wealth could decide that the cost of counterforce is too high to make it worthwhile. But if so, the extortionist is constrained in how much he can demand.

Let's consider a spontaneously evolving voluntary legal order before turning to the implications of extortion and law.

Law Through Cooperative Institutions

Voluntarily recognized "trust rules," to use Viktor Vanberg and James Buchanan's terminology, essentially involve explicit or implicit agreements to adopt predictable patterns of behavior, or norms, in dealing with a limited number of identified individuals.⁵ Since the primary source of conflict is scarcity, trust rules focus on the allocation of property. Each individual better secures his property claims by accepting an obligation to respect the property rights of others,

who of course are expected to reciprocate. As this occurs, people can make plans over longer periods and get the highest return from their resources.

But how does governance occur? Imagine an evolutionary process in which individuals recognize the high cost of unilateral violence as a means of establishing property rights. Individuals with similar capacities for violence and facing the likelihood of repeated dealings (for example, with neighbors) will form tentative bilateral relationships that include promises to recognize each other's property boundaries. If individuals significantly benefit from a continuing relationship, a violation of a rule can be "corrected" through the so-called "tit-for-tat" strategy. Essentially, the wronged party responds in a similar fashion (so the response need not be violent) in the next round in order to punish the wrongdoer, but then signals a willingness to return to behavior consistent with the rules if the original violator will do the same. The rule violator sees that if he wants the benefits from ongoing cooperation he must follow the rules.

Another option, when there are competitive alternatives, is to simply refuse to deal again with someone who has proven himself untrustworthy. As more bilateral relationships are formed and a loose-knit group with more elaborate reciprocal dealings develops, such competition arises. Thus, individuals can cooperate unconditionally with anyone known to be trustworthy, while refusing to deal with anyone known to have violated a trust rule with anyone in the group. If information spreads quickly and everyone spontaneously responds to a rule violation, the violator is excluded from interaction with all members of the community. Social ostracism is the result, and it can be a significant punishment. In fact, an individual's incentives to exact physical punishment are weak when competitive alternatives to the violator exist and information is easily spread. Investments in communication mechanisms substitute for investments in the capacity for personal violence. Indeed, Vanberg and Buchanan

explain that once a group is formed based on intermeshing bilateral trust rules, "solidarity rules" (obligations that are expected to be upheld because everyone benefits) can also develop.

Solidarity rules include "inform your neighbors about individuals who violate trust rules" and "boycott untrustworthy individuals." They evolve spontaneously as individuals substitute ostracism for violence. Related rules, such as "look out for your neighbor" and "inform everyone when a rights violation occurs," tend to follow, and multilateral cooperative policing to insure property rights ultimately evolves. Members of close-knit groups often do things to prevent theft against fellow members and cooperate in pursuit and prosecution when a theft occurs.⁶ Individuals who do not follow solidarity rules (for example, who do not contribute to cooperative policing) may also be ostracized, so free-rider problems are not significant.

Threats and sanctions are not the primary incentives to recognize rules in an evolving cooperative group. Important positive incentives also develop. Unexpected drastic losses of wealth (from fires, storms, accidental death of the breadwinner) can create incentives to turn to theft. To avoid this, a group may establish insurance arrangements to protect people from occurrences that might force them to steal in order to survive. Self-interested individuals will voluntarily help someone in distress in order to encourage him to continue respecting their property rights. They might do so with the reciprocal assurance that they can receive help if they need it in the future.

Other institutional arrangements also evolve. Because policing is imperfect, someone accused of a rule violation may not be guilty and may dispute the charge. In such an event, "prosecution" could be violent, but in a close-knit group violence can have significant costs, particularly if opinions about guilt are mixed. Those costs can be reduced by developing nonviolent means of resolving disagreements and clarifying property rights, and by making acceptance of a judgment relatively attractive for the loser.

For instance, a mutually acceptable mediator or arbitrator might be chosen from among the most reputable members of the community or from a pool of dispute-resolution specialists. Since this third party must be acceptable to both disputants, "fairness" is embodied in the dispute-resolution process. The loser might also be allowed to buy his way back into the community by paying appropriate restitution, rather than being subject to physical punishment or exclusion. Of course, rulings can be backed by threats of ostracism, but in general, resolutions are likely to be accepted because even losers recognize that the long-term benefits of behaving according to expectations probably exceed restitution payments (or the costs of exclusion). Many historical and anthropological studies demonstrate that restitution and voluntary mediation or arbitration are common institutions in the legal systems of close-knit groups.⁷

All such institutional developments tend to be spontaneous and unplanned. The result is a movement toward increasingly secure private property rights under "customary law." Indeed, as Robert Ellickson writes, "There is abundant evidence that a . . . group need not make a conscious decision to establish private property rights. . . . People who repeatedly interact can generate institutions through communication, monitoring, and sanctioning."⁸ Thus, no central authority with coercive powers is necessary to produce law in such a cooperative social order. Coercion is only required when there are strong incentives to resist, generally because the law grossly discriminates between individuals or groups in the allocation of rights and wealth.

Extortion and the Evolution of Law

Suppose an individual is better than others at wielding violence and chooses to take the wealth produced by them. The result is a "negative sum" undertaking since the forcible transfer and any efforts to resist it consume resources that could be used to

create new wealth. Nonetheless, such an individual may expect to be better off by appropriating wealth than by cooperating, producing, and trading.

Obviously, that person will develop a reputation for using violence. The reputation can be valuable because the mere threat of violence may be sufficient to obtain wealth. Once such a reputation develops, however, his potential for entering cooperative relationships is reduced, since anyone with whom he does not have a prior trust arrangement will doubt his word. Therefore, the decision to take wealth often involves a permanent commitment to extortionist behavior. Moreover, he will wish to establish an environment that will produce a steady income. He will establish rules and institutions to minimize the costs of continual extortion. Among other things, this implies the extortionist will attempt to establish a monopoly in violence. After all, if a victim can find some person or cooperative group to protect him, the extortionist's ability to extract wealth will be severely limited. Thus, the extortionist must erect barriers to keep people from escaping his "jurisdiction."

The scale of violence required to compete for and maintain power will be greater than any single individual can produce, of course. Therefore, an "entrepreneur" in extortion will generally establish a "firm," which will use part of the seized wealth to buy services from others who have a comparative advantage in violence but less entrepreneurial skill. (These will include strong-arm enforcers, army or police personnel, and producers of the tools and symbols of violence.) Such "protection firms" will require internal cooperation, so the dealings between people within the firm will differ from the dealings with the targets of extortion. Many cases of organized aggression involved cooperative communities with established trust relationships, such as those described above, that were persuaded by an entrepreneurial leader (for example, a tribal war chief) that they could get rich through raids or conquest. But if powerful enough, such a firm itself can threaten the entrepreneur, so

he will have incentives to keep the organization decentralized (raising the cost of collusion) and to create competition for the booty among the factions.

The extortionist can also help avoid rivals by buying cooperation from potentially powerful individuals. As a result, the protection racket can combine extortion of the weak with protection of the relatively powerful. To maintain power, the extortionist also has incentives to redistribute wealth as the relative power of subgroups within his jurisdiction changes. The redistribution would aim at obtaining the support of subgroups that could become powerful enough to threaten his power. Thus, while mutual insurance arrangements in cooperative systems aid the weak who may have little incentive to respect property rights, extortion-based systems aid the powerful who otherwise have little incentive to respect the leader's claim to sovereignty. Of course, since there is a potential danger that the poor also could organize and revolt, the leader might give them something too. But transfers to the wealthy or powerful will predominate, and any transfers to the poor will mainly flow from others who lack power.

The extortionist might even develop institutions through which the competition for transfers can be channeled and observed. Focusing such competition in "advisory councils" or "representative assemblies," for instance, could reduce the cost of monitoring and dealing with groups. As the exchange of support for privileges is institutionalized, powerful subgroups might see their interests linked to those of the "sovereign." An effective entrepreneur in extortion might also be able to lower his costs and legitimize his claim as the monopoly source of rules and interpretation by establishing "adversarial" dispute-resolution forums (courts or assemblies) backed by threats of violence.

The political means of gaining wealth is parasitical on the economic host, so an extortionist faces a tradeoff. Large levels of extortion in the short term reduce productivity and the potential for income in the

long run. How much the leader takes will depend on how long he expects to hold power. He is likely to recognize some private-property rights and allow some cooperative organizations in order to create incentives for producing more wealth. Nonetheless, the threat of appropriation means that all property is in a common pool, open to some extent to political competition.

To the degree that the extortionist succeeds in legitimizing his claims to sovereignty and preventing people from fleeing, his subjects will see him as the single legitimate source of rules in the geographic jurisdiction. The sovereign may attempt to design and impose his own rules, but he is also likely to claim to be the source of the customary laws already in force because they are low-cost mechanisms for facilitating the creation of wealth, which he can then appropriate. His "law," however, must be superior to customary law. Many early codes of kings were largely codifications of customary law but with changes to permit the sovereign to dictate the distribution of wealth.⁹

Many such claimants to sovereignty must have succeeded, because people generally believe the state is the source of all law. Most (if not all) modern nation-states clearly evolved from nonstate extortionist institutions—for example, tribal war chiefs became kings and kingdoms became nation-states. The "law" of the state serves many conflicting functions, simultaneously harassing and protecting private interests, extorting wealth and encouraging its production, maintaining the class structure and cutting across classes, integrating parts of society and disintegrating other parts. Law (in a positive sense) and justice (in a normative sense) are not synonymous.

Political Distortion and the Evolution of Law

The power of a sovereign almost never becomes absolute, but the cooperative groups' customary law, a product of "spontaneous order," is always distorted. As F. A. Hayek explained, "spontaneous order arises

from each element balancing all the various factors operating on it and by adjusting all its various actions to each other, a balance which will be destroyed if some of the actions are determined by another agency on the basis of different knowledge and in the service of different ends."¹⁰ The extortionist and his officers cannot fully anticipate the consequences of their actions because those actions inevitably cause a long train of readjustments.

The possibility that the extortionist will expropriate wealth (tax) reduces the producers' long-term planning and the expected gains from cooperation. Furthermore, the legitimization of coercive rules and institutions stifles the development of trust relationships; the motive for honoring commitments becomes avoidance of punishment by the sovereign. Therefore, fewer voluntary organizations are formed and those formed often perform fewer functions. To the degree that such functions are demanded by powerful political interests, the sovereign may try to force continued production, and if that fails, he may attempt to produce them through his growing bureaucratic apparatus.¹¹

Even in a society with a very strong ruler, however, some cooperative groups will exist. Those groups may still be able to enforce some of their own norms, even when doing so violates the sovereign's "law" (for example, through vigilantism). If, in his effort to monopolize law, the sovereign prevents practices that voluntary groups want to use (formal agreements to ostracize, third-party dispute resolution, restitution instead of punishment), the groups may resort to secrecy and the sovereign may use violence to prevent what he sees as crime.¹² When politics dominate a society, it may not emerge very far from the Hobbesian jungle.

Some voluntary groups are strong enough to maintain formal alternatives to the extortionist's legal system. This is most likely to happen where the benefits generated through voluntary interaction are large or the relevant group operates across different jurisdictions, creating competition among authorities. The international merchant

community of medieval western Europe is an example.¹³ Similarly, modern international commercial law remains a largely voluntarily produced and enforced system of customary law, despite many attempts to subjugate it over the centuries.¹⁴

Conclusion

Many other examples of parallel systems of rules and institutions exist. These are cases in which a political system is established, but alternative predominantly customary systems support most behavior.¹⁵ It is generally within those groups that "law" and "justice" are synonymous, or at least complementary concepts.

The lesson here is that law and governance are natural institutions that arise out of people's interest in prospering through production, the division of labor, and trade. They do not depend on a central coercive authority for their genesis. States can arise when a powerful group, bent on institutionalized extortion, co-opt and alter existing customary law to serve its own particular interests. □

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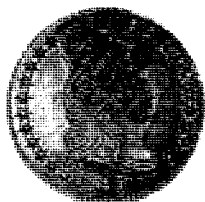
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Will Retirement Become a Personal Responsibility?

With Social Security benefits projected to exceed the system's revenues within 15 years, young Americans are increasingly skeptical that the government will take care of them when they reach their mid-sixties. That's a healthy development because in a free society, responsibility for one's retirement is too important to relinquish to the vagaries of politicized programs.

A recent report from the Board of Trustees of the Social Security Trust Fund projected that payroll tax revenues alone will be insufficient to pay current benefits as early as the year 2012. The system can draw upon its revenues plus interest on the surpluses of previous years for a while longer, but when that's all gone, we'll be staring gargantuan tax hikes in the face. Without cutting benefits, the trustees estimate that payroll taxes would have to quickly rise from the current 12.4 percent to a whopping 18.8 percent.

Of course, don't rule out the prospect of a reduction in benefits, which might come in one or more disguises such as raising the age at which one can begin collecting checks. This much is clear: trusting to politicians to take care of you in your old age is costly, unpredictable, and therefore dangerous. Those who warned of this when the system was established in 1935 were pilloried as

heartless and stingy but they now look like the wisest prophets of their day. It's too bad many of them are not around in 1997 to help us untangle the mess they foretold.

As a solution, advocates of the privatization of Social Security often point to Chile's remarkable success in that very endeavor. But Americans need not look any further than Great Britain for some of the same lessons. British workers, optimistic about how they'll fare in their senior years, are relishing the prospect of a pool of pension funds greater than that of all other European countries combined.

Why do the British have far less anxiety about their financial future than their American counterparts? They are not, as a Heritage Foundation report recently pointed out, "locked into a rigid, financially troubled government-run system." A few years ago, Britain partially privatized its retirement program, allowing workers to invest a portion of their payroll taxes in private pension funds. While Americans are not permitted to invest any amount of their 12.4 percent Social Security payroll tax in private equities or retirement plans, three-quarters of all British workers are enrolled in private plans through their payroll taxes.

Since 1986, Britons have been earning double-digit rates on their retirement funds while today's young working Americans must hope to live well beyond the age of 100 before their "investment" in Social Security begins to pay off. What's good for the workers is good for the Treasury as well.

Lawrence W. Reed, economist and author, is president of the Mackinac Center for Public Policy, a free-market research and educational organization headquartered in Midland, Michigan.

The Heritage Foundation report, "Social Security Privatization in Britain: Key Lessons for Reformers," says that by restructuring and privatizing their pension system, allowing consumer choice and competition among private pension plans, and controlling entitlement spending, the British have amassed a pool of financial assets (or capital) second only to the United States and Japan. Officials are even predicting that at the rate things are going, Britain will pay off its entire national debt by the year 2030!

While both Chile and Britain are valuable models, Americans have domestic examples to learn from. Three counties in Texas had the good sense to get out from under the Social Security pyramid scam years ago.

A loophole in the original Social Security law allowed municipalities the freedom to opt out, an escape hatch Congress closed in 1983. Three Texas counties took advantage of it while it was in effect and as a result, retirees under the private plans in use there are getting several times the monthly retirement check they would have received had they stayed in the government system. Recently, the Oregon legislature overwhelmingly passed a resolution calling on the federal government to allow states to get out of Social Security.

Of course, those who worship government, and who think that you and I can't be trusted to take care of ourselves, are working their PR machine overtime to preserve the precarious status quo. A new study from the Cato Institute, however, is giving the privatization side plenty of ammunition with which to rebut the statist.

Would putting your retirement nest egg in the private sector be too risky? The Cato report, "Common Sense Objections to a Market-Based Social Security System: A Response," shows that even if a worker

invested his payroll taxes during the stock market's worst performing quarters in history, he could still retire better with private savings than with Social Security. Over the last 70 years, a period that includes the biggest stock crashes in history, stocks and bonds have averaged an annual rate of return of over nine percent—far in excess of the average annual Social Security return of a paltry two percent.

Would paying the cost of private pension fund management make the idea too expensive? It's true that the government spends less to manage Social Security monies than private firms spend to manage their assets, but that's because the government invests poorly in its own low-paying securities. You get what you pay for. Paying private managers to generate a far higher return is a good investment, pure and simple.

While it is encouraging to see privatization of Social Security become a genuine topic of wide discussion, every plan put forth so far retains a core element of compulsion. "A privatized system," writes one prominent limited-government advocate, "should require a mandatory contribution to ensure that those opting out of Social Security are actually saving money for their retirement." It's a sad commentary on the many decades of increasing reliance on government that even many friends of freedom believe that Americans might not save if the government didn't order them to.

Social Security, make no mistake about it, will ultimately be privatized partially or wholly. America will not forever lag behind Chile and Britain just so it can maintain an antiquated and politicized pension system that's headed for bankruptcy. It's time that Americans take back a responsibility they should never have trusted to government in the first place, one way or another, the sooner the better. □

The Efficiency of Natural Rights

by Wendy McElroy

The Hobbesian contention that an almost biological conflict of interest exists between human beings, who must compete for scarce necessities, is a stumbling block for those who espouse natural rights. Certainly, it is a common avenue of attack used by critics of natural law. They demand to know how, in a Hobbesian state of nature, where one man's life requires the death of another, can it make sense to speak of a natural right to life, liberty, or anything else? Nature herself seems to argue against the possibility.

The goal of such an attack is to reduce natural rights to a code of morality divorced from the nature of man and of reality. Yet these are precisely the two foundations upon which any useful principle addressing human action must rest.

Few contemporary thinkers devoted more energy to the study of human action and its underlying principles than Ludwig von Mises. He called that study praxeology. In his touchstone work, *Human Action: A Treatise on Economics*, Mises, although no believer in natural rights, suggests an ingenious approach by which its theory is strengthened by a Hobbesian world-view, rather than destroyed by it.

Mises's Reversal of the Hobbesian Argument

In part four of *Human Action*, "Catallactics or Economics of the Market Society,"

Wendy McElroy is author of Sexual Correctness: The Gender-Feminist Attack on Women (McFarland, 1996).

Mises speaks of how economic cooperation within society springs directly from a Hobbesian state of nature. Indeed, he presents "a war of all against all" almost as though it were a prerequisite for the evolution of a market society. In the section headed "The Harmony of the 'Rightly Understood' Interests," Mises argues that because many or all people want shoes these items become the focus of large-scale production, which makes shoes more widely available at lower cost than small-scale production could achieve. He concludes, "The fact that my fellow man wants to acquire shoes as I do, does not make it harder for me to get shoes, but easier. . . . The catallactic competition of those who, like me, are eager to have shoes makes shoes cheaper, not more expensive" (Yale University Press, 1949, p. 670).

Summing up the general implications of this insight, Mises concludes: "What makes friendly relations between human beings possible is the higher productivity of the division of labor. It removes the natural conflict of interests. For where there is division of labor, there is no longer question of the distribution of a supply not capable of enlargement." The intensification of social cooperation "becomes paramount and obliterates all essential collisions. Catallactic [or economic] competition is substituted for biological competition" (p. 669).

To those versed in Austrian economics, the preceding passage may seem to be an almost trite statement of the beneficent influence of the division of labor upon the

availability of cheap goods. But Mises derives a deeper message from the social dynamic. "The very condition from which the irreconcilable conflicts of biological competition arise—viz., the fact that all people by and large strive after the same things—is transformed into a factor making for harmony of interests. . . . This is the meaning of the theorem of the harmony of the rightly understood interests of all members of the market society" (pp. 669–70). The "irreconcilable conflicts of biological competition" perhaps even create the harmony of interests among human beings.

Although the mechanism of the free market may seem to reconcile what Mises referred to as an "irreconcilable" conflict, the fact is that the conflict remains. Men will still desire the same scarce goods. What the free market solves are the problems that might attend such shared desire. Instead of being translated into expressions of conflict, the shared desire becomes the motive force behind expressions of cooperation.

Through this ingenious logic, Mises reverses the usual conclusion of the critics of liberalism. It is precisely because man lives in a Hobbesian world that a market society naturally arises. Instead of killing each other to secure the means of survival, human beings naturally cooperate out of pure selfishness for no other reason than that a market society offers otherwise unimaginable access to cheap goods. As a far more peaceful arrangement, the market society also provides the stability necessary for people to make long-range plans, such as those implied in raising a family.

In essence, Mises uses the division of labor as a principle of resolution. The problem is mankind's war of all against all, which, many philosophers assure us, dooms our species to live in constant violence. But through the division of labor, this Hobbesian conflict of interests can be, and naturally is, resolved. The resolution through cooperation reduces the likelihood of real biological conflict among human beings to a minimum. Mises reveals that social cooperation is a vastly more efficient means to achieve self-interest than social conflict.

Benjamin Tucker on Property

The nineteenth-century individualist Benjamin R. Tucker made an important contribution to these matters. Tucker first raised the issue while considering the nature of property, specifically, intellectual property. On one side of what evolved into a heated debate, advocates of copyright and patent argued that intellectual property was wealth whose ownership had been acquired either through discovery or through labor. Lysander Spooner, for example, defined property as "wealth, *that is possessed—that has an owner*; in contradistinction to wealth, that has no owner, but lies exposed, *unpossessed*, and ready to be converted into property, by whomsoever chooses to make it his own" (*Law of Intellectual Property*, p. 15; emphasis in the original).

But several aspects of intellectual property bothered Tucker. For example, how could one claim ownership of an intangible thing or transfer that ownership? Such considerations led him to address the question "what is property?" in more philosophical terms.

Tucker believed ideas arose within man and persisted within society only because they served a need or answered a question. As an illustration of this theory, consider a universe parallel to our own but which runs along different metaphysical rules. The inhabitants of that alternate universe fulfill their needs simply by wishing for goods or other forms of satisfaction. Food magically appears in their hands, clothes miraculously drape their limbs, and a bed pops into existence under their tired bodies. In such a society, it is unlikely that the concept of money would evolve, simply because that peculiarly human concept arose as a means to solve the problems of transferring and storing wealth—problems that exist in our universe but not in the parallel one.

Tucker used the same problem-solving approach to analyze the concept of property. He asked: what is it about the nature of our universe and the nature of man that gives rise to the concept of property in the first place?

Tucker concluded that property arose as a means of resolving conflicts caused by scarcity. In our universe, almost all goods are scarce, and this leads to an inevitable competition among human beings for their use: a Hobbesian state of nature, if you will. Since the same chair cannot be used in the same manner at the same time by two individuals, it is necessary to determine who should use the chair. The concept of property resolved that social problem. The owner of the chair should determine its use. "If it were possible," wrote Tucker, "and if it had always been possible, for an unlimited number of individuals to use to an unlimited extent and in an unlimited number of places the same concrete thing at the same time, there would never have been any such thing as the institution of property" (*Liberty* VIII [1891], p. 3).

Here again, the state-of-nature argument has been reversed. The Hobbesian worldview, rather than destroying the possibility of property, is precisely what gives rise to the concept.

Combining Mises and Tucker

How do the insights of Ludwig von Mises and Benjamin Tucker apply to natural rights? In *Human Action*, Mises argues that irreconcilable biological conflicts between human beings can lead—and may naturally lead—to a state of cooperation. But what is the mechanism through which human conflict is resolved into human cooperation? In the pages of his nineteenth-century periodical, *Liberty*, Tucker argued that principles, ideas themselves, are problem-solving devices that arise to address man's needs, including such competing needs as the desire for scarce goods. Why call those principles "natural rights"? The answer is that they are claims derived from necessities dictated by the objective nature of man and of reality.

How does the principle of rights as problem-solving devices apply to specific rights? Consider the natural right known as freedom of speech.

Human beings value society because it provides them with great benefits, not only

material goods and emotional sustenance, but also information and knowledge, both of which are necessary to life. Useful information can be extremely difficult to obtain since the truth, falsehood, or utility of ideas is not as intuitively obvious as the ripeness or rottenness of an apple. History is replete with absurd ideas that eventually proved to be true.

Obtaining knowledge is made more difficult by the fact that no one has a monopoly on truth or insight. And no one knows how useful any particular idea may eventually prove to be. For example, when mathematicians invented the imaginary number i , the square root of -1 , they were thrilled by this entirely abstract construct. Electrical engineers were also thrilled. Little did mathematicians suspect that the concept was the missing and invaluable tool to describe how alternating currents flow through a circuit. The utility of any idea can be judged only with reference to the user's unique, subjective purpose.

Since information and knowledge are necessary to life, the question becomes: how can human beings maximize the chances of obtaining this survival good? One alternative is to allow only true or valid statements and arguments to circulate. But this presupposes an absolutely impartial and omniscient entity that would regulate this flow. It also presupposes a God-like awareness of the use to which every idea will be put.

In the absence of such an entity, the best solution to the problem of maximizing information is to let all information flow. Let all human beings have the right to speak so that the worth of their words can be judged. In this manner, freedom of speech becomes a principle of resolution. Although free speech certainly does not guarantee truth, the chances of getting good information is more likely to occur in a society that respects free speech than in one that censors.

Similar arguments can be made for the other specific natural rights.

Disproving Cases

Whenever a theory is proposed, disproving cases quickly follow. If natural rights are

problem-solving devices that are necessitated by the state of nature, it will be asked, what of those conflicts that cannot be resolved in this manner? Do they not invalidate the theory?

The answer is no. The above-sketched approach postulates natural rights not as moral truths, but as social tools to solve the problem of human needs and human conflict. For this theory to be "proven"—that is, for natural rights to be seen as desirable principles—it is necessary only to demonstrate that they are more efficient than any other competing system of problem-solving devices.

Nevertheless, we should not ignore disproving cases. In general, the sorts of conflicts that are immune to resolution by natural rights fall into two broad categories: moral dilemmas and emergency situations.

The first category—moral dilemmas—is most commonly found in textbooks on ethics or posed by professors who wish to puzzle their students with an allegedly profound moral problem. The presented dilemma usually involves a situation akin to the following: by pushing a magic button, you can eliminate all heart disease in the world. But by doing so, you will cause the death of an innocent stranger. The question is: morally, should you push the button? The conflict here is that in order for a great many people to live, you must kill an innocent person. This is almost a definition of a state-of-nature dilemma: one person's life necessitates the death of another.

Such puzzles are not profound moral problems at all: they are philosophical sleights of hand. To take the button-pushing scenario seriously you would have to inhabit a universe so vastly different from ours that your moral code would not even remotely resemble the one you hold today. After all, your morality has been constructed upon the realities as you know them. You have derived a code of behavior based on certain assumptions about the nature of the universe and your own nature as a human being. These assumptions did not include a magic button that causes both miracle cures on a global level and instant unexplainable

deaths. If the universe ran along principles that included magic buttons, you would undoubtedly have had an entirely different code of behavior from the one you have now.

If natural rights are tools for addressing the realities of our universe and our nature, then changing the realities that determined the content of rights will—of course—reduce their usefulness or render them irrelevant. To dismiss natural rights on such grounds is like declaring a hammer to be useless because it cannot pound water into shape.

In essence, these sorts of moral dilemmas are perplexing not because they constitute moral problems, but because they constitute metaphysical ones. The moral dilemma being suggested—if it would be a moral dilemma at all—would exist only in another universe that ran by rules inapplicable to our own.

The second category of a disproving instance is not so easily dismissed. These are emergency cases in which the life of one human being literally requires the death of another. The most famous emergency case is undoubtedly the lifeboat example: two men are adrift in a lifeboat without supplies and unless one of them cannibalizes the other, they both will die of starvation. I fully agree that, in these circumstances, natural rights will probably be ineffectual as a tool of resolution.

Two points should be weighed regarding emergency cases, however. First, such scenarios present an extraordinary challenge to every system of social organization. No system provides an answer that would allow both men to live; no system offers a resolution that would prevent someone's death. As such, the real question is not whether natural rights can resolve a lifeboat situation, but whether natural rights address the situation better or worse than competing systems. Frankly, I think all systems of social resolution fail equally at this point.

Second, true emergency cases, in which your life requires another's death, constitute a minuscule percentage of the social conflicts you will encounter during your lifetime. Indeed, most of us will never be in

a lifeboat situation. It makes no sense to accept or reject the social tools of daily life on the basis of how well they address highly improbable emergencies that will probably never occur.

Conclusion

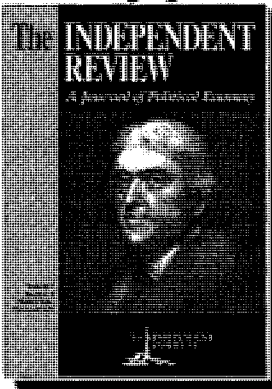
Natural rights are not only problem-solving devices. They are also moral principles that can be rationally defended. I see no tension in holding both views side by

side. Indeed, if a theory is true, or universally applicable, it would be surprising to discover that there was only one useful way to approach it. Many intellectual paths should lead you in the same direction.

The conception of social principles as morally neutral problem-solving devices is meant merely to explore the more practical aspects of natural rights, and to provide new answers to old criticisms, such as that embodied in Hobbesian state-of-nature arguments. □

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The Future of the Union Movement: Clues From the UPS Strike

by Charles W. Baird

The first Monday in September is Labor Day. However, the media, both print and broadcast, seem to think it is Union Day. This year, as the media's Union Day approached, the two most-quoted and most-televized personalities were John Sweeney, president of the AFL-CIO, and Ron Carey, president of the Teamsters. They boasted of the victory of the Teamsters over United Parcel Service (UPS) last August and proclaimed the beginning of a resurgence of the American union movement. They were wrong.

The overwhelming majority of American labor is union-free. Only 10 percent of the private-sector work force is unionized. That number has been declining since 1953, when it was 36 percent, and it will continue to decline. By 2000 it will be, at most, 7 percent, the same as it was in 1900. Neither the UPS strike nor all the bluster of Sweeney, Carey, and their surrogates about bold new ventures in union organizing can stem the tide. The future of the American union movement as we know it (at least in the private sector) is decay. In contrast, the future of the American labor movement is increasing

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prosperity based on competition and entrepreneurship.

Economists have always understood that a labor union is merely a cartel. It is a group of sellers of labor services in collusion to eliminate competition among themselves and to try to quash competition from others. The unions' rallying cry has always been, "Take wages out of competition."

Competition is the enemy of all cartels. Even if a union can impose discipline on its own members, it always has to contend with union-free workers and union-free firms. In the modern American economy, with substantial (albeit insufficient) deregulation in hitherto heavily unionized industries—for example, trucking and airlines—even unionized firms cannot pass above-market wage costs forward to customers. Moreover, competition is increasingly global in scope. Every entrepreneur in every country has the potential of causing unexpected changes in market conditions to which American firms and American workers must respond.

Firms and workers under the yoke of Sweeney-style unionism are too inflexible to respond adequately to rapidly changing market conditions. And John Sweeney knows it. That is why he and his agents in

Congress always struggle against free trade. As free trade expands, Sweeney-style unions must wither.

A Worker Victory or a Union Victory?

The 1997 strike of the Teamsters against UPS certainly looked like a union victory. UPS capitulated on the two key issues in the dispute—converting part-time jobs into full-time jobs and preventing UPS from withdrawing from 21 Teamster-controlled multi-employer pension funds and setting up its own fund for its own workers. However, it never looked like a victory for all UPS workers. First, the additional full-time jobs were to be created by combining large numbers of part-time jobs. Thus, many of the 75 percent of part-time workers who didn't want full-time jobs were hurt. Second, if UPS had set up its own pension fund for its own workers, all beneficiaries would have received 50 percent higher pensions than they do in the Teamsters' multi-employer plans.

One clear winner in the strike was, presumably, Ron Carey, whose earlier election as president of the Teamsters was under a cloud of suspicion concerning illegal campaign financing. (I guess his defense was that everyone does it.) Because of its past record of corruption, Teamster elections must be certified by a federal elections overseer. Right after the strike, the overseer, Barbara Quindel, announced that a new election had to be held. Carey knew of Quindel's decision before he called the strike on August 4. He knew he would have to stand for re-election against his rival, James P. Hoffa, the son of the notorious Teamster leader of the 1970s. The strike was an ideal way for Carey to prove his machismo to Teamster voters. I have no doubt that was a major reason why he called the strike rather than continue negotiations. After the strike Carey also raised pension benefits in the midwestern states, the area in which Hoffa's support is strongest. (At press time, the new election had not been held.)

Striking a Blow Against UPS Workers

Despite the general impression, the UPS strike was no long-term victory for the company's employees. Before the strike, UPS had an 80 percent market share in package deliveries in the United States. Although it had always been unionized, it had never before been subject to a nationwide strike. It had a well-deserved reputation for dependability at competitive prices. It no longer enjoys such a reputation. During the 15-day strike most of its customers discovered that they were totally dependent on UPS. They tried desperately to find alternative ways to deliver their packages, but most of them failed. While UPS has many competitors—for example, the U.S. Postal Service, FedEx, Emery Worldwide, ETA Express, DHL Worldwide Express, RPS Inc., and even Greyhound Bus Lines—they were not able to handle anywhere near the 12 million packages that UPS shipped each day. FedEx has been UPS's strongest and most aggressive competitor, actively trying to capture market share at UPS expense, but most of the others seem to have been resigned to UPS dominance. They no longer are.

The strike alerted existing and potential competitors to the profit opportunities in fighting UPS for market share. Apart from the Postal Service, most of the other competitors are union-free and thus are able quickly to respond to profit opportunities. They are unburdened with the yoke of union work rules and union costs. UPS inevitably will try to push its increased union costs forward onto its customers. When it does so, even more profit opportunities will open up for competitors. Since UPS customers have been reminded that it is unwise to rely on a monopoly provider of anything, they will be receptive to the blandishments of competitors.

Moreover, as this is written UPS faces the threat of another strike. The Independent Pilots Association (IPA), the union that represents the pilots who fly UPS planes, refused to cross Teamster picket lines in the August strike, and the Teamsters promised

they would not cross IPA picket lines in the event it strikes. Even if IPA doesn't strike, the reality of the strike-threat presents another opportunity for UPS competitors to remind UPS customers of how unreliable, and costly, a union-dominated firm can be.

As it becomes clear that UPS and the Teamsters are losing market share in the package delivery business, workers will realize that in this globalized, competitive economy unions are not their friends. At best, unions can generate short-run gains for workers they represent. But, since unionized firms have a competitive disadvantage in the modern economy, those same workers will eventually discover that their employers have fewer and fewer jobs to offer.

Unionism has always depended on hoary myths: that employees and employers are natural enemies, that employees have an inherent bargaining power disadvantage relative to employers, that the only way employees can gain bargaining power is through unions, and that unions are responsible for the improvements in living standards enjoyed by workers over the last one hundred years.

The UPS strike will hasten the day when most workers come to realize that competition and entrepreneurship, not unions, are the source of lasting prosperity for workers and investors alike. When that day comes, the labor movement will, at last, be free from the union movement. □

The Industrial Revolution and Free Trade

Edited by Burton W. Folsom, Jr.

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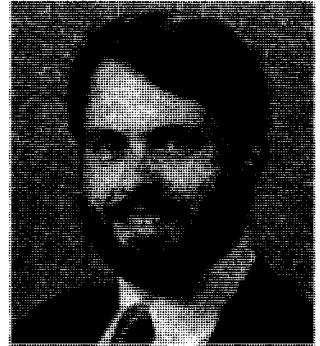
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Kill Big Business's Bank



The federal government is full of programs designed to benefit one or another special interest. Like the Export-Import Bank.

The Bank, which provides loans, loan guarantees, and loan insurance for the purchase of American goods, has long been known as Boeing's Bank, given its support for Boeing aircraft sales. But most major U.S. exporters share in the windfall. In fact, ExIm beneficiaries are a Who's Who of the Fortune 500: 80 percent of its subsidies go to medium and large companies, with about half of those benefits collected by just 15 big firms. Like Boeing, which, after its merger with McDonnell Douglas, will have total sales of \$48 billion.

And those firms are not shy about showing their support. When the Senate Subcommittee on International Finance of the Committee on Banking, Housing and Urban Affairs held hearings earlier this year on reauthorizing the Bank, eight of nine witnesses endorsed more money for the institution. Half of them represented companies supping at the federal trough. Business organizations like the National Association of Manufacturers, which always extoll their commitment to free enterprise, devote almost as much energy to increasing benefits

to business as to battling regulations on business.

Of course, none of the firms admits that self-interest animates its lobbying on behalf of ExIm, which has spent \$3.7 billion over the last five years. Bank supporters argue that if the U.S. government doesn't provide cheap credit, American companies will lose out to foreign firms, many of which are subsidized by their home governments. The result would be lost jobs. Thus, ExIm advocates contend, their fight for subsidies for their firms is actually a fight for jobs for America.

A Flawed Argument

There are two major flaws with this argument. The first is the belief that government can provide a free lunch, that the money channeled to the purchasers of U.S. exports is somehow costless. But it isn't. When the Bank makes a loan, or uses guarantees or insurance to direct someone else's loan, less credit is available for use by other firms and individuals. University of Arizona economist Herbert Kaufman estimates that every \$1 billion in federal loan guarantees crowds out between \$736 million and \$1.32 billion in private investment. That means fewer deals and lost jobs. As the General Accounting Office acknowledges, "Government export finance assistance programs may largely shift production among sectors within the economy rather than raise the overall level of employment in the economy." The ExIm Bank, then, redistrib-

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utes rather than creates jobs—after exacting an administrative charge.

There's neither moral nor economic reason to enrich those companies lucky enough to benefit from Bank activities at the expense of the rest. Rather, the institution offers lawmakers political benefits: visible subsidies to companies that reciprocate with campaign support and invisible costs to the public, who remains inert.

The second misleading claim made by ExIm enthusiasts is that the Bank undergirds U.S. exports. In fact, the vast bulk of export financing comes from the private sector. Bank deals account for but 2 percent of total exports. And the \$16.5 billion in subsidized trade this year, a record, is a mere blip for a \$7 trillion economy.

Equally important, it is virtually impossible to assess which deals are dependent on ExIm subsidies. Undoubtedly some are, but every participant in the process—borrower, banker, exporter, bureaucrat—has an incentive to claim that the subsidy clinched every transaction. Yet surveys have long shown credit to be but one of many factors in making a purchase; one review of aircraft sales ranked credit terms eighth of twelve. And that is America's experience in practice. Last year ExIm dropped any financing of work for China's massive Three Gorges Dam project (allegedly for environmental reasons). That hasn't stopped several American firms from providing as much as \$100 million worth of equipment and services so far. Thus, in many cases the buyer does what he would have done anyway and simply pockets ExIm's gift.

Underwriting Brutality

The Bank, created in 1934 to help underwrite trade with the Soviet Union, has never found a government too brutal to subsidize. Today China is a leading beneficiary, having borrowed some \$5 billion. Nevertheless, ExIm supporters complain about the Bank's withdrawal from the Three Gorges Dam project, as if \$5 billion was not enough taxpayer support for the globe's last major communist state.

Nor is China the only thuggish recipient of the forced largesse of American taxpayers. Indonesia is another major Bank client. Over the years ExIm handed out cash to Nicolae Ceausescu's Romania, a regime bizarre even by communist standards, and Saddam Hussein's Iraq. Haiti, Nigeria, the Soviet Union, Sudan, and Yugoslavia have also been beneficiaries of Bank aid.

As for the argument that foreign countries and companies couldn't purchase U.S. products without ExIm subsidies, Ian Vásquez of the Cato Institute points out that "44 percent of the Bank's guarantees in FY 1996 went to Argentina, Brazil, China, Indonesia, Korea, Mexico, Singapore, and Thailand—all emerging economies that have no problem obtaining investment from the private markets." Other nations have more trouble raising funds and paying their debts, of course, but that is a reason to deny them Bank credit.

ExIm has also interfered with markets at home and abroad. For instance, by subsidizing Boeing sales to foreign airlines, the agency has effectively used taxpayer dollars to put American airlines at a competitive disadvantage. The Bank has had the same deleterious effect in foreign nations, routinely underwriting failing state enterprises that should have been privatized rather than subsidized. Mexican economist Roberto Salinas-León points to the Bank's \$5.6 billion loan to Pemex, the oil monopoly, a decade ago. More recent has been ExIm support for Gazprom, the Russian gas monopoly.

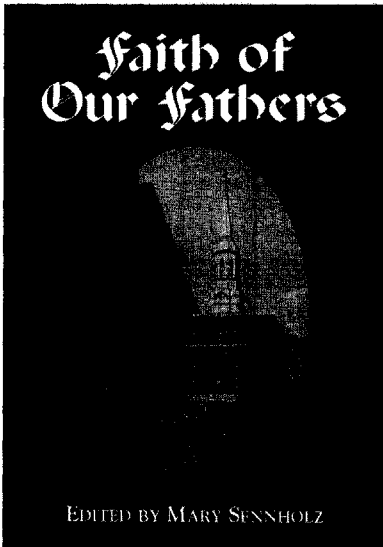
But let's assume the theoretical case for the Bank. Other nations are subsidizing their exporters and there are some deals that, all other things being equal, should go to American firms. ExIm can restore "balance" and shift the work back to America. It all sounds very nice, but what evidence is there that federal officials have special commercial or political knowledge that justifies turning them into international loan officers? Surely Washington has had enough experience with grant and loan programs to demonstrate that they always operate to fulfill political, not economic, objectives. There

is not the slightest chance that ExIm provides money only when it is "efficient" to do so.

More basic still is the issue of principle. What justifies mulcting Americans to enhance corporate profits? The fact that other governments loot their citizens to boost exports is no argument. The fact that some U.S. firms suffer when other nations do so is no argument. The money being spent and lent by ExIm does not belong to it or to

Washington. Rather, it is the taxpayers' funds. Businesses have no moral claim to seize that money for their own benefit.

There is perhaps no better example of corporate welfare than the ExIm Bank. The deal is simple: taxpayers provide the cash, exporters collect the profit. That's neither fair nor efficient. It's time for legislators to acknowledge that 60 years of corporate welfare is enough and to dismantle the Export-Import Bank. □



Faith of Our Fathers

Edited by Mary Sennholz

God-given natural rights were the guiding light of the Founding Fathers. The stirring closing paragraph of the Declaration of Independence was not only the formal pronouncement of independence but also a powerful appeal to the Creator of all rights: "We, therefore, the Representatives of the United States of America, in General Congress, Assembled, appealing to the Supreme Judge of the world for the rectitude of our intentions, do, in the Name, and by authority of the good People of these Colonies, solemnly publish and declare, that these United Colonies are and of Right ought to be free and independent States." In the final sentence of defiance they appealed to the Almighty for His protection:

"And for the support of this declaration, with a firm

reliance on the protection of divine Providence, we mutually pledge to each other our Lives, our Fortunes and our Sacred Honor."

The moral precepts and the self-evident truths that guided our Founding Fathers may not be fashionable in our time, but they are as inescapable and inexorable as they have been throughout the ages. We are free to ignore and disobey them, but we cannot escape the rising price we must pay for defying them.

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What's So Bad About Big Government Anyway?

by George C. Leef

In a recent conversation I used the term “big government,” clearly in a pejorative way. Another person spoke up to challenge me, asking, “What’s so bad about big government?” He went on to name some benefits that he supposed were possible only with a powerful state. We debated whether it was true, for example, that you couldn’t have old-age security without a government system like Social Security, but afterwards I wished that I’d had a more thorough answer to his question prepared.

Since then, I have thought about this question and have boiled the answer down to five points. But before we get to those points, we first need to have a good idea of just what we mean by “big government.”

“Big” isn’t usually a pejorative. There is nothing wrong with big airplanes, which can carry more people more safely and economically than can small airplanes. There is nothing wrong with a big serve in tennis, although I don’t like to see one coming at me. But there is no “right” size for airplanes or “right” speed for tennis serves, so we have no grounds for calling them “too big.” There is, however, a “right” size for government. The right size relates not to its budget or number of employees, but rather to its functions.

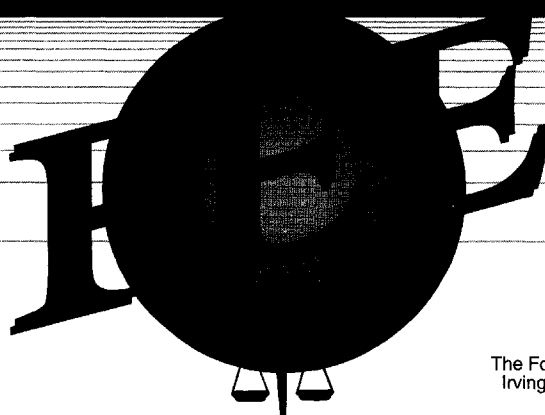
George Leef is director of FEE’s Freeman Society Discussion Clubs and book review editor of The Freeman.

Right-Sized Government

The functions performed by a right-sized government are those things that are necessary to protect the life, liberty, and property of the people. The word “necessary” is important here. There are many things that people can do for themselves to protect their lives, liberty, and property, and these, therefore, are no business of government. The government shouldn’t buy and install locks on your doors. You can do that.

The right-sized government simply protects the right of people to live their lives as they choose, so long as their actions are peaceful. The title of one of Leonard Read’s books neatly encapsulates the boundary of government action: It should not interfere with “Anything That’s Peaceful.” Once government begins to do that, it becomes an aggressor against its citizens, compelling them to do things they would not choose to do (participating in Social Security, for instance) or preventing them from doing things they would like to do (such as building a home that’s not in compliance with every paragraph of the building code), and taking away their money to support things they would not support voluntarily (such as foreign aid). When a government starts to do those things, it has become too big.

Thinking back to my questioner, why shouldn’t government force people to do *x*, prevent them from doing *y*, or tax them to



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December 1997

The Benefits of Immigration

In my October "Notes from FEE" I challenged a case, made by some market advocates, for immigration restrictions. I have since received scolding letters and E-mails from numerous people predicting that open borders would bring all manner of calamities. While some writers were less certain than others about the baleful consequences of unregulated immigration, only one correspondent fully shared my support for eliminating all immigration restrictions.

These many letters have prompted me to think longer and harder about immigration. Alas, my opinion remains unchanged: we should welcome all immigrants. Government should not redistribute income to immigrants, but neither should government prevent immigration.

Each immigrant comes to America to make himself better off. Suppose government no longer redistributes income to immigrants. Would immigrants still relocate here? You bet! A handful will come because some Americans are willing to use their own resources to care for them. Most immigrants will come because each has sufficient skill and ambition to profit in the market.

Absent government welfare payments to immigrants, immigrants who do not seek work burden no one other than family or friends who voluntarily assume this burden. I here ignore such non-working immi-

grants who receive no government hand-outs. These immigrants do not raise the ire of anti-immigrationists. Opponents of immigration object most vehemently to immigrants who are eager to work.

Such objections are mistaken. Let's see why.

Juan is a hypothetical immigrant. He arrives in America and immediately begins looking for employment. Before finding a job, he must secure food, clothing, and shelter. He may do so from funds brought with him from his native country, or he may depend upon the kindness of family, friends, or charitable organizations here in the United States. In either case, because such transfers are voluntary, no American is harmed.

If Juan resorts to theft, however, the story is different. Some Americans are indeed harmed. But criminal law is the appropriate tool for dealing with such thievery. Restricting immigration on the grounds that a handful of immigrants behave criminally would be like denying drivers licenses to everyone just because a small percentage of people drive recklessly. More focused and less ham-fisted means are available in both cases for weeding out the bad apples from the good.

Juan, however, is no thief. He's a worker. Suppose that Juan has no skills of any value to any American. He can do nothing that any American is willing to pay for. In

this case, Juan will eventually return home. No American is harmed. (Actually, Juan would probably not come to America in the first place. People so destitute of skills are unlikely to leave home in search of work in a foreign and highly competitive economy.)

But Juan is extremely unlikely to lack *any* skill for which Americans are willing to pay some mutually agreeable wage. Readers who doubt this claim should consult that cornerstone of economics called the theory of comparative advantage—a theory, by the way, that exposes the senselessness of identifying people economically as being “above average” or “below average.” The theory of comparative advantage makes clear that everyone is above average at some tasks and below average at many others.

When Juan finds employment, not only is Juan made better off, but so, too, is his employer. Consumers are also made better off, for the higher output or lower cost that Juan’s availability makes possible for his employer is shared with consumers through reduced prices or improved product quality. Nothing to complain of so far.

Some people, however, *are* harmed by Juan’s availability—namely, American workers who compete with Juan. If Juan’s most marketable skill is nearly identical to the most marketable skill possessed by Sam the American, Juan is a potential rival for Sam’s job. Because of Juan, Sam’s income may fall.

Protecting Sam from income loss, though, is inappropriate. To prevent Juan from entering America is to do nothing more virtuous than to protect Sam from competition. *But it is also to prevent George and Bill and other Americans from freely dealing with Juan, who is someone they would otherwise choose to deal with!* To restrict immigration is to deny to Americans their freedom of association. Sam, then, becomes a monopolist under immigration restrictions. If Sam suffers income loss when these restrictions are lifted, he is no more worthy of our solicitude than is any other monopolist whose monopoly privilege unravels.

Suppose that government grants me the exclusive privilege to write newspaper op-eds. No longer can publishers carry the likes of Walter Williams, George Will, Maureen Dowd, or Russell Baker. Protected from such competitors, my income skyrockets.

Now imagine that government withdraws this privilege. Publishers—and readers!—are again free to patronize op-ed writers other than me. My income plummets.

Should you feel sorry for me? Of course not. Would you conclude from the fact that this heightened competition reduces *my* income that the wealth of the nation falls? Of course not. Likewise, productively employed immigrants invariably increase the nation’s wealth by intensifying competition and expanding the division of labor. Immigration restrictions, in contrast, reduce economic growth. Prosperity cannot be bred by monopoly protections.

Immigration opponents also fear that open immigration means overcrowding. This worry is overblown. First, the United States is sparsely populated. Second, owners of private property have incentives to keep their properties from being overcrowded. The proper solution to overcrowding is privatizing those property holdings not yet privatized, not forcibly stopping productive people from coming to our country.

Third, overcrowding is an elusive concept. Among the people who wrote to complain that immigration spawns overcrowding was a resident of New York City. But this person clearly doesn’t mind crowds. If he did, he’d move to Oklahoma or Mississippi.

Manhattan is one of the most densely populated spots on earth. Yet it is also one of the wealthiest. New Yorkers often complain of crowds, but no one is compelled to live in that city. The reason people live there is because economic opportunity in New York is vast. Living in close contact with lots of people is a price that many of us voluntarily pay for the opportunity to take advantage of the wealth-producing capacities of an extensive division of labor.

New York and Los Angeles are crowded but wealthy. Oklahoma and Mississippi are sparsely populated but much poorer. This fact alone is ample evidence of the great economic benefits of immigration.



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support z, as long as these objectives are “in the public interest”? That mind-numbing phrase has been the cover for untold human suffering. The truth is that there is no such thing as “the public interest.” Only individual human beings have interests. When people talk about “the public interest,” what they really mean is that some members of the public want something, and they want it at the expense of others. If, for instance, you hear a politician say that his national health insurance program would be “in the public interest,” he means that he and the backers of his plan want it, perhaps believe it is good for everyone, and don’t care that many other people disagree.

People want to and have a right to attempt to maximize happiness in their lives. Every time the government forces people to do things they would prefer not to do, prevents them from doing things they would like to do, or taxes them for things they don’t want, it reduces their ability to maximize their happiness. That is fundamentally wrong.

Big Government vs. Liberty

This leads me to the first of my five reasons why big government is bad. Big government is the enemy of liberty. Government actions that go beyond its defensive, rights-preserving functions necessarily entail some form of coercion that diminishes the freedom of at least some people to do what they would like to do. The bigger the government gets, the more it reduces liberty.

Examples abound. Consider the monopoly the government has conferred on itself in the delivery of first-class mail. Anyone who would like to peacefully contract with others to deliver certain kinds of written communications violates the law and faces prosecution and penalties for doing so. His liberty has been attacked so that the government’s postal workers won’t have to face competition. The government also has the arrogance to prescribe rules for the use of mailboxes. Even though my mailbox is on my property and I purchased it, federal

regulations say that no one, but postal employees delivering mail, may put anything in it. I might prefer to allow others to put advertising in my mailbox rather than other places where they’re apt to blow away or get soaked, but big government says no.

Or think about government licensing requirements. In many cities, no one is allowed to go into the business of transporting people without a license, and licenses are unobtainable. Those caught violating the law, transporting people who desire the service and are willing to pay for it, are subject to prosecution and penalties. Their liberty to engage in a peaceful, beneficial transaction is attacked.

Big Government vs. Prosperity

The listing of government attacks on liberty could take up an entire year’s worth of *The Freeman*, so let’s go on. Big government is also the enemy of prosperity. This is so because big government invariably wastes resources.

Individuals strive constantly to make the best use of their resources—their time, money, and physical resources, from forests to carpenter’s tools, coal mines to computers. They carefully examine their options and decide how to allocate their resources to obtain the maximum benefit from them. Sometimes people make bad decisions, but they will change them as soon as it becomes evident that they brought undesirable results.

Self-interest produces the decisions that maximize our wealth and happiness. No one, not even the most ardent statist, likes having his freedom to choose how to spend his time and money usurped by others. Most people realize that turning decision-making authority over to others is apt to leave them worse off. What is true at the personal level is also true at the macroeconomic level, since the entire economy is merely the sum of untold individual decisions. The freer people are to make their own choices, the more prosperous the economy will be.

Big government, however, interferes with those decisions by diverting resources from

the realm of individual decision-making and putting them in the realm of political decision-making. Political decision-making means that the use of resources will be determined by people who don't own them and therefore do not stand to gain from being right or to lose from being wrong. (Being right means using resources in a way that best satisfies consumers.) Comparing private and political decision-making is like comparing how you drive your own car to how joy-riding teenagers would drive it.

Examples of wasteful government use of resources abound. Here is one of my favorites. In my hometown of Milwaukee there is a large federal office building, built in the early 1980s, that soaked up a lot of resources for which taxpayers had to foot the bill. Was there any need for the building? The General Accounting Office had issued a report showing no shortage of office space in downtown Milwaukee for the many federal agencies (themselves busy wasting resources). But politicians and the construction unions (guaranteed a lot of high-priced work under the Davis-Bacon Act) wanted the project, and that settled it. Resources went into an unnecessary office building rather than into whatever more useful projects they would have gone into had the government not interfered. A few people gained, but overall prosperity was lowered.

Big Government vs. Progress

Human beings have a natural inclination to search for better ways to do things. When we succeed, we call it progress. The discovery can be as simple as a housewife figuring out a faster way of getting her shopping done or as headline-grabbing as a breakthrough in medical technology. The quest for progress is universal.

When government is doing its proper job of protecting the rights of individuals, it indirectly assists progress by helping to protect innovators against attacks by those who don't want them to try new and different things. In arresting and jailing the Luddites, the early nineteenth-century

workers who violently opposed progress in textile production (power looms and factories threatened their old-fashioned ways of weaving cloth), the British government aided progress. When government protects liberty and property, progress is maximized.

Big government, however, often fails to protect liberty and property. Frequently special-interest groups that feel threatened by some innovation will lobby the government to do what they cannot legally do on their own, namely, interfere with the freedom of the innovators. As a political favor to those groups, big government often locks in the status quo with laws and regulations. Progress is thereby stifled.

Here again, there are many examples that could be cited. Consider building codes. Building codes specify, sometimes in minute detail, how a building must be constructed. The owner and his architect can usually decide cosmetic issues (although if the building has been designated as "historic," they may not have freedom even here), but the structure, plumbing, wiring, and so forth must be "to code" even if the owner and experts whom he might consult agree that money could be saved or operations improved by doing something different. Builders have pointed out for years that building codes significantly raise the cost of construction while adding nothing to safety. Why do we have them?

Locking in the status quo on housing construction makes two politically potent groups happy: construction workers and code officials. Suggestions that building codes be liberalized or repealed send shivers down their spines. Building codes protect some of the jobs of the former and guarantee the jobs of the latter. To argue that codes drive up costs and get in the way of progress will elicit salvos of red-hot rhetoric about the "need to protect the public." Code defenders conjure up horror stories about what might happen if people were free to construct buildings any way they pleased. But owners (and their insurers) have an incentive to construct safe, sound, durable buildings; the codes merely

get in the way of their search for the best ways of constructing them.

Try this little thought experiment. Imagine that the British government had assisted the Luddites instead of thwarting them. Furthermore, suppose that every interest group that stood to lose by some innovation succeeded in obtaining government protection against it: candlemakers, carriage builders, ice cutters, and so on. What if, in other words, the government had locked in place the technology and social arrangements of 1800? How much shorter and poorer would people's lives be? The answer is obvious. They would be much worse off. Big government, by making it easier and easier for our modern Luddites to obstruct progress through the proliferation of regulations and regulatory agencies, is doing that to us now.

Big Government vs. Harmony

When government is right-sized, it outlaws and punishes aggressive acts against people and their belongings. That raises the cost of aggression, thereby helping to deter it and channel people's desire to get more for themselves into peaceful means. Cooperation and trade flourish in this environment. People come to realize, at least implicitly, that there is a natural harmony among their interests. (For an intriguing discussion of human cooperation, see Matt Ridley's *The Origins of Virtue* [Viking, 1997], and the book review in this issue.) Antagonisms and hatreds may not disappear, but they are minimized.

Big government, however, holds and inevitably uses the power to make some people better off at the expense of others. This creates hostility, bitterness, and sometimes violence where there would otherwise be none.

Big government's labor laws have helped to perpetuate a false and counterproductive "us versus them" attitude among workers that gets in the way of harmonious labor relations. Many people have been injured and even murdered in strike-related violence that foolish labor laws indirectly en-

courage. "Affirmative action" laws create antagonism between members of the preferred and nonpreferred groups. In the United States hostility over affirmative action is largely a matter of simmering bitterness, but in other countries, as Thomas Sowell documented in *Migrations and Cultures* (Basic Books, 1996), it has led to much bloodshed. Social Security creates antagonism between older and younger people. "Public education" creates hostility between those who benefit from that enormous subsidy and those who are forced to pay for it. And so on.

Trying to get big government to interfere with the rights of others wastes resources, contributing to its attack on prosperity; but the greater loss, I submit, is in social harmony. An important but immeasurable component of the quality of life is a peaceful and happy frame of mind. By creating enemies where there would otherwise be none, big government changes many a peaceful and happy frame of mind to one that is angry and resentful. Some people want to ban products that might lead to high blood pressure, heart attacks, and other health problems. I think we'd accomplish more good in that respect if we banned big government as a risk to health and happiness.

Big Government vs. Morality

Right-sized governments do not try to make their people moral. Instead, they preserve the freedom of individuals to act as they think best to promote morality. Churches, civic groups, writers, and orators are free to try to persuade people to live what they regard as a moral life. Government should protect the right of all to enter the marketplace of ideas about morality but should draw the line at actions that force others to live by those ideas. Arguing that alcoholic beverages are evil and should not be consumed is fine; smashing bars and burning down distilleries is not.

One of the most important foundations of morality, and one that is reinforced by right-sized government, is the live-and-let-

live philosophy. So long as a person violates no one's rights—deprives no one of anything to which he is entitled—this philosophy says we may not coerce him. Live-and-let-live adherents may not approve of things that others do, but they do not believe they have any right to use force to make them behave differently. Might never makes right, and the willingness to renounce it is a hallmark of morality.

But big government undermines morality. It does so by seducing people into the belief that might does make right—provided that it is exercised democratically.

When big government stands ready to enact laws and regulations that take from some and give to others, and when politicians campaign by promising to do exactly that, it leads people to believe that coercion is morally proper. Do you want food, housing, education, or medical care provided to you at the expense of others? The leaders of big government say, "Don't steal from others to get those things, but come to us and maybe we will do it for you." Do you want to cripple your competitors? Politicians say, "Don't burn down their businesses, but if you play the game right, I might cripple them with regulations." Do you want to see more handicapped people with jobs? Legislators say, "You may not punish employers

who prefer not to hire someone with a handicap, but come to me and perhaps I will do it for you."

Prior to the advent of big government, when people wanted to accomplish something, whether personal enrichment or the realization of some lofty social dream, they knew they had to go about it through peaceful means. Big government encourages them to use politics to accomplish their objectives, thus legitimizing coercion. And with the legitimization of this variety of coercion, is it any wonder that many people conclude that coercion is permissible even without playing the political game first?

The Bill of Indictment

What is so bad about big government? My indictment of big government is that it is bad because it attacks liberty, prosperity, progress, harmony, and morality. Thanks to big government, we have significantly less of all of those good things than we would if we had been able to keep government right-sized.

Big government is cancerous. Like a cancer, it hurts the body and tends to spread, doing more and more harm as it grows. It is time for some radical surgery. □

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Or Else . . .

by Russell Madden

Extortion has always been a favorite activity of governmental agencies. Ordinarily, threatening someone with harm unless he accedes to another's demands is rightfully a crime. Whether the perpetrator is a neighbor seeking to use your lawn mower or an organized-crime thug reminding you to pay your monthly "protection fee," such behavior is condemned and prosecuted rigorously. No normal person enjoys having his desires thwarted or his values seized against his wishes.

Webster's dictionary says that to extort is "a) to wrest or wring (money, information, etc.) from a person by violence, intimidation, or abuse of authority; obtain by force, torture, threat, or the like, b) to take illegally under color of office."

What can a citizen do in the second instance, when the extortionist knocking at his door is someone whose job it is to *protect* him from that very crime? Unfortunately, in today's political reality, *legal* extortion is the guiding principle that authorities at all levels of government practice with enthusiasm. Few citizens realize precisely what is occurring when the state shakes them down. Typically, a property owner or business owner is required to comply with government demands in return for being permitted to engage in some activity. Compliance, in other words, is the payment for protection from state prohibition. This type of theft does them far more damage, results in a

much greater loss of wealth, and diminishes their freedom to a greater extent than all the criminals currently preying on honest citizens.

At a local level, such extortion manifests itself in myriad rules, regulations, taxes, permits, and demands for compliance. A person's property becomes not a resource to be used by him in furthering his personal goals and values, but an extension of "public" property, to be controlled, limited, or expropriated according to the whims and preferences of whoever directs the agents of the state.

A Man's Home Is No Longer His Castle

Building codes force a homeowner to construct or remodel his house—*his* property—in alignment with the judgment of a government-certified "expert." Regardless of whether an individual prefers to add certain safety devices or use particular materials, the building inspector dictates what is acceptable or not. Where a property owner can site his home; whether he can have an office or run a business on his property; whether he can rent out a room to a boarder; where he may plant a tree or cut one down; how many cars (of a certain age) he may park in his own drive; whether he may build at all—the number of ways that government may require compliance from citizens is nearly limitless. And if a homeowner has the misfortune of purchasing a property designated as "historical," esthet-

Russell Madden is a communications instructor at Mt. Mercy College in Cedar Rapids, Iowa.

ics alone (that is, the aesthetic choices of strangers who did nothing to help the individual purchase his property) can force him to use a certain color paint, erect only certain styles of fencing, or alter the looks of the house according to narrowly delimited standards. Whether one can afford such changes or even likes the results of these demands is irrelevant. The homeowner complies—or else. . . .

Developers and entrepreneurs are likewise politely assaulted by those government officials who demand certain perks or benefits. For every new house built, a municipality may demand a small fee to be delivered into the city or county coffers. The officials may require that a certain portion of land be set aside for parks, trails, and playgrounds or placed into a land bank to “preserve the natural environment.” If the builder resists or attempts to negotiate a more acceptable situation, the government agency may simply state, “Do it our way or we’ll just take the property we want through eminent domain.” (The government prefers the first course; a taking under eminent domain requires “just compensation,” according to the U.S. Constitution.)

Other agencies may interfere with an entrepreneur in order to have him locate his business in an area with a particular racial make-up. For example, the Nuclear Regulatory Commission licensing board recently told Louisiana Energy Services (LES) that its license for a new uranium enrichment plant would require “further study.” Why? The board feared the selection of the site may have been influenced by racial considerations and might result in “environmental injustice,” that is, subjecting black residents to more pollution than white residents, even though the regulators had earlier declared the plant safe. Had LES chosen a predominantly white location, perhaps it would not have been threatened with the termination of its \$855 million plans. Refusal to knuckle under to the intimidation may result in denial of permission to build. In other instances, business owners who violate “environmental” laws such as wetlands regulations face financial

ruin and even imprisonment. The message is clear: “Do it our way—or else. . . .”

Officially Reviled Businesses

If a businessman creates products that are under official censure or that suffer from public distaste, the extortion rises to new levels. Tobacco companies are threatened with ruinous Medicaid litigation and potential prohibition of their product though they have violated no laws. Various draconian demands are made on them. The extortion attempt is eagerly joined by nearly every state and supported by the federal government. Then the extortion is compounded by the demand for billions of dollars in return for immunity from litigation.

Beer and liquor manufacturers are heavily taxed and regulated. Where and what hours they can sell their products, what information they can place on their labels, and how much alcohol they can put in their products are all determined by those who have no financial stake in the success or failure of the business. Perhaps not too far down the line those who produce “junk” food, dairy or meat products, or even “gas-guzzling” sports vehicles will be required to pay protection money as well. They’ll quickly learn that if they refuse “protection,” there will be no product to sell at all.

Cities, counties, states, and the federal government save their boldest attempts at extortion for the realm of income taxation. Adding insult to injury, they have the audacity to label their actions with an Orwellian usage of the term *voluntary*. Because the men with the guns rarely come directly to your door, the politicians and their minions pretend that no violence, intimidation, or threats are involved in getting you to surrender your property. Every year more than a trillion of dollars are quietly extorted from those who have earned that money. Each of those dollars represents time stolen from the owners, a partial enslavement, another retreat from the freedom each citizen has as his right. Of course, in addition to the income tax, there are sales taxes, property taxes (used primarily to support

schools whether you have children or not), estate taxes, luxury taxes, employment taxes (Social Security, Medicare, unemployment), and excise taxes on gasoline, cigarettes, and alcohol. Indeed, almost no human activity is exempt from such extortion. An individual may voluntarily "choose" not to pay certain taxes, but the "or else" in these cases does not pay even lip service to due process. Without a court order or a trial, the Internal Revenue Service can seize a person's bank account, padlock his business, garnishee his wages, or sell his property to satisfy a tax debt. The implicit threat: pay the IRS whatever it claims you owe it—or else. . . .

These examples of officially sanctioned extortion could be extended indefinitely. Every behavior a citizen engages in only under the threat of punishment, every peaceful action he avoids due to official intimidation, every bit of property or time surrendered at the literal or figurative point of the government's guns represents an abuse of his freedom and rights, a denial of

his moral autonomy, an initiation of violence that proclaims that neither his life nor his property are truly his. Every citizen who seeks to cash in on that booty, every person who demands that his neighbor conform to his wishes, every individual who clamors for what he did not earn contributes to an atmosphere that permits, condones, and even encourages expanding legal extortion.

An honest person does not seek to enrich himself at the expense of his fellows. A moral person does not claim that his desires or his needs establish a claim on the time, wealth, or property of a neighbor. A person of integrity does not abhor extortion on an individual level while encouraging it on a social plane.

As a culture and most especially as individuals, we need to recognize extortion, whatever its guise, and categorically reject it. The consequences of failing to root out and eliminate such attitudes are too grave to ignore. We either increase freedom and respect for property rights—or else. . . . □

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Best Textbooks for a Free-Market University



"I don't care who writes a nation's laws . . . if I can write its economics textbooks."

—Paul A. Samuelson

When I majored in economics in the late 1960s and early 1970s, there were precious few textbooks with a strong free-market bent. My introductory course required Paul A. Samuelson's *Economics*, a strictly Keynesian work favoring heavy state intervention. My class in the history of economic thought relied on *The Worldly Philosophers*, by Robert Heilbroner, a socialist who said that Karl Marx was a good family man. My economic history book was *History of the American Economy*, by Ross M. Robertson, who wrote that high federal deficit spending got us out of the Great Depression. And this was at Brigham Young University, a conservative institution.

Fortunately, free-market economists have gradually filled a gap by teaching sound principles at every level of economics. There's still much more to do, but the direction is clear—more textbook writers are producing books that teach market principles.

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Here are my choices for the best textbooks in each category:

Introductory Texts: Significant Progress

There are quite a few introductory texts to choose from. Most of my colleagues select *The Economic Way of Thinking*, by Paul Heyne (University of Washington), now in its eighth edition (Prentice-Hall, 1997). It focuses primarily on the micro foundations of the economy and avoids defective macro concepts such as aggregate supply (AS) and aggregate demand (AD). *Economics: Private and Public Choice*, by James D. Gwartney (Florida State) and Richard L. Stroup (Montana State), now in its eighth edition (Dryden Press, 1997), is another favorite. It consistently applies market principles to a host of problems, including the environment, taxes, and government spending. It is the only textbook I know that spends several pages on Social Security privatization.

The only drawback is that it begins its macro section with AS-AD, a fundamentally Keynesian concept (the idea that the economy can be stuck indefinitely at equilibrium at less than full employment). Gwartney and Stroup should take a cue from Greg Mankiw's popular new textbook, *Economics* (Dryden Press, 1997), which begins its macro section with the classical model (which he terms "the real economy in the long run") and relegates the short-term

AS-AD model to the back of the book. AS-AD is introduced in chapter 8 of Gwartney and Stroup but chapter 31 in Mankiw!

Another free-market textbook that puts classical economics ahead of the Keynesian model is *Principles of Economics* (Addison-Wesley, 1997) by Roy J. Ruffin and Paul R. Gregory, both professors at the University of Houston. They introduce AS-AD in chapter 27. Economic growth (the long-run classical model) is emphasized over the ups and downs of the business cycle (short-run Keynesian model).

Ruffin and Gregory have many other advantages: They are the only major textbook to cite favorably the Austrian economists Ludwig von Mises, Friedrich Hayek, and Joseph Schumpeter throughout the textbook, including the first chapter. Most textbooks quote liberally from John Maynard Keynes, Milton Friedman, and Karl Marx, but Ruffin and Gregory break new ground here. The authors focus on four major historical events ("Defining Moments in Economics") and their impact on economic thinking: the industrial revolution, the rise and fall of socialism, the Great Depression, and globalization. They also devote major sections on privatization, public choice, the gold standard, and economic success stories in Europe and Asia.

Overall, the works by Ruffin and Gregory, and Gwartney and Stroup, are quickly becoming known as the most innovative textbooks on the market today.

Breakthrough in American Economic History

Now let's turn to economic history. Gene Smiley (Marquette) has written a first-rate textbook for American economic history classes: *The American Economy in the Twentieth Century* (South-Western Publishing, 1993). It is the only textbook I know that considers all the major conflicting theories

for explaining the major events of the twentieth century. It even includes an Austrian interpretation of the Great Depression and the World War II economy. I just wished Smiley covered events prior to the twentieth century; his book is that good.

History of Economic Thought

Many economics teachers have wisely replaced Heilbroner's *Worldly Philosophers* with *New Ideas from Dead Economists*, by Todd G. Buchholz (Plum, 1990). Among other things, Buchholz is much more critical of Marx and central planning. Unfortunately, Buchholz's book says almost nothing of the Austrian school. One book that does is *A History of Economic Theory and Method*, by Robert B. Ekelund, Jr., and Robert F. Hebert (McGraw-Hill, 1990). Murray N. Rothbard originally intended to write a one-volume history of economics, but his work gradually developed into a series of tomes, only two of which were completed before his untimely death: *Economic Thought Before Adam Smith* and *Classical Economics* (Edward Elgar, 1995). Both books are more appropriate for advanced courses in economic theory and philosophy.

Other free-market books may be helpful in various courses. For money and banking classes, Murray Rothbard's *The Mystery of Banking* (E. P. Dutton, 1983) is useful. Dominick T. Armentano's *Antitrust and Monopoly*, second edition (Holmes & Meier, 1990) is an ideal supplement in classes on industrial organization. And, of course, there is a wide variety of books on free-market economics to supplement the textbooks—works by Ludwig von Mises, Friedrich Hayek, Israel Kirzner, Henry Hazlitt, George Reisman, Hans Sennholz, and a host of others.

In short, free-market economics is back in the college classroom. □

BOOKS

Hungry Ghosts: Mao's Secret Famine

by Jasper Becker

The Free Press • 1996 • 352 pages • \$24.50

Reviewed by Steven W. Mosher

Some of the darkest chapters in recent human history have been written in the People's Republic of China. From the radical experiment in utopian engineering known as the Great Leap Forward, to the state-sponsored terror of the Cultural Revolution, to the Draconian one-child policy of today, China's communist rulers have visited disaster after disaster upon the Chinese people. While much is known about these and other political campaigns gone awry, there is one man-made disaster of monumental proportions that has been kept carefully under wraps.

From 1958 to 1962 Chinese people starved to death by the tens of millions. But the "three difficult years," as the Beijing regime still daintily refers to this atrocity, saw not merely death from famine on a massive scale. It was also a period of state terror, during which Party officials ransacked villages, torturing and murdering peasants for refusing to hand over secret stores of grain that did not exist.

Hungry Ghosts is the first full account of what is arguably the worst famine in all of human history. Jasper Becker, a BBC journalist who lived for several years in China, spent years in painstaking detective work to piece together both the cause of this tragedy, and its final cost in human lives. Although he strays from the truth in ascribing the famine, in part, to a lack of population control, his book is an otherwise solid indictment of central planning and Maoist hubris.

As soon as the People's Republic of China was established in October 1949, Mao Zedong wanted to move as quickly as possible to create agricultural collectives.

This culminated in 1958 with the formation of the "People's Communes," huge, cumbersome agricultural cooperatives with tens of thousands of members.

To make matters worse, Mao insisted that the communes adopt agricultural techniques from the Soviet Union, which was reporting triple-digit increases in food production. Such techniques as deep plowing, close planting, and increased irrigation, based as they were on Marxist-Leninist pseudoscience, turned out to be disasters in practice. Deep plowing, for instance, effectively destroyed the fertility of the soil for years to come, as peasants trenched the ground to depths of four or five feet. Seedlings planted in extremely high densities died, while the irrigation projects—mostly small reservoirs—were so ill-conceived and executed that they were later dismissed by the Ministry of Agriculture as "completely worthless."

Mao, in his great vanity, was oblivious to all this. Instead, he believed the reports of sycophantic officials that food production had skyrocketed under the commune system and his other innovations. When Mao visited the model commune of Xushui in 1958, he saw piles of vegetables, turnips, cabbages, and carrots strategically placed along the main road. As Becker writes, "Officials told him that the peasants had dumped the vegetables because they had grown so much food they did not know what to do with it."

Buoyed by a flood of such false reports, the Beijing regime encouraged peasants to eat grain. It doubled its grain exports, even giving away grain gratis to its friends in North Korea, North Vietnam, and Albania. Although no one knew it at the time, every ship that left the docks condemned additional thousands to die.

By the winter of 1958–59 the commune granaries were bare, but Mao refused to believe that there was a food shortage. Instead, egged on by officials still boasting of record crops, he became convinced that the peasants were hiding their grain. In places like Henan, where the provincial leadership was fanatically devoted to Mao and his illusions, this led to mass murders

that the Party would later describe as “a holocaust.”

As Becker writes, “The great terror began in the autumn of 1959 . . . when the prefectoral Party committee declared war on the peasants . . . launch[ing] a brutal anti-hiding campaign. . . . ‘It is not that there is no food [one local official said]. There is plenty of grain, but 90 percent of the people have ideological problems.’” Virtually all of the grain harvested was collected by officials who used arrest and torture to achieve their ends.

“By the start of winter,” Becker continues, “it was clear that the peasants had nothing to eat but tree bark, wild grass seeds and wild vegetables. [Local officials] declared that this was merely ‘a ruse of rich peasants’ and ordered the search for grain to be redoubled. Party cadres were also incited to smash the cooking pots in every household to prevent them from being used at home to cook grass soup.”

Becker concludes that Mao’s famine was “a deliberate act of inhumanity” and asserts that, as a mass murderer, Mao should be ranked higher than Hitler and Stalin. After all, Hitler’s concentration camps were responsible for 12 million deaths, while Stalin’s gulags devoured some 20 million souls. Stalin’s own famine, which raged in the Ukraine during the early 1930s, cost only 11 million lives. “Mao,” Becker writes, “exceeded even these ghastly totals.” *Far, far* exceeded.

How could a disaster of this magnitude be hidden from the world for so many decades? The Chinese Communist Party’s natural penchant for secrecy offers us part of the answer. During the fifties and sixties, China was off-limits to Western, and especially American, writers and journalists. Visas were forthcoming only for true “friends of China,” who could be trusted to check their curiosity at customs, and write only what they were told during their stay.

Of that time, China historian Edward Friedman has written that “foreigners were fed a diet of lies to spread outside the country, to the effect that there was no famine in China.” Perhaps the leading

China apologist of all time, Edgar Snow, who spent five months in China at the height of the famine, flatly denied its existence: “One of the few things I can say with certainty is that mass starvation such as China knew almost annually under former regimes no longer occurs. . . . I diligently searched, without success, for starving people or beggars to photograph.” Although he conceded that some people were suffering from “severe malnutrition,” he thought that it had probably not led to any significant number of deaths.

The British journalist Felix Greene returned from a visit to China to announce, in tones reminiscent of Snow, that “the indisputable fact is that the famines that in one area or another constantly ravaged the farmlands of China, and the fear of starvation, which for so long had haunted the lives of the Chinese peasants, are today things of the past.”

The “firsthand” verdict of Snow and others on the famine was widely accepted, even by many American China-watchers, who for years afterwards denied or at least downplayed one of the greatest human tragedies of our century. Snow’s views received a respectful hearing at Harvard and elsewhere after his return to the United States. They also found their way into textbooks, such as John K. Fairbank’s introductory history of modern China, which devotes to the “three difficult years” precisely one sentence: “Malnutrition was widespread and some starvation occurred.”

The only point on which Becker and I part company concerns population control. Becker writes that “The Chinese are still suffering from the greatest and most far-reaching consequences of Mao’s illusions . . . that modern science was the key to a limitless expansion of food supplies. . . . In the early 1960s, as China was starving, Mao wrote . . . ‘China’s big population is a very good thing.’” Becker is saying, in effect, that Mao erred in trusting science, and erred again in not imposing the one-child policy—or its equivalent—on the Chinese people as soon as he took power.

But did either of these beliefs lead to

errors on Mao's part? I think not. The history of the last half-century has been one of astonishing increases in food production. The scientific revolution in food production, the so-called "green revolution," has doubled crop yields worldwide. At the recent Rome Food Summit, Stein Bie, a researcher for the Food and Agriculture Organization (FAO), commented that "[food] disasters are not taking place," and that the earth can easily support eight to ten billion people—double its current population—in the next 25 years.

As far as the relationship between population and hunger is concerned, FAO chief analyst Jacques Verceuil commented at the same conference that, of the ten countries worst off in terms of food supply, nine have suffered serious warfare. Population size and density have nothing to do with it.

Now Becker, of course, knows all this. After all, he has written an entire book proving that China's famine was the result of political decisions and masked by censorship. And I am sure that he would be the first to admit that he has offered absolutely no evidence that the famine could have been averted, or even mitigated, had Mao earlier imposed a radical population control program on the Chinese people.

So what are we to make of Becker's mental tic when it comes to population control? It may mean nothing more than that he is a creature of this misanthropic age, which in general regards families and children with a kind of light disdain. Still, the point that communist politics and not the Chinese people are the cause of China's problems is important enough to insist upon, not least because the Chinese Communist Party has it the other way around.

There will be no PRC edition of Becker's book, for it would never get past Beijing's ever-vigilant censors. But for those who want the truth about the most disastrous famine in world history, *Hungry Ghosts* is your book. □

Steven Mosher is the president of the Population Research Institute, and is the author of A Mother's Ordeal: One Woman's Fight Against China's One-Child Policy.

Why the Left Is Not Right— The Religious Left: Who They Are and What They Believe

by Ronald Nash

Zondervan • 1996 • 222 pages • \$10.99
paperback

Reviewed by Doug Bandow

When it comes to religion and politics, most media attention is focused on the right. And it usually isn't positive coverage. Religious conservatives are presented as threatening America's constitutional balance, women's right to choose, gays' civil liberties, and much more.

Yet religious activism runs both ways. As Ronald Nash, a professor at the Reformed Theological Seminary in Orlando, Florida, notes in *Why the Left Is Not Right*, there is an active and diverse religious left in the United States. To be sure, these people, who once "proudly proclaimed their liberal or radical connections," now "describe themselves as moderates and centrists," notes Nash. But their policy positions remain unashamedly left-wing.

Nash divides the religious left into three parts: liberal mainline Protestants, liberal Catholics, and left-wing evangelicals. There's no doubt where Nash stands. He argues that these groups have been used (willingly or unwillingly) by the Democrats for electoral purposes and have helped "demonize politically conservative Christians." A prolific author and entertaining speaker, Nash obviously views himself as among the demonized right.

In his view, the central argument is not whether people of faith should be concerned about peace and justice, but what those terms mean. The evangelical left has appeared to have simply assumed the standard liberal understanding of the words and then discredited anyone (including their politically conservative brethren) who understood the terms differently and who pursued the objectives of peace and justice in a different way.

Perhaps the greatest value of *Why the Left*

Is Not Right is that it shows how political activism by people of faith is neither new nor restricted to conservatives. Indeed, even as evangelicals were receiving exaggerated public attention for entering the political process, mainline Protestant denominations were promoting Democratic political causes domestically and communist revolutionary movements abroad. It is a story worth remembering when the media and political establishments pour obloquy on traditionally less active evangelicals and fundamentalists as they seek to protect themselves and their values from government intrusion.

Much the same politics has been on display within the Roman Catholic Church. Catholics were once "thoughtful enemies of secularism, humanism, and the liberal welfare state," writes Nash. Many still are, but as Nash puts it, "large cracks have appeared in the political and social thinking of many educated Catholics." The 1985 Pastoral Letter on the economy, for example, was as political as anything emanating from the Christian Coalition. Even more radical have been specific segments of the church, such as the Maryknoll Order.

However, Nash devotes most of his attention to the lesser-known left-wing evangelicalism. He argues that the New Left and "the adversary culture" of the 1960s spawned political liberalism among Protestants who purport to hold a more conservative, orthodox theological view. Nash focuses on three leading leftist evangelicals: Jim Wallis, editor of *Sojourners* magazine; Ron Sider, founder of Evangelicals for Social Action and author of *Rich Christians in a World of Hunger*; and Tony Campolo, sociology professor, well-published author, and presidential confidante.

The scrutiny is warranted, though Nash seems more skeptical of the trio's good intentions than is justified. Wallis, for instance, lives his beliefs. Two decades ago Wallis moved his magazine to a poor section of Washington, D.C., and formed a community of the same name. At the same time, however, he has, as Nash points out, remained imbued with the leftist Zeitgeist of

the 1960s. The boat people fleeing communist Vietnam, Wallis wrote, were leaving "to support their consumer habit in other lands." Their departure should not be taken to "discredit" Vietnam. Wallis's views toward Cuba and Nicaragua were similarly skewed.

Wallis's economic opinions also were long solidly collectivist. The collapse of socialism abroad seems to have chastened him—he now calls himself centrist and asserts that he is independent of Democrats and Republicans alike—but he remains wedded to interventionist policies. Conservatives, Wallis charges, retain an "attachment to institutions of wealth and power, preference for the status quo, and the lack of a strong ethic of social responsibility." Unfortunately, while Wallis now criticizes abuses by government, he underestimates how the activist state promotes concentrations of wealth and power, supports the status quo, and undermines social responsibility.

Similar is Nash's case against Ron Sider. Sider is a gentle spirit who has borne substantial liberal criticism for his opposition to abortion and gay rights. Unfortunately, however, on economic policy he has always placed intentions before results. Thus, as Nash documents, Sider has long advocated the sort of government intervention that has been tried and found wanting throughout this century. While criticism is rife of the Christian Coalition for seemingly attaching itself to the GOP, Nash points out that "Ron Sider, the person who comes closest to being a moderate member of the evangelical Left, has himself spent years trying to elect liberal, typically Democratic, candidates to public office."

Tony Campolo is probably the most public of the three, given his high-profile contacts with President Bill Clinton. Campolo also criticizes government, but seems committed to statist remedies when it comes to solving specific problems. Nash doesn't stop his criticisms here, however; he goes on to question Campolo's evangelical credentials, given the latter's views on such issues as abortion, feminism, and the environment.

Through his analysis, which concludes with chapters on economics and poverty, Nash shows how even the best-intentioned of religious believers can come up with solutions inimical to the interests of those they wish to serve. But Nash, who has been on the receiving end of endless left-wing barbs, puts an unnecessary edge in his own analysis. Perhaps nothing irritates Nash more than the evangelical left's flirtation with Bill Clinton.

Yet the opinions of Wallis, Sider, and Campolo reflect ignorance rather than malice. I've met and debated all three. All want to help those in need, seem to have been affected by the decline of statism, and were willing to acknowledge contrary arguments. They deserve to be criticized, not demonized.

Why the Left Is Not Right deals seriously with an important subject. Despite the public perception that religious activists gravitate toward the right, many people of faith have embraced collectivist remedies despite the ill effects on those most in need. In short, Nash's basic thesis is correct: the left is not right. □

Doug Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author of Beyond Good Intentions: A Biblical View of Politics (Crossway).

The USA Tax: A Progressive Consumption Tax

by Laurence S. Seidman

MIT Press • 1997 • 160 pages • \$20.00

Reviewed by Roger W. Garrison

Hot dogs, baseball, apple pie, and the USA Tax: What is the relationship among these pieces of Americana? The fourth-listed one imposes a tax on the other three. USA stands for Unlimited Savings Allowance. Taxes are to be imposed only on consumption, as set out in the 1995 USA Tax bill sponsored by Senators Domenici, Nunn, and Kerry. Professor Laurence Seid-

man of the University of Delaware has written a book to argue the case for this progressive consumption tax and to defend his relatively pure version of it against the version in the actual legislation. The 1995 bill involves a few needless complexities and inequities, but these legislative quirks do not unduly distract Seidman or his readers from the more fundamental issues.

Although the transition from an income tax to a consumption tax would involve radical change, the proposed tax system would be the same as the existing one in several important respects. The total tax burden would be the same, the distribution of that burden across the different income classes (or consumption classes) would be about the same, and the computation of the tax liability for each individual and for each firm would be complex—though maybe not as complex as it currently is. Most importantly, some of the distinctive features of the proposed system are in serious conflict with the basic principles of liberty. For one example, taxes themselves would be treated as consumption (public rather than private) and thus would be subject to further taxing. For another, all deposits and withdrawals of cash, the key determinants of consumption-tax liabilities, would be reported to the government by financial institutions.

The supposed appeal of the USA Tax lies in its favorable treatment of saving and investment and in its "fairness." The favorable treatment of saving and investment is achieved simply by excluding these activities from the tax base; the "fairness" (so judged on the basis of survey results believed to reflect the majority opinion among Americans) is achieved by the progressivity of the marginal tax rates. In comparison with the USA Tax, our current income tax is found inferior because it taxes both consumed income and (with some exceptions) saved income. A national sales tax and the Hall-Rabushka Flat Tax are found inferior because they do not allow for enough progressivity.

The two main features of the USA Tax (pro-saving and progressivity) are presented separately in Seidman's book. Weighing strongly against this tax scheme,

however, is the conflict between these features—a conflict that Seidman does not notice (or, at least, does not mention). The steeply progressive tax schedule may well discourage saving and/or encourage borrowing. A simple example can make use of the tax schedule to be applicable for the year 2000 and beyond, together with an assumed interest rate of 10 percent. The marginal tax rates for the four consumption brackets are 0 percent, 8 percent, 19 percent, and 40 percent, the top rate applying to consumption levels of \$24,000 and higher. Suppose our taxpayer is in a position to consume \$24,000 worth annually. He could, instead, spend only \$23,000 this year so as to be able to spend \$25,000 (plus some interest) next year. This year's \$1,000 reduction in consumption allows our taxpayer to take advantage of the tax-free status of savings. He would pay \$190 less in taxes this year (19 percent of \$1,000). Next year, after collecting \$100 in interest, he can spend \$25,100. But the taxes he owes on that last \$1,100 worth of consumption is \$440 (40 percent of \$1,100). For the two-year period, his initial saving has allowed consumption to go up by \$100, but his corresponding tax liability goes up by \$250! In this example (and in others where consumption levels are close to the bracket breaks) the anti-saving effect of the "fairness" feature swamps the direct effect of the pro-saving feature. This net anti-saving bias is even stronger when incomes (and levels of consumption) are increasing over time—as they generally are. A temporal smoothing of consumption to avoid high marginal rates requires borrowing—*dis-saving*—in the lean years.

If considerations of fairness keep people from saving this year in order to consume next, maybe the more farsighted among us can take advantage of tax-exempt saving by waiting until retirement to consume. But this is the one component of saving that is exempt even under the existing system. Further, retirement years are low-income years, not necessarily low-consumption years. Many people in their 60s and 70s travel extensively as they never could before. They consume. Many in their 80s and

90s pay dearly for their daily keep in a retirement center. Should these people pay even more dearly on April 15? Our hapless taxpayer may once again be foiled by fairness.

In comparing income and consumption as alternative tax bases, there seems to be no clinching argument that allows for an unambiguous preference. Each is deficient when judged by the standard set by the other. If we take consumption as the appropriate base, we see that an income tax is applied to some of it twice. If we take income as the appropriate base, we see that a consumption tax lets some of it go untaxed. Ultimately, Seidman's case for the pro-saving feature of the USA Tax is itself based on considerations of fairness: "[I]t seems fairer to tax a person according to what that person subtracts from, rather than adds to, the economic pie." It is true—and seems eminently fair—that when we "subtract from the economic pie," we pay, and when we "add to the economic pie," we get paid. But *this* truth, which reflects the ordinary working of the market system, leaves unanswered—and unasked—the question about how much each of us should pay for government and about how much government we should have. The holistic notion of the "economic pie" provides little or no scope for claims about fairness. The size of the pie is a consequence of the various preferences of market participants—for enjoying leisure rather than supplying labor and for consuming now rather than consuming later. What seems fair is that each of us should make his or her own choices in this regard. The notion of fairness, however, provides no clear link between changes in the size of the pie and obligations to pay for government.

Opponents of the current tax system who base their criticism on the tenets of classical liberalism will be equally critical, if not more so, of the USA Tax. For the classical liberal, meaningful reform is better aimed at reducing taxes and, more generally, in reducing government. □

Roger Garrison is a professor of economics at Auburn University, Auburn, Alabama.

The Future of Money in the Information Age

edited by James Dorn

Cato Institute • 1997 • 171 pages • \$12.95
paperback

Reviewed by Steven Horwitz

If there's one lesson that we've learned in the computer age, it's that George Orwell was wrong: technology is not the enemy of liberty, but its friend. It was the personal computer, the fax machine and the telecommunications satellite that were central to the liberation of Eastern Europe and the Soviet Union (and China, to an extent) because they broke down the information barriers that enabled those regimes to continue to lie to their citizens. Because of their economic implications, the latest technologies, advanced personal computers, and the Internet, offer new, and perhaps greater, promises for human freedom, as the papers in this collection make clear.

All but two of the papers in the book were part of the Cato Institute's annual monetary conference in 1996. They represent a wide range of expertise and perspectives on the set of issues surrounding the implications that modern information and communication technology have for money and its associated institutions. The contributors include academics, traditional bank executives, computer experts, electronic money entrepreneurs, policy analysts, and central bankers. The papers are mostly short and accessible, and the book would make a good supplement for an undergraduate course on money and banking.

Although there are some significant points of disagreement among the authors, two beliefs seem to represent a consensus. First, as more transactions take place over the Internet and as money itself becomes increasingly "digital," it will be harder for governments across the world to monitor and control both money and the exchanges made with it. Second, this change in the nature of money is more evolutionary than revolutionary. The history of money is the

story of the substitution of more abstract forms of money for more concrete ones. In this way, the use of so-called "electronic money" is not fundamentally different from the substitution of paper for commodity money, or checks for currency.

The papers in this book explore a variety of different forms that electronic money might take. The simplest is what is known as "smart cards," or "stored-value" cards. We can already see an early version of these in the form of prepaid phone cards. Imagine, however, that you had such a card that contained a bank balance and that you could spend it anywhere by swiping it through a store's or vending machine's card reader. Imagine further that you could "reload" that balance by inserting the card into an ATM, or your personal computer linked via the Internet to your bank, or through a card reader located at a place of business, or even by a direct hookup with another card user. Such a card could replace currency for almost all uses and would be far safer, as it would require a PIN or an even more advanced security device.

More sophisticated versions of electronic money would include money both created and stored in electronic form over the Internet, and used for transactions made there. Internet banks could give loans in the form of encrypted strings of digits that other computers would recognize as a money balance created by the bank. So to "spend" this money, one could simply send the string of digits to the seller of the product, who would then pass that string on to his bank, who would pass it on to the issuer, who would then verify it and credit the merchant's bank for the amount. This kind of money would have no physical form (unlike the smart card) and could be quite useful for the booming world of Internet commerce. If the encryption procedures are secure enough, this kind of digital money would be safer than using a standard credit card over the Internet, which is the way most business is done there now.

Aside from the obvious conveniences for consumers, these innovations have significant implications for monetary policy and

central banking. Most important, the more these electronic forms of money displace central bank-created currency, the larger will be the proportion of the money supply that is privately created. Smart cards and digital currency are liabilities of the banks that created them, not the Fed. In the extreme, should paper or "analog" currency disappear, the Fed will then only control the supply of bank reserves. That power would still give the Fed the ability to create much mischief, but it would have a few benefits.

As George Selgin's paper argues, if paper currency disappears, the Fed would no longer have to worry about the degree to which the public wishes to convert its bank deposits into currency. Right now, the Fed needs to estimate that magnitude in order to correctly predict the effects on the money supply when it conducts open-market operations. In a paperless world, the Fed would have much more control over the supply of bank reserves and, as Selgin argues, could much more successfully implement a Friedman-like monetary rule. Even given the existence of a central bank, the advent of electronic currency might usher in a new era of relative monetary stability by making rule-based policies easier to implement.

The move away from paper could also lead to the even more desirable outcome of the eventual fading away of the central bank. Electronic money opens up the market for "hand-to-hand" money by putting the equivalent of a printing press in every bank's computer. Private banks will likely outcompete the Fed in such a market, further undermining the argument for having a central bank in the first place. As the sophistication of the technology increases, so will the ability of banks to manage their portfolios and so will the ease with which consumers can use progressively more abstract forms of money.

One can easily imagine a world where banks offer balances on the basis of assets such as private-sector bonds and stocks (as mutual funds do now) and customers take those balances in the form of smart cards that can be used in place of currency, checks, and credit cards. In such a world

there is no need for a central bank, only a network of institutions that enable the individual banks to clear their balances among themselves. The need for a central source of reserves would disappear, as would the Fed's lender-of-last-resort function, as mutual funds cannot be "run" on the way banks can. The progress of electronic money is rendering both central banks and the national borders within which they operate increasingly obsolete.

Lest we get too heady about all of this change, it is important to realize that it is evolutionary not revolutionary. First of all, money already exists in electronic form through wire transfers, and secondly, money has been evolving away from the concrete toward the abstract since it was first used. As Larry White's paper notes, the first time balances were transferred by bookkeeping entries, money was separated from the physical world. That is, in principle, not fundamentally different from the various forms of electronic money this collection explores. The leap from paper to encoded digits is the equivalent of the leap from gold coins to paper.

In addition, there is a certain sense of going back to the future here. As several of the papers in this volume point out, the banking system we will likely end up with in the electronic future will look an awful lot like the U.S. banking system did *before* the Fed was created. In particular, hand-to-hand money issued by individual banks was commonplace in the nineteenth century, and remains the primary currency in a few countries even today. The natural response to this point is to wonder whether the electronic money future might fall victim to the same problems as the past. After all, the pre-Fed banking system is no longer with us, so it must have ended for a reason.

And this brings up the key issue facing the future: what sorts of regulations, if any, should there be on the production of electronic money? As the papers by Alan Greenspan and R. Alton Gilbert rightly note, recent scholarship on nineteenth-century banking in America and elsewhere has argued that the failures of those systems

were largely due to poorly chosen regulations, such as limits on branch banking and the requirement that banks buy bonds as collateral for their currency issues. The history of banking is littered with such examples of often well-intentioned attempts at regulation that wind up creating unintended problems, and create a demand for further intervention. It is just such a process that has brought us the Fed and the numerous problems banks have faced in this century.

Perhaps with the advent of a new century, and new mechanisms for delivering monetary services, we will finally heed the lessons of the past and give these new technologies and institutions the freedom to develop in response to the needs of the market. The Internet and other computer technologies hold open the promise of an era of unimaginable wealth and progress. The question so well addressed by this collection is whether we can learn those lessons of the past and resist the temptation to regulate new forms of money and thereby destroy their enormous promise. □

Steven Horwitz is Eggleston Associate Professor of Economics at St. Lawrence University in Canton, New York.

Bank Deregulation and Monetary Order

by George Selgin

Routledge • 1996 • 288 pages • \$69.95

Reviewed by Parth J. Shah

The classical gold standard is generally considered to be the only monetary system consistent with the principles of laissez faire. In that system, the currency issued by the government is convertible on demand into a specified amount of gold. The government's ability to issue currency is limited by the amount of gold it possesses; there is less room for the hidden tax of inflation. The government, however, retains a monopoly on the issue of currency.

F. A. Hayek's pioneering essay, "Choice in Currency" (1976), offered an alternative of laissez-faire banking—a system of privately issued competing currencies. Since then, the novel alternative of free banking has attracted considerable attention from young Austrians.

George Selgin's *Bank Deregulation and Monetary Order* reprints 12 of his recent articles (two coauthored with Larry White) that further support the proposition that money is not unlike other goods and can be best supplied by the market. Though the articles were written for an academic audience, they are accessible, with some effort, to any interested individual. They exemplify Selgin's ability to write for academic and nonacademic audiences simultaneously.

The conventional view maintains that banking systems are inherently unstable and prone to crises, and therefore government regulation and control are essential. Selgin demonstrates that the conventional view is false, both theoretically and empirically. Historical evidence from several countries over a period of about 200 years suggests that "genuine banking crises have been rare in most well-studied fractional-reserve banking systems and entirely absent in several." What explains, then, the conventional view of banking? This view, like most economic theories, is largely due to British and American economists whose judgments are colored by the banking histories of their own countries. Among the countries studied, "banking crises appear to have been a U.S. specialty, with England earning second place. A global historical perspective on banking, however, indicates a generally acceptable performance."

For the period of 1793–1933, Selgin categorizes banking systems as relatively "unfree" (United States, England, France, Germany, and Italy) and relatively "free" (Canada, Scotland, Sweden, Australia, China, and South Africa). The "unfree" systems had "privileged" banks and/or restrictions on bank charters and currency issue. The "free" banking systems had multiple private issuers of currency convertible into specie. "Of forty-eight recorded crises,

all but seven occurred in unfree systems.” “[B]anking crises,” Selgin concludes, “have been more frequent in heavily regulated banking systems than in relatively unregulated ones.”

Government regulation of banking through monopoly issue of currency, lender of last resort, deposit insurance, branching and asset restrictions, interest-rate ceilings, and other means has made this system less, not more, stable. Inherent instability of banking systems is used to justify restrictions, but their presence is actually responsible for the instability. The restrictions, then, are self-fulfilling—they create instability which in turn justifies their existence and even expansion. In opposition to the conventional “market failure” theory, Selgin proposes a “legal restrictions” theory of banking crises and instability. Even bank-lending manias are usually caused and sustained by restrictions on banking and not by excessive “confidence” or “optimism” or “animal spirits” as the folklore alleges. Selgin supports this contention theoretically by showing the effectiveness of the clearing mechanism under free banking, and historically by examining several alleged episodes of financial “bubbles.”

The infamous banking crisis of the 1930s, the cause of the Great Depression, corroborates Selgin’s legal-restrictions theory. In the first two years of the crisis, most of the failures were of “small-unit banks in agricultural regions.” Their failure, as those of 6,000 banks in the 1920s, was due to the fall in the relative price of agricultural products. If the United States had allowed nationwide branch banking, most of these “relative-price-induced” bank failures might have been avoided. Canada, which suffered the decline in agricultural prices but had branch banking, did not have a single bank failure in those two decades, except for one failure in 1923 involving fraud. Moreover, in response to the public’s increased demand for currency, Canadian banks were able to issue more notes in exchange for deposits, but the American banks could not increase their note supply without relaxation of the restrictions by the Fed. The troubles of agri-

cultural banks could have been largely contained if only the United States had branch banking and freedom in note issue.

Banks’ inability to issue more notes prompted clearinghouses to seek permission of the Treasury “to issue clearinghouse certificates as substitutes for bank notes, as they had done during earlier crises. But they were refused permission on the grounds that such a private response was no longer needed: the Fed was capable of issuing ‘plenty of money that looks like real money.’ In the event, of course, the Fed’s response proved far from adequate.” The crisis of agricultural banks did not turn into a widespread panic until February 1933, when states began declaring bank holidays (Michigan on February 14, which led to the national bank holiday on March 6), and when rumors spread about the government’s plan to devalue the dollar. On top of it all, in mid-1932, a two-cent tax on checks was imposed, which further encouraged the public to withdraw currency from the banking system. A restrictionless banking system would surely have mitigated, if not prevented completely, the Great Depression.

Many advocates of free markets (Milton Friedman, for example) consider the central bank as generally evil but absolutely necessary for smooth and efficient working of the financial system. Surprisingly though, hardly any systematic, scholarly case has been offered to support the assumed necessity of the central bank. Its desirability is simply taken for granted. Charles Goodhart’s *The Evolution of Central Banks*, attempts a defense of central banks. Selgin provides a detailed and persuasive critique of Goodhart’s rationale for central banks as well as his interpretation of the theory and history of free banking.

Selgin points out, among other things, that central banks of the world did not evolve “naturally” because of the economies of scale in reserve holding and the need for a lender of last resort in fractional-reserve banking. They were contrived by the fiscal necessities of states and by “advantages endowed by legislation.” The economies of scale in reserve holding can other-

wise be achieved by branch banking and non-bank clearinghouses. The need for a lender of last resort is actually created by the privileges (of note issue, access to capital and such) granted to particular banks, which weakened the other banks in the system and made them unnaturally dependent on the "privileged banks."

Chapters 1, 2, 4, and 6 explain how, without state interventions, the banking system would have evolved by using Carl Menger's theory of the evolution of money and his "conjectural historical" approach; how free banking adjusts the supply of money to its demand; and how it provides a substantially more stable monetary environment and less room for "money mischief." For nonspecialists, these chapters offer a quick but thorough understanding of the workings of a free banking system and its advantages over central banking.

Selgin addresses an important ongoing debate among economists on "productivity norm" versus "price level stability norm" (Chapters 7 and 8). This debate applies to both free banks and central banks—how free banks would behave and how central banks should conduct their monetary policy. The central bank of New Zealand is now required by law to maintain stable prices or zero inflation. Stability of prices has become a dominant concern of many a central bank. The productivity norm, which Selgin prefers, suggests that prices be allowed to fall in response to increases in productivity of the economy. Selgin contends that as the supply of goods and services increases, the downward pressure on their prices should not be countered by expanding the money supply to keep them stable.

Suppose unexpected technological improvements in the production of some goods lowers their cost of production. That would, under competition, lead to a decline in the prices of those goods relative to other goods. Which norm requires changes in more prices? Under the productivity norm, prices of only those goods whose productivity has increased must fall; all other prices remain the same. Under the price level stability norm—which is identical to keep-

ing a consumer price index constant—prices of all other goods must be raised relative to the prices of goods whose productivity has increased. Thus, the productivity norm, Selgin maintains, is superior to its commonly advocated alternative.

I am sure that this book will encourage the reader to further explore the crucial field of free banking—crucial to the evolution of a laissez-faire society. □

Parth Shah is an economics professor and president of Center for Civil Society, New Delhi, India.

The Origins of Virtue

by Matt Ridley

Viking • 1997 • 295 pages • \$24.95

Reviewed by George C. Leef

It is not uncommon for those who have been trained in economics or philosophy to arrive at the conclusion that big government is a dangerous menace, but it is an event worth noting when a scientist comes to that conclusion. The event becomes even more noteworthy if the scientist has done us the favor of putting his thoughts into a delightfully readable book. Matt Ridley has done just that.

Ridley is an Englishman, trained in zoology and equipped with an excellent grasp of many other disciplines—the book romps through anthropology, history, game theory, economics, genetics, and more. *The Origins of Virtue* is a search for answers to these questions: "If life is a competitive struggle, why is there so much cooperation about? And why, in particular, are people such eager cooperators? Is humankind instinctively an anti-social or a pro-social animal?" His answers echo the teachings of Adam Smith, David Ricardo, F. A. Hayek, and other defenders of freedom.

Cooperation rather than aggression, Ridley argues, is in the long-run interest of those individuals and groups that practice it. Cooperators fare much better in the struggle for survival than do aggressors or those

that attempt self-sufficiency. Among the evidence Ridley marshals for this conclusion are the many "prisoner's dilemma" computer tournaments that have been run, wherein the winning strategy turns out to be one of reciprocity: "Cooperate with me and I'll cooperate with you; cheat and I'll retaliate." He maintains that this predisposition has become deeply ingrained in the human brain (most of them, anyway). "[T]his instinctive cooperativeness is the very hallmark of humanity and what sets us apart from other animals."

Other animal species can cooperate to some extent within small groups, but we humans have figured out how to cooperate on a vast scale. One of our most important kinds of cooperation is, of course, trade. Ridley's Chapter 10, "The Gains from Trade," is an excellent discussion (if you teach principles of economics, you'll find some good material for lectures or exams there), but it leads to an even more important point. Trading requires trust. Maintaining a reputation for honesty therefore is extremely important and that is why, the author concludes, people generally forbear from dishonesty and aggression. Even if, on a cold utilitarian calculus, such behavior would appear to pay off, most people resist. Ridley attributes this to millennia of human social development that has made us very reputation-conscious.

Alas, we also have our bad instincts, especially a tribalistic "us versus them" proclivity that demagogues have been exploiting since time out of mind. So, what can we do to maximize the good that comes out of our cooperative side and minimize the damage that can be done by our aggressive side? Answer: minimize the power of the state. Contemplating the behemoth states of the current time and of the past, Ridley writes, "I do believe that there have been glimpses of a better way, of a society built upon voluntary exchange of goods, information, fortune and power between free individuals in small enough communities for trust to be built. I believe such a society could be more equitable, as well as more prosperous, than one built

upon bureaucratic statism." Give Mr. Ridley an A.

Big government opens up a new means for people to get what they want, namely politics. Politics ultimately reduces to the use of force, however. The more we politicize society, the more we lure people away from voluntary, cooperative action. Ridley's discussion of the effects of the British welfare state is illuminating: "Because of its mandatory nature the welfare state encouraged in its donors a reluctance and resentment, and in its clients not gratitude but apathy, anger or an entrepreneurial drive to exploit the system. Heavy government makes people more selfish, not less."

And there is much to praise in this book besides the author's sensible conclusion about the proper role of government. Plenty of fashionable notions about man and nature receive smashing blows, for example the endlessly repeated idea that simple, native peoples have a built-in environmental ethic. There is overwhelming evidence to the contrary. Or, on the subject of wildlife conservation, the "green" penchant for demanding government control takes a knockout punch. Clear, defensible property rights, Ridley shows, are far more effective. (If you want to try a sample of this book, start reading Chapter 11, "Ecology as Religion" and I'm confident that you'll want to read it all.)

Ridley is a talented writer and *The Origins of Virtue* has a "page-turner" quality to it. I hope that we will be hearing more from him in the future. □

George Leef is book review editor of The Freeman.

Pick a Better Country

by Ken Hamblin

Simon & Schuster • 1997 • 251 pages • \$23.00

Reviewed by James A. Woehlke

The plot is now familiar: a youth spent courting liberal utopia morphing into a conservative middle age. Ken Hamblin's

book is a patriotic romp, as he shares his faith in the enduring vibrancy of the American Dream. Along the way, a lot of leftist myths and clichés crash and burn.

Hamblin was raised on welfare by his mother, a first-generation immigrant from Barbados. He didn't relish public assistance; in fact, he hated it. He hated his mother's need to mooch off relatives, to beg credit from the local grocer, and to move frequently. He especially hated being forced to wear his mother's shoes to school one winter because there wasn't money to get him his own shoes. Unlike so many of today's urban poor, however, Hamblin's mother desperately wanted *not* to be on welfare and instilled this desperation in her son.

His first escape from poverty was courtesy of 1950s radio. Besides being entertained by "The Lone Ranger" and "The Shadow," Hamblin was moved by Jean Shepherd's inspirational stories of life throughout America. He dreamed of living outside his native Brooklyn. At 17, Hamblin joined the military, and got his first taste of life outside New York—and his first exposure to overt racism. He didn't permit himself to be victimized, but laughed off the racist pettiness and moved on.

Hamblin's first jobs after the service were affirmative action opportunities, but he was driven to succeed on his own merits, first as a journalistic photographer, then a documentary producer, and ultimately a successful talk show host and columnist. (Some call him the black Rush Limbaugh.)

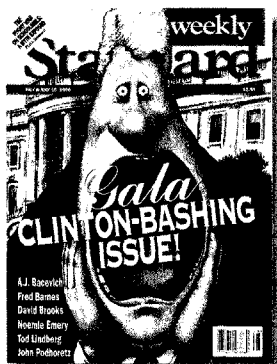
Readers are cautioned. As an "unassuming colored guy," Hamblin, who is renowned for his brash approach to social issues, has the luxury of callin' 'em as he sees 'em. He has little patience for people of color who

claim to purvey authentic black culture while espousing hatred, disrespect for women, and glorification of the drug culture. Harsh epithets are also reserved for those who make welfare their lifestyle and those who reap huge political benefit from championing the welfare dependency of others.

He saves the strongest vitriol, however, for the white intelligentsia who collaborate to preserve the "Myth of the Hobbled Black," the idea that inner-city social conditions hobble poor people of color the way chains hobbled black slaves 150 years ago. He accuses them of waging a "War on Prosperity." Modern liberals, Hamblin maintains, needed proof that America doesn't work, so they actively acculturated people of color to see themselves as victims of an evil capitalist system. The liberals' social experimentation and their unwillingness to hold inner-city sociopaths responsible for antisocial behavior have left a bloody trail of murdered and maimed, inner-city victims. This is a racism of the most insidious kind!

Hamblin's message, for black, whites, everyone, is that in a free environment, each of us must decide if we will be winners or losers. "Once they decide they're not going to be losers, nothing—not the KKK, not the white citizens council, not any group of bigots, not the old laws of apartheid in South Africa—nothing can stop them because they will be able to dig deep in their souls to acquire the strength to carry on. Welfare and liberal indulgence can never offer that kind of can-do attitude." May we all take these words to heart. □

James Woehlke is a CPA and freelance writer.



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VOLUME 47

JANUARY-DECEMBER

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*Prepared by Beth A. Hoffman
and the editorial staff of
The Freeman*

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