

THE FREEMAN

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Arguments and Facts

"[T]he capacity for individual human action derives from the challenge and strength of free enterprise." Those are the words of Vladislav Starkov, editor of the largest-selling publication in the world, when interviewed by London-based journalist Gitta Sereny (*The Independent*, July 1, 1990).

In 1978, Starkov became editor of *Argumenty i Fakty* (*Arguments and Facts*), a small dissident weekly in the U.S.S.R. with a circulation of only 10,000. Now, *Argumenty i Fakty* sells 34 million copies a week. (By comparison, the circulation of *Komsomolskaya Pravda* is 17 million, that of *Pravda* nine million.) Starkov stays in touch with his readers through their thousands of letters. He keeps the size of *Argumenty i Fakty* small, thin, easy-to-hold, its articles short and serious, provoking argument, asking questions.

"A few years ago," Starkov told Sereny, "I didn't even know what the free market was. But then, travelling, I saw how other people lived, with different laws, and yet, all of them better than we. I realized then we'd been lied to all these years, when the West had been portrayed to us either as money-grabbing beasts or as poverty-stricken victims."

The Soviet Union's greatest problem, in Starkov's view, is the bureaucrats. "Excellence is their greatest enemy," Starkov told Sereny, "for it demands their own destruction: the ruthless pruning of millions of totally useless red-tape-ists all over this country, who have almost literally taught whole generations *not* to work."

When asked what chance there was for an economic miracle and a total social turnabout in the U.S.S.R., Starkov replied, "Every chance in the world—if every adult, and every child too, in our country can be shown the happiness of individual achievement."

—Bettina Bien Greaves

Economic Justice

The analogy between economic outcomes and games is helpful in thinking about "just" or "fair" incomes (or wages). The fairness of a game is typically evaluated on the basis of rules. If the rules

of a game are clearly stated, known and accepted in advance, and impartially enforced, the outcome of the game is usually considered fair. Thus, the outcome of a game is not used as a test of the game's fairness. The fact that the Nebraska football team typically defeats most of its opponents, for example, does not suggest that the games it plays are unfair. Similarly, justice or fairness in the economic area should not be judged on the basis of economic outcomes.

—E. C. Pasour, Jr.
Agriculture and the State

Soviet Managers

Westerners often think that there is a dearth of talent and creativity in the Soviet Union. Nothing could be further from the truth. Soviet managers burst with creativity, but it is misdirected. Their talents are drained in machinations to overcome the irrational system in order to meet their plans. The official system does not work, and none but the most creative could survive in this environment and be successful. There is no reason that boundlessly inventive Soviet managers could not succeed if they were set free to work under a market system. Escaping the discipline of the market has made each manager's life hell and has caused disorganization of production on a grand scale.

—Paul Craig Roberts and Karen LaFollette
Meltdown: Inside the Soviet Economy

Free Speech and Property Rights

Let's say that I spray graffiti on the side of my house. Certainly I have a right to do this. After all, I do have a right to free speech.

Now let's say that I spray graffiti on someone else's house without permission. But the police come by and make me stop. Would this be censorship? Doesn't this violate my First Amendment right to free speech? Absolutely not! This is not a question of free speech. It is a question of my vandalizing someone else's property. Simply put, I can spray messages on my own house, but not on someone else's.

Likewise, let's say that I have some paper and some ink. By golly, I can start a magazine. And I can decide exactly what goes in it, because it

is my magazine.

Now let's say that I mail a letter to the editor of *Time* magazine. The editor decides not to print it. Isn't this censorship? Doesn't this violate my First Amendment right to free speech? Absolutely not! Again, I can decide what goes into my magazine, but not into someone else's.

The point I am trying to make is that I never look at anything as just an issue of free speech. I look upon the aforementioned situations as issues of property rights. Simply put, the owner of any piece of property has a right to use it however he or she desires, as long as it is not used to harm or threaten to harm someone else or their property. Thus, I can cover my own house in graffiti, but not someone else's. I can decide what goes into my magazine, but not someone else's. The only way that free speech can properly be defined is by the existence of property rights.

—Daniel Alman, writing in
The Pitt News, University of Pittsburgh

Property and the Environment

It is no accident that serious environmental problems and underdevelopment both occur where a secure system of property rights is lacking. Investment and the forbearance necessary for saving will not occur if people have doubts that they will reap the rewards of their efforts. The same requirement for secure rights exists for socially desirable environmental decisions.

People will not exercise forbearance and protect elephants that destroy their crops if they do not benefit from preserving the elephant. They will turn forests into cropland rather than preserve them if the only way they can own land is by cutting trees and sowing crops (as is the case for homesteaders in Brazil). They will fail to preserve trees for firewood if the trees are available now but future rights to them are uncertain.

An owner of property has an incentive to be a good steward. If property is well cared for, it will be more valuable. Its market value today reflects the benefits to be realized in the future.

—Jane S. Shaw and Richard L. Stroup,
writing in the Winter 1990 issue of
International Health & Development

80 Million Volunteers, But Where Are the Voluntarists?

by James L. Payne

Volunteering is in the air. Magazines and newspapers run features on the helpful activities of volunteers. Charitable donations top \$114 billion, and a Gallup poll finds that 80 million Americans contribute some of their time to community activities.

Unfortunately, this highly promising impulse toward philanthropy and volunteering still lacks a sense of its own identity. Consider, for example, the orientation of the American Cancer Society. Starting with the leadership of Mary and Albert Lasker in the 1930s, this organization's focus has been to lobby for Federal funding of cancer research. In the official history of the organization, a co-worker approvingly summarized the Laskers' strategy: "The Lasker fortune could have established a research institution. . . . But Albert Lasker thought in bigger terms of involving the national treasury through appropriations. And the way to that goal was to organize a lobby for biomedical research allocations."¹

Rather than addressing the cancer problem in a truly private, independent way, the Laskers spent their money strengthening the governmental approach. As a result of their activities, today we have a larger government, more taxes, and more bureaucracy.

In order to stand as an independent social

James L. Payne has taught political science at Wesleyan, Yale, Johns Hopkins, and Texas A&M University. He is working on a book about the potential of voluntary problem-solving systems as alternatives to government.

movement, the voluntary sector needs to have its own philosophy, its creed of "voluntarism." The voluntary approach has to be seen as distinct from, even the opposite of, the governmental approach. By definition, "voluntary" means not forcing people, but relying instead on persuasion and education. Government, on the other hand, uses policemen, soldiers, and tax collectors to force people to do what it wants them to do. In a world torn with violence and killing, voluntarism's rejection of force is a precious distinction indeed.

The voluntary approach should also be different from government in the motives it appeals to. It should rely on, and attempt to stimulate, generosity and helpfulness. In this way, it can lay the foundation for a more caring, sensitive society. Government's coercive approach goes in the opposite direction: it assumes people are too selfish to help their communities on their own, and it reinforces this selfishness by trying to force them to do so.

Sadly, this distinctive view of voluntary action seems almost unknown in the volunteer sector today. Most leaders of volunteer organizations are, like the Laskers, statist: they look to government to handle society's problems. At the national level, hundreds of "volunteer" organizations serve as lobbies pressuring Congress to appropriate tax monies for their causes.

A similar pattern of governmental involvement takes place at the local level. Well-meaning, dedicated volunteers take up a worthy



cause, but then turn to government. In one case, a public-spirited, voluntary recycling arrangement was converted into a government program once it was successful. In another, a local group raised private money to build an animal shelter, only to ask local government to finance its operation. Just about every local arts group seeks state and Federal grants.

Few seem to notice the harm these government connections do to voluntary groups. They bring red tape, a loss of independence, a loss of idealism, and a decline in morale and the spirit of self-sacrifice in the organization. Government funding also makes it somewhat hypocritical for a group to claim to be "voluntary," since this money is raised through the coercion of the tax system.

The entwining of the voluntary sector with government has reached the extreme of having governmental "volunteer" programs. We now have the federal ACTION agency with its VISTA volunteers and Retired Senior Volunteers. Plans are afoot to expand this pattern in

a Federal "national service" program for younger volunteers.

A voluntarist would view these arrangements with horror. He sees voluntary action as the problem-solving system of the future that will replace the burdensome and inept governmental method used today. To have government control and fund the volunteer sector is to make Ariel the slave of Caliban.

Volunteers are at the crossroads. They can continue down the path of "statist volunteering," contributing to the expansion of the existing tax-and-spend governmental system. Or, they can become voluntarists, and work toward a brighter future based on caring and tolerance. To travel this road, however, they will need their own guidebook, a guidebook whose first recommendation is: Have nothing to do with government. □

1. Michael B. Shimkin, quoted in Walter S. Ross, *Crusade: The Official History of the American Cancer Society* (New York: Arbor House, 1987), p. 213.

A Closer Look at the Debt and Deficit

by Robert Higgs

The federal government's budget deficits and the mounting public debt to which they give rise are not, in themselves, the greatest problems facing the American people today. Relative to the size of the U.S. economy, the government debt was much greater in the past, during the immediate post-World War II period, than it is now. Yet those years are viewed by many as an economic golden age. Still, to admit that the government's conduct of its fiscal affairs is not the most pressing problem is not to say that it is no problem at all. It is serious, but we need to keep it in perspective.

The government debt is widely misunderstood, even by some professional economists who ought to know better and whose pronouncements contribute to the confusion. The misunderstandings arise sometimes because people think the public debt is like a private debt, at other times because they think the public debt is not like a private debt. In truth, there are similarities and differences, and one must sort them out to get at the truth.

Similarities exist because a legal debt is a legal debt: all borrowers, whether public or private, must either pay the contracted interest and principal when they come due, or default. Servicing a debt is costly for anybody, but if the borrower opts for the alternative and defaults, some unpleasant consequences will ensue, including a diminished ability to borrow again.

The main difference between public and private debt is that the government has some options not available to private borrowers for effecting what

amounts to default. Since the government can inflate the money stock, causing prices to tend to rise and thereby reducing the real value of all assets denominated in units of money, it can effectively default on its promises to repay lenders, to the extent that the lenders did not correctly anticipate the inflation when they made the loans. Notice, however, that the government can always defeat the anticipations of lenders. All it has to do is cause an unexpectedly rapid inflation. Because it has unlimited capacity to increase the money stock, it always holds the power to bring about this kind of surprise.

The government could simply repudiate its obligations outright, as it did in the 1930s when it refused to pay the gold it had promised to purchasers of gold-denominated government bonds, but default by means of inflation is more likely. To some extent the government has been doing this for decades. In the present fiat money regime, it can increase the rate of its default whenever the political and monetary authorities decide to do so.

Early in 1990 the official government debt reached \$3 trillion, but—strange to say—the true debt can be viewed as either bigger or smaller.

One can say that the true debt is bigger because the government has entered into extremely large guarantees of private loans and of deposits in banks and other financial institutions, such as the savings and loan industry. In the event that the loans or deposits go bad, the government is committed to making up the shortfalls. In a proper set of accounts, the present value of the government's future obligations in the event of such disasters

would be added to its other liabilities. The current government accounts make no such addition. Indeed, it would be extremely controversial to decide how much to add. But the fact that some addition needs to be made is beyond dispute.

Internal Debt

On other grounds, the official debt can be viewed as overstated. A large part of it, about 25 percent, is held within the government. That is, the Treasury owes money to other Federal agencies, especially the Social Security Administration. The internal debt is more or less “funny money.” It is also a misleading way to keep the government’s accounts.

There is, for example, no real Social Security Trust Fund—that’s just a scam to reassure a skeptical public. In fact, the Social Security Administration collects Social Security taxes and hands the money over to the Treasury, which spends it. In return, the Social Security Administration receives government bonds, which are simply promises that the Treasury will pay fixed sums of money at specified dates in the future. But because the Treasury itself has no big hoard of funds, when future Social Security benefits come due, they will be payable only if the government collects enough taxes at that time (or borrows once again) to make the payments. The same thing can be said about the other bond holdings within the government. If the government repudiated all its internally held debt, nothing real would be affected, so this part of the debt differs fundamentally from the part held by the public.

Another portion of the debt, about 9 percent, is held by the Federal Reserve System, the nation’s central bank, which is nominally private but actually a creature of the government. Because, by law, the Federal Reserve cannot earn more than a limited amount, much of the interest it receives on its holdings of government bonds is immediately returned to the Treasury, revealing once again that intramural holdings of government debt are essentially different.

Subtracting the roughly one-third of the total debt held either in government accounts or by the Federal Reserve, we arrive at a figure of about \$2 trillion for the debt held by others in 1990. The holders include commercial banks, insurance companies, corporations, state and local governments,

and individuals, among others. Foreigners hold about \$400 billion, that is, about 20 percent of the amount held outside the government and the Federal Reserve.

The amount of the national debt is one of those numbers so huge that the ordinary mind can’t grasp it. One must view it relative to some standard. The most common benchmark is the Gross National Product (GNP), the value of all newly produced goods and services the whole economy turns out in a year. Currently the debt is equal to about 57 percent of the GNP. The proportion has been rising for 15 years, and rose especially rapidly during the 1980s. Still, it stands considerably below the ratio that existed in the 1950s. Keeping the relative magnitude of the debt in perspective is a good idea, lest we panic or allow ourselves to be panicked by politicians who seek only to raise taxes.

Historically the government ran persistent deficits only during wars or business slumps. Beginning in the 1960s, however, deficits became chronic. They now occur in good times and bad. Only once since 1960 did the federal government not run a deficit. (Fiscal year 1969 was the single exception.) In the 1980s the size of the deficits shattered all records for peacetime, rising as high as \$220 billion in a single year.

Pernicious Deficits

The deficits of the past three decades can be viewed as pernicious for many reasons. Consider just three of the more important ones.

First, the economic case against deficits. When the government borrows money, it diverts private savings to uses that have a smaller component of investment and a larger component of consumption. By bidding up interest rates, government borrowing “crowds out” borrowers who would have made investments in the private economy, while the funds the government borrows are used overwhelmingly for consumption. The result is that the nation’s capital stock, the aggregate of all durable resources that enhance the economy’s productive capacity, grows less rapidly. As a consequence, future standards of living will be lower than they otherwise would have been. Our children and grandchildren will reap smaller harvests because our own generation is feasting on some of the seed corn.

Second, the moral case against deficits. When

***“The soothing apology for the debt,
that ‘we owe it to ourselves,’ is
a fallacy.”***

the service charges on the debt come due in the future, the obligation to make these payments, by suffering some form of taxation, will fall on persons who will have had absolutely no choice about entering into the debt contract and will have received no benefit from it. Unless the government defaults, which would be morally reprehensible and economically harmful in itself, individuals in the future will be stuck with higher taxes, either directly or via inflation, than they otherwise would have had to bear.

The fact that in the future some individuals will receive the interest and principal on bonds they inherited in no way diminishes the force of the argument. The good fortune of the legatees does not cancel the injustice done to others. And justice has to do with individuals, not classes or generations. The soothing apology for the debt, that “we owe it to ourselves,” is a fallacy. The persons who will owe it are not identical to the persons to whom it will be owed.

To gratuitously impose financial obligations on our children and grandchildren for the sake of our own present enjoyment is moral arrogance at best. It bespeaks a contempt for others well captured by the famous remark attributed to Madame de Pompadour, mistress of Louis XV: *après nous le déluge* (after us, the flood), or in today’s terms, the future be damned.

Third—and perhaps worst of all—deficits are deplorable because they are symptomatic of a political system gone corrupt to the core. Notwithstanding all the political rhetoric to the contrary, the government runs chronic deficits because the members of Congress want to run them. They make this choice because they value their re-election more than they value the interests of the general public. Even a cursory examination of the evidence shows unmistakably that the emergence of chronic deficits since 1960 has resulted from Fed-

eral spending growth, not from decreased government revenues.

Politicians are afraid to rein in the runaway spending so that it will match revenues, because they don’t want to offend those who receive the benefits financed by the government—goodies paid for sooner or later by taxpayers. Much of the government’s spending is channeled to well-organized political pressure groups whose support is viewed as essential by incumbents seeking re-election. Just think of all those PACs whose contributions loom so large in Congressional campaigns. Members of Congress are unwilling to take fiscal actions that might jeopardize the electoral support of the special interest groups. The deficits reflect a political system responsive to special interests at the expense of the general interest of the public now, as well as the general interest of future generations.

Notice, however, that the system works nearly to perfection for the politicians. In the elections of 1986 and 1988, when public concern about the deficit ran very high, more than 98 percent of all House incumbents seeking re-election were returned to office. So citizens are saddled not only with large, persistent deficits but with a cynical, self-perpetuating ruling elite.

Unfortunately, given the American political system as presently constituted, individual citizens acting on their own can do virtually nothing to remedy these ills. Because people rarely organize for political action except on behalf of some narrow interest, no one is likely to create an effective political movement in opposition to continuing massive deficits. So far as the government’s fiscal irresponsibility is concerned, the immediate future probably will be no different from the immediate past. The deficit will continue to be like bad weather: everybody will complain about it, but nobody will do anything about it. □

Politics, Economics, and the Destructiveness of Deficits

by Dwight R. Lee and Cynthia D. Lee

Are chronic budget deficits a threat to the economy? The general public believes that budget deficits are something to fear, but economists are not so sure, and Congress doesn't seem to care.

It is difficult to argue that either Congress or economists are wrong, given their respective concerns, even though the public is justified in its worry over the economic consequences of persistent Federal deficits. The public's concern is real, but it's an unfocused background concern that fails to translate into significant political pressure. So why should the concern over deficits by members of Congress go beyond rhetoric when they can spend the Federal budget into one large deficit after another and still look forward to re-election rates in excess of 98 percent?

Economists don't have to worry about being re-elected, but they are worried about making obviously foolish predictions, and they have noticed that the huge budget deficits of the 1980s have precipitated none of the adverse consequences predicted by deficit doomsdayers. Economists are concerned with explaining the effect of budget deficits on such economic variables as interest rates, inflation, and the savings rate. These vari-

ables have not responded to large deficits as predicted by standard macro-economic models, and economists have been busy developing alternative models explaining why they haven't. A major conclusion of these models is that budget deficits are almost completely neutral in their effect on the economy. An increasing number of economists have concluded that deficits have little effect, either positive or negative, on the economy, and see public concern over deficit spending as unfounded.

While economic analysis can provide useful insights, it is always risky to dismiss the concerns of the public. The public may not have a sophisticated understanding of economic analysis, but this is not necessarily a liability. Sophistication in the analysis of narrow economic relationships can divert attention from broader features of the political economy that are more relevant to our economic prospects. In particular, budget deficits may reflect flaws in the political decision-making process that are a threat to economic performance quite apart from any direct economic impact of the deficits themselves.

In this essay we discuss briefly the argument that budget deficits are unlikely to have the adverse economic effects commonly attributed to them. It is pointed out, however, that the theoretical basis for the view that deficits are benign is hard to reconcile with the undeniable fiscal impulses of politicians. And given these impulses, the greater the political latitude to rely on deficit

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financing the greater will be the level of government spending. Even if deficits do not, for example, noticeably crowd out investment directly through interest-rate increases, the political opportunity afforded by deficit spending can facilitate the expansion of public sector activity, which necessarily crowds out private sector activity. The consequences of substituting the less productive public sector for the more productive private sector may not register immediately in statistical measures of key economic variables. But the long-run economic consequences of such a substitution are no less destructive because they go unnoticed by econometric studies and the myopic political process.

Do Deficits Matter?

What is the effect on the economy of an increase in deficit spending? The best known answer to this question is given by the standard Keynesian model which predicts that increasing the deficit will increase aggregate consumption demand, thereby reducing the total savings in the economy and increasing the real interest rate. With a higher interest rate there will be a reduction in investment, and the deficit spending will have crowded out some productive capital.

Harvard economist Robert Barro has attacked the standard Keynesian view by arguing that, under what he believes are plausible conditions, it makes no difference whether government spending is financed by taxing or by borrowing.¹ The argument begins with a proposition that dates back to the early 19th century, when it was put forth by the English economist David Ricardo. Ricardo argued that if government financed, for example, an additional \$100 of spending by borrowing, then, instead of being responsible for \$100 in tax payments immediately, taxpayers would be responsible for \$100 plus accumulated interest at a later date. But the present value of the \$100 plus interest later is equal to \$100 now, so the taxpayer who expects to be paying taxes later will find deficit financing no less costly than tax financing. The taxpayer will be indifferent as to whether borrowing or taxing is used to finance government spending.

If borrowing versus taxing is a matter of indifference to taxpayers, then it is also a matter of indifference as far as important economic vari-

ables such as the interest rate and investment are concerned. Assume that government increases the budget deficit by reducing taxes without reducing spending. Taxpayers will recognize that even though they experienced an increase in current disposable income, they have also experienced an equivalent increase in the present value of their future tax obligations. Because they are no better or worse off, there is no reason for them to increase current consumption and so the entire tax reduction will be saved. Consumption and saving therefore will not be affected by the increased deficit; both private and public consumption remain the same, and the increased public debt will be exactly offset by increased private saving. This being the case, increasing the deficit, with government spending held constant, will not reduce long-run economic productivity by exerting upward pressure on the interest rate and crowding out private investment.

Of course, as recognized by both Ricardo and Barro, complete indifference between taxation and government debt requires that everyone alive when government increases its debt be responsible for all of the future tax increases that servicing the debt requires. But many people realize that they will no longer be alive when the future taxes required by current deficit spending come due. Why won't these people treat the deficit as a real reduction in their tax burden (with a corresponding increase in the tax burden of future generations), and respond by saving less and spending more?

Barro confronts this question by arguing that most people will be reluctant to increase their consumption when debt is substituted for current taxation even if they know that they will not be alive to pay the higher future taxes required by the debt. According to Barro, this reluctance is based on the obvious fact that people are concerned with the well-being of their children beyond their own lifetimes. This concern is reflected in the investment parents make during their lifetimes in their children's human capital and the bequests they make to their children. Given this bequest motive, Barro argues that parents will recognize that substituting debt for taxes in the financing of government expenditures will reduce the well-being of their offspring by increasing their future taxes. In other words, parents will realize that the value of the taxes they will avoid because of increased reliance on

deficit financing will represent a reduction in the value of their bequest to their offspring. The natural response to this is for parents to increase their bequests, and therefore their saving, by an amount equal to the tax burden that is passed from them to their children because of the increased deficit. The substitution of debt for taxation therefore leaves total saving in the economy unchanged with no crowding out of private investment and no reduction in the long-run productivity of the economy.

Barro recognizes that bequest adjustments will not offset completely the effects of deficit spending, but he argues that these adjustments are more complete than most people would expect. But Barro ultimately rests his case on what he sees as empirical support for the economic neutrality of deficit spending, with this support consisting of sophisticated econometric studies that find little connection between budget deficits and interest rates.

No amount of empirical testing will ever provide conclusive support either for or against the Barro thesis. Aggregate economic data are always of questionable accuracy, and empirical techniques are always less powerful and robust than would be desirable. Fortunately, additional evidence can be brought to bear on the relevance of Barro's proposition to fiscal policy without having to rely on economic data and sophisticated econometric techniques. This evidence comes from the clearly observed behavior of politicians and it suggests caution in accepting the Barro position. Furthermore, this behavior suggests that we be concerned about budget deficits for reasons not addressed either by Barro or by economists in general.

The Political Cost of Deficits

If the cost to the taxpayer is the same whether government spending is financed through taxes or deficits, then politicians should be indifferent as to the mix of these two means of financing. The evidence is clear that they are not. Why, for example, are politicians so reluctant to respond to the public's general disapproval of large deficits (a disapproval that is hard to square with the idea that debt and taxation have equivalent effects on the well-being of both current and future taxpayers) by simply financing all government expenditures with taxation? The proposition that deficits are economically neutral is simply inconsistent with the obvious reluctance of

politicians to reduce deficit spending significantly.

The attractiveness of persistent budget deficits to politicians suggests strongly that current taxpayers do not believe that the future taxes they will have to pay because of additional government debt are as costly to them as the current taxes that the debt replaced. If this is the case, then over some range politicians will find it is less costly politically to finance spending through debt than through taxation. This suggests that the existing combination of debt and taxation prevails because it is the combination that allows existing spending levels to be financed at the least political cost. This being the case, it is clear that politicians will be reluctant to reduce deficit spending unless the political cost of deficit financing is increased. Also clear is that any increase in the public's tolerance of deficit spending will lower the political cost of government spending and, therefore, motivate both larger deficits and greater spending. Can anyone doubt seriously that government spending would increase if increased public tolerance of deficits lowered the political cost of further expanding deficit spending?

There is no obvious direct measure of the marginal political cost of deficits, so it is difficult to imagine a direct test of the proposition that a decrease in that cost will increase government spending. But a testable implication of such a response to a reduction in the marginal political cost of deficit spending is that an increase in the ratio of deficit financing to tax financing will be associated with an increase in government spending as a percentage of the Gross National Product (GNP). The budget experience of the federal government is consistent with this implication. Yearly Federal budget data from 1960 to 1988 show that when the ratio of deficit to non-deficit financing (almost all of which is tax revenue) increased by 1 percent, government spending as a percentage of GNP increased by .087 percent. There can be little doubt that the political cost of deficit financing has been reduced by the political embrace of a simplistic version of Keynesian policy prescriptions, an embrace which began with the 1960 election of John F. Kennedy and lasted, though with reduced enthusiasm, into the 1980s. There can be even less doubt that the decrease in the political cost of deficit financing, whether caused by Keynesian economics or not, is largely responsible for the increase in the relative size of the federal govern-

ment since 1960 (from 18.2 percent of GNP in 1960 to 22.3 percent of GNP in 1988).

The Economic Cost of Deficits

The connection between deficit spending and the relative size of government suggests a cost associated with deficits that is easily overlooked by standard investigations of the economic effect of deficits. The expansion in government that is facilitated in a regime of chronic budget deficits reduces economic productivity and growth. To argue that government expansion reduces economic growth is not to deny that over some range government is a source of improved economic performance. A few government activities are necessary to establish an economic order that promotes productive specialization and exchange. But it also has to be recognized that organized interests persistently exert pressure in favor of expanding the scope of government activity beyond productive limits. These interests are often quite successful owing to the fact that the cost of expanding government is typically diffused over a dispersed and unorganized public, which lowers the political cost of this expansion below the social cost. The result is that governments at all levels have expanded well into the range where, at the margin, they are reducing our economic wealth.

Recent cross-national studies of the relationship between the relative size of government (as measured by government expenditures as a percentage of Gross Domestic Product) and economic growth provide a quantitative dimension to the negative marginal impact of government. One such study of 115 countries by economist Gerald Scully found that a 1 percent increase in government expenditures (as a percentage of GNP) reduced average annual economic growth by one-tenth of a percent.²

Using Scully's estimate of the connection between government size and economic growth and our earlier estimate of the connection between the ratio of deficit spending to taxation and government size, it is possible to make a ball-park estimate of the cost, in terms of forgone GNP, associated with increased deficit spending. If the ratio of deficits to tax revenue doubled from 10 to 20 percent (at the Federal level this ratio averaged about 3 percent during the 1960s, while from 1980 through 1988 it averaged 22.5 percent) then our

earlier estimate predicts that government spending as a percentage of GNP will grow by 8.7 percent. This means that if government spending began at 20 percent of GNP it would have increased to 21.74 percent of GNP, which according to Scully's estimate would reduce economic growth by .174 percent. With a GNP in the U.S. of approximately \$5 trillion, this reduction in growth is approximately \$8.7 billion per year. This may appear to be a relatively modest amount as government budget numbers go, but with the figure increasing each year with economic growth, and accumulating over time, this deficit-related cost is of genuine significance.

While reasonable people can disagree over the magnitudes involved, it is hard to deny that the easier it is to engage in deficit spending, the lower the political cost of increasing government spending. Equally hard to deny is that the increased spending that will result, other things being equal, transfers resources out of the productive private sector and into the far less productive public sector. The clear conclusion is that there is a cost associated with deficit spending that is not the direct economic result of deficits themselves.

By attempting to determine the direct effects increased deficits have on such economic variables as interest rates and savings, economists have been ignoring what may be far more important consequences of deficit spending. Even if deficits have little direct economic effect, they can still be economically costly. It is not the deficits per se that are the problem, but rather the political environment that is created when politicians face little resistance to relying on deficit financing. The move to such an environment increases the control politicians have over productive resources, reduces the responsibility imposed on them in exercising that control, and, as a consequence, diminishes the productivity of our economy. □

1. Robert J. Barro, "Are Government Bonds Net Wealth?" *Journal of Political Economy*, Vol. 81 (1974), pp. 1095-1117.

2. Gerald W. Scully, "The Size of the State, Economic Growth and the Efficient Utilization of National Resources," *Public Choice*, 63, (1989), pp. 149-64. Scully's findings are supported by similar studies. For example, see Daniel Landau, "Government Expenditures and Economic Growth: A Cross-Country Study," *Southern Economic Journal* (January 1983), pp. 782-92; and Michael L. Marlow, "Private Sector Shrinkage and the Growth of Industrialized Economies," *Public Choice*, 49 (1986), pp. 143-54.

The Idealist in the Young Communist League

by Arnold Berwick

“**T**he Yanks are not coming . . . The Yanks are *not coming!*”

In 1941, as I approached Sather Gate on the campus of the University of California in Berkeley, I once again heard a voice cry out this slogan. But never before had I heard it expressed with so much vigor. That’s when I met Steve, a member of the Young Communist League and an ardent pacifist.

I had already learned that a Communist was not what I had previously been led to believe him to be: a man with a black beard, dressed in a long black overcoat hanging to the ground, and holding a bomb that looked like a black bowling ball. I had already learned that Communists looked pretty much like the rest of us.

But on this particular day I was more interested in the young fellow handing out the leaflets than in his message. His eyes were alive, sparkling; the tone and vitality of his voice evidenced a profound enthusiasm that you seldom heard. I felt an affinity with him, as though he was someone I’d like as a friend.

“The Yanks are *not coming*,” he cried out as he handed me a leaflet. I accepted it, but then stopped. He turned and looked at me. We made eye contact.

I wasn’t sure how one went about talking to a Communist. I had heard about the Spanish Civil War and the part the Abraham Lincoln Battalion

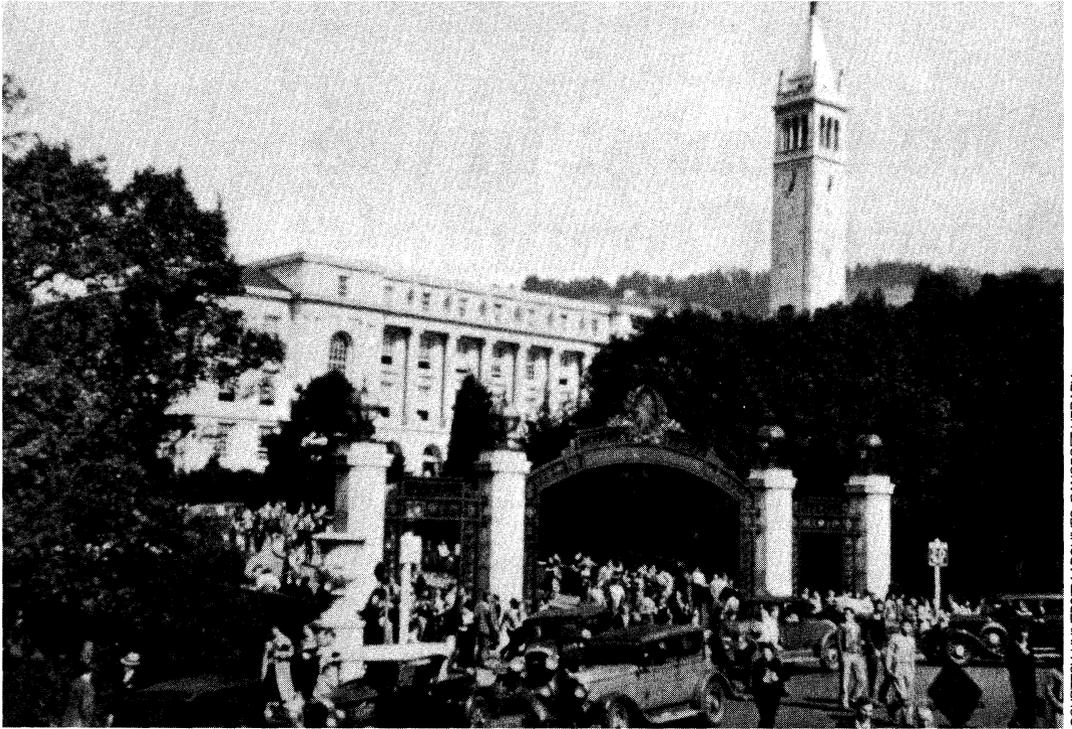
had played in it. So I asked Steve (I don’t remember his real name) what it was about. His face brightened and he said, “Come with me.”

We left Sather Gate and walked down Telegraph Avenue. (At that time, Sather Gate was at the southern edge of the campus. Since then, the University has expanded and taken over the whole adjoining block.) Steve led me to the Twentieth Century Book Store, the “Store with a Social Conscience,” around the corner on Bancroft Way. As I waited by the counter, he opened the door to a rear room. A fellow came out and told me he had been in the Lincoln Battalion in Spain, and told me about the evils of fascism and the horrors of war.

I saw Steve a couple of times again at Sather Gate. We chatted for a few moments, he occasionally calling out, “Keep America out of the war . . . The Yanks are not coming.”

The semester ended and most of us students left the campus for summer vacation. One day, I read in the *San Francisco Chronicle* that Hitler had invaded Russia. He and Stalin had had a nonaggression pact, and now Hitler had attacked. What effect would this have on the YCL? . . . on Steve?

As I approached Sather Gate at the beginning of the fall semester, someone else had taken Steve’s place. The new guy was waving a handful of leaflets and calling out a slogan—familiar and yet different. At first, I thought I had misunderstood him, but when I reached out for a leaflet and read it, I knew I had heard correctly. And yet, at first I couldn’t fully comprehend. The leaflet said, “The Yanks are not coming too late.”



Sather Gate, 1936.

“Too late.” The Yanks are not coming . . . *too late!* Why this was a complete switch, a 180 degree turn-around. Now the YCL wanted us *in* the war. How could that be?

Steve was not at Sather Gate the next day, or the next. I never saw him again.

I liked Steve. Naive as I was at that time, I might even have wanted to join him, might even have become a member of the YCL. Who knows what might have happened? As it was, I later registered as a Republican and have pretty much followed that line all my life.

After 50 years, I still occasionally think of Steve, and wonder what happened to him. And what was the Young Communist League? How did it operate? Why the big switch? What was going on behind the scenes?

Now retired and with some free time of my own, I’ve been to the Bancroft Library at UC and found folders containing the old leaflets handed out at Sather Gate during the late ’30s and early ’40s. I’ve scanned issues of the *Daily Californian* newspaper, read many books, examined transcripts of the Un-American Activities Committees, and have even managed to locate a copy of a handbook entitled,

“Young Communists in Action,” published in 1935 by the Educational Department of the Young Communist League (District 13). The handbook was compiled by a Lewis Miller. (I was surprised to learn later who Lewis Miller really was.)

“Greetings, Comrade!”

The handbook opens on a high note: “GREETINGS, COMRADE! We welcome you into the YCL. You are joining the fight against capitalism, and the hunger, privation and oppression it breeds. Together, we form the revolutionary advance guard of youth—marching towards the overthrow of capitalism and the building of a new, a workers’ society.” It asks, “How does it happen that there are millions of people out of work? . . . How come the Depression takes place, and a fellow who wants to work can’t get a job?”

To anyone living in those Depression days, it didn’t take much argument to be convinced that, as an economic system, capitalism was a failure. Almost everyone was suffering in one way or another. “Brother, Can You Spare a Dime?”

After expounding on all the evils of capitalism,

the handbook asks, "Can these conditions be wiped out, and a decent society established? Yes! . . . Through Communism." A Communist society will end wars, abolish unemployment, promote racial equality, provide food for all, preserve health, and so on. And what proof is there that the Communists will and can do this? "The proof exists—it is the living example of the Soviet Union."

How attractive this utopian world appeared to those who were living under the burdens of the Depression and the ominous threats of Hitler and Mussolini. There was hope for a better life because ". . . the Soviet Union stands out like a beacon light in a world of chaos and crisis."

The handbook explains that the YCL, open to all workers and students between the ages of 16 and 25, is the preparatory school for the Communist Party. In great detail, it describes the organizational structure of the League, starting with Squads of only 4 or 5 members—several of which comprise a Unit, leading to a District, a National, and ultimately the International. Each Unit has an Organizer, a Dues Secretary, an Education Director (in charge of agitation and propaganda), and a Literature Agent. The handbook instructs how the League can achieve its goals by infiltrating unions, promoting strikes, agitating for reforms, conducting demonstrations and street meetings, recruiting new members, publishing and distributing leaflets, and so on.

The 39-page handbook begins and ends on the upbeat: "We have a hard fight ahead of us—it is no simple job to overthrow capitalism and build a new society, a new life. We are glad to have you with us. From all over the world, from the mines of South Africa, from the fatherland of the workers—the Soviet Union—from the factories of Tokyo, from the Red Army of China, millions of young Communists extend their hands to you and say: 'GREETINGS, COMRADE!'"

Deceptive Rhetoric

One way the Party was able to lure young people in and exercise control over them was through its ability to manipulate the meaning of words. Even the term "communism" is deceptive. The terms "communism" and "socialism" are used interchangeably, but the true Marxists make a distinction between the two. Socialism, they say, is a

transitional stage between capitalism and Marxist Communism. Under socialism, the "proletariat" has complete ownership of the means of production, money continues in use, and goods are distributed according to one's "contribution" to society. But once a communist man is created (selfless, hardworking, and devoid of greed, aggression, envy, ill-health, etc.), the socialist state will wither away, and the people will live in a classless, perfect Communist society.

But Lenin altered Marxism. He called for a party of professional revolutionaries, highly disciplined, whose aim should be to establish the dictatorship of the proletariat. (In practice, the Communist Party in the Soviet Union is the "vanguard of the proletariat." In 1988, only 6 percent of Soviet citizens were members of the Party.) Lenin urged open and persistent warfare against the socialists, and a long-term program of worldwide revolution to spread his concept of "communism."

When Stalin took over in 1924, he decided to establish his own form of "communism" in the Soviet Union, without waiting for revolutions to occur in the main capitalist countries. This required intensification of the class struggle, liquidation of his "enemies," and a policy of internal repression and terror. His policies shifted, depending upon what he felt at any particular time to be in the best interests of the Soviet Union—and of his own personal power. He demanded, and got, complete control over the Party.

So, the young idealists in the '30s and '40s were lured in by visions of the perfect world of "communism," while they were innocently and unknowingly caught in the web of Stalinism, a totalitarian dictatorship.

The name of the youth organization has been changed off and on to suit the circumstances. The All-Russian YCL was formed in 1918, and the Young Communist International in 1919. Because of the attempts to crush all left-wing movements in the United States during the period, the revolutionary youth in this country operated under the name of the Young Workers League of America. But in 1924 (with the advent of Stalin), it changed its name to the Young Communist League. During World War II, in a gesture to make the entire Communist organization less offensive to the U.S., the name became American Youth for Democracy. Later, it was changed to Labor Youth League, then Young Workers' Liberation League, and so on.

Also Known As . . .

Some of the professional leaders used aliases. In a 1953 hearing before the House Un-American Activities Committee, Mr. Rosser, an ex-Communist, was questioned about the "Young Communists in Action" handbook (quoted above). He testified that it was written by Lewis Miller, but then added that "Lewis Miller . . . was his party and Young Communist League name. His real name is Louis Goldblatt. He is now the secretary-treasurer of the International Longshoremen's and Warehousemen's Union. . . . Harry Bridges is the head of it." (It is interesting to note that in a 1943 hearing, it was learned that the Maritime Federation of the Pacific, which Bridges headed, coined the slogan, "The Yanks are not coming.")

Another creative interpretation of words by the Party was the meaning they ascribed to "democracy" and "democratic." Page 21 of the handbook explains the concept of "democratic centralism," which allows the members "complete freedom" in the choice of officers and the discussion "of all issues." Surely, this is true democracy. But, the decisions are to be made on the top of the organizational pyramid and transmitted down to the membership. And once a decision has been made by a higher body, "the discussion must be ended and the decision carried out, even if the membership of the local organization" does not agree. To question was heresy; to disagree, a mortal sin—sufficient to cause expulsion from the League. "Democratic centralism" is a euphemism for authoritarian control.

Many young people joined the YCL in the late '30s and early '40s, the League's "Golden Age." Why?

According to Morris L. Ernst and David Loth in their *Report on the American Communist*, some who were lonely, or who lacked love from their own family, found that the YCL gave them a sense of belonging, an illusion of popularity that marked the high point in their lives. Others, following a young person's natural inclination to attempt some sort of adolescent defiance, joined as a form of rebellion against authority. Apparently, most of these young people were sincere idealists, searching for better economic conditions, free speech, racial equality, health care, avoidance of war, and all the other goals any decent person would strive for and which only the Communists seemed

prepared to do something about.

Of the many young people who joined the YCL, however, the majority became disillusioned and dropped out after two or three years. As one ex-Communist said, he fought hard from within the Party for better working conditions, race equality, and free speech, but left "because the commies don't really want these reforms. They want to use the lack of them to win their own game." And what was their game? The problem was that the leaders continually switched goals, made abrupt about-faces. It was often difficult to determine what the game was at any particular time.

Between 1928 and 1938, many members quit when Stalin had Trotsky exiled, old Bolsheviks slaughtered, and comrades of Lenin purged. At that time, Stalin's policy was not so much against capitalism as it was against the socialists.

From 1935 to 1939, the fear of a German invasion of Soviet Russia gave rise to a "collective security" policy. Stalin decided to appear "democratic" and "antifascist," a real friend to democracy and the guardian of every tradition of freedom and civil liberty. He ordered that the YCL and the Communist Party penetrate the unions and all types of organizations, and build a "united front" against fascism. The Civil War was being fought in Spain. Franco was a fascist, and this was the beginning of the war against fascism. With the European democracies insistently neutral and the United States aloof, it seemed to many young people that only the Communists and the Soviet Union were seriously engaged in combating fascism. Some 2,800 Americans, 60 percent of them said to be members of the YCL, fought in Spain as the Abraham Lincoln Battalion of the International Brigade. Of these, it is estimated that over half lost their lives.

Hitler and Stalin

And then came August 3, 1939, and another turnabout in policy. Stalin signed a nonaggression pact with Hitler, the most fearsome fascist of all. This was followed by two secret protocols which provided that Russia and Germany would partition Poland between them, and that Russia would absorb Lithuania, Latvia, Estonia, and parts of Finland and Romania. Although Stalin was certain that war between England and France on one side, and Germany on the other, would continue,

he feared an extension of the war to new participants, particularly the United States. American participation could cause the defeat of Hitler and thus endanger Stalin's ability to acquire part of Poland and the new areas agreed to in the secret protocols, an eventuality that might involve Russia in a war it desperately wanted to avoid. On the other hand, if the war could be confined to England, France, and Germany, capitalism might destroy itself, leaving the United States as the only obstacle to domination by the Soviet Union. So, the policy was changed from the fight against fascism to the fight against imperialism. The slogans became "Keep America out of the war" and "The Yanks are not coming."

This was the situation when Steve handed out leaflets at Sather Gate. The YCL increased its efforts, held protest meetings, and fomented strikes in war industries. Roosevelt was declared a warmonger.

On June 22, 1941, Hitler invaded Soviet Russia. Strikes that had been initiated by Communist-dominated unions were quickly settled, some within a week after the attack. Roosevelt became an overnight hero. The American *Peace Mobilization* was quickly changed to American *People's Mobilization*; they switched from anti-war to all-out aid to Britain—without even changing their initials. "The Yanks are not coming" became "The Yanks are not coming too late."

Evidently, this was too much for Steve. He no longer handed out leaflets at Sather Gate.

Members of the YCL were kept in the dark as to Stalin's motives. So, each time there was a sudden and radical change in policy, when many realized they had been lied to and deceived, there were massive resignations.

Also, those who deviated even slightly from the current party line were expelled. Those who didn't conform to the concept of "democratic centralism" were driven from the ranks.

In Russia, by Khrushchev's own testimony, resignation or expulsion often resulted in prison, torture, or death. In our country, the penalty was non-violent but often distressful. According to Howard Fast in *The Naked God*, "When a Communist walks out of the Communist Party, he must travel through a special purgatory that no one other than he who has come through before can possibly understand." Ostracized and cut off from the Party, some missed the companionship, the sense of

belonging, the excitement, and the work the Party gave them. They became outcasts, shunned both by their former comrades and by the non-Communist world. The Party itself didn't hesitate to resort to blackmail and persecution, writing anonymous letters to employers, slandering them, or in other ways making life miserable.

An ex-Communist was also often harassed by those outside the Party. He had difficulty getting a job, and often lost it if his employer found out about his youthful errors. Even a brief flirtation with a leftist group often tagged a person as a potentially dangerous individual, subject to scrutiny by Federal and state legislative committees. Many suffered during the witch hunts of the 1950s. Some went to jail.

According to Ernst and Loth in *Report on the American Communist*, most of the young Communists were "earnest, hardworking, studious youths, generally passionate for justice." They joined in their teens, lured by the utopian idealism of Marxism, and betrayed by the evils of Stalinism. Most of them left after a short time when they saw they had become dupes of Stalin and the Soviet Union.

I don't know what happened to Steve. But, wherever he is, I wish him well.

Postscript: After I wrote this article, I went to Berkeley for one last search. As a result of a series of fortunate events, I learned the name and present address of the person who was the president of the YCL in 1941.

When I went to see him, I was stunned by two revelations: First, he turned out to be a person I've known and seen off and on for almost 35 years! (He used a different name while a student in the YCL.) He read the article and said it accurately reflects the facts as he knows them. Second, he said that, although he is not sure, he believes it quite possible that he was "Steve." He handed out leaflets at Sather Gate in May 1941; under the circumstances he would have led me to the bookstore; and he no longer appeared at Sather Gate after June 1941.

Although I prefer not to reveal his name, I can report that he appears happy and well. He had a business of his own before partial retirement, and lives in an affluent neighborhood. He's even a registered Republican. □

Modernization and Central Planning

by E. C. Pasour, Jr.

The failure of collectivism as a productive economic system in Eastern Europe and the Soviet Union was fully predictable from the economic calculation debate that occurred more than 50 years ago.¹ Ludwig von Mises and F. A. Hayek demonstrated that the structure of production in a centrally directed system cannot reflect human wants efficiently because the knowledge necessary for economic calculation cannot be coordinated and transmitted in the absence of market prices. The significance of the economic calculation debate was lost in the aftermath of the Keynesian revolution of the 1930s, but its importance for economic growth and development is slowly but increasingly being recognized.

The effect of modernization of the economy on the ability to plan through central direction is one issue in the calculation debate that has received relatively little attention. The argument sometimes is made that a modern urban industrial economy must have an active and extensive government. Yet, one cannot conclude that more government planning is required as the economy becomes more complex. Indeed, a strong case can be made that market signals have become ever more important in the information explosion that is inextricably linked with the increased complexity of the economy.

The following analysis first discusses possible ways of coordinating economic activity. The impli-

cations then are shown for central direction and economic progress.

Functions of an Economic System

The general task of coordinating economic activity in any society may be divided into a number of interconnected and overlapping functions. These fundamental tasks fall into a more or less logical sequence. The first is to decide what is to be done. That is, it must be determined *what* goods and services are to be produced and in what proportions. The second problem is to organize production or, equivalently, to get done the things that are to be done—this involves decisions concerning *how* to produce. The third function is that of determining people's incomes. That is, some procedure must be used to apportion the goods and services among the members of society. The fourth function is that of rationing or adjusting consumption to production. Seasonally produced goods, including many agricultural products, must be rationed over time; the consumption of all goods and services must be adjusted to the existing stock, including current rate of output. The fifth function is to provide for economic progress through increases in technology, including changes in types of business organization.

The functions just described are highly interrelated. For example, decisions about *what* to produce and *how* to produce are closely related to incomes received by resource owners. Increased incomes of corn producers will lead to more corn production. An increase (or decrease) in the prof-

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itability of corn produced using chemical methods of weed control will influence the method of production (that is, how to produce).

The first four functions are relatively short run in nature, dealing with an economic system operating under “given conditions” including resources, wants, and technology. These functions constitute the problems of the so-called “stationary economy” in which there is no economic growth and the wealth and income of individuals remain unchanged.

Possible Types of Economic Organization

The problems just described must be coped with in any society, and several methods of organizing economic activity have been tried or proposed. These types are described here not because they are realistic alternatives in a modern society, but rather to highlight the problems that arise in the absence of market signals.

Status and Tradition or Caste System. This is the nearest approach to a mechanical division and coordination of economic activity. It is possible to imagine a social order in which specialization of activities is achieved on a purely customary basis. In such a system, rigid social custom, as in a caste system, determines the allocation of resources, techniques of production, and assignment of individuals to their tasks. This method of coordinating economic activity holds little attraction for most people in the modern world because a society organized on the basis of status and tradition necessarily would be unprogressive.

Command or Militaristic System. In this system, the whole structure of society including determination of policies, division of labor, and distribution of income would be dictated by an absolute monarch. Therefore, the preferences of individuals either in consumption or in production need not be considered. The organization of production might be worked out to a high degree of intricacy, as in the legendary Soviet five-year plans, but coordination of economic activity is the Achilles’ heel of this and other systems of central planning. The model of central planning based on the ruler’s preferences is quite similar to that of collectivist systems in the Soviet Union, Eastern Europe, Chi-

na, and other countries during the post-World War II era.

Democratic Socialism. A society organized on this principle would resemble the previously described command system in its main structural features. Again, the government owns the means of production. The purported theoretical difference is that economic decisions in democratic socialism are made by the will of the majority as expressed through the political process.

However, this supposed difference is more apparent than real and has little practical significance. A centrally directed system is plagued by information problems even if decision makers in the political process are completely altruistic and fully desire to promote the public weal. Elected and appointed public officials have no way to divine the “public interest.” A planner, regardless of technical expertise, cannot obtain the information on consumer preferences, resources, and production opportunities that would be necessary to determine the “correct” pattern of production, even if he wishes to do so. In reality, of course, individuals in the political process are likely to be influenced by more selfish short-run goals such as getting re-elected, increasing agency size, and so on.

In short, there is no way to coordinate economic activity efficiently in the absence of private property and the associated price signals. Attempts to simulate market conditions through central direction are futile because there can be no competitive behavior without dispersed power and responsibility. If all property is collectivized and all pricing centralized, there is no scope for a mechanism that can reproduce in any significant respect the functioning of the entrepreneurial market process. Therefore, attempts to achieve the beneficial results of free enterprise in a collectivist system are doomed to fail.

The Private Property System. Economic functions are achieved through exchange in impersonal competitive markets in the decentralized free enterprise system. The most interesting feature of the market order is that it is, in a sense, automatic and unconscious. No one ever planned the system, and no one assigns the participants their roles or directs their activities. Instead, market prices are uniquely valuable in coordinating and transmitting information to participants throughout the pro-

duction and marketing process. In so doing, market prices provide indispensable signals to market participants in decisions concerning what to produce, how to produce, and the rationing of goods and services; market prices also largely determine individual incomes.²

Implications for Central Planning and Economic Progress

What are the implications of the preceding discussion? There are only two possible ways of coordinating economic activity in a modern society—the market and central planning. However, there is only one means that is consistent with economic progress. The economic calculation debate demonstrated that *successful* planning is impossible in the absence of private property and the associated market prices. Without these signals, there is no possibility of calculating costs or revenues and no way of determining whether the most highly valued products have been produced. That is, the decentralized market system is the *only* way that ever-changing valuational signals can be coordinated systematically and transmitted by millions of individual consumers and producers.

Markets are unique not only in facilitating the use of information already possessed by market participants, but also in playing a crucial role in the *discovery* of new information. That is, market prices stimulate entrepreneurial discoveries, including the productive use of information that was not previously recognized. The recognition of the market as a discovery process highlights another key shortcoming of central direction—the lack of economic progress, including innovation and change. Consider the problem of how decisions are to be made about allocation of venture capital, new products to produce, new types of capital investment, and so on.

Managers of government enterprises have an incentive to play it safe. If a venture is successful, the government official may receive some extra compensation, but is affected relatively little compared to a private entrepreneur. If the venture fails, however, the government bureaucrat may lose his job. Thus, the tendency is to avoid risky ventures. In contrast, the decision maker in the profit and loss or market system is a residual claimant. He bears the loss if actions taken prove unsuccessful; he reaps the gains from decisions that turn out to

be profitable. Thus, the decision maker in the market has a much greater incentive to undertake risky ventures. The conclusion is that lack of incentive to provide economic change and progress is a chief defect of all alternatives to free markets.

In short, market signals are crucial elements in the incentive mechanism of the capitalist system. In conjunction with residual claimancy, prices provide a uniquely successful way to reward effective actions and to penalize ineffective actions.

Implications of the Information Revolution

How does modernization of the economy affect the usefulness of markets in coordinating economic activity? The information revolution involving computers, fax machines, and so on, not only has spurred economic innovation, but also has dramatically increased and accelerated the amounts of data transmitted. Moreover, capital transactions increasingly are being freed from the confines of national boundaries. For example, entrepreneurs using computer modems can send production orders throughout the world. The trend clearly is toward more decentralization, not increased centralization.

The information revolution has had a pronounced effect on the structure of production. In finance, communications, transportation, and other areas, capital is becoming “miniaturized.” Richard McKenzie writes: “A knitting loom that used to be the size of a car now takes up the floor space of a birdbath but is several times more productive than its forerunner. Firm records that once were crowded into file drawers can now be etched on chips or the back of credit cards. Plants that once rose several floors, spanned hundreds of acres, and employed thousands fit today in one story on a one-acre concrete slab and employ fewer than a hundred.”³

Economic problems, as emphasized by Hayek, always arise as a consequence of change. Technological innovations in production and marketing have greatly increased the economic coordination problem. Moreover, much of the information important in economic decision making is specialized to time and place and cannot be conveyed in statistical form to any central authority. Under these conditions, decisions by the “man on the spot” become more and more important and

central planning less and less feasible.

In the wake of the economic calculation debate, socialist planners visualized “market socialism” in which planners using high-speed computers could simulate the information provided by private property and the associated market signals. Data processing developments have indeed played a key role in the information revolution, but the results have not been those anticipated by socialist theorists.

The increase in technology related to the generation, processing, and transmission of information hasn't lessened the need for market signals. Instead, the result has been just the opposite. The dramatic increase in information processing puts central planning at an even greater disadvantage when contrasted with market planning. As the amount of information increases, it becomes more and more difficult to discover, coordinate, and transmit information throughout the world economy through central direction. This means that collectivism becomes ever more outdated in an increasingly interdependent world. George Gilder describes the stark implications of collectivism for modernism: “If the politicians want to have central planning and command, they cannot have dynamism and life. A managed economy is almost by definition a barren one, which can progress only by borrowing or stealing from abroad.”⁴

Conclusions

There are two basic ways to organize economic activity—central direction and the entrepreneurial market process. However, in a modern economy there is no feasible alternative to widespread use of market signals. As the complexity of the economy in manufacturing, communications, transportation, banking and finance has increased, the amounts of information generated and the speed of transactions have also increased. It becomes

more and more difficult under these conditions to convey, coordinate, and transmit information between market participants through administrative procedures. This means that with modernization of the economy, planning by central direction has become less and less efficient relative to planning through markets.

The economic crises in the Soviet Union, Eastern Europe, and other collectivist systems throughout the world are not accidents that just happened. The breakdown of collectivism is directly associated with the economic information revolution occurring throughout the world.

Mises and Hayek failed to convince socialist theorists of the importance of free enterprise and private property during the economic calculation debate that raged from 1920 throughout the 1930s. However, now they have been fully vindicated in their contention that “market socialism” and other central planning techniques that purport to yield the advantages of decentralized competitive markets are doomed to fail. And it is ironic that information processing by high-speed computers, once thought to be the salvation of socialist planning, has instead turned out to be merely another nemesis. □

1. Ludwig von Mises, “Economic Calculation in the Socialist Commonwealth,” part III in *Collectivist Economic Planning*, edited by F. A. Hayek (Clifton, N.J.: Augustus M. Kelley, 1974 reprint of 1938 edition); F. A. Hayek, *Individualism and Economic Order* (Chicago: The University of Chicago Press, 1948).

2. This function often is referred to incorrectly as income distribution in a free enterprise exchange economy. However, “There is in the operation of a market economy nothing which could properly be called distribution. Goods are not first produced and then distributed, as would be the case in a socialist state.” (Ludwig von Mises, *Human Action* [Chicago: Henry Regnery Company, 1966], p. 254)

3. Richard B. McKenzie, “The Twilight of Government Growth in a Competitive World Economy,” *Cato Policy Analysis* No. 111 (Washington, D.C.: The Cato Institute, August 19, 1988), p. 3.

4. George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981), p. 237.

A Note on Converting the Ruble

by Gary Wolfram

The Soviet Union is beset with a myriad of problems as the final collapse of socialism approaches. One of these is how to make the ruble freely convertible with Western currencies.

What seems to be missing in the discussion about convertibility is that this problem cannot be solved in isolation. It is impossible to create a convertible currency without establishing property rights and a system of free exchange such as exists under a market economy. Recent proposals to establish a gold standard or to back the ruble with a basket of commodities will fail in the long run if the economy can't produce goods that are marketable to the rest of the world.

What Is Money?

In discussing the convertibility of the ruble, one must first determine what money is, and why anyone would wish to possess it. Ludwig von Mises established in *The Theory of Money and Credit* (1912) that money is simply a medium of exchange. It is a good that is desired not primarily for direct use, but because it can later be traded for a good that the consumer wishes to use. Money allows indirect exchange, not only in the present time and place, but across time periods and locations. Mises pointed out that the advantages of indirect exchange of goods, and the specialization of labor that this allows, are sufficiently strong that some commodity will be established in the market as the good that trades for all other goods. This will occur naturally, without the need for government action.¹

Thus, someone would want to possess rubles only because he or she hopes to exchange them at a future date for goods or services. When we say we want to make the ruble convertible, what we really mean is that we hope individuals will accept it as a medium of exchange, without being required by their government to do so. They will either trade goods and services for rubles, or they will exchange other mediums of exchange for rubles. In other words, the ruble will be convertible when the market accepts it as money.

A Gold-Backed Ruble?

It has been suggested that backing the ruble with gold will make it a convertible currency.² This, of course, will work after a fashion. But let us think for a moment about what we mean by backing the ruble with gold. It means that the Soviet government would be willing to exchange a certain amount of gold for a paper ruble. This means that rubles will have become certificates that are claims to gold.

Why would anyone want a gold-backed ruble? Only because one wished to exchange it for goods or services, or for gold, and later to use the gold to exchange for goods or services. Suppose that the Soviet economy remains in disarray, unable to produce goods and services that are competitive with the rest of the world. This means that Soviet citizens will find their rubles are convertible all right, in the sense that producers in other countries will accept the Soviet rubles in exchange for goods and services. But the rubles that are accepted won't be traded for Soviet goods and services. Instead, they will be exchanged for gold. Eventu-

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ally, the Soviet Union will run out of gold as its citizens exchange the gold-backed ruble for foreign goods and foreigners exchange the ruble for Soviet gold. When this happens, the ruble will no longer be convertible, and the Soviets will have traded their stockpile of gold for a basket of Western goods and services.

The Only Solution: Free Markets

The only thing that will lead to long-run convertibility of the ruble is the production of goods and services in the Soviet Union that can be exchanged for goods and services produced in other countries. And this can only occur through the institution of a free market system of production with full private property rights. It is not the purpose of this note to argue the efficacy of the free market system. This has been argued elegantly by the Austrian school of economists and within the pages of this journal over the years. Mises demonstrated over half a century ago that there is no method by which a socialist economy can determine the proper allocation of resources.³ Without free market pricing, value cannot be assigned to the outputs of the system, and thus one has no way of knowing how much to produce of any good or service, what resources should be used in the production of goods or services, how much to produce of intermediate goods, and so on.

Clearly this century's experiment in state-run economies provides ample evidence of the failure of the socialist system, in any form, to produce goods and services that meet the standards of a capitalist economy. Any recent issue of *The Economist* will document the inability of the Soviet economy to function. The Soviet Union is having difficulty servicing its debts because the markets for its oil and arms, the only items that have a ready market in the rest of the world, are deteriorating.⁴

Institution of a market economy is the only method by which the Soviet Union can become a sufficiently efficient producer so that there will be a demand for its goods and services from the rest

of the world. This is really what the Soviets are after, since they wish access to Western goods and services, with currency convertibility being only the means by which that will be accomplished.

This is not to say that the ruble shouldn't be gold-backed. As Mises and others have pointed out, the primary advantage of a gold-backed currency is that it puts constraints on the issuing government that disallow the debasing of the currency.⁵ This makes the currency more useful as a medium of exchange over time and would aid in establishing the long-run convertibility of the ruble. But the institution of a free market economy is the primary prerequisite to making the Soviet currency convertible.

Once a free market economic system is established, a gold-backed ruble would certainly trade in world markets for goods and services as well as exchange for foreign currency. But why not move further into the realm of free markets? In conjunction with a gold-backed ruble and a free market economy, allow the Soviet citizens to transact in any currency they choose. Those currencies that were most useful as a medium of exchange would dominate the market.⁶ Most probably, the West German mark, the U.S. dollar, and the Swiss franc would be the primary competitors of a gold-backed ruble within the Soviet Union. The effect would be to make the ruble convertible in the Soviet Union as well as abroad. □

1. For a nice discussion of Carl Menger's theory of the origin of money, see Murray Rothbard, *What Has Government Done To Our Money?* (San Rafael, Ca.: Libertarian Publishers, 1985), or directly, Carl Menger *Principles of Economics* (Glencoe, Ill.: Free Press, 1950).

2. See, for example, Murray Rothbard, "A Gold Standard for Russia," *The Free Market*, January 1990, p. 3.

3. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, German editions in 1922 and 1932, (latest edition: Indianapolis: Liberty Press/Liberty Classics, 1981).

4. "Russia's latest queue: for creditors," *The Economist*, May 19-25, 1990, p. 76.

5. See, for example, Mises, *The Theory of Money and Credit*, (Irvington, N.Y.: FEE, 1971), p. 438.

6. A well-argued case for a free market in money can be found in Hans Sennholz, *Money and Freedom* (Spring Mills, Penn.: Libertarian Press, 1985).

“To Further Free Trade Principles”: Origins of *The Economist*

by Nicholas Elliott

“Can there be a sufficient number of readers with intelligence to appreciate it found to make such a paper pay?” asked the free-trader Richard Cobden when *The Economist* was launched in 1843. The journal had been founded by a manufacturer called James Wilson “in order to further free trade principles.”

Cobden’s question was a valid one because newspapers remained a luxury good in Britain until the 1850s, with prices inflated by an excise duty on paper, a tax on advertisements, and a stamp duty. The working classes sympathized with free trade principles, but could not be relied upon to spend money on a weekly newspaper.

As it turned out there was a readership among the growing professional and trading classes. *The Economist* provided them with arguments and statistics, and gave coherent expression to their sentiments of laissez faire. At least one writer has credited the journal with a significant role in the development of 19th-century classical liberal thought: “. . . if we wish to find the origin of the mid-nineteenth century theory of laissez faire, we can find it nowhere better than in *The Economist* and the people who were connected with *The Economist* during this period.”¹

Defender of Laissez Faire

By 1843 the campaign to abolish the protectionist corn laws had become a mass popular movement. It was the year that John Bright, the great

liberal orator, was elected to Parliament, and a year in which the Anti-Corn-Law League distributed nine million leaflets throughout Britain.

James Wilson had personal connections with the League, and his aim was to support their cause. The League, in return, agreed to underwrite a large number of subscriptions to *The Economist*. Yet *The Economist* was independent of the League, and continued to survive and prosper after the corn laws were brought down in 1846. Wilson was astute enough to maintain some distance between his journal and the immediate free-trade campaign.

The other important factor in its durability was an honest attempt by *Economist* writers to examine issues in the light of objective evidence. *The Economist* has always offered opinion, but it has never been opinionated; argument is made from facts rather than from dogmatics. So, the reader can expect a free-trade argument, but studiously supported by observation and statistics. Frederic Bastiat, the French free-trader, paid tribute to its rigor: “There never was a periodical work in which all the questions of political economy were treated with so much depth and impartiality. It is, besides, a precious collection of facts, doctrine and experience mutually supporting each other in its columns.”²

This approach won respect for the journal beyond the narrow circle of the free-trade movement, and helped to ensure that its readership wouldn’t ebb and flow along with the fortunes of the free-trade campaign.

The character of *The Economist* was created by Wilson, who served as editor from 1843 to 1859.

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Wilson was elected to Parliament as a Liberal M.P. and held public office in the government of Lord John Russell (1846-1852). He was also a man with strikingly libertarian views, who opposed intervention in the railways and regulation of factory hours because he saw these actions as going beyond the proper sphere of government. When a public health act was being considered, he declared that “the extension of the sphere of government interference from which so much has been dreaded for freedom, seems rather likely, by the vastness of the burden, to break down the Government.”³

Thomas Hodgskin was Wilson’s co-writer at *The Economist*. After serving in the navy during the Napoleonic Wars, Hodgskin had been unwillingly discharged, and had written an essay critical of the navy that had drawn the attention of Francis Place and the liberal Benthamites. It was through them that he came into contact with Wilson and *The Economist*.

Hodgskin was author of *The Natural and Artificial Right of Property Contrasted*, in which he argued that there is a natural right to property, against which government frequently aggresses. Hodgskin has sometimes been described as a Ricardian socialist, but he was actually more of a libertarian anarchist, viewing the downfall of the corn laws as a first step toward the demise of government. Evidently, he was regarded as a touch too radical for the liberals of the Anti-Corn-Law League, and sometimes by Wilson, too. Hodgskin left *The Economist* in 1857, possibly because of political disagreements with Wilson.

Before becoming a popular writer, Herbert Spencer (the sociologist and author of *The Man Versus The State*) was employed as a sub-editor at *The Economist*. Although he shared the convictions of Wilson and Hodgskin, Spencer had no editorial involvement, working instead on the statistical and factual content of the journal. Spencer published *Social Statics* in 1851, and left *The Economist* in 1853, as soon as he was able to support himself as an author.

Nassau Senior, the free-market economist, wrote on foreign affairs for Wilson and for the second editor, Walter Bagehot. Senior was apparently an accomplished journalist who excelled himself during the Crimean War—through his contacts in France, the journal was frequently able to beat other papers into

print with the major stories on the conflict.

It is difficult to imagine a team of journalists with a stronger and deeper commitment to free markets than this group of writers for the early *Economist*. This was reflected in its pages, with free-market principles applied consistently to the problems of the day. Adam Smith, Frederic Bastiat, John Locke, and Edmund Burke were quoted to readers. In 1849 *The Economist* offered a uniquely eloquent justification of unfettered market forces: “The self-interest of each merchant and trader leads to establish throughout all the ramified and vast transactions of commerce, a system of order such as no Government, however enlightened or strong, could ever conceive or ever enforce. Examined in detail, or looked at in total under the most general aspect, all the great branches of human industry are found replete with order, which growing from the selfish exertions of individuals, provides the whole. Experience has proved that this order is inevitably deranged when it is forcibly interfered with by the state. . . .”

The Wilsonian *Economist* opposed, almost without exception, every government intervention in society. It opposed regulation of factory hours, government control of the water supply, government enforcement of urban sanitation, state education, and military involvement in other countries. With its clear statement of laissez faire, backed by facts and figures, *The Economist* was educative and inspirational reading for the sympathetic middle classes.

Continuing the Tradition

In 1860 Wilson was succeeded as editor by Walter Bagehot, who already had been writing for the journal. Bagehot was vice chairman of the Stuckey Somerset Banking Co., which was to become the largest private bank of issue in England. Bagehot was the most famous editor of *The Economist*, known as a critic and a man of letters as well as an economist. He was an opinion-former, and an adviser to governments. “I had the advantage of frequent and free communication with him on all matters of finance and currency,” said Prime Minister William Gladstone.

Bagehot was very firmly in the same libertarian tradition as Wilson. He wrote in his book *The English Constitution* that “We look on state action, not as our own action but as alien action; as an

imposed tyranny from without, not as the consummated result of our own organized wishes.”

The laissez-faire tradition was maintained by Bagehot, and continued after his death in 1877. *The Economist* of 1895 complained that “Little by little, and year by year, the fabric of state expenditure and state responsibility is built up like a coral island, cell on cell. Every year half-a-dozen Acts of Parliament are passed which give the state new powers and new functions.”

With Bagehot as editor, and for its first 70 years, *The Economist* espoused a position of foreign policy nonintervention. It opposed the popular British military expedition to the Crimea. It cautioned against British involvement in the dispute over Schleswig-Holstein, the Austro-Prussian War, the Franco-Prussian War, and Italian unification. British neutrality was urged in the American Civil War, although the journal indicated more sympathy with the South because of the protectionism of the North.

The next editor of note was Francis Hirst, who held the position from 1907 to 1916. Again, Hirst was a strong advocate of free markets, and he was part of the later generation of liberals—which included such figures as Lord Morley and Hilaire Belloc—that continued the libertarian tradition of Cobden and Bright. Hirst started the expansion and modernization of the journal that helped turn it into the international enterprise it is today.

In the 20th Century

As World War I dealt a serious blow to the liberal movement, so it did to *The Economist*. The war entailed a massive expansion of state activity, and involved curtailment of liberties enjoyed for many years beforehand—food was rationed, trade tariffs introduced, pubs were forced to close at certain times, minimum wages were imposed, rents were controlled, industries were supported or closed by government, and civil liberties were suspended by the Defence of the Realm Act. The war was a drastic shock to the optimism of the liberals, who had looked forward to a world of enduring peace and freedom.

The Economist opposed involvement in the war, right up to the time of Britain’s entry. Hirst told of how he wept when war broke out, feeling that “the lights had gone out in Europe.”

The 1918 *Economist* had to adapt to new conditions in Europe. Laissez faire was being overtaken by ideologies that placed less value on individual freedom, and the journal had to adapt to new preferences among its readership. In foreign affairs it continued to warn against entanglements, but it now encouraged the development of international peace-making bodies such as the League of Nations, and this became a regular editorial theme.

At this time, the meaning of liberalism was changing, a reflection of changes in the ideas of liberals. Many liberals now endorsed the welfare state and redistribution, and discarded the ideas of laissez faire. The transformation has continued until, in large parts of the world today, “liberalism” signifies a belief in big government, the complete reverse of its original meaning.

The Economist, as a liberal newspaper, followed the trend to an extent. Walter Layton, editor from 1922 to 1938, was a welfare-state liberal who went on to become chairman of the left-leaning *News Chronicle*.

Yet the journal has always retained an evident strand of classical liberalism. Brian Beadham, an *Economist* writer of long standing, explains how the journal continued to express an unfashionable support for the market system in the postwar years of collectivist consensus. Today, he says, *The Economist* remains “foursquare in the libertarian tradition.” These free-market views have often come from Norman Macrae, who has worked for the journal since 1949. A recent newspaper profile describes how Macrae “takes constant delight in pointing out where government policies are having perverse effects—where punishment leads to crime, income support to poverty, education to ignorance, planning to nonsense.”⁴

After almost 150 years, the consistency is impressive. True to tradition, the modern-day reader is presented with arguments for a market economy, free trade, and limited government, but always substantiated by facts and statistics. □

1. Scott Gordon, “The London Economist and the High Tide of Laissez-Faire,” *Journal of Political Economy*, December 1955, p. 465.

2. Quoted in *The Economist 1843-1943: A Centenary Volume* (London: The Economist Newspaper Limited, 1983), p. 30.

3. *Ibid.*, p. 39.

4. *The Independent*, December 31, 1988.

Exporting Taxes Threatens State Economies

by John Semmens

The most popular tax is one paid by someone else. Thus state legislators, in their quest to raise spending without angering local taxpayers, are devising more and more schemes to “export” taxes to out-of-state residents.

These include higher taxes on goods and services most frequently purchased by tourists (e.g., taxes on hotel rooms and car rentals), higher taxes on extraction industries (e.g., oil production and mineral mining), and efforts to collect more taxes from business income earned outside the state through “unitary” taxes. In each case, the targeted taxpayers live outside the taxing jurisdiction, so they won’t be able to express their dissatisfaction at the polls.

Economists, however, point out that there are no “free lunches.” Everything has a cost. The apparent free lunch to be had from attempting to export the tax burden is illusory. The short-term gains are more than offset by larger long-term losses. What the proponents of exporting taxes fail to see is that they are also exporting the enterprises and job opportunities that could help their state grow and prosper.

When the Constitution was written in 1787, its authors were careful to include a clause prohibiting the federal government from imposing taxes on exports (Article I, Section 9, paragraph 5: “No tax or duty shall be laid on articles exported from any State”). They knew that a tax on a state’s exports could devastate that state’s economy. They didn’t bother to similarly restrict states from taxing

their own exports because, apparently, they didn’t anticipate that any state would be so foolish.

Attempting to export a tax puts a state at a competitive disadvantage when it comes to importing income and wealth. While it may well be true that nonresidents are nonvoters and as such probably won’t have much impact on state and local elections, they are still consumers. Unlike the local taxpayers who may have little choice but to pay the higher taxes imposed by their legislature, the out-of-state taxpayers may more easily take their business elsewhere.

Consider the dilemma of the in-state firms that are supposed to export a tax to their out-of-state customers. If the tax is added to the price of the exported product (as state legislators seem to assume it will be), competing products from other, lower-taxed locations will have an advantage. Tourist attractions in these other locations will become slightly more alluring. Manufactured goods produced elsewhere, perhaps in a foreign country, will gain a small price edge on every unit offered for sale. Consequently, sales revenue for the in-state businesses will fall. Lower revenues mean a smaller business operation, fewer employees, and less economic growth.

On the other hand, if the in-state businesses absorb the tax in order to maintain competitive prices in out-of-state markets, then their profits will fall. The higher profits of out-of-state businesses will become more attractive to investors. Investment capital will tend to flow out of state, which will mean less growth and fewer economic opportunities for would-be in-state employees.



Some proponents of export taxes argue that the rates are too low to have any effect on economic decisions, or that the targeted taxpayers are “locked in” anyway. The locked-in thesis has some plausibility. A mine, for example, is where it is because that’s where the ore is located. A tax won’t change that. However, a tax will change the relative profitability of the firm or the salability of its output. These small effects at the margin can have large long-term effects on business expansion and choice of business location. Mines in other locations will gain a larger market share. New mines are a bit more likely to be established in lower-taxed locations. A few percentage points of difference in the short run grow into millions of dollars and thousands of job opportunities lost in the long run.

Whether taxes are exported or not, they still remove funds from the private sector. The money that goes into export taxes will be unavailable to invest in tourism, mining, or other businesses, further hurting the local economy.

Economic growth rarely comes in huge leaps forward. More typical is the continuous compounding of modest single-digit growth rates. In a multi-billion dollar economy, a reduction of just a fraction of a percent in the return on investment or growth rates can amount to the loss of billions of dollars of wealth and millions of job opportunities over a single generation.

Both equity and efficiency point away from the policy of attempting to export taxes. A government that rejected the “free lunch” appeal inherent in the exportation of taxes would better serve its constituents. If the residents were disabused of the notion that someone else is going to pay their state government’s bills, they would be less tolerant of waste and excessive spending.

The ethos of contemporary tax policy is misguided and, in the long run, self-destructive. A revival of a “no taxation without representation” policy would be more equitable and more profitable for those who adopt it. □

Children's Television Shouldn't Be Regulated

by T. Franklin Harris, Jr.

There is a familiar cry in Washington these days: "Save the children!" No, it isn't another call for foreign aid to save the starving children of Ethiopia. This time the children in danger are Americans, and the danger isn't starvation, but the state of children's television.

The complaints are nothing new. Peggy Charren, president of Action for Children's Television (ACT), and her group of "concerned parents" have been at it for some time. Their latest campaign has been in support of legislation that reduces the amount of commercial time during children's programming. The legislation, which became law in October, also threatens any broadcaster who doesn't meet the "educational needs" of younger viewers with having his broadcast license revoked by the Federal Communications Commission.

Exactly what, according to ACT, is wrong with children's television? Well, it seems that most of what children watch is "just dumb." Furthermore, children must be protected from "over-commercialization," particularly when it comes to programs which are themselves commercials for a product.

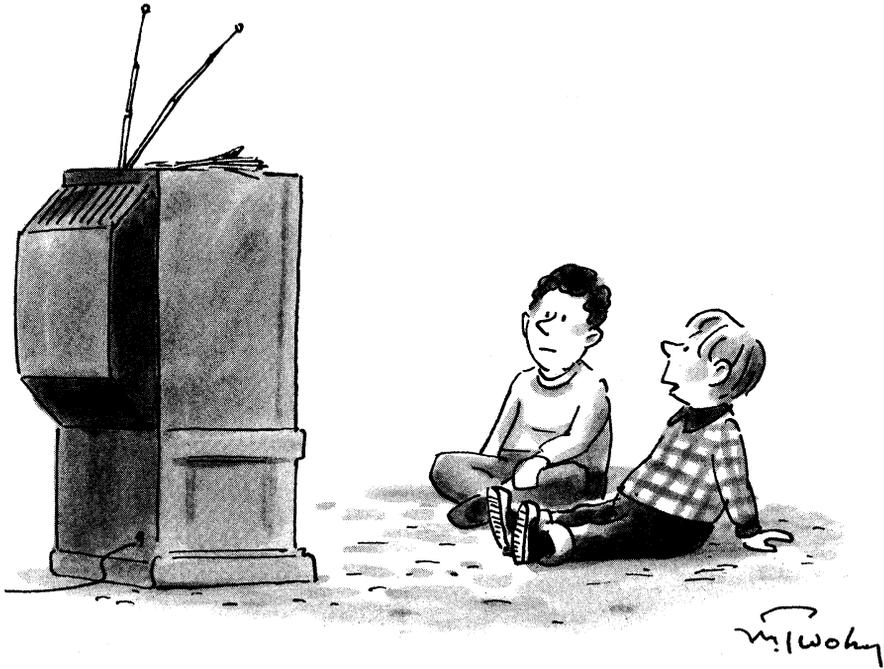
While ACT's complaints may seem well-founded at first, they don't stand up to scrutiny. In the first place, children generally aren't interested in educational programming. They watch "dumb" shows to be entertained. After all, why should children be any different from adults, who scorn

"quality" television in favor of sitcoms and soap operas? Every day there is more evidence that the viewing habits of children are similar to those of adults. Game shows, long a staple of adult television, are now appearing as children's programming. One example is the immensely popular game show, "Double Dare." Ms. Charren says that broadcasters should be ashamed of their programs. But there is no shame in providing consumers with shows they want.

Consider, for example, the cartoon "G.I. Joe." "G.I. Joe" was under constant attack for being too violent, mindless, and for being a "program-length commercial" for a brand of "war toys." Critics, however, totally missed the program's good points. In the program's early days, the stories and animation were of very high quality. Story lines were innovative and were written by some of the best writers in the industry, including the highly respected comic book author Marv Wolfman. One story in particular dealt with the children of Vietnam veterans who grew up in Vietnam without fathers and who were outcasts in Vietnamese society. Such programs may not teach children their A B C's, but who can claim that they are not "quality"?

However, when the story and animation quality of "G.I. Joe" began to decline, so did the show's ratings. The "program-length commercial" disappeared from the airwaves even as the toys it was "selling" continued to dominate the market. Quite simply, children tuned in to be entertained. When the fun stopped, they tuned out.

As for "over-commercialization," Ms. Charren



"I like everything Big Bird's ever done."

DRAWING BY M. TWOHY; © 1990
THE NEW YORKER MAGAZINE, INC.

and her associates act as if it were a crime for advertisers to aim commercials at their intended audience. It is the advertiser's job to target ads toward children. It would be silly to run advertisements aimed at senior citizens during "Pee Wee's Playhouse." The only people not doing their job are the parents. Their job is to just say "no."

Here is the root of the children's television "crisis." Parents either cannot or will not take responsibility for their children. Parents want the government to step in with controls and regulations so that they won't be put in the position of saying "no" to their children. The fewer commercials children see,

the less parents will need to say "no." The less "junk" on television, the less often parents will need to change the channel or turn the TV off. Parents just don't want the hassle of crying children.

The problem goes far beyond children's television. In every walk of life, parents want government to take the responsibility out of parenting. But who ever said that parenting would be easy?

Children shouldn't be deprived of entertainment just because they are young. It is far better to let the ratings figures determine what goes on television than any small group of individuals, no matter how "concerned" they are. □

Calling the Bluff: Reflections on *Liar's Poker*

by Katherine M. Boudreaux

L*iar's Poker* by Michael Lewis (Norton, 1989) has been trumpeted as one of a number of indictments of the 1980s, a time when greed reigned supreme and unfettered markets resulted in moral and financial ruin. This near-unanimous interpretation by book reviewers gave me little incentive to purchase Lewis' book. However, with some time between classes this past spring, and a copy borrowed from a colleague's shelves, I did read *Liar's Poker*. The title, it turns out, is indeed appropriate: Lewis wants us to believe that he is baffled by this supposed world of excess in which he participated. But he is bluffing. Lurking behind his clever rhetoric and amusing anecdotes are revealing lessons about what really happened on Wall Street.

One of his most interesting points is that the explosion in the bond market in the 1980s was not the result of new-grown greed on Wall Street, but the consequence of government actions. Because of the worsening problem of inflation during the 1970s, the Federal Reserve, under Paul Volcker, was forced in 1979 to abandon the no-win cycle of continually pumping money into the economy in order to reduce short-term interest rates, seeing rates rise eventually due to the resulting inflation, and increasing the money supply even further to start the whole cycle over again. Instead, the Volcker Fed allowed interest rates to fluctuate while controlling money supply growth. Because

bond prices vary inversely with interest rates, increased volatility of interest rates caused bond prices to change more rapidly and dramatically.

At the same time, there was a tremendous increase in the demand for borrowed funds, with the biggest single borrower being Uncle Sam. Bonds are the sole source of borrowed funds for the federal government, and many businesses raise money with bonds as well. The increase in the demand for borrowed funds coupled with the variance in bond prices created tremendous opportunities for entrepreneurs in the bond market, which had previously been a quiet backwater on Wall Street.

When a market is volatile, investors want guidance. Salomon Brothers specialized in providing advice in the heretofore boring bond market, acting as a middleman. As the market struggled to adjust to the immense increase in government borrowing in the early 1980s, investment bankers made a good deal of money advising and selling to borrowers and investors. Naturally, employment in this area grew because of the demand for such services.

The Growth of "Greed"

Do these events signal that people became more greedy during Ronald Reagan's tenure in the White House? Of course not. Ever since the imposition of the Federal income tax, we have had tax accountants, tax lawyers, and tax preparers profiting handsomely. Rather than thinking of

these individuals as greedy wolves, we tend to think of them as protectors fighting off the incomprehensible, yet dangerously potent, edicts of the Internal Revenue Service. In fact, because government continues to make complex changes in its tax code, this industry continues to have opportunities to profit, whereas the shakedown on Wall Street during the last few years signals that the bond market has adjusted and above-normal profits have been dissipated.

Similarly, change in government policy sparked a market in mortgage bonds. Thrifts and savings and loans (S & L's) were already in bad shape by the beginning of the 1980s. The inflation of the 1970s caught them with many long-term mortgages paying low, pre-inflation rates. With such a low cash flow, thrifts and S & L's couldn't attract depositors. So in 1981, Congress gave the industry a big tax break. In order to get it, however, the thrifts and S & L's were required to sell their existing mortgages.

Although many of these sales turned out to be unwise, they were prompted by the government's tax change, not by financial markets. In 1982, the government tried deregulation, but the industry, battered by the government's actions of the previous decade, weak from protection and regulation, and invested in questionable assets with the proceeds from the mortgage sell-off, could not compete.

Salomon Brothers helped the thrifts and S & L's find buyers for the mortgages and in the course of doing so solved one of the most perplexing problems in the mortgage bond market. Lewis is justly admiring of that invention. Despite the government's attempts since the 1930s to establish a secondary market in mortgages, private mortgage bond placements were difficult because mortgages can be prepaid. In other words, when a homeowner moves and sells her home, she pays off the mortgage. The investor who bought the mortgage from the bank that loaned the money gets the money all at once. This unexpected pay-out can have adverse tax consequences. As a result, the true yield to the investor is altered. Because of this uncertainty, investors were reluctant to buy mortgages. Without buyers (a "secondary" market), banks were somewhat less willing to make mortgage loans.

A Salomon Brothers employee solved this problem by pooling mortgages and selling them in "tiers." Everyone who bought first-tier bonds got

paid off before everyone in the second tier, and so on. With sophisticated statistical analyses, Salomon Brothers could predict with relative certainty when the investors in each tier would be paid. Inspired by the increase in the mortgages being offered by S & L's to take advantage of the tax break, Salomon Brothers stimulated the demand for mortgage bonds. In turn, it became easier and less costly for people to purchase homes.

So Salomon Brothers, and presumably other firms with expertise in the bond area, profited not because of an explosion of greed but because of changes by the government. Lewis explains these causes for those who care to pay attention and understand. He does not, however, analyze the labor market as clearly as he does financial markets.

Maligned Middlemen

Bond salesmen, such as Michael Lewis and the character of Sherman McCoy in Tom Wolfe's *Bonfire of the Vanities*, use the recommendations of bond analysts and their own experience to sell bonds. Lewis claims still not to understand what he was paid to do by Salomon Brothers. Perhaps this is a reflection of age-old negative feelings about middlemen. It is easy to see what the farmer does because the food on the plate is so obvious. But what exactly did the agricultural cooperative, the grocery wholesaler, and the supermarket do that justifies the difference between the price the farmer got and the price paid? The contributions of middlemen, which range from tangibles such as transportation to intangibles such as display, marketing decisions, and advice, have provoked suspicion since the division of labor became predominant in trading societies.

Lewis is particularly disingenuous when it comes to his own background. His art-history major at Princeton and part-time jobs between college and graduate school are detailed to illustrate his lack of preparation. His master's degree in economics from the London School of Economics gets short shrift. Lewis says that his \$46,000 starting salary, the same as what an M.B.A. would earn, felt like "lottery winnings." Perhaps this is professional sensitivity on my part, but I believe that a graduate degree in economics from one of the world's finest programs is at least as good as an M.B.A. More tellingly, however, Lewis misunderstands the theory of wage determination.



DANIEL DETCH, 1989

Michael Lewis, author of Liar's Poker.

People are not paid according to some intrinsic value of their product (a favorite idea of Marx's), or what they "deserve," as Lewis puts it, but according to the worker's physical productivity plus what people are willing to pay for the product. Thus, Madonna is paid an enormous sum because she sings and dances in a way that people find entertaining. Investors valued Michael Lewis' advice and services as a bond salesman in a market stimulated by the government, and so he earned a lot of money. Both Michael Lewis and Madonna may find their financial success astounding, but that hardly matters.

Lewis plays a lot on his amazement that he was paid a high salary even when he first went out on a trading floor. It is true that there is what economists call a "learning curve," and probably Lewis' advice was not worth so much at first as it was after he had gained experience. However, Salomon Brothers was not irrational to pay relatively high wages to Lewis when he was fresh out

of school, because it is costly to adjust wages frequently. For example, despite the fact that I was recently delayed at a service station by a new employee who did not know how to work the register, I am certain that his wage wasn't different two days later when he knew how to do it. Eventually Lewis admits that the business he brought in generated far more revenue for his employer than he was paid.

All Parties Gain

Lewis also never quite catches on to the fact that all willing parties to a bargain gain. He writes as though he is continually duping his customers, yet also writes of being tied in to some of Europe's largest money pools, run by people Lewis describes as "quick, aware, flexible, and rich." He indicates that he has customers who trust him. These contradictory ideas are not resolved. I suspect that Lewis cannot quite get beyond his knowl-

edge that Salomon bought the bond at one price but he can sell it at another, higher price. Which is the real price? Isn't someone getting ripped off?

Suppose I go to an auction and buy a piece of furniture. Later I sell it at a yard sale for more than I paid for it. Who's the loser here? The original owner could have withheld the piece if the auction price wasn't high enough, so he must have been satisfied. The yard-sale buyer must have thought the furniture was worth it because she paid the price. And I got something for transporting it from the auction, where the yard-sale buyer was not present, to a place and time when she was available. Everyone wins—there are gains from trade for everyone. This is the idea Lewis misses.

Lewis does offer some interesting insights into junk bonds and takeovers. He admiringly describes Michael Milken's role in providing capital to relatively small but high-growth firms who are shut out of bond markets. These high-yield ("junk") bonds turned out to be such good investments that the demand outstripped the supply. According to Lewis, Milken then conceived the idea of using junk bonds to purchase undervalued companies and put their resources to more efficient use.

But Lewis realizes that, contrary to some economists' specific belief and the unspecified public myth, markets are not perfectly efficient. Some takeovers fail because investors were wrong about the value of the company and the amount of debt that could be carried. The result is bankruptcy. A competitive market punishes such mistakes.

The attempted takeover of Salomon Brothers as described by Lewis is an example of another type of failure. The "raider" in question is known for—gasp!—firing inefficient management. Not surprisingly, the existing Salomon management fought off the takeover with stockholder assets,

costing both stockholders and employees. Recent trends in state legislation, unmentioned by Lewis, make it easier for existing management to engage in this unscrupulous behavior.

But which is worse—layoffs of inefficient employees in order to create a more profitable firm that the so-called raider needs, or the seemingly random layoffs made by inefficient management needing funds to pay for fighting the takeover? Lewis admits that after Salomon's rousing success in the early 1980s, the management missed some important calls and was overstaffed. Using stockholder assets and his personal friends on the board, the chairman saved his job. The firm did cut back, but the cutback was executed by the same folks who had engineered the firm into the current unprofitable position. Salomon couldn't even hold onto one of their most (in the author's own estimation) profitable people—Lewis himself.

What I learned from *Liar's Poker* was that even a writer intent upon disguising reality can't cover up the government's role in events. Government actions inevitably have unintended consequences, many of them undesirable, many long-term. We should, for example, look to the government as well as the private sector, and well before the 1980s, if we want to understand the S & L crisis. I also learned that in order to make real-life behavior conform to the popular conception of life on Wall Street, writers such as Lewis have to be able to fool themselves.

Far from being a condemnation of private behavior in the greedy 1980s, Lewis has presented us with convincing evidence that the government should stay far out of financial markets. Of course, to make the book a best-seller, he included a lot of juicy details that disguise this point. Michael Lewis is a smart guy, which is why he succeeded on Wall Street. So read his book—but call his bluff. Read between the lines. □

Coming Next Month . . .

- "Resurfacing the Road to Serfdom" by Susan Marie Szasz
- "Lessons from the Road: The Evolution of an Eatery" by John Baden
- "The Charade of Participatory Democracy" by Ridgway K. Foley, Jr.

Mises: The Impact of Ideas

by William H. Peterson

Ideas direct thinking, govern lives, and forge history. The impact of ideas is a theme that echoes and re-echoes in the works of Ludwig von Mises (1881-1973). Mises held that man is a thinking and acting being, that his values are highly subjective, that he can be swayed by political parties and spurious doctrines, that choosing determines every one of his decisions, that he should never relax in his quest for truth, that in the end his only weapon in the war on error is reason.

Mises held further that correct ideas are crucial to the human race, that the very essence of the human condition is the inescapable and insurmountable dualism of that condition: the dualism of man's two separate, distinct, unbridgeable, and not always perceptible or completely understandable realms.

One realm is physical, the outer world of corporeal, material, external reality—the reality that impinges on the senses, the things we can see, hear, taste, touch, and feel, the reality that reflects such mysterious earth forces as energy, gravity, electricity, and rotation. This, too, is the world of not-always-hospitable nature, of what Darwin viewed as the struggle for existence and survival of the fittest for all the earth's species.

It is also the external world of chemistry, physics, biology, physiology, geology, meteorology, and other hard "natural" sciences that help unlock some of the mysteries of the universe, of the world of flora and fauna, of tooth and fang, of earth-

quakes and hurricanes, of droughts and floods, and of—insofar as economics is concerned—stark scarcity.

The other realm is mental, abstract, intangible, almost ethereal, the inner world of the individual and his unique individuality, of his different and changing *ideas*, thoughts, ends, feelings, values, aims, missions, emotions, goals, intentions, purposes, ideologies, and traditions, the internal world of reason and reasoning, including false reasoning, the broad and largely uncharted universe of the human mind.

This is, in addition, the internal world where man ineluctably has to align and realign, continuously, his chosen ends with chosen means, to cope, again continuously, with endless scarcity, with the ceaseless change long ago spotted by Heraclitus, with social relations, religious questions, political problems, family matters, and all other praxiological concerns.

It is this inner realm—impacted by ideas—that generates thinking, that stirs emotions, that impels human action, that facilitates change for better or worse, that alterably shapes and shakes the future and, to a degree, the outer realm, that makes or breaks social cooperation, especially via politics, that sows peace or wages war—that hence determines man's fate—in the past, present, and future.

So, to repeat the observation of Mises, ideas direct thinking, govern lives, and forge history. Which is why *Economic Freedom and Interventionism: An Anthology of Articles and Essays* by Ludwig von Mises as selected and edited by Bettina Bien Greaves (Foundation for Economic Education, Irvington-on-Hudson, New York 10533,

Dr. Peterson, an adjunct scholar at the Heritage Foundation, holds the Burrows T. and Mabel L. Lundy Chair of Business Philosophy at Campbell University, Buies Creek, North Carolina.

250 pages, \$29.95 cloth, \$14.95 paper) is so vital and timely.

This fistful of ideas, this welcome and most readable book (with sideheads to ease the reading further) constitutes another chance for the West to re-examine the remarkable thought of a giant of our age. It marks another intellectual tie to the Mises legacy of understanding man's critical spheres of economics and politics, of telling us what we can do about them before it is too late. It is hence a book on human survival as well as human understanding.

Mrs. Greaves, a close friend of Mises and a faithful student in his famous graduate seminar at New York University, notes that she collected some of these articles from Mises himself and others from such sources as the Institute for Humane Studies, Liberty Fund, Regnery Gateway, *National Review*, *The Freeman*, and *The Commercial and Financial Chronicle*. She thoughtfully collates the 47 pieces, most of them out-of-print or not easily available, into four sections: Economic Freedom, Interventionism, Mises As Critic, and Economics and Ideas. Ideas of course permeate the entire anthology—much-needed ideas of a most constructive sort.

Take the Marxist idea of class conflict, for example, and the Mises idea in response. In an article reprinted here from *Christian Economics* of October 3, 1961, Mises takes Marx to task. Mises notes how the emerging market or contractual society of some two or three centuries ago soon obliterated the class lines drawn by serfdom and slavery.

Yet, maintains Mises, class or status survives today only by government fiat in such dubious taxonomy and forms as subsidies (which views farmers, for example, as a class), discriminatory taxation (which converts, among others, smokers, drinkers, and the rich into classes), affirmative action (which converts race and gender into classes), and union privileges (which transform employees into a class). So classes today become legal fictions and, by law, social frictions. In this sense, Marx's class struggle does persist, an undeserved triumph for the Left.

Indeed, in the posthumously published third volume of *Das Kapital*, observes Mises, Marx was at his wit's end on how to sustain the validity of his dogma of the class struggle. He failed to solve the puzzle and so abruptly ended his manuscript with but a one-page chapter (the 52nd) on "The Class-

es," with his editor Friedrich Engels succinctly noting: "Here the manuscript breaks off." But Marx died many years after he ceased work on his major opus; and Mises sees that Marx had painted himself into a corner, simply unable to put forth a credible definition of classes in a capitalistic age.

Or consider the Keynesian idea of the business cycle. In an article here reprinted from *The Freeman* of September 24, 1951, Mises attacks that idea in commenting on Keynesian Alvin Hansen's book, *Business Cycles and National Income* (Norton, 1951). In it Harvard Professor Hansen upholds the concept of counter-cyclical macro-demand management by the government, dwells on such supposed causal factors as general overinvestment and overproduction (thereby ignoring the insight of classical economist Jean Baptiste Say and his Law of Markets), and castigates those who see credit expansion and inflation as the underlying causes of the cycle.

Rebuts Mises with a better idea: "People must learn that the only means to avoid the recurrence of economic catastrophes is to let the market—and not the government—determine interest rates. There is but one pattern of positive counter-cyclical policies, viz., *not* to increase the quantity of money in circulation and bank deposits subject to check. Deficit spending by borrowing from the commercial banks is the surest way toward economic disaster."

Or look at the idea of government interventionism and the alleged need for supernational governments such as the European Community (which comes into full force in 1992). In a 1955 article commenting on *How Can Europe Survive?* by Hans Sennholz (Van Nostrand, 1955), Mises hails the Sennholz idea that the economic disintegration of then un-united Western Europe is hardly the outcome of the unhampered operation of the capitalistic market order.

It is rather, holds Sennholz, seconded by Mises, the result of the various West European governments (some ruled by outright socialist parties) erecting welfare states, interfering with domestic industries, even nationalizing some of them, restricting foreign trade and investment, and engendering economic retaliation in return. The further result is—no surprise!—widespread economic isolationism and consequent European disintegration, even though this disintegration did eventually lead to the concept and implementation

of a European Common Market, now known as the European Community (EC).

What makes the Mises-Sennholz discussion so relevant if not poignant today is the political and economic context of this big and growing EC, which may one day conceivably take in part or all of the once-Eurocommunist Bloc. For while Marxism has gone down in ignominious defeat in Eastern Europe, is it not relevant to inquire: How are the Misesian ideas of the unhampered market society now faring in the EC halls in Brussels and Strasbourg, and in the respective capitals of the EC member countries? Answer: Not well.

For is the talk there not still, paradoxically, Marxian, i.e., about the “need” for farmer protectionism, welfare measures, and other “social democracy” impediments to the free trade idea? Which raises in turn this question: How does the EC propose to treat in the years ahead the foreign trade and investment of non-EC member countries such as the United States and Japan seeking to do business inside the Community? Or, to put this question more bluntly: Will the EC, perhaps under the pressure of a global recession, revert to Western Europe’s economic isolationism of the 1950s, perhaps even with an economic *Festung Europa* hiding behind high tariff and import quota walls?

Comments Mises (again the year is 1955): “As long as there is domestic interventionism, the present unsatisfactory state will last. The funds spent by the U.S. taxpayer for the economic unification of Europe were wasted.”

Or consider the idea of land reform now so pertinent in an era when private property rights throughout the West are still unclear, when further decisions on just how to reallocate—hopefully, to privatize—the huge, literally millions of square miles of formerly state-held lands of Eastern Europe, including the Soviet Union, have to be made. Too, land reform is still a major issue in much of Latin America where landlords continue to operate large coffee, sugar, banana, and other plantations.

In a contribution (beautifully entitled “On Some Atavistic Economic Ideas”) to a 1966 *Festschrift* for Jacques Rueff, previously available only in French translation, Mises again supplies superior ideas on land reform that illuminate the background behind today’s headlines.

Mises says the program of land reform, includ-

ing confiscation and redistribution—usually in small equal parcels to the “peasants” or “citizens”—no longer makes sense in a capitalistic market economy. He observes how in a market society the consumers daily vote anew on just who should own or not own the factors of production, including land. All on a voluntary basis.

Thus by their buying or abstention from buying, the consumers decide who should be allowed to be entrepreneurs and who should supply the other productive factors of land, labor, and capital. In other words, the consumers determine just who should operate the factors in the best and cheapest way for the satisfaction of their own wishes and needs.

Entrepreneurs and other land and non-land factor owner/operators who do not measure up to these consumer wishes and needs are in effect assigned losses and soon turn to other pursuits. Factor owners who do measure up are rewarded with profits or other returns and so tend to expand their operations. It follows that economic resources flow toward their social optimum and that the consumer is not only sovereign, but a dictator as well: ruthlessly direct, sparing no one, least of all the landowners however large.

Now, what of the idea of official favoritism for debtors (the “poor”) over creditors (the “rich”)? Governments historically and contemporaneously have long followed such an idea, from Solon in Ancient Greece and the Gracchi brothers in Ancient Rome on to our present Congress and to parliaments the world over. Here also, argues Mises in his reprinted contribution to the Rueff *Festschrift*, the idea is to see that the capitalistic system already has radically altered the scheme of things. He writes:

Under the modern credit organization the more opulent strata are more often debtors than creditors. They own mortgaged real estate, business firms that are indebted to the banks and insurance companies, [and] common stock of corporations that have issued corporate bonds. On the other hand the common man is a creditor insofar as he has taken out insurance policies, has savings deposits with commercial banks and savings banks, owns bonds whether government issued or corporate, and is entitled to receive retirement and old age pensions.

Thus the irony of modern-day deficit spending

ECONOMIC FREEDOM AND INTERVENTIONISM

by Ludwig von Mises is available in cloth at \$29.95 and in paperback at \$14.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

and easy money ideas is that they are at once popular—buttressed by conventional wisdom in high academic and political places—and yet run directly counter to the interests of the broad populace. These ideas breed inflation and recessions. Since the end of World War II they have spelled the destruction of literally trillions of dollars in the total value of savings in bank deposits, insurance policies, and pension funds, public and private, including the savings of hundreds of millions of low-income and middle-income people. Currently the inflationary cancer induced by these ideas is and has long been global; and governments and central banks, trapped by false ideas, seem helpless to stop it—even though they could, given the right ideas.

Ideas. Ideas. As John Maynard Keynes himself, the champion of deficit spending and demand management, the supposed colossus of economic thought in the 20th century—when that colossus was properly Mises—noted in a flash of discernment at the tail-end of his otherwise misguided major opus, *The General Theory of Employment, Interest and Money* (1936): “Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. . . . It is ideas, not vested interests, which are dangerous for good or evil.”

Or as Bettina Bien Greaves puts this matter in the foreword of this remarkable book: “One recurring theme throughout Mises’ writings is that men act on the basis of ideas. Today is the product of past ideas. And the ideas of today will produce tomorrow. The idea that government has the power to cure almost any social ill permitted big government to triumph throughout the world. To reverse this trend, to create a world of free markets, to change governments, to repeal government programs, the ideas men hold must be changed.”

Amen. □

INVISIBLE VICTIMS: WHITE MALES AND THE CRISIS OF AFFIRMATIVE ACTION

by Frederick R. Lynch

Greenwood Press, 88 Post Road West, Box 5007, Westport, CT 06881 • 1989 • 237 pages • \$37.95 cloth

Reviewed by Steven Yates

Has “affirmative action” brought us closer to an equal opportunity society? Or has it limited opportunities for younger white males by reverse discrimination? Is it compatible with the principles of a free society—or does it run counter to them?

For a key part of this new study, sociologist Frederick R. Lynch interviewed 34 white males who blamed reverse discrimination for having lost out on jobs or promotions. Their politics crossed the spectrum from conservative Republican to liberal Democrat (though some found their views shifting rightward as a result of their experiences). Their backgrounds ranged from middle to working class. Many taught or were administrators in colleges and universities—unsurprisingly, since the schools have long been hotbeds of affirmative action. Others included Federal and state employees, corporate analysts, correctional officers, firefighters, cameramen, and so on.

Their reactions to reverse discrimination ranged from confused acquiescence and cognitive dissonance, to resigned acceptance, to anger and hostility—and in a few cases, emotional devastation. Many quit their jobs or even changed careers out of frustration, though a few were clever enough to circumvent the system through various ruses. Several filed reverse discrimination lawsuits, some still pending. None, so far, has been successful. White males, they discovered to their surprise and dismay, have little in the way of legal recourse in discrimination cases.

Whatever the original intent of calls for “affirmative action,” obviously something went badly wrong. Lynch spells out perhaps more clearly than anyone before him just what.

First, affirmative action has generally been imposed from the upper echelons of government downward, usually through the courts. Private corporations have often “voluntarily” implemented affirmative action plans to avoid discrimination investigations at the hands of bureaucrats and Federal judges. *Second*, these plans have been carried out mostly by word of mouth—word “comes

down but does not go out," as Lynch describes it. *Third*, institutions implementing such plans were on shaky legal ground from the start—after all, the Civil Rights Act of 1964 openly repudiated preferential treatment. Fear of lawsuits further explains the secrecy. *Fourth*, this secretive aspect of affirmative action has often kept its victims in the dark, and indeed has made it difficult to determine the extent of reverse discrimination. In those cases where white males knew they were victims, there was little in the way of "paper trails" or other evidence that would hold up in court. *Fifth*, and perhaps most important, a taboo on all open discussion of the subject—a New McCarthyism, Lynch calls it—has created a climate of deception and intimidation and led to a "spiral of silence." The deception is that affirmative action has public support, when in fact over 80 percent of the public opposes quotas. The victims, though, have hesitated to say anything for fear of being labeled racists.

An important tenet of the New McCarthyism is that white males should "bite the bullet"—they are a numerical majority in a society with a racist and sexist past, so by definition they *can't* be victims. They must be covering up for their own failures. Because of such ideologically rooted but widely promoted doctrines, would-be critics, too, have found themselves under pressure to keep silent; Lynch himself reports reluctance to discuss his research when it was in progress.

He singles out both the mass media and academic sociology for special criticism. Until the *Bakke* case, affirmative action was blacked out by the media; even afterward, public discussion was fraught with tension and evasion. Conservatives who have long accused the media of a left-liberal bias will find their views vindicated, on this issue at least. Lynch tells of an even worse bias deeply rooted in academic sociology, and, indeed, throughout *academe*, where collectivism has long flourished and bred intense pressures to conform to an official party line. Tenure has been almost a must for vocal critics; those who speak out often find themselves facing open hostility.

What emerges from *Invisible Victims* is a disturbing portrait of left-liberal social engineering run amok, carried out in open disdain for the public and for merit-oriented values, and surrounded by a campaign of distortion, intimidation, and silence. Lynch, if he is reviewed at all in academic journals, will be accused of generalizing from too

small a sample. He may, of course, be accused of far worse, e.g., of being a "racist" himself (or in league with the "racist status quo").

This, though, would be unacceptably *ad hominem*. Independent evidence confirms widespread reverse discrimination; polls cited by Lynch such as that of Gordon Black Associations (1984) indicate that at least one white male in ten has had at least one such experience. From the years 1980-83, over 1,500 complaints against public institutions alone were filed with the EEOC. Lynch's discovery of the reluctance of white males to speak out suggests that the problem is in fact much worse than what direct statistical evidence reflects.

Invisible Victims belongs in the library of everyone concerned about the impact of affirmative action on American society. It should be read by Federal bureaucrats, university administrators, and media moguls. Despite the left's belligerent denials, the suspicion is unavoidable that runaway preferential treatment is a major cause of racial unrest on college campuses and elsewhere. Young white males, after all, in general have committed no offenses against blacks and women, and realize instinctively that justice is not being served when they are routinely sacrificed in the name of ill-defined social goals instead of treated as individuals and judged on their own merits. Lynch's research suggests a growing body of "underground" resentment against affirmative action, and I predict a real donnybrook somewhere down the road if the problems it has created are not faced. □

Dr. Yates teaches philosophy at Auburn University.

ECOLOGY IN THE 20TH CENTURY: A HISTORY

by Anna Bramwell

Yale University Press, 92A Yale Station, New Haven, CT 06520
1989 • 292 pages • \$40.00 cloth; \$16.95 paper

Reviewed by Ben Bolch

Anna Bramwell's *Ecology in the 20th Century: A History* is the single most enlightening, and frightening, thing that I have yet to read about the radical environmentalist movement. It is a book that can be recommended without reservation to anyone who has become concerned with the excesses of this movement.

Bramwell points out that while environmentalists are now on the extreme left of the political spectrum, the movement apparently began in late 19th century Germany as a science-based anti-democratic crusade which found its first coherent political expression in Nazi Germany. In fact, she notes, the Third Reich was the first government to be dominated by extreme environmentalists.

Bramwell documents the rise in power of the Greens. This movement, of course, does not derive from any actual environmental difficulty, but rather from a gathering of a whole host of the discontented, including anti-nuclear pacifists, anti-Semites, anti-Christians, sun-worshippers, and simple haters of technology and the market process. It is a movement which cloaks itself in scientific rhetoric, a kind of public relations rationality which masks deep-seated irrationality: in "Green-science," for example, conclusions (such as global warming) are announced before the research is done.

But even more fundamental to the Green movement is the paradox of mankind's being at the same time one with nature and the destroyer of nature. The Green movement's muddy thinking extends to the presumed capability of mankind to care for nature only when coerced from above by massive government programs. This stance ignores a clear history which shows that government-controlled economies such as those in Eastern Europe have been more ecologically harmful than have those with greater market orientation.

Bramwell points out that the shift from right to left, or from Nazi to currently respectable brands of socialism, was necessitated by the outcome of World War II. Such a seemingly bizarre switch is surprising only to those who remain ignorant of F. A. Hayek's admonition concerning the correspondence of all forms of totalitarianism. Bramwell notes that the witch cult of PAN (Pagans Against Nukes) continues to worship at the same standing stones as were revered by the pagans of the Third Reich and that the tree fetish of today serves to remind us of the tree-planting obsession of the Nazis (a large part of conquered Poland was devoted to tree planting, and the oak leaf was the symbol of the SS). In historical context, the growing violent streak in the Green movement as exhibited by such organizations as Earth First! is quite easy to understand.

Technology and the marketplace are showcased by the Greens as the major culprits of man's fall from natural grace. Interestingly enough, Bramwell points out, technology is more acceptable if applied in a rural rather than an urban setting, but the complaint against the marketplace is absolute: any trade at all is a symptom of "lack of balance." If, it is argued, we were balanced and self-sufficient, no trade would be necessary. What we must do, say the Greens, is to define balanced geographic zones where trade is allowed solely within each zone. Who is to establish these zones of autarky is, of course, never specified.

Bramwell correctly concludes that much of this new nature worship is nothing less than a death wish. One cannot help but be reminded of ancient stone carvings such as those of the Maya which show the blood of human sacrifice pouring upon the ground to nurture the soil, or, for that matter, of the "Blood and Soil" aphorism of the Third Reich. Mankind is expendable, which is why little or no thought is given to the ability of five billion or so people to live on this planet in the absence of continuing high levels of technology, trade, and economic growth. The human sacrifice of ancient nature cults, or of Nazi Germany itself, pale in comparison with what can be contemplated here.

A recent poll by the National Association of Business Economists found that a large fraction of its membership is highly concerned over the increased stringency of environmental regulations, restrictions which as often as not make no sense from either the environmental or the economic point of view. Economists need to understand that the Green movement will not go away. On the contrary it will surely grow in size not because of worsening environmental problems (especially in the U.S.) but because the movement appears to be almost infinitely flexible in accommodating the discontented of all points of the political spectrum. It is to Bramwell's credit that she points out to us that those who profess a superior concern over nature are not necessarily morally better than those of us who are less fanatical. We need not continue to bestow upon this group the kind of mindless political homage that it has enjoyed in the recent past. A renewed insistence upon economic rationality is long overdue. □

Ben Bolch is Professor of Economics at Rhodes College, Memphis, Tennessee.

THE FREEMAN

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Valuing the Future

If private property rights are well defined and respected, then the owner of a resource has confidence that he or she will, by maintaining ownership, benefit from any increase in the future value of the resource. As evidenced by the fact that graffiti is ubiquitous on the walls of public rest rooms but seldom seen on the walls of rest rooms in private homes, people are more concerned with the future value of property they own than of property they do not own.

But genuinely farsighted behavior often requires that individuals consider consequences of their decisions that will not be realized until after they are gone. The private ownership of property by itself will not provide the necessary incentive for people to concern themselves with outcomes which extend beyond their own existence. Yet we observe property owners sacrificing current consumption in order to make investments that will not pay off for several generations. Many research and development projects will not, at best, pay off for decades. Owners of forest land replant white oak and Douglas fir trees that will not be harvested for 60 or more years. Some people invest in the production of wines and spirits that will be aged a century or more before they are sold and consumed. This behavior occurs because private ownership rights are generally transferable, and because future values are reflected in current prices.

—Dwight R. Lee and Robert L. Sexton, writing
in the April 9, 1989, *Orange County Register*

Antitrust and Monopoly

Government, and not the market, is the source of monopoly power. Government licensing, certificates of public convenience, franchises, patents, tariffs, and other legally restrictive devices can and do create monopoly, and monopoly power, for specific business organizations protected from open competition. Abusive monopoly is always to be associated with governmental interference of production or exchange, and such situations do injure consumers, exclude sellers, and result in an ineffi-

cient misallocation of resources. But importantly, for this discussion, such monopoly situations are legal, created and sanctioned by the political authority for its own purposes. Thus, ironically or intentionally, the bulk of the abusive monopoly in the business system has always been beyond the scope of antitrust law and antitrust policy. Antitrust . . . is both a myth and a hoax.

—Dominick T. Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure*

The Market for Corporate Control

The (relatively) free market economy of the United States has found a way to pierce the protective veil that insulates unresponsive management from the wrath of small shareholders—the takeover. The corporate takeover is practically the only way that entrenched management can be shaken up and either forced to be responsive to shareholder interests or fired. This market for corporate control does not exist to any great extent in any country except the United States, which provides a competitive advantage over other countries because the threat of takeover provides corporate management an extra incentive to work for shareholder interests rather than its own. Thus, shareholders of United States companies receive a higher return on investment than can investors in companies that are not subject to a takeover threat, all other things being equal. The attack on Drexel Burnham, and the threat of an attack on anyone else who tries to facilitate the market for corporate control with junk bonds, is bound to harm the market for corporate control and thus decrease the already weak voice that shareholders have. Management of companies that do not have to fear a takeover will have less incentive to be efficient, which also hurts employees and consumers.

—Robert W. McGee and Walter E. Block, writing in the *Northern Illinois University Law Review*

On the Skids

I wonder if one could not draw a parallel between a drunk on the skids and the American people with their addiction to more government. Or maybe compare our social welfare system with a mountain system of high peaks and bottomless ravines.

Behind us are the mountaintops of capitalism; below us is the chaos of socialism; we are perched on the slippery slopes which lead only downward.

Recently we witnessed several drunks in Eastern Europe, who after 40 years of socialism finally hit the bottom and only then were able to pick themselves up to vow never again to partake of what had nearly killed them. Need we follow them clear to the pits before we realize the terrible damage we do to ourselves when we tinker with the marketplace?

—Douglas N. Merritt, writing in the July 10, 1990, *Atchison Daily Globe*, Atchison, Kansas

The Caretaker State

The modern state taxes people in the name and façade of compassion in order to accomplish its salvation of all men by legislation, controls, and science. People have long believed in statist salvation, and they have looked to the state to solve problems, moral problems, they themselves refuse to acknowledge as their responsibility. One of my more vivid memories of this came with the 1971 earthquake in California's San Fernando Valley in Los Angeles. I heard someone in a check-out line of a supermarket complain about the earthquake, and earthquakes in general, and ask, "Why doesn't the government do something about it?"

Impossible tasks have been asked of the state, and the state has failed again and again. As a false savior, it is increasingly the target of the people's bitterness. The crisis will only worsen, and the evils experienced by peoples and states will intensify, until they recognize that the state is not god, nor is its power to do good equal to what man can do under God.

—Rousas John Rushdoony, writing in the June 1990 issue of *Chalcedon Report*

Freedom of the (Printing) Press

by Michael L. Coulter

Freedom of the press is coming under a new attack in the United States. The threat is of an economic nature, and is rooted in sincere, seemingly harmless, environmental concerns. But if present trends continue, the results could have a devastating effect on press freedom.

Several states recently enacted laws requiring newspapers to use varying amounts of recycled paper. Other states are considering similar measures. The California law, passed in 1989, mandates that, beginning in 1991, 25 percent of newsprint purchased by publishers contain at least 40 percent of old newspaper print (ONP). This rate increases incrementally until the turn of the century when 50 percent of purchases must contain 40 percent of ONP.¹ The Connecticut law, passed in 1990, is even tougher. It mandates that by 1993, 20 percent of newspaper that is consumed will have to be recycled. This rate will reach 90 percent by 1998.² Several bills have been introduced in Congress that would require newspaper publishers to use certain percentages of recycled newsprint, while other bills would amend the tax code so that publishers who don't use recycled newsprint are penalized.

To avoid mandatory recycling, some newspapers have "volunteered" to purchase certain amounts of newsprint containing ONP. Agreements have been reached in Wisconsin and New

York, stating that publishers will buy recycled newsprint if it is of a certain quality and price. This shifts the burden to the newsprint producers and says, in effect, that the newspaper industry can work toward recycling without government requirements.

The economics of newsprint recycling are formidable. There are 62 newsprint plants in North America (21 in the United States and 41 in Canada), but only nine are equipped for using old newspaper print.³ These nine plants can produce only 13 percent of industry capacity.⁴ Moreover, it costs approximately \$100 million to retool a plant so it can make quality newsprint containing a high percentage of recycled fibers, or up to \$500 million to build a new plant.⁵ Most of these plants are located near logging operations, while most ONP is available near highly populated urban centers.

Without legislative inducements, approximately 1/3 of newsprint is recycled.⁶ Old newspaper print is used for tissue, cereal boxes, construction paper, construction board, and cellulose insulation.⁷ Entrepreneurs have made use of the plethora of old newspaper and converted it into useful and profitable products, without government coercion. Legislative efforts may disrupt these established markets for ONP.

Therefore, measures requiring newspaper publishers to use a particular type of newsprint yield small environmental gains at very high costs. Landfills will fill up slightly more slowly, and fewer trees will be cut for newsprint, but the costs are much greater. Newsprint producers would have to

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SOWERS PRINTING COMPANY

make large capital investments to gain the capability to recycle. In addition to capital investment, ONP must be purchased and transported to the plants. Also, existing markets for ONP could be unsettled. The additional costs will be passed on to newspaper publishers, which could further hurt the troubled newspaper market.

Even if we disregard the economic costs involved with the mandated use of recycled newsprint, we should oppose such initiatives because they are an illegitimate intrusion into the activities of the press. Thomas Jefferson asserted, "Our liberty depends on freedom of the press, and that

cannot be limited without being lost." This statement still rings true.

1. "Waste Disposal Crisis Fuels Surge of Interest in Recycling," *Pulp and Paper Journal*, January 1990, p. 46.
2. "State, Federal Governments Focus on Recycling," *Presstime*, March 1990, p. 60.
3. R. Dellinger, V. Horton, and D. Snow, "Waiting for the ONP Market to Improve," *Waste Age*, June 1990, p. 105.
4. G. Pierre Goad, "Recycling Siren Lures Newsprint Makers," *The Wall Street Journal*, November 10, 1989.
5. Alex S. Jones, "Newsprint Gamble Proving Costly," *The New York Times*, April 21, 1990.
6. Pat Guy, "Publishers Push Papers to Recycle," *USA Today*, October 6, 1989.
7. "Waiting . . .," p. 106.

Resurfacing the Road to Serfdom

by Susan Marie Szasz

The tearing down of the Berlin Wall, the overthrow of the Ceausescu dynasty in Rumania, the opening of McDonald's in Moscow all make for good front-page newspaper stories and dramatic television footage. But what does it all mean? Snapshots and sound-bites of "freedom" are a far cry from what the architects of Western freedom—Locke, Montesquieu, Adam Smith, Jefferson—had in mind. The history of the world since the 17th century has done nothing but confirm and reconfirm the indivisibility of the right to liberty and the right to property. But where is the right to property in the imagery, the language, or the hopes of the people of Eastern Europe and the Soviet Union?

To be sure, the people under Communist rule are fed up with their lives of economic deprivation and are demonstrating for "reform." They have traveled the "road to serfdom" and now, having arrived at its destination, realize they are not where they want to be. But where do they want to be? What sort of political-economic system do the people of Eastern Europe and the Soviet Union want? Do they want to risk journeying the "road to freedom," or are they more interested in repaving the old road with a smoother surface—one that they hope will lead them to the abundance of consumer goods available to their ideological opponents?

In addition, are the people of Eastern Europe and the Soviet Union willing to accept that capitalism can be as corrupt as socialism? Do they want

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the freedom of opportunity, whereby some succeed and some fail—or do they just want a better life, guaranteed by a more benevolent government? Are they willing to accept the inevitable inequality which results from liberty, as defined by the absence of an equalizing government, or do they still prefer to perfect social equality, only at a higher level of creature comforts? Are they, in return for true freedom, prepared to give up bread lines for unemployment lines?

We ought then to be careful lest we lend more significance to recent events in the Soviet bloc than they deserve. While it may be difficult—even churlish—to display pessimism in the face of joyful events, it might be well for us to step back from the excitement and try, as coolly as possible, to assess the changes that have occurred so far and project those likely to follow.

As in all discussions of human affairs, we must begin by clearly and carefully defining the terms we too easily take for granted. What do we mean by terms such as "liberty," "property," and "socialist"? Also, lest we mistakenly assume that others view these ideas as we do, what do these words and ideas mean to the peoples of Eastern Europe and the Soviet Union?

For us, the core meaning of liberty is clearly articulated in the immortal works of the great intellectual founders of Western liberty and the institutions their ideas inspired. "Though the Earth, and all inferior Creatures be common to all men," wrote John Locke in 1690, "yet every man has a *Property* in his own *Person*. This no *Body* has any *Right* to but himself. The *Labour* of his *Body*, and the *Work* of his *Hands*, we may say, are

properly his.” Less eloquently, but no less clearly, Webster’s unabridged dictionary defines “liberty” as “freedom from external restraint or compulsion. . . .”

This concept of liberty as “freedom *from*” is the central component of classical liberalism, from Locke and Mill to Mises and Hayek. In the course of this century, this formulation has often become characterized as the “negative” definition of liberty, implying that it is inferior to some other “positive” definition of this idea. Thus, critics of classical liberalism, assuming the mantle of the true friends of freedom, would have us believe that “liberty” is better defined by its consequences, which somehow must be “good.” They fail to understand that the essence of liberty is personal choice, and that we can escape the risks of the abuse of liberty only by escaping liberty itself.

Thus, we can see sunlight as giving us food or giving us skin cancer—and the right to property as giving us landlords to provide people with homes or to exploit their homelessness. Perhaps the main difference between the capitalist (free market) and the anti-capitalist (communist) perspectives on life come down to whether a person perceives an eight-ounce glass containing four ounces of liquid as half full or half empty. Obviously, it is both. Those who want to make the most of what they have are drawn to the philosophy of the market; those who want to feel sorry for themselves for what they don’t have, demanding that others make up for their losses, will be drawn to the philosophy of socialism. By redefining liberty in such a way that “it” is not liberty unless it guarantees “good” results—equality of ends not of opportunity—we have witnessed a hugely successful attempt to redefine liberty, without, of course, admitting to this semantic sleight of hand.

The Founding Fathers set forth to form a government “of the people, by the people, and for the people.” They envisioned not *good* government, but *limited* government. The Founders did not look to the King of England for permission to think and work as they saw fit; they wanted to be left alone from his influence, or, to use a modern metaphor, they wanted a divorce from George III, not alimony.

Work: A Duty or a Privilege?

The Western mind, steeped in a Protestant work ethic, views work as a privilege, as a source of indi-

vidual identity, as a means of self-realization—even as an enjoyment. This is the very opposite of the view of work that 70 years of socialism have wrought, especially in the Soviet Union, where people—like Goncharov’s Oblomov—have come to view work as a duty to be endured, and preferably avoided. A look at the evening television news confirms this impression: Unlike the settlers in Colonial America, or the newly arrived immigrants from Asia, the people in Eastern Europe and the Soviet Union today do not appear to *want to work*; instead, they appear to *want to have*. They want to eat at McDonald’s and wear American jeans, not produce distinctive Russian food or designer clothing for export to the West.

Lacking a moral and ethical philosophy rooted in a sense of history, the people of Eastern Europe and the Soviet Union are constrained by their own present-oriented thinking. Perhaps having been forced by the inadequacies of their economic system to eat hand-to-mouth, they have learned to think and act hand-to-mouth as well—illustrating the interrelationship between the free market in goods and the free market in ideas. It is this widespread destructionist aspect of socialism that Ludwig von Mises revealed more than half a century ago: “Socialism and destructionism . . . use up capital so as to achieve present wealth at the expense of the future. The policy of Liberalism is the procedure of the prudent father who saves and builds for himself and his successors. The policy of destructionism is the policy of the spendthrift who dissipates his inheritance regardless of the future.”

So what do the people in the Soviet bloc want—besides national independence? Mikhail Gorbachev is no fool. He hears the people screaming for freedom, but he understands that first and foremost they want what their neighbors in the West have. In his 1990 New Year’s address he called for a “humanistic socialism”—what we in the West might call a “kinder, gentler Soviet Union.” A clever phrase, albeit not very original: Alexander Dubcek, the First Secretary of the Czechoslovak Communist Party, often used the slogan, “Give socialism back its human face.”

Liberal Americans have used the language of “entitlements” and “equality” to appease the discontented and make capitalism appear more “humane.” Can we blame liberal Russians for using the language of glasnost and perestroika to appease the dejected and make socialism appear

more “humane”? Each of these euphemisms sets in motion political programs destined for disaster. Indeed, as Friedrich von Hayek warned, “. . . nothing has done so much to destroy the juridical safeguards of individual freedom as the striving after this mirage of social justice.”

Today, economists both on the right and the left suddenly seem to agree that, as an economic system, “scientific” socialism has failed: It has failed to yield prosperity comparable to that achieved by market economics. The “means” have proved inadequate. But the “ends” of socialism—the “humanistic” distribution of society’s goods and services—have remained unscathed.

More important, its goals cannot be tested in the same fashion. Efficiency is a fact: that the Mercedes is better than the Trabant is a fact. But equity is a value; it is, in a sense, meaningless to say that “social justice” is better than “individual liberty” (or vice versa). The amount of goods on the market can be quantified; the value of distributing them “fairly” cannot. To think otherwise is both futile and foolish.

The current fashion of readily admitting the “failure” of socialism—thus seemingly embracing capitalism—may thus be a kind of political-economic Trojan horse. In other words, there is no longer any point in asking: Can the economic *practice* of socialism work? But there is still very much of a point in asking: Can the moral *principles* of socialism be the foundation for a system of government designed to protect the liberty and dignity of the individual? It is worth noting here that one of the most widely quoted critics of Communism today, Zbigniew Brzezinski, not only stops short of equating Communism with socialism, but also avoids criticizing the ethics of collectivism. To him it is merely a “grand failure,” not an “evil.”

But efforts to characterize socialism as a failure, like those to redefine it in more humanistic terms, evade the central issue—that its “success” would be a far greater catastrophe for humanity than its failure. Gorbachev would have us believe that he can fashion a neo-socialism for the next century that incorporates some type of property rights into the means of production—at least into some of the means, some of the time. His dream thus remains “. . . finding an organic combination of plan and market methods to regulate economic activity.” (*The New York Times*, February 14, 1990)

Protecting Private Property

Wagner’s music, said Mark Twain, is not as bad as it sounds. I dare say Gorbachev’s economic reforms are not as good as they sound. The desire for, and the appreciation of, private property, if it is to have any real meaning, must come from the people, not the Communist Party. In a society based on respect for property, government is instituted to *protect* property, not to *permit* it. By turning this fundamental premise on its head, the poets of perestroika are composing a new patriotic ballad of oxymorons. If the Republican or Democratic Party were to suggest that individual liberty could exist without persons, everyone would laugh. When the Communist Party announces that socialism can be based on “property rights” that are nevertheless emphatically not the rights of “private persons,” virtually all commentators interpret the change and accept it as a major step away from the command economy, toward the market.

Actually, the Russians’ ambivalence about private property goes back a long way; it is a disposition the Soviets inherited rather than invented. Consider the following prescient observation made by Count Sergei Witte, Prime Minister of Imperial Russia, in 1905: “. . . perhaps the main reason of our revolution is a delay in the development of the principle of individualism. . . . The principle of private ownership forms today all economic relations: the whole world is based on it.” (*The Wall Street Journal*, November 27, 1989)

And what do we hear today, 75 years later? A continued depiction of the idea of private property as a moral evil. Why? Because while for us, in the West, private property implies a need for self-discipline, personal planning for one’s future, saving, investing, economic security for oneself and one’s family—for the people in the Soviet bloc it implies exploitation, profiteering, the absence of protection by “superiors” (whether feudal lords or Communist commissars). Thus, in a nationally televised address broadcast on November 16, 1989, Mikhail Gorbachev declared: “The Soviet Union is not ready for private property.” What, then, is it ready for? “Citizens’ property,” according to the new “property law” approved by the Soviet Parliament on March 6, 1990.

It would seem, then, that the property the Soviet reformers are now talking about is not real private property in our sense, but a kind of Potemkinian

property in the classic Russian sense. When Mises coined the phrase “anti-capitalistic mentality,” he knew whereof he spoke. But why do the media and the pundits never call Gorbachev and the rest of the neo-reformers unrepentant anti-capitalists?

The new Soviet Communist Party Platform contains other seeming concessions to liberal ideals which, on close scrutiny, are offensive or at least questionable. Seemingly giving more freedom to the people, the Communist Party remains firmly in control. Adopting the language of our own First Amendment, the new Communist Party Platform will recognize “. . . freedom of speech, the press, meetings and demonstrations and the formation of public organizations”—*except* “the formation and activity of organizations and movements that expound violence and interethnic strife and that pursue extremist, unconstitutional aims [which] should be prohibited by law.”

That is nothing less than a travesty of *our* principles of freedom: The Founders never intended to grant freedom of speech only to those with whom they agreed; King George III would have been quite happy to concede that much. Nor did they want to limit speech to words that did not upset them or other Americans.

The Gorbachevians, as their platform proclaims, have their own paternalistic interpretation of “free speech”: They are “. . . prepared for a political dialogue and cooperation *with everyone who favors the renewal of the socialist society* [and] . . . resolutely oppose separatist slogans and movements that would lead to the destruction of the great multiethnic democratic state.”

Fortunately, freedom of speech and individual sovereignty seem secure in the United States. Nevertheless, despite this and our adherence to the principle of private property, our own prospects for liberty are on rather shaky ground if we look at the real market place. After all, as Peter Brimelow pointed out in the December 11, 1989, issue of *Forbes*, “One measure of the extent of socialism in a given society is the size of the government sector [or] its spending as a proportion of the gross domestic product.” In 1987, total government outlays—local, state, and federal—comprised 37 percent of our GNP. If we also take into account the government’s authority to tax and regulate, “control mechanisms” as powerful as ownership, then, “by this measure, the U.S. economy [has] much more of a socialist element than

most Americans realize.”

Clearly, modern Liberals—in Washington and Moscow alike—prefer to focus on human rights rather than on property rights in order to appear socially concerned. By splitting off property rights from human rights, we have given the former a bad name—and undermined all other rights in the process. But *we know* that property rights are not only as valid as human rights but, in fact, are anterior to, and necessary for, human rights, since, as Madison declared, “in its larger and juster meaning, it [property] embraces everything to which a man may attach a value and have a right . . . [and includes that] which individuals have in their opinions, their religion, their passions, and their faculties. . . .”

Private property is indispensable as an economic base for the formation of a government committed to freedom. But private property, solely as an economic concept, is not sufficient for such a government.

It may be worth remembering here that Adam Smith, who is generally regarded as the father of free-market capitalism, was not an economist (there was no such thing in the 18th century); he was a professor of moral philosophy. As such, his brand of economics made no attempt to be value-free. Today, professional economists and observers of the economic scene err in their efforts to make these human interactions into a value-free social “science.” Accordingly, the free market must be espoused not because it “works” (or works “better”), but because it is the only system that recognizes the supremacy and sovereignty of the individual as a human being. The precepts of moral philosophy and economics then cannot be completely separated. They are symbiotic, the one dependent on the other. Mises was right: “It is . . . illegitimate to regard the ‘economic’ as a definite sphere of human action which can be sharply delimited from other spheres of action. . . . The economic principle applies to all human action. . . .”

The leaders and the people of Eastern Europe and the Soviet Union have yet to understand this. Sadly, we in the United States have also obscured the meaning of this precept. The prospects for liberty in the next century—both at home and abroad—require that we open our eyes to what is happening in the world and think clearly about individual freedom, personal responsibility, private property, and the role of government. And act accordingly. □

Lessons from the Road: The Evolution of an Eatery

by John Baden and Ramona Marotz-Baden

We spend much of each summer traveling from Bozeman, Montana, to academic and environmental conferences throughout the West. We've had a lot of experience eating on the road. Unless we are in areas noted for fine food—Seattle or San Francisco, for example—our choice for breakfast and lunch has become McDonald's.

Many of our academic, intellectual, and environmental friends view McDonald's with disdain. They see the arches as a font of cultural sin rather than a source of nourishment. Some would rather be seen entering a porn shop than passing through the Golden Arches. Others view it more acceptable to have breakfast whiskey on their breath than a McDonald's shake.

To many of these people, McDonald's symbolizes what they find so objectionable in America. The arches mean plastics and conformity, dead-end alternatives to unionized jobs for the masses. McDonald's represents the antithesis of the sticks, twigs, and sprouts that make up seven-grain vegetarian organic sandwiches.

McDonald's succeeds by identifying a market and evolving to give people what they want as tastes and sensitivities change. However, many environmentalists imply that people want the wrong things. To them, McDonald's success assaults refined tastes and ecological sensitivity. It takes some courage for academics with an envi-

ronmental bent to defend McDonald's. We do. Here's why.

First, one of Ramona's graduate degrees is in nutrition. She spent several years studying people whose diets contributed to their death. She was delighted when McDonald's hired Hazleton Laboratories, a nutritional testing firm, to prepare *McDonald's Food: The Facts . . .*, a complete booklet on the nutritional composition of every item on their menu. It guides her choice of a Chunky Chicken Salad with low-fat dressing, an apple bran, no-cholesterol, oil-free muffin on the side, with perhaps a low-fat frozen yogurt for dessert. While major portions of their menu are as bad as Ben & Jerry's premium high butterfat ice cream—e.g., the McD.L.T. with its 580 calories, 36.8 grams of fat, and 990 milligrams of sodium—their muffins, salads, and yogurts may be eaten with a clear conscience.

McDonald's has responded to changing nutritional preferences and knowledge by adding items to their menu, while subtracting saturated fats. Since one American in seven eats in McDonald's each day, these changes are significant.

Second, while we don't have a wide variety at McDonald's, we like to avoid nasty surprises when eating. We appreciate the company's quality control, and we know that we will be served in less than three minutes, will soon be back on the road, and are most unlikely to get food poisoning.

Third, we learned that McDonald's service is usually fast, friendly, and competent. The facilities will be reasonably clean, and our car will be safe while on their lot.

Fourth, it is a pleasure to watch a firm with a

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Environmental iconoclasts John Baden and Ramona Marotz-Baden take a break at the Golden Arches.

commitment to being “the world’s best hamburger store” impart a respect for standards to employees. If we had to choose between hiring a youth certified by McDonald’s or by a public high school, McDonald’s wins.

Finally, whatever their motivation, McDonald’s believes that it is good business to stress good corporate citizenship. During the past few years, they led the introduction of more environmentally responsible behavior in the fast food industry. They reduced volume, reused containers, and were working toward recycling plastics and paper. The company’s recent decision to renege on commitments to experiment with recycling foam containers, however, was a disappointing concession to environmental symbolism. McDonald’s now emphasizes paper packaging for its public relations value, whatever the facts. Scientifically oriented environmentalists lament

this lost opportunity for a major national company to experiment with recycling.

We can understand why few academics cheer McDonald’s progress and leadership. Many intellectuals and environmentalists are distracted by image and ignore substance. The symbol of the Golden Arches provides a wonderful backdrop to demonstrate one’s aesthetic, cultural, and environmental superiority. For some, this imagery is too valuable to yield to mere facts.

The number of these critics, however, is small. McDonald’s needn’t worry about market share missed. But the critics have influence, and as their numbers grow, McDonald’s will respond. We might even see the option of an organically grown, whole-grain vegetarian sandwich in a recyclable wrapper. Knowing McDonald’s concern about pleasing people, it will even taste good while reflecting America’s changing sensitivities. □

The 1946 Voter Revolt Against Government Regulation

by Gary M. Anderson

Government seems to grow constantly bigger and ever more intrusive in our lives. Modern history reads like a tale of interventionism run amuck. In a recent *Freeman* article, Robert Higgs outlines the pattern of government growth in the United States in the 20th century.¹ He explains that national crises (e.g., World War I, the Great Depression, and World War II) have contributed to a shift in public ideology, leading to popular acceptance of ever-bigger government. Increasingly, special interest groups have learned to manipulate the political process for their own ends, and the private economy has become a “cash cow” used as the source of governmental subsidies and other forms of favoritism. Before World War II, it was widely believed that government had no business interfering with the private economy in the absence of dire necessity; after the war, Americans generally assumed that government interference was the rule rather than the exception. Majoritarian democracy has become a kind of handmaiden to Big Government. Higgs concludes his essay on a pessimistic note: “as far as the eye can see, we behold only big government and more big government.”

In his recent book,² Higgs discusses a related development that occurred following both world wars: the federal government *shrank* rather substantially after the close of hostilities. He notes, however, that this shrinkage failed to return the size of the federal government to where it was before the wars started (relative to the overall economy). Government expanded enormously, in

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both size and scope, during the war, declined significantly after the war, but nevertheless remained on a higher “growth path” than would otherwise have been the case. In short, after hostilities ended and the troops were demobilized, both wars left the federal government significantly larger even in the long run.

This process of postwar shrinkage in the size and scope of government has received relatively little attention from scholars. Even defenders of free markets have largely focused their attentions elsewhere. However, the postwar government shrinkage deserves our attention for two reasons. First, this reduction in intervention and expenditure is interesting in its own right. We do not ordinarily expect to see government growing smaller, because all of the incentives facing politicians and bureaucrats reward those individuals for making decisions that cause government to grow *larger*. Second, defenders of the free society need to consider this postwar reduction in governmental interventions in the economy as it may apply in more ordinary circumstances. A careful consideration of these episodes provides grounds for optimism. Particularly significant was the demise of price controls after World War II. We *know* that Big Government can be stopped, because in the recent past, it *has* been stopped—at least, temporarily.

World War II

The federal government exploded in size during World War II. Spending by Washington grew from \$10 billion in 1940 to a (what was at the time) mind-boggling \$100 billion in 1944. Obviously,

most of this growth was in the form of military spending. For example, the U.S. Army had about 187 *thousand* men in 1939; this number rose to over 8.26 *million* in 1945. The United States produced 300,000 war planes, 100,000 tanks and armored vehicles, 124,000 ships, and 41 billion rounds of ammunition during World War II, to mention a few examples.³

But at the same time the federal government was buying tanks, planes, and ships needed to fight enemy forces, it was expanding its activities in realms that had a more dubious relationship to the efficiency of waging war. The War Production Board (WPB) became America's central planning agency, replacing allocation of resources by the market with allocation by Federal bureaucrats. Instead of offering market prices for military items, the federal government used the WPB to force industry to convert to war production from consumer goods. In this way, the government coerced private industry to accept prices for war goods far lower than the free market would have determined.⁴ The War Labor Board regulated wages. The Office of Civilian Supply administered the civilian sector. And the Office of Price Administration (OPA) controlled virtually all prices. These various "war agencies" employed 151,551 people in 1945.⁵ In that year, the various bureaucracies that controlled prices and wages alone cost \$389.1 million to operate.⁶

Federal price controls weren't restricted to goods directly related to the war effort, like armor plate or chemicals needed for explosives, but were essentially universal. All important consumer goods were price controlled. Rents were especially tightly controlled. All told, about 650 separate price controls were in effect during the war years.⁷

Moreover, these controls were not mere requests, but were strictly enforced. Failure to obey the price regulations was a crime. Between February 1941 and May 1947, the OPA instituted 259,966 sanctions on violators of price regulations, including 13,999 Federal criminal prosecutions and 5,127 local criminal prosecutions.⁸ During the period 1941-1945, the federal government seized under Presidential authority (and, in effect, temporarily nationalized) 73 industrial plants.⁹

This extensive price control reduced the efficiency of the economy, and therefore raised the real costs of the war effort. A better policy would have been to interfere as little as possible in the

operation of the free market, and pay the prices for war-related goods that reflected the true conditions of supply and demand. However, as Robert Higgs points out, controlling prices had a big advantage for politicians anxious to protect their re-election prospects. Price control made the cost of the war *seem* to be lower than it really was. Nominal tax revenues collected could be lower. The apparent size of the Federal deficit could be made to look smaller. Unfortunately, while this "shell game" may have reduced re-election anxiety among politicians, it lowered economic efficiency, produced shortages, and led to a massive system of rationing that was rank with political favoritism.¹⁰

In an important sense, this expansion of the federal government into central planning was more ominous than the rapid growth in actual spending, although the latter was easier to measure and hence seemed more dramatic. It would have been very hard for government to justify such huge military budgets in peacetime, and so there was a strong built-in pressure to reduce spending after victory was achieved. But the regulatory apparatus was much more insidious. Since it had nothing directly to do with the war effort (i.e., it contributed nothing to military strength), it was less obvious why the cessation of hostilities should lead to deregulation. Granted, the heavy burden of regulation was claimed to be a necessity of wartime. But the same arguments (the supposed need for "stabilization," "production rationalization," and for "controlling inflation") that were used to justify the massive increase in regulatory activity during the war could potentially be applied with equal force after the war had ended. More to the point, bureaucrats *like* to regulate, planners like to plan, and controllers like to control. A huge regulatory bureaucracy was in place and ready to insist that the country could not survive without continued central planning. If the planners had been left to their own devices, postwar deregulation would not have happened. We would be living in a centrally planned economy today.

Fortunately for the U.S. economy, this dismal projection did not come to pass. Simply stated, the voters demanded an end to wartime planning. This was especially the case with regard to price controls.

There was strong public support for the war against the Axis powers, so most people were pre-

disposed to accept any measures the federal government declared to be essential for ultimate victory. Even during the war, though, public support for price controls was lukewarm. Many people had trouble with the idea that granting Federal bureaucrats power to set prices was necessary for military victory. For example, in November 1943, when patriotism was running very high, a *Fortune* magazine poll found that only 29.4 percent of respondents thought that the Office of Price Administration was doing a good job; 30.8 percent rated its job as “poor,” 24 percent “medium,” and 15.8 percent didn’t know. In other words, at the height of the Second World War, over 70 percent of respondents *did not* think that the OPA was doing a good job.¹¹

The Black Market

Additional evidence of weak public support for price controls was the thriving black market for price-controlled and rationed goods. Naturally, because open violation of price regulations was illegal, “official” data on the size and scope of this activity is hard to come by. But there are indications that the black market was substantial. For example, in 1944 alone, the OPA found 338,029 separate violations of its regulations, and prosecuted 9,260 people (the remainder of the cases receiving some lesser penalty).¹² Food, clothing, gasoline, consumer durables, and even apartments were readily available on the black market. Of course, this is only indirect evidence of the lack of public acceptance of price controls, but such “cheating” was generally viewed by average people as not hindering the war effort in any way. Many patriotic Americans bought sugar and gasoline on the “black market.”

Nevertheless, most indications suggest that the general public at least tolerated the various wartime economic regulations. Most people took the federal government at its word that war regulations were just that, and would be lifted after victory was achieved.

As the war came to a close, much of the Federal regulatory apparatus was lifted, just as the Army was gradually demobilized and orders for tanks, planes, and ships were cancelled. This “reconversion” did not, however, secure the enthusiastic support of all the wartime bureaucracy. Many Federal war regulators and administrators fought bitterly,

albeit unsuccessfully, to retain their bureaucratic fiefdoms in peacetime.¹³

The protests of the price controllers against peacetime deregulation were more successful than many of the similar efforts by their regulatory colleagues. Predictably, the professional price controllers were not eager to set prices free—and put themselves out of jobs. Almost immediately following the cessation of hostilities, the OPA bureaucracy began to insist that many price controls were still necessary in peacetime. OPA argued that the retention of strict price controls (combined with detailed regulations restricting clothing style changes) was “indispensable in upholding its stabilization program.”¹⁴ In October 1945, OPA’s price controls on building materials were actually strengthened. Price Administrator Chester Bowles strongly opposed removing price controls on housing. In November 1945, price controls remained in effect for rubber, tin, lead, various chemicals, housing, newsprint, containers, textiles, clothing, leather goods, and other products. The price-control law was due to expire in June 1946, but the OPA let it be known that “at a minimum” price controls would be “required” until at least the end of June 1947!¹⁵ The clear implication was that, in the OPA’s view, controls might be “needed” indefinitely. At the end of July 1946, this extension was duly enacted.

Instead of leading the fight for the restoration of free market prices, economists had almost all joined the other side. One historian notes that the “unanimity” of support for continuing controls among professional economists was “remarkable.”¹⁶ The list of prominent economists who signed a petition favoring extension of price controls makes for surprising, and depressing, reading. Ludwig von Mises was a courageous exception, and voiced his strong opposition to price controls.¹⁷ So the system of peacetime price controls met with the approval of both the price controlling bureaucrats and professional economists. Politicians in Washington, too, thought price controls were a good idea. Continuing controls had strong support in both Congress and the Administration. Congress approved the “emergency” extension of price controls until June 1947 and, although there were various political squabbles about specific price controls, generally supported the idea of continuing controls in peacetime. President Truman also found continuing controls

attractive, again with various political caveats.¹⁸

Significantly, one important group refused to join in approving perpetual price controls: the voters. Ordinary citizens subjected to “price stabilization” without end grew increasingly angry. Industrialists began to become alarmed; the National Association of Manufacturers ran a vigorous advertising campaign promoting decontrol.¹⁹ A September 1946 Gallup Poll showed that majorities now favored decontrolling meats and other foods, and only a minority favored continued controls on autos, radios, and other manufactured goods.²⁰ The fall of 1946 saw a *de facto* farmers’ strike, with meat producers refusing to bring meat to market until controls were lifted.²¹ The average voter wasn’t trained in economics, didn’t understand the ill consequences of interfering with the price system, and accepted the official view that price controls during the war were necessary for victory. But after the war ended, they grew annoyed that the price controls continued.

The 1946 Election

Fortunately, the voters had a chance to voice their objections where they counted most—at the ballot box. On November 5, 1946, many sitting Congress members were firmly told by their constituents to find other lines of work. In the House of Representatives, a Democratic majority became a Republican majority, with the latter picking up an astounding 57 seats. In the Senate, the Democrats also lost their majority, with the Republicans garnering 13 seats.

What is important to note here is that the new Congress members were overwhelmingly committed to ridding the economy of price controls, and other lingering wartime regulations, once and for all. Former President Herbert Hoover was perhaps guilty of slight hyperbole, but nevertheless on the mark, when he commented: “The whole world, including the United States, has for years been driving to the left on the totalitarian road of ‘planned economy.’ America is by this election the first country to repudiate this road.”²²

Surely price control was only one of many issues in the 1946 Congressional elections. Furthermore, price controls were being gradually lifted on various items before the election, although not as a matter of principle; the OPA and other regulators made clear that decontrols allowed on particular

items were basically “temporary,” and that controls might be slapped back on at any time. Rather, price control was important as a symbolic issue. The existing group of elected officials in Washington had demonstrated a weak commitment to a complete transition from war regulation to a peacetime free market, and an eagerness to retain as much of the wartime regulatory apparatus as they could get away with. The response by American voters, who had voted *for* the same politicians in 1944 (a year considered a significant victory for the Democratic Party) that they voted *against* in 1946, was swift and decisive.

The turnabout by Federal bureaucrats and politicians in their expressed opinions about the wisdom of continuing price controls was equally swift. Nothing strikes fear in the hearts of politicians like an election. Price Administrator Chester Bowles, who on November 4 (the day before the election) had called for a halt to price decontrol “until supply and demand came into balance,” had a sudden change of heart and approved immediate removal of virtually all remaining controls on November 10 (five days *after* the election).²³ The day before, President Truman had ordered the immediate removal of all remaining controls.²⁴ This policy shift must be one of the most abrupt on record.

Of course, this was but a temporary victory. Take government spending for example. By 1948, Federal expenditures had declined from their wartime peak of \$100 billion to a low of \$35 billion. But Federal spending did not continue to shrink, and began a 40-year period of sustained growth. Even the victory of voters over price controls was temporary; controls were again implemented during the Korean War and under President Nixon. The price of liberty is eternal vigilance, and the vigilance of American voters has lapsed on numerous occasions. Nevertheless, there *was* an important victory that we need to recognize: the United States returned to a largely free market economy after its brief flirtation with “war socialism.”

Conclusion

It is easy for defenders of private property and free markets to become discouraged by contemplating the avalanche of government regulation coming out of Washington. Strong pressure for bigger and more intrusive government comes from

organized special interest groups, and sometimes it seems voters have abandoned their right to say "Enough!" at the ballot box. But we must remember that ordinary citizens have on many occasions effectively exercised their franchise to stop Big Government in its tracks, or at least slow it down. Proposition 13 in California is one famous example. The voter revolt against Congressional "central planners" in 1946 is another example which is not as well-known as it deserves to be.²⁵ Government *can* be reduced by voters; those voters just need to be convinced that less government is the right course. Democracy in itself does not necessarily imply bigger and bigger government.

There is another interesting aspect to postwar government shrinkage that should inspire hope for the future. In 1946, support among professional intellectuals for decontrol and deregulation was virtually nonexistent; economists were almost unanimously in favor of continuing controls. Despite this lack of intellectual support, the "voter revolt" against Big Government succeeded. Today, growing numbers of professional intellectuals, including economists, support deregulation and limited government. The prospects for radical limits on government intervention have probably never been better than they are in the 1990s. □

1. Robert Higgs, "The Growth of Government in the United States," *The Freeman*, August 1990, pp. 290-95. Higgs explains the role of "crises" in promoting government growth on pp. 294-95.

2. Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987).

3. The direct cost to the United States government of prosecuting the war against the Axis powers was tremendous. It is difficult to determine whether victory might have been achieved at lower cost by the pursuit of alternative strategies, but there is one piece of convincing evidence that the actual pattern of Federal military spending was fairly "efficient" in a technical sense: the United States (along with its allies) won the war. Whether U.S. involvement in the war was "efficient" in the *economic* sense, in the long run, is an entirely different question. Ludwig von Mises thought the answer was yes, and wrote of the choice between freedom and slavery in a "Nazi-dominated world" (*Omnipotent Government: The Rise of the Total State and Total War* [New Haven: Yale University Press, 1944], p. 237).

4. Richard Polenberg, *War and Society: The United States 1941-1945* (Philadelphia: J. B. Lippincott Company, 1972), pp. 10-11.

5. Hugh Rockoff, *Drastic Measures: A History of Wage*

and Price Controls in the United States (New York: Cambridge University Press, 1984), p. 123.

6. Hugh Rockoff, "Price and Wage Controls in Four Wartime Periods," *Journal of Economic History*, XLI (June 1981), p. 390.

7. U.S. Civilian Production Administration, *Industrial Mobilization for War: History of the War Production Board and Predecessor Agencies, 1940-1945; Volume I: Program and Administration* (Washington, D.C.: Government Printing Office, 1947), p. 956.

8. Rockoff, *Drastic Measures*, p. 163.

9. John L. Blackman, Jr., *Presidential Seizure in Labor Disputes* (Cambridge: Harvard University Press, 1967), pp. 259-76. Relatively few seizures involved OPA directly, but most stemmed in part from price or wage control violations.

10. Higgs (*Crisis and Leviathan: Critical Episodes in the Growth of American Government*, p. 209) notes that the 8,000 local rationing boards represented an "empire of petty tyrannies" in which cronyism was rife.

11. This poll, which appeared as the "Fortune Survey" in the November 1943 issue of *Fortune*, is reported in Rockoff, *Drastic Measures*, p. 95.

12. Rockoff, *Drastic Measures*, p. 143.

13. See Polenberg, *War and Society*, chapter 8, for a good summary of this "reconversion" to a decontrolled economy.

14. U.S. Civilian Production Administration, pp. 952-53.

15. Rockoff, *Drastic Measures*, p. 100.

16. *Ibid.*, p. 101.

17. For example, in *Omnipotent Government* (1944), Mises condemned the use of price controls by the American and British governments, and commented: "These men who want to fight Nazism by adopting its methods do not see that what the Nazis have achieved has been the building up of a system of socialism, not a reform of conditions within a system of market economy" (p. 63). Price controls in Nazi Germany were even more oppressive than those promulgated by the OPA in the U.S. See also Mises, "Inflation and Price Control," in *Planning for Freedom* (South Holland, Ill.: Libertarian Press, 1952, pp. 72-82, originally published December 20, 1945).

18. Some insight into Truman's thinking about controls can be gleaned from considering his reaction to the meat shortage that became evident in the summer of 1946. He blamed Congress for causing the meat shortage when it delayed the passage of the extension of price control, accidentally permitting meat prices to be freed for almost a whole month! See Rockoff, *Drastic Measures*, p. 107.

19. *Ibid.*, pp. 103-104.

20. *Ibid.*, p. 101. Rent controls continued to receive majority support.

21. *Ibid.*, p. 107.

22. *The New York Times*, November 6, 1946, p. 2.

23. *The New York Times*, November 10, 1946, p. 1.

24. However, controls remained over rents, sugar, and rice. See Rockoff, *Drastic Measures*, pp. 107-108.

25. Admittedly, sometimes voter opposition to Big Government ultimately fails. See David T. Beito, *Taxpayers in Revolt: Tax Resistance During the Great Depression* (Chapel Hill: The University of North Carolina Press, 1989) for a fascinating account of the forgotten but vigorous "tax revolt" movement in America during the Great Depression. Pro-interventionist historians would prefer to pretend that no opposition existed to the New Deal and high taxes.

Wilhelm von Humboldt: German Classical Liberal

by Richard Minter

John Stuart Mill's *On Liberty* is probably one of the best known, and most unabashed, liberal works ever published. Mill's seminal defense of freedom of thought, speech, and action is widely acknowledged. Less well known are the writings of his intellectual precursor and some might say inspiration, the German liberal and author of *The Limits of State Action*, Wilhelm von Humboldt.

Mill began *On Liberty* around 1854, when Humboldt's work was first published in English. The question of whether Humboldt stimulated Mill to write his famous essay is open to debate, yet Mill's frequent references to Humboldt in the text suggest a connection. In Mill's *Autobiography* he writes, "[t]he only author who had preceded me . . . of whom I thought it appropriate to say anything, was Humboldt." Mill cites Humboldt as a formative influence, quoting him directly and in paraphrase throughout *On Liberty*. "Few persons, out of Germany, even comprehend the meaning of the doctrine which Wilhelm von Humboldt, so eminent both as a savant and as a politician, made the text of a treatise," wrote Mill in chapter 3 of *On Liberty*.¹

That "celebrated treatise," in the words of *The Westminster Review*, is *The Limits of State Action*, which "ushered in a new era" in political theory.

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Humboldt's thinking about the self-development of man and the role of the state inspired several thinkers to publish political essays.

Born in 1767 to a noble family, Humboldt gained renown as a humanist, a linguist, an education reformer, and a Prussian diplomat. He was among the greatest of Germany's liberals, a tradition which passed from prominence sometime before the middle of the last century. He stood strongly against state intervention—despite holding some of the highest posts in Prussia. Lord Acton called Humboldt "the most central figure in Germany" of his time, noting his close friendship with Goethe and Schiller. He was respected as both a scholar and a statesman. He founded the University of Berlin. German schoolmasters remember him as the architect of the German educational system and as an accomplished scholar in history, classical literature, and linguistics. Linguists, such as Noam Chomsky, still cite his work. He served as the Prussian emissary to the Holy See and was Prussia's chief negotiator at the surrender of Napoleon's armies.

Humboldt learned political philosophy the way he advocated all education should take place: through a series of voluntary associations. He became a regular member of the circle of Henriette Herz, a leading Jewish intellectual. He joined several mutual improvement societies in Berlin and entered into "self-examining and explaining correspondence."² Through his future wife Caroline von Dacheroden, Humboldt met Friedrich

Schiller, perhaps the greatest of the German romantics after Goethe. After meeting Schiller several times at Weimar and Jena, Humboldt kept up a regular correspondence with him. Later, he became a close friend of Goethe's, as well.

Through a broad spectrum of experiences, Humboldt set out to develop a well-cultivated, unique, and sensitive personality. He wanted to animate all that was latent within himself, to become all that he was capable of being. Such an experiment in living required freedom ("the first and indispensable condition"), a variety of people and situations, and individuality. Each of these components can be found in a more developed form in *The Limits of State Action*, and for that matter, in Mill's *On Liberty*.

The French Revolution

At the beginning of what was to become a lifelong trek toward self-improvement, Humboldt found himself in the midst of Europe's living laboratory of political science: revolutionary France. In the summer of 1789, Humboldt's former tutor was invited to Paris by Mirabeau and took young Humboldt along. Mirabeau showed the pair the National Assembly at Versailles and the grave of Rousseau. But Humboldt had doubts about the future of the French Constitution and its bold plans to remold French society—by force, if necessary. He felt strongly that force impedes self-development, retards natural social evolution, penalizes innovative thinking, and rewards only conformity to the imposed order.

After returning from France, and corresponding with his friend Friedrich von Genz, a supporter of the revolution, Humboldt wrote *Ideas on the Constitutions of States, occasioned by the New French Constitution*. In this essay, published anonymously in 1791, he expressed doubts about the results of reshaping a society by force of law. Intended as a letter to a friend, this essay anticipates some of the ideas covered by Edmund Burke in *Reflections on the Revolution in France*. More interesting still, Humboldt at this point had no knowledge of Burke. As Burke did, Humboldt believed that nations and constitutions had to evolve naturally, not called into existence by parlor philosophers without great peril. "Reason is capable to be sure of giving form to material already present, but it has no power to create new

material. . . . Constitutions cannot be grafted upon men as sprigs on trees," Humboldt wrote.

Self-Development versus State Action

When he returned to Berlin, Humboldt was given a minor post at the law court. But soon he realized that public life had become controlled and thus grew anxious to leave Berlin. Liberalism in Germany had all but perished with Frederick the Great in 1786. Restrictions on freedom of the press and free exercise of religion were imposed with a new vigor. Government censors would, in some cases, require approval of articles prior to publication. Humboldt found little spontaneity and diversity in the life of the civil service and the court. Whatever opportunities for self-development may have existed, Humboldt felt his education had been arrested. Needless to say, he was ill at ease with the rulers of Prussia, although he remained wisely silent at the time.

Despite the urging of friends, Humboldt resigned his government post in the spring of 1791. Believing he could not prevent much evil or do much good in public office, he entered semi-retirement at Tegel, the family estate, to devote himself "entirely to the cultivation of his friends, his newly married wife, and himself."³

His self-development—not to be confused with selfishness, but a genuine desire to become a better, fuller person—had become all-important. In August 1791, Humboldt wrote to Georg Forster:

I have now absolved from all business, left Berlin, married, and live, in the country, an independent, freely chosen, infinitely happy life. . . . I do not feel from you such disapprobation of my step as I met with from so many others. You esteem liberty and independent activity too highly to expect much utility from a man only dependent on his official position. . . . The axiom that nothing on earth is so important as the highest power, and most varied cultivation of the individual, and that, therefore, the primary law of true morality is, *educate yourself*, and only the second, *influence others by what you are*; these axioms are so firmly impressed upon my mind that nothing can change them."⁴ (italics mine)

Perhaps no shorter summary of Humboldt's

political philosophy could be written. *The Limits* is a more formal and complete statement of Humboldt's philosophical opposition to state intervention in the natural and necessary self-development of its citizens.

The Limits of State Action

In thinking over his exit from the Prussian bureaucracy, Humboldt began to reconsider the proper functions of the state. It didn't square with his idea of a many-sided self-development. He considered all governments of his day too large to provide the social conditions that enable human development. This view is directly opposed to the one widely held today and warrants some explanation.

Since a large state inevitably leads to an increase in the amount of force the government wields over society and individuals, and since power cannot long tolerate freedom or a diversity of views, a state seeking to provide for anything more than their physical safety ultimately ends up stifling its citizens. A limited state, in which individuals are able to flourish with the aid of genuinely social institutions (such as unregulated churches and schools), can protect its citizens from foreign invasion and domestic violence. But, Humboldt argues, a welfare state erects barriers between the individual and the society in which he lives. By freely interacting with the world around him, an individual seeks newer, better methods of solving common problems. Some of these methods he will come upon on his own; some innovations will be learned from others. This is the source of social progress in a liberal society. By dictating the terms under which people form associations, the state deprives such associations of their essential vigor and spontaneity. Thus, the transmission of new ideas is slowed and, when the state gains enough authority to regulate all of society, soon stops altogether.

In a sense, Humboldt's political theory is aesthetic: the individual is a work of art. While styles and techniques can be learned from others, the artist must hone his skills over time and learn to express himself in finer, subtler ways. Commands issued from a central authority cannot create art. Art can only be created by the free and spontaneous interplay of ideas between the artist and his subject.

This was the form of his ideas when Humboldt's friend Karl von Dalberg pressed him for his find-

ings. The two began a debate which soon led Humboldt to write *The Limits of State Action*.

Young Humboldt wrote this tract in 1791. "At a time when the ideas which it unfolds were in striking contrast to the events and opinions of the day, the book was long obnoxious to the scruples of German censorship."⁵ Only passages from *The Limits* were published by Schiller. Joseph Coulthard notes that Schiller "took much interest in its publication, [yet] had some difficulty in finding a publisher willing to incur the necessary responsibility."⁶

Humboldt never strayed far from the work he penned in his early 20s.⁷ He made several revisions to *The Limits* during the course of his life, both before and after his years of service at some of the highest posts in the Prussian state. *The Limits* was finally published 17 years after his death. The manuscript remained incomplete and less polished than Humboldt's other works. Some gaps appear in the text, yet it helped shape the arguments of many 19th century liberals.

In *The Limits* Humboldt argues for a conception of happiness based on what he considers a natural drive for self-development. It is in freely choosing and pursuing self-development "and in striving to reach it by the combined application of his moral and physical energies that the true happiness of man, in his full vigor and development, consists."

What is the goal of this drive for self-development, which Humboldt describes as the source of happiness? "The true end of man, or that which is prescribed by the eternal and immutable dictates of reason, and not suggested by vague and transient desires, is the highest and most harmonious development of his powers to a complete and consistent whole."

This end—harmonious self-development—is not a fixed point that can be completely captured or "possessed." As in the natural world, "we find that rest and possession exist only in imagination." And because it cannot be possessed, it cannot be given by the state to interested individuals. It must be pursued by each person in his own way.

Humboldt's conception of man, as a being who must strive for self-cultivation within society and who requires society for his full development, is an important contribution to the liberal tradition. Scholars outside the tradition of Adam Smith, David Hume, and Herbert Spencer might antici-

pate Humboldt's emphasis on the individual, but may be surprised by his positive view of society. Liberals are often criticized as "atomistic individualists"—self-interested islands who prefer to hold society at a distance. Humboldt's arguments challenge the conventional wisdom that the individualistic premises of liberal thinking necessarily exclude society and community. In fact, society and its institutions are what Humboldt wants to save from the power and grip of the state.

Humboldt and Educational Reform

Humboldt is probably best remembered for reforming German education. Education was the social institution Humboldt cared most about—although, at first, he resisted being made Minister of Public Instruction charged with reforming German schools.

He brought a radical conception of education to the post. His revolutionary ideas were soon institutionalized and remained in place, with some modifications, well into this century. Humboldt's tenure as Minister of Public Instruction was said to be as masterly in organization as that of Prussian generals in war. What is interesting about this assessment is that Humboldt held the post for a scant 16 months.

When Humboldt joined the liberal reform government in 1809, he advocated the abolition of military schools and the closing of schools catering to the nobility, and opposed the creation of special middle schools for adolescents either uninterested or financially unable to undertake university studies. Humboldt wanted German schools to be places where a wide diversity of students would study together, free of state-imposed barriers.

The cornerstone of Humboldt's educational reforms was the humanistic *Gymnasium*. Based on the classical languages and literatures, the *Gymnasium* remained the dominant educational institution in Germany until the second half of this century. Humboldt considered a student's mastery of the literature and philosophy of the ancients, especially the Greeks, a key foundation to genuine education. The University of Berlin, which Humboldt founded, and much of Humboldt's design of the educational system are still in place. Leaving

aside the apparent violation of his earlier injunctions against state control of education, the reformed system is remarkably akin to the system he advocated years earlier. Through the imprint they left on a key sector of social life, Humboldt's ideas have had an enduring influence on German intellectual development.

From 1810 to 1813, Humboldt was the chief Prussian diplomat in Vienna. He acted as a head negotiator both before and after Napoleon's defeat, and served in London for the Prussian crown. In 1819, Humboldt fought the passage of the Karlsbad Decrees, which would have imposed rigid censorship throughout Germany. When his efforts failed, Humboldt retired to private life. He refused the pension offered him by the king and returned to his estate to study languages and pursue other scholarly work. He died in 1835.

Humboldt's legacy is more than a string of political acts and scholarly contributions. *The Limits of State Action* offers a coherent and early defense of laissez-faire society without a single recourse to economics. For students of humanities, Humboldt's work provides a solid and engaging introduction to liberal thought. □

1. Humboldt also influenced Matthew Arnold, who disagreed with him, however. See Arnold's *Culture and Anarchy*, especially chapter 3. Arnold cited directly Humboldt's ideas on education in *Schools and Universities on the Continent*.

2. Juliette Bauer, *Life of Wilhelm von Humboldt* (London: Ingram, Cooke, & Co., 1852) p. 250.

3. Introduction to *The Limits of State Action* by Wilhelm von Humboldt, edited by J. S. Burrow (New York: Cambridge University Press, 1969), p. ix.

4. Bauer, pp. 277-78, citing Humboldt's letter of August 16, 1791, to Forster.

5. Wilhelm von Humboldt, *The Sphere and Duties of Government*, edited by Joseph Coulthard (London: Trubner & Co., 1854), p. iii (from Coulthard's Introduction).

6. *Ibid.*

7. This is not an uncontroversial statement. Some writers uphold Humboldt's constancy of conviction; many do not. John Chapman wrote in the July-October 1854 issue of *The Westminster Review*, "... however startling to some may be its doctrines, it has all the authority due to the long sustained convictions of a man of extraordinary capacity. . . ."

A majority of historians and philosophers who have examined Humboldt hold differently, however. See Leonard Krieger, *The German Idea of Freedom* (Chicago: Beacon, 1957), pp. 170-71; and Paul Sweet's excellent *Wilhelm von Humboldt: A Biography*, 2 vols. (Columbus: Ohio State University Press, 1978, 1980), vol. I, p. 108, vol. II, p. 20. Sweet also has an appendix in the first volume dealing with the reception of *The Limits*.

The Growth of Privatized Policing

by Nicholas Elliott

Privatized police! The suggestion is usually met with disbelief, even by free-marketeers who would like most other government services shifted into the private sector. But there are good arguments to justify privatization of at least some policing functions, and few are probably aware of the spread of privatized policing that has been taking place both in the United States and in Britain.

Many object to private sector involvement in policing and criminal justice because they say that it is the state's responsibility to maintain law and order. This view fails to take into account the origins of rights. In liberal democracies, rights are considered to reside originally with individuals. The responsibility of law enforcement is only ceded to the state so that rights may be protected more effectively. The state does not own the right to enforce the law, it administers this right on behalf of the people. Therefore, there is no reason in principle why private individuals should not have law enforcement duties delegated to them, as long as they are responsible to the same system of law under which the state operates. This point has been argued by James Stewart, Director of the U.S. National Institute of Justice: "Although law enforcement is rooted in constitutional principles, the responsibility of government to ensure security need not necessarily mean that government must provide all the protective services itself."¹

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Those who argue against private policing often assume that it is only the police who ensure that laws are observed at all, that there is a sharp demarcation between the policeman and the citizen. This disregards the role that individuals have always played in keeping order just by going about their daily business. As urban analyst Jane Jacobs writes: "The first thing to understand is that the public peace—the sidewalk and street peace—of cities is not kept primarily by the police, necessary as police are. It is kept primarily by an intricate, almost unconscious, network of voluntary controls and standards among the people themselves, and enforced by the people themselves."²

A Growing Industry

Private sector police are nothing new. Until the middle of the 19th century most of Britain's policing was provided by groups known as "Associations for the Prosecution of Felons." These groups provided law enforcement, crime prevention, and insurance services to their members.

More recently, there has been a steady growth in the private security industries of Britain, the United States, and Canada. In each of these countries there are now more private security guards than official policemen.

More policing services are being contracted out to the private sector by the official police forces and by local government; and as private individuals become more affluent, they are showing more

willingness to buy additional security from the private sector. There is evidence that private firms can often do the same job more efficiently and more cheaply.

All over the United States, different types of police service are being performed on contract by private firms. In Amarillo, Texas, local police have authorized a private security company to respond to alarm calls. Nearly three-quarters of American cities have contracted out the removal of illegally parked cars. A 1986 survey by Hallcrest Inc. found that 44 percent of U.S. law enforcement officials contract out the patrolling of public property.

In Fresno, California, 21 private security firms provide security at shopping centers, in apartment complexes, at concerts and sporting events, and at the city convention center and zoo. The firms provide their services to the city for \$10 per hour, compared to the cost of \$59 per hour if the police were to do the job.

Los Angeles County awarded 36 contracts for guard services between 1980 and 1984 and "county data show that the cost was 34 percent greater when the work was performed by county personnel."³

Policing functions frequently contracted out in the United States include prisoner custody, communications system maintenance, police training, laboratory services, radio dispatching, and traffic and parking control.

Other examples come from Europe. Private security firms in Bavaria are used to patrol the Olympic Park grounds, university sports arenas, a mental hospital in the suburbs of Munich, and the Munich subway. In Switzerland the private company Securitas employs 1,700 guards throughout the country to provide police backup services. Securitas has contracts with the police and with municipalities for such services as visiting restaurants and bars to ensure compliance with licensing laws, and patrolling parking lots and railway property. In the United Kingdom, a survey by *Police Review* found over 1,000 private security patrols in operation, including 239 patrols operated by private firms on behalf of local authorities.

Bromley Council in London was the first to use a private firm to patrol housing estates. The council hired Sentinel Security to provide patrols in crime-ridden areas.

Some local authorities also take on their own non-police security guards. At Livingston in Scot-

land, 42 council guards equipped with radios patrol housing and shopping precincts. The patrol is run by a former police sergeant who reports that "residents say they feel safer going out at night because of our patrols."⁴

A Further Stage

In a few instances, the whole policing of an area has been contracted out to a private firm. The first city to try this was Kalamazoo, Michigan. A private firm was given responsibility for street patrols and for the apprehension of traffic offenders for three and a half years in the 1950s.

One of the most successful examples is the small town of Reminderville in northern Ohio. Faced with having to pay \$180,000 a year for continued county policing, residents decided in 1981 to hire Corporate Security Inc. for \$90,000 per year. The firm also increased the number of patrol cars in the area, and improved the emergency response time from the previous 45 minutes to six minutes.

The private company was motivated to keep costs down because they were paid a flat yearly fee, and because they wanted to retain the contract. Adverse publicity for this radical experiment disturbed local officials who then set up their own town police department at higher cost in 1983.

Another example of fully contracted out police services is from Oro Valley, Arizona. There, fire-fighting, police services, alarm response, and paramedic operations were provided to 1,200 residents by the company Rural/Metro. The contract was agreed in 1975, with a flat yearly fee of \$35,000 to be paid to Rural/Metro, a saving over what the same state services would have cost. Overall control of policing was retained by the town authorities.

During their time in securing Oro Valley, the company employed some innovative operating methods. They patrolled in four-wheel drive vehicles on difficult roads. They initiated a "dark house" scheme whereby residents who planned to be away could leave their addresses with the company, and their property would then be checked twice every 24 hours. Burglary rates in the area fell from 14 a month to an average of 0.7 a month.

However, the Rural/Metro contract encountered opposition from the Arizona Law Enforcement Officers Association Council, who refused access to training programs and refused to grant

accreditation. When a state attorney questioned the legality of the arrangement, Rural/Metro decided to pull out.

Notably, when the town authorities took over full provision again in 1977, many costs increased. One change was to replace the civilian employees of Rural/Metro with uniformed officers on higher salaries. By 1982 the police budget in Oro Valley was \$241,000 when Rural/Metro had done the job for \$35,000.

Neighborhood Initiatives

In Britain and the United States, there has been a proliferation of neighborhood patrols, where residents take the initiative in patrolling their own locality.

On the Brunton Park and Melton Park estates in Gosforth, Newcastle, U.K., residents started their own patrol to deter thieves. Pairs of residents patrol the area in cars between 11 P.M. and dawn, reporting anything suspicious to the police. In three months of patrols only three break-ins occurred, compared to a previous annual average of 130. As a result, these residents have had their home-contents insurance reduced by 35 percent.

One growing form of private initiative in the U.S. is that undertaken by homeowners associations. There are estimated to be over 90,000 of these associations in the United States. According to the Community Associations Institute, 25 percent of them provide manned security for their members, and 15 percent provide electronic surveillance.⁵

In other instances, neighbors get together to hire security for themselves. Residents of a street at Blackfell in Tyne and Wear, U.K., hired a private security firm to cut break-ins and car thefts. One resident explained that "The police would come round after a crime was reported but usually could do little more than take the details from the injured party and offer sympathy."⁶

Residents of East Graceland in Chicago hired a private security firm to drive out gang warfare

from their neighborhood. They took on Security Enforcement Services for two months in 1989 for a charge of \$8,000. Rather than strong-arm tactics, the company used intelligence to rid the area of crime. They became familiar with the known trouble spots and offenders, as well as with residents. They videotaped illegal activities such as vandalism and drug dealing, and then handed the tapes over to the official police.

The most unusual example of private initiative comes from San Francisco. The city is divided into 80 "beats," which are sold by the Police Commission to Patrol Specials deputized with peace officer powers (one step down from police officers). Beat-owners then seek business among the companies and neighborhoods in the beat area. The Patrol Specials must pass a rigorous selection procedure, before being sent on an arrest and firearms course at the police academy, and must answer to the Police Commission. The Specials cost nothing to San Francisco taxpayers, and they have endured since the 1800s.⁷

The private sector in law enforcement will continue to grow, and more individuals, neighborhoods, and local authorities will take the step of organizing their own local policing or hiring private security. The choice is either to encourage this as a supplement to official law enforcement, or to demand a rigid distinction between police and people. The experience of privatized policing demonstrates that the idea is not so unimaginably radical as might be supposed. □

1. James K. Stewart, "Public Safety and Private Police," *Public Administration Review*, November 1986, p. 764.

2. Jane Jacobs, *The Death and Life of the Great American Cities* (New York: Vintage Books, 1961), pp. 31-32.

3. E. S. Savas, *Privatization: The Key to Better Government* (Chatham, N.J.: Chatham House, 1987), p. 183.

4. *Police Review*, January 13, 1989, p. 65.

5. Oscar Newman, *Community of Interest* (New York: Anchor Press/Doubleday, 1981).

6. *Police Review*, October 21, 1988, p. 3.

7. Christine Dorffi, "San Francisco's Hired Guns," *Reason*, August 1979; Randall Fitzgerald, *When Government Goes Private: Successful Alternatives to Public Services* (New York: Universe Books, 1988), p. 73.

Did Horvat Answer Hayek? The Crisis of Yugoslav Self-Management

by David L. Prychitko

At a time when one Communist regime after another is toppling in Eastern Europe, Yugoslavia gets remarkably little press. We watched with excitement the collapse of the Berlin Wall, the rise of poet-statesman Vaclav Havel in Prague, the fall of the Party in Budapest, and the bloody fate of Nicolae Ceausescu in Bucharest. We haven't heard much about Yugoslavia. The sweeping changes in the rest of Eastern Europe seem to be passing Yugoslavia by. But don't let that fool you. The peoples of Yugoslavia, like those of the neighboring East European countries, are calling for, and slowly attaining, an end to the monolithic Communist Party, and the introduction of private property rights and a full market economy.

Yugoslav-style socialism, with its ideological emphasis on decentralization and workers' self-management of socially owned resources, was once touted as a fundamental, more humane alternative to the command planning of the Soviet Union. Indeed, Yugoslavia was the first country to break away from Stalin's yoke of power back in 1948 to create a perestroika of its own. Under Tito's leadership, Yugoslavia attempted a massive decentralization toward workers' self-managed socialism, which began in 1950 with the adoption of the Basic Law on Movement of State Economic Enterprises and Larger Economic Associations by

their Working Collectives. The central planning bureaucracy would be dismantled. State property would be erased. In Tito's words,

The takeover of the means of production by the state has not made accomplished fact of the fighting slogan of the workers' movement, "Factories to the Workers," because the slogan "Factories to the Workers, Land to the Peasants" is more than just an abstract propagandistic battle cry. It contains deep and weightly [sic] meaning. It sums up the entire program of socialist relations in production; it speaks of social ownership, it speaks of the rights and duties of workers and—therefore—can and must be accomplished in practice if we want indeed to construct socialism.¹

Enlightened workers' councils would be in charge of planning society from the bottom up, rather than the top down. "Social" ownership would replace state ownership. No longer the legal privilege of private capitalists or state bureaucrats, the means of production would officially be the property of society at large. State enterprises were to be freed from the hands of an oppressive bureaucracy and handed over to workers' councils; a market for consumers' goods would emerge, reducing the shortages and long queues that plagued other East European countries. Socialism would no longer restrict and destroy democracy. It would embrace it in the workshop, factory, and planning bureau.

The heyday of "market socialism" had arrived.

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BETTINA BIEN GREAVES

Mises and Hayek in 1956.

Claims of Rationality

The Austrian economists apparently suffered an intellectual beating. Seventy years ago Ludwig von Mises argued that socialism was impossible. By abolishing unhampered market exchange of the means of production—and thus market prices that reflect underlying economic scarcities—the central economic planners, Mises argued, would lack the knowledge necessary to rationally coordinate the economic system. They would stand confounded in the face of a “bewildering throng of economic possibilities,” as Mises so eloquently put it.² F. A. Hayek agreed with Mises, and would later add that comprehensive economic planning, even if it begins with the most democratic and humane aspirations imaginable, must lead to a totalitarian dictatorship, “because dictatorship is the most effective instrument of coercion and the enforcement of ideals and, as such, essential if central planning on a large scale is to be possible.”³

The Austrians wielded a double-edged sword. One side chopped to pieces the belief that central economic planning was possible in the complex, modern world. The other side cut through the veil of socialist democracy, and exposed the fact that

any democratic ambitions must ultimately be abandoned in the utopian struggle to overthrow the market system. Or so the Austrians thought.

It seemed that, by the 1960s, Yugoslavia had finally proved that sword powerless. The Yugoslav model of decentralized socialism, which allowed markets for consumer goods as well as limited resource markets, along with its emphasis on democratic planning and management by workers, was considered by many comparative systems economists to be the final answer to Mises and, even more so, to Hayek.

At that time Yugoslavia enjoyed a relatively higher degree of economic growth compared with its neighbors behind the Iron Curtain. Queues for consumer goods dwindled. Workers were officially in charge of their workplaces and enterprise planning decisions. Yugoslavia’s borders were open to Western tourists.

Economists tended to consider Yugoslavia the closest practical application of the theoretical model of market socialism devised by Oskar Lange. Morris Bornstein, for example, claimed that “a number of the problems identified by Hayek have been met in the Yugoslav variant of market socialism.”⁴ Thomas Marschak wrote that



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Citizens in Republic Square, Zagreb (the capital of Croatia), Yugoslavia.

“the classic idea (of Hayek for example) that the burden of assembling managers’ intimate technical information at one center is a major obstacle to any sort of central planning seems to lose weight in the Yugoslav context.”⁵

Statements like these were not unusual among comparative systems economists in the 1960s and ’70s. But the most forceful challenge to the Austrians was published less than ten years ago. Branko Horvat, Yugoslavia’s leading economist, made it loud and clear in his magnum opus, *The Political Economy of Socialism*:

Hayek framed his argument so as to prove the superiority of the free market over central planning. In the context of this book, it may be of some historical interest to note the following claim made by Hayek in 1945: “nobody has yet succeeded in designing an alternative system in which certain features of the existing one can be preserved which are dear even to those who most violently assail it—such as particularly the extent to which the individual can choose his pursuits and consequently freely use his own knowledge and skills.” . . . I shall not leave this challenge unanswered.⁶

Horvat believes the blueprint of self-managed socialism answers Hayek:

Social control is maximally effective—and the

possibility of managerial abuses drastically reduced—because management operates before the watchful eyes of the workers’ council and the entire working collective. It is both impossible and illegal to keep socially important decisions secret. Contrary to *monopolistic* tendencies elsewhere, the concentration of capital is discouraged. The working collective in a labor-managed firm is not inclined to overexpand the firm by mergers because it then loses control over the firm’s affairs. On the other hand, because of the different social organization, financial power is no longer so important. A competitive firm can be neither bought nor owned. Thus, a labor-managed economy is likely to operate much closer to the textbook model of the competitive market. Social ownership *implies planning*, but *does not eliminate the market*. Consequently, the labor-managed economy achieves what Hayek considered to be impossible: an alternative form of organization in which genuine autonomy on the part of the firm is rendered compatible with *ex ante* coordination of economic activities and full use is made of the existing knowledge while losses due to market failures are avoided. Planning and social property render financial speculation almost impossible and substantially reduce the scope of wasteful advertising. *Interventions by the state* are minimized since deci-

sions are automatically controlled at every stage, and taxation is simple because of egalitarian income distribution.⁷

Horvat maintained that “The Yugoslav solution should not be regarded as the end of a process, but rather as a promising beginning in the development of a genuinely self-governing society.”⁸ But the Yugoslav experience with self-managed socialism—which has now entered its fifth decade—illustrates anything but Horvat’s claims. Let us therefore consider those claims in light of the reality of Yugoslav socialism.

Worker Control versus Party Power

We begin with the most important point: the democratic, self-managed enterprise as a revolutionary vehicle of social control. Supported by Tito’s call for “Factories to the Workers” in 1950, Yugoslavia is considered to be grounded in workers’ democratic control of enterprise. The self-managed enterprise is composed of various workers’ councils. Communist ideology in Yugoslavia claims that, through democratic processes, workers elect a managing board that oversees and assists in coordinating the enterprise’s operation. Workers, in their respective councils, officially manage the “socially” owned means of production (it is as if they rent capital resources from the state, instead of holding full legal ownership claims). Not forced by the dictates of Stalinist command planning, the Yugoslav constitution allows workers to distribute any enterprise profits as they see fit, whether it be in the form of personal income (over and above the workers’ standard wages) or in the form of reinvestment into the enterprise itself.

The self-managed socialist enterprise is thought to be a relatively autonomous planning entity, an enterprise of the workers, by the workers, and for the workers. Furthermore, because the worker is also a citizen, because self-managed enterprises follow general planning procedures, such as entering into planning agreements with other enterprises, social councils, and government bureaus, and because this overall process is supposed to represent the best interests of society as a whole, the socialist system of self-managed enterprises is also thought to be a system of society, by society, and for society. The distinction between individual and

society becomes, in such a Marxist utopia, blurred if not outright abandoned.

Hence, Horvat can say that social control is “maximally effective” and managers have little opportunity to abuse their positions. In actual practice, however, workers have enjoyed far less autonomy and power over decision-making than Horvat’s theory would have us believe.

The Communist Party in Yugoslavia has managed to maintain a great degree of power within the enterprise. One avenue of power is found in the *aktiv*, which is a crucial link between the enterprise and other socio-political organizations. Organized by Party members who generally hold important positions in those outside organizations, the *aktiv* has a tremendous degree of influence over internal enterprise policy.

The *aktiv* “assists” the enterprise in helping persuade officials within the local commune, the republic, or within the Party itself to secure bank loans, to attain higher prices for their output, receive construction permits, etc. But, because it enjoys such a strong position of power, managers within the enterprise have little incentive to resist Party pressure. Enterprise autonomy is thus sacrificed for new permits, loans, and licenses, lower prices on scarce inputs, higher output prices, and enhanced foreign exchange allocation, any of which may be necessary for the success of the enterprise.⁹

The typical enterprise in Yugoslavia is riddled with both conflicts of interest and worker apathy. Workers tend to lack real interest in managing the enterprise. In fact, as Egon Neuberger and Estelle James have argued, the workers would rather not take responsibility for decision-making, because decision-making is too risky.¹⁰ Good decisions may bring about higher incomes, but they may also bring about greater expectations by the Party and thus greater responsibilities in the future. Moreover, bad decisions hurt immediately. Workers therefore tend to fall into routine. They attend council meetings, but lack initiative to introduce significant dialogue concerning most enterprise matters. The general apathy among enterprise workers further allows the Party, directly or indirectly, to assume control over the elected managerial board. Rather than the ideal of democratic self-management, a technocratic elite has emerged to control enterprise operations.

This is not to say that workers don’t become

vocal, and fail to bargain or fight for certain issues within the enterprise. Apathetic as they may otherwise be, workers nevertheless have a huge personal interest in the distribution of enterprise profit. Bitter conflicts of interest appear over the issue of how much profit should be handed over to the workers for personal consumption and how much should be ploughed back into the enterprise for investment.

Though the Party would like to see investment increased, workers have little, if any, incentive to invest voluntarily in the socialist enterprise. Eirik Furubotn and Svetozar Pejovich have demonstrated this problem in a number of theoretical and empirical studies.¹¹ Because the Yugoslav worker does not enjoy full ownership rights to the means of production, only the right of use, he is not free to recover any money invested into the enterprise in the event that he leaves the firm or is fired. From the worker's point of view, it is more rational to "invest" one's personal income in durable goods such as refrigerators, automobiles, and furniture—things that are treated as private property under the owner's full control—rather than throw his money into a collectively owned pool that is not at his full disposal.

As a response, the Yugoslav state imposes huge taxes on gross enterprise income and engages in a policy of forced investment. Workers must then strike for higher wages. Strikes for increased wages are not unusual in Yugoslavia. In fact, thousands have occurred in the past few years. This is a source of tremendous embarrassment to Yugoslavia's Communist Party with its self-management rhetoric. If Yugoslavian enterprise really were a "true" self-managed system, as the Party would have us believe, the workers would appear to be striking against themselves!

Market Socialism, Monopoly, and Privilege

Horvat claims that the "labor-managed economy is likely to operate much closer to the textbook model of the competitive market." This is far from true, nay, it is outright ludicrous in light of the actual Yugoslav experience. The Yugoslav "market" historically has been plagued by a horrendous lack of entry. Citizens have the legal right to form their own self-managed enterprises, but the compulsory screening of "Competition Committees" has, in

practice, eliminated this form of entry. Instead of new rivals' forcing existing firms to lower their costs of production and/or make products of better quality, incumbent firms (generally established by the state) have tended to expand by creating new plants. Curiously, though newly established plants have the right to secede from their founder, they have rarely exercised it and in many cases instead form what amounts to a cartel arrangement with the founding enterprise.¹²

The lack of entry has also brought about, without surprise, a lack of exit. Inefficient, costly enterprises, enterprises that would surely go bankrupt in a true profit-and-loss economy, have typically been supported, like most socialist firms throughout Eastern Europe, through enormous state subsidies. In Yugoslavia, as elsewhere under socialism, enterprise survival depends mostly on political entrepreneurship—the ability to cooperate effectively with the Party—as opposed to the type of managerial adeptness necessary to survive truly competitive markets. Though political entrepreneurship of this sort helps to preserve jobs, it does so at a significant cost, including poor quality products, lack of innovation, and an overall decline in economic growth.

Planned Chaos

Horvat stresses that "social ownership" combines both market and planning; it does not eliminate the market in favor of centralized command planning. I agree with Horvat at least in that, for Yugoslavia, the market has yet to be eliminated. There has been a market for consumer goods that has, in fact, been more open than in other East European countries. But the full benefits of the market process in the means of production and higher order goods are severely restricted by state intervention.

The role of the Party *aktiv* that I mentioned above is one way the state intervenes in the exchange of scarce resources. The bureaucratic obstacle to entry is another. And the fact that the state has engaged in a policy of administrative pricing of scarce resources since 1965—by fixing the prices of 90 percent of industrial products—is a third example. Centralized state banking in Yugoslavia, which resorted to printing money in order to subsidize terribly inefficient enterprises, is responsible for Yugoslavia's fantastic rate of infla-

tion—which grew from roughly 40 percent per year in 1981 to over 2,000 percent by 1990 (the money supply grew by more than 9.5 times between 1985 and 1988 alone). Yugoslavia's foreign debt has surpassed \$20 billion.

As in the USSR, Yugoslavia's extreme economic hardship has rekindled the fires of nationalism. Slovenia, Yugoslavia's most Western-oriented republic, has threatened to secede. Croatia may soon follow. Ethnic tensions in Kosovo, the troubled province in southern Serbia, are currently pushing Yugoslavia closer to an outright civil war.

Yugoslavia, once hailed as a watershed in market socialism, now stands at the brink of catastrophe. President Stipe Suvar's keynote address to the Presidency of the League of Communists in Yugoslavia (LCY) during the 17th Session of the Central Committee meeting in October 1988 is telling:

The past thirty years, since the adoption of the LCY Program, have been marked by our efforts to emerge from the stage of state socialism. All our efforts, in which milestones have been the LCY Program, the 1965 economic reform, the constitutional reform of 1971-1974, the model for the political system provided at the 11th Congress in Edvard Kardelj's work, *Democracy and Socialism*, the Long-Term Program of Economic Stabilization, and the decisions of the 13th LCY Congress and stands taken at the LCY Conference held in May [1988], have aimed at further elaborating this original model of our revolution and at channelling the organized social energies of our society to realize them. The past three or four decades have seen a life-and-death struggle between state socialism and the forces of self-management waged over the character of production relations and the lines along which they should change. Society developed rapidly, but today all the postponed crises and earlier mistakes have caught up with us, and society is in the throes of a profound structural crisis. In other words, today's crisis is the culmination of all the social contradictions that have been building up over all these years. In the meantime, considerable confusion has been created in people's minds; there are many ideological misconceptions and illusions, and attempts to cover up the real situation.¹³

The argument put forward by Mises and Hayek—that the attempt to build socialism, even decentralized, democratic market socialism, will be plagued by gross inefficiency, waste, struggles for power and domination, blinding propaganda, and must eventually fail—that very argument applies with profound force to the Yugoslav system. As Suvar continues:

Today's serious crisis in our society is the product of all the crises of yesterday, and for this reason it is all the more severe and disruptive. If there was nationalism in the past, today's nationalism is its consummate expression; if there was bureaucracy in the past, today's bureaucracy is totally hidebound and unproductive; if there was demagoguery and attempts to pull the wool over people's eyes by false promises of homogeneous communities, the examples we see today far exceed anything from the past. In effect, the position of the creative strata of society which have been pushed into the background, and the status of workers, peasants and the vast majority of the intelligentsia are the best gauge of how much power has been concentrated in the hands of bureaucratic and technocratic forces in the past few decades.

Theory and Practice

Branko Horvat may have criticism similar to, if not stronger than, that of Stipe Suvar concerning the way the Yugoslav system of self-managed socialism has worked in practice, especially now that the crisis has become all-consuming. Something, indeed, "went wrong." He would argue, I suppose, that in reality the Yugoslav economy needs more market exchange, a certain freeing up of prices, fewer technocrats and less Party pressure in the workplace, and more enterprise control in the hands of the workers.

This is just what the Yugoslavs are desperately trying to achieve in the midst of their present political and economic chaos. They are going even farther than that: Within the last year they have begun introducing other forms of ownership—private, cooperative, joint, and so on—to compete with socially owned, self-managed firms. They are taking some of the biggest steps in Eastern Europe to promote joint ventures with the West, and are preparing the framework for a unified, open stock

market in Yugoslavia. With the traditional ideology of socialist self-management now illegitimate in the minds (and budgets) of the typical Yugoslav citizen, the potential for radical market reform and political pluralism indeed exists.

Without question, Yugoslav reality has failed, terribly, to live up to the theoretical blueprint of self-managed socialism.

This poses a dilemma to both the socialist theoretician and statesman. Who was at fault? What went wrong? If it were truly a worker-managed system, then the workers are the most likely candidates. But, of course, the crisis is not the workers' responsibility. They are the victims. The ideologue must now consider whether the theory can still be salvaged, in light of its obvious practical failure. This question is reflected in Suvar's statement at the 17th Session: "it is high time that we resolve the dilemma of whether this is the result of a crisis of theory and an imperfect system, or whether it is the result of poor implementation and incompetent people." This, I am sure, will be debated for quite some time among the Yugoslav economists, philosophers, Party members, workers, and citizens.

It also brings up an important point with regard to Horvat's alleged "solution" to Hayek's analysis. Does the Yugoslav blueprint refute the claim that socialism breeds both statism and inefficiency, and will eventually end in failure? Surely the fundamental problems in the Yugoslav experience were predictable from the Mises-Hayek position. But what of the ideal model itself?

The Austrian economists granted that socialism might "work" in theory. But that isn't much of a concession, if a concession at all. After all, we can distinguish between good theory and bad theory. Given the appropriate assumptions, perhaps anything might work in theory. It is neither intellectually impossible nor logically contradictory to design an abstract theory which argues that, for instance, a cat could swim the Atlantic Ocean. The important thing is what is likely to happen when the cat is thrown in the water. That's the test. A theory that cannot be tied to successful practice, though perhaps appealing in a purely intellectual or spiritual way, may not only qualify as a bad theory. It may be outright dangerous and inhumane.

Horvat did not answer Hayek. He responded to criticisms with bad theory, with an abstract model

that had no potential for being realized through the actions of living men and women. In the meantime, Yugoslavia, once thought to be the epitome of socialist self-management, drowns in what is probably the most disturbing socio-political crisis it has ever faced. □

1. As quoted in Edvard Kardelj, *Tito and Socialist Revolution of Yugoslavia* (Belgrade: Socialist Thought and Practice, 1980), pp. 51-52.

2. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Classics, 1981), p. 101. This book originally appeared in German in 1922. Mises' first statement was published in 1920, in the midst of the Soviet Union's disastrous experience with central planning, and was translated into English in 1935 as "Economic Calculation in the Socialist Commonwealth," in Friedrich A. Hayek (ed.), *Collectivist Economic Planning* (Clifton, N.J.: Augustus M. Kelley, 1975), ch. 3.

3. Friedrich A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), p. 70. Hayek also criticized the so-called "market socialism" of Oskar Lange, an alleged alternative to command planning, in his "Socialist Calculation: The Competitive 'Solution'" and "The Use of Knowledge in Society." These two essays are available in Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

4. Morris Bornstein (ed.), *Comparative Economic Systems: Models and Cases* (Homewood, Ill.: Richard D. Irwin, 1965), p. 78. Bornstein referred in particular to an article by J. Marcus Fleming and Viktor R. Sertic, "The Yugoslav Economic System," which appears in the same book, pp. 230-49.

5. Thomas A. Marschak, "Centralized Versus Decentralized Resource Allocation: The Yugoslav Laboratory," *Quarterly Journal of Economics*, vol. 82, #4 (November 1968), p. 569.

6. Branko Horvat, *The Political Economy of Socialism: A Marxist Social Theory* (Armonk, N.Y.: M. E. Sharpe, 1982), p. 577, n. 56.

7. *Ibid.*, p. 208.

8. *Ibid.*, p. 165.

9. See Harold Lydall, *Yugoslav Socialism: Theory and Practice* (New York: Oxford University Press, 1986), pp. 115-22.

10. Egon Neuberger and Estelle James, "The Yugoslav Self-Managed Enterprise: A Systematic Approach," in Morris Bornstein (ed.), *Plan and Market: Economic Reform in Eastern Europe* (New Haven: Yale University Press, 1973), pp. 245-84.

11. See, for example, Eirik G. Furubotn and Svetozar Pejovich, "Property Rights and the Behavior of the Firm in a Socialist State: The Example of Yugoslavia," *Zeitschrift fur Nationaloekonomie*, vol. 30 (1970); and Svetozar Pejovich, "The Banking System and the Investment Behavior of the Yugoslav Firm," in Morris Bornstein (ed.), *Plan and Market*, pp. 285-311.

12. See Stephen R. Sacks, *Entry of New Competitors in Yugoslav Market Socialism* (Berkeley: Institute of International Studies, 1973), ch. 1; and Jan S. Prybyla, *Issues in Socialist Economic Modernization* (New York: Praeger, 1980), pp. 103-104.

13. Stipe Suvar, "Let Socialism Start Moving Forward Again to a Better Future," Belgrade, October 17, 1988, reprinted in *Socialist Thought and Practice*, vol. 28, no. 7-10 (1988), pp. 3-50.

The Charade of Participatory Democracy

by Ridgway K. Foley, Jr.

The coercers of the mandate state employ many artifices to camouflage their true intent. They utilize these devices for two different reasons: first, they fear the truth, because truth is freedom, so stratagems that mask their desires serve their ultimate ends well; second, they realize that human greed and envy will permit them access to their goals, if that greed and envy can be cloaked in acceptable garb.

A particularly apt example of this modern approach to merchandising malice appears in the current vogue for citizen participation in governmental decisions, especially at the county, city, and quasi-municipal corporate level. The coercers ostensibly theorize that local governmental decisions will reach a political nirvana if those persons affected have their say and provide “meaningful input” (in the argot of the social planner) into state determinations. In fact, the social engineers recognize that they can find and fund a sufficient number of people to offer the appearance of probity and approval, whatever the scheme. This essay proposes a brief exploration into this late-20th century phenomenon.

I. The Town Meeting Justification

One might wonder at an attack on participatory democracy—after all, didn’t the Founding Fathers pattern our governance after the New England town meeting and representative governmental theories of the 18th century? Shouldn’t the governed be permitted, nay encouraged, a voice in their political control?

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No one decries representative or participatory democracy in theory, so long as the actions don’t tread upon a minority, even a minority of one, and so long as the democratic process is real and not just a charade. While the national Constitutional Convention assembled in 1787 established a republican form of government expressly for the states¹ and by implication for the Federal aggregate, Jeffersonian theory, at least, favored subsidiarity (the local unit of government best performs all needed collective functions) which inherently subsumes democratic participation by the governed. Also, while the New England town meeting was not carved into national policy, many 18th-century thinkers recognized its worth.

The fundamental question must always be asked: What constitutes a proper function for the state? If one passes that inquiry for the moment, many would agree that all citizens affected by a decision concerning a proper governmental act should be invited to participate in such rule-making.

Several reasons support personal participation in regulation. First, an essential element of justice views self-government as intrinsically correct and proper. Second, no autocrat or oligarchy possesses sufficient knowledge and judgment to pass satisfactory laws controlling other human beings. Third, citizen participation tends to induce agreement and prod obedience to the laws thus enacted. Fourth, better rules of order develop from cross-pollination of many minds. Given these valid reasons undergirding participatory democracy, a substantial defect must exist in the current operation to explain the assault apparent from the thrust of this essay. In fact, two very substantial reasons

uphold a protest against the current fashion.

II. Current Use of the "Public Hearing" Concept

The present use of community meetings in law-making gains much of its currency from explicit national and state policies decreeing citizen participation to be a necessary good which must be invoked before stated and governmentally desired results start to flow. At the national level, application and entitlement to "Federal funds" may require "input" from the community to be served as a precondition to distribution. At the state level, the legislative, executive, or judicial branches may enact an overall policy (deemed good) but compel residents to appear and voice opinions regarding elements and application of that policy to specific instances.

A Federal example: consider the urban mass transit grant program,² a Congressional concoction designed to disburse hundreds of millions of taxpayer dollars in the quest for riders on state-subsidized buses. The Congress has decided that public mass transit constitutes a desirable end; to achieve the details of that end and to imbue the affected recipients of this largess with a sense of belonging, the legislators also provide for public hearings in 49 USC Sec. 1604(i):

Upon submission for approval of a proposed project under this section, the Governor or the designated recipient of the urbanized area shall certify to the Secretary that he or it has conducted public hearings (or has afforded the opportunity for such hearings) and that these hearings included (or were scheduled to include) consideration of the economic and social effects of such project, its impact on the environment, including requirements under the Clean Air Act, the Federal Water Pollution Control Act, and other applicable Federal environmental statutes, and its consistency with the goals and objectives of such urban planning as has been promulgated by the community. Such certification shall be accompanied by (1) a report which indicates the economic, social, environmental, and other effects of the proposed project, including, for construction projects, the effects of its location or design, and the consideration given to the various alternatives which were raised during the hearing or which were otherwise considered, (2) upon the Secretary's request, a copy of the transcript of the hearings, and (3) assurances satisfactory to the Secretary that any public mass transporta-

tion system receiving financial assistance under such project will not change any fare and will not substantially change any service except (A) after having held public hearings or having afforded an adequate opportunity for such hearings, after adequate public notice, (B) after having given proper consideration to views and comments expressed in such hearings, and (C) after having given consideration to the effect on energy conservation, and the economic, environmental, and social impact of the change in such fare or such service.

A state example: the Oregon Land Conservation and Development Commission, created by the Oregon Legislative Assembly,³ defines "land use goals and guidelines," a euphemism for classifying and totally regulating the entire acreage of the state. However, within those broad state policies, the Land Conservation and Development Commission compels each governmental unit—with requisite citizen participation—to proceed through almost eternal and certainly wasteful hearings in order to develop a local "comprehensive plan" fitted to the city, county, or quasi-municipality. The enabling statute specifies the requirement of citizen participation:

ADVISORY COMMITTEES⁴

197.160. *State Citizen Involvement Advisory Committee; city and county citizen advisory committees.* (1) To assure widespread citizen involvement in all phases of the planning process:

(a) The commission shall appoint a State Citizen Involvement Advisory Committee, broadly representative of geographic areas of the state and of interests relating to land uses and land use decisions, to develop a program for the commission that promotes and enhances public participation in the adoption and amendment of the [state-wide planning] goals and guidelines.

(b) Each city and county governing body shall submit to the commission, on a periodic basis established by commission rule, a program for citizen involvement in preparing, adopting and amending comprehensive plans and land use regulations within the respective city and county. Such program shall at least contain provision for a citizen advisory committee or committees broadly representative of geographic areas and of interests relating to land uses and land use decisions.

(c) The State Citizen Involvement Advisory Committee appointed under paragraph (a) of this subsection shall review the proposed programs submitted by each city and county and report to the commission whether or not the proposed program adequately

provides for public involvement in the planning process and, if it does not so provide, in what respects it is inadequate.

(2) The State Citizen Involvement Advisory Committee is limited to an advisory role to the Commission. It has no express or implied authority over any local government or state agency.

Thus, given the explosion in regulatory reach and detail afflicting the commonwealth today, the observer notes a virtual plethora of neighborhood associations, community planning organizations, local improvement districts, and myriad other squanderers of time and liberty, each devoted to the boredom of eternal explanatory meetings (work sessions) and forums for "citizen comment" (public hearings). It remains to consider the dual criticisms that detract from the beatific allure of public meetings.

III. The Twin Defects of Recent Pseudo-Democratic Strains

A. *Pandering to Personal Greed and Covetousness*

Remember the fundamental question that must be asked of any proposed governmental or public activity: Does this constitute an appropriate state function? If the answer lies in the affirmative, the town meeting may afford an acceptable, if not superior, method of determining and implementing public policy. However, if the answer is negative, no amount of "citizen involvement" procedures will convert an improper act into an ethical and acceptable one. Unfortunately, almost all the instances of participatory democracy assume the propriety of the end sought, concentrate on the superficial means employed, and avoid this central issue which should be studied and answered.

Elsewhere, I have suggested the test to be applied to the central question: Does the proposed state function reasonably concern (1) the protection of nonaggressive persons from acts of force or fraud, (2) a defense of the realm, or (3) the resolution of otherwise insoluble disputes?⁵ If the function falls within these limited boundaries, it provides a ripe source for public concern and the exercise of the coercive force we term "government"; if the function lands outside these narrowly circumscribed perimeters, human conduct ought to be left to the individual choices of the people involved.

Deplorably, omission of this seminal question serves to obscure the fact that most, if not all, public hearings relate to matters properly relegated to private choice. Land-use planners don't consider whether or not the state, or any individual or group of citizens, ought (philosophically, morally, and empirically) to dictate to other, unwilling neighbors the uses of the real property belonging to the latter. Instead, they hold witless hearings (ignoring the basic question or assuming its answer) designed to carve up the countryside into brightly colored blocks and blobs on a map, representing the (presumed)⁶ community calculation of how land ought to be employed. Likewise, advocates of mass transit never examine whether taxpayer-residents (1) want a bus system or (2) if so, desire to pay public monies for a municipally owned system as opposed to a private enterprise; instead they ignore the indispensable disquisition and spend citizen time, money, and energy in a search for ways to implement their grand design—through street closures, residence relocation, mandatory ridership in the name of energy conservation, and the like.

A deeper moral evil afflicts this activity than appears at first blush. The social architects seek their ends, knowing for the most part their goals and their reasons. They also recognize that a real and fair statement of the debate—freedom versus slavery, choice versus chains, contract versus coercion—might provoke an outcry from the public that would scuttle their plans. The planner "knows" that his plan represents a superior view of man's destiny; he cannot tolerate opposition or objection. With this attitude, the planner indulges in some sleight of hand (believing that his chosen end justifies any means) to assure public acquiescence if not acceptance. He panders to those sinister human emotions of greed and covetousness, playing what Gary North so fittingly calls "the politics of envy." He encourages neighbor against neighbor, friend against friend, business competitor against business competitor, in a dark quest for conformity to his aims.

Members of a neighborhood association testify as to the "proper" uses of property in the area. "We don't want any more gas stations, car washes, or fast food restaurants in our nice residential district." Never mind that kindly old Mr. Smith down the block invested his life savings in a 100x100 corner lot and negotiated a lease to Arco or Mobil as

his retirement security. The planners know what they want; the neighborhood will be told what it wants; and that human malady of envy will come to the fore.

One can easily criticize the malevolence of the social engineer who wishes to coerce other people and fit them into his or her mold, caring not a whit if this means catering to the most base and despicable of human emotions to achieve the desired end. However, a just judge must reserve some fair share of anger for the citizen who becomes a pawn in this depraved play, who permits the panderer to appeal to his low emotions and immoral desires. The vocal resident who protests the opening of a new restaurant, who favors zoning or down-zoning of his neighbor's parcel, or who testifies in favor of street closure or limited access in order to improve his lot in life or to enforce his subjective value judgments regarding a "perfect neighborhood" should go to a special kind of hell. And few modern citizens have the right to cast the first—or any—stone!

B. A Masquerade of Self-Limitation

To this point, we have considered the question of the *propriety* of the means chosen in relation to the ends sought, and have found them wanting. It remains to analyze the *efficacy* of the means employed by the planners in regard to their stated purpose. These, too, prove wanting.

In essence, the message of this essay is that public testimony means nothing; it constitutes an exercise in futility, a charade of the classic first order. The planners and statisticians know what they seek, and they will always secure their ends with apparent (but unreal) public support.

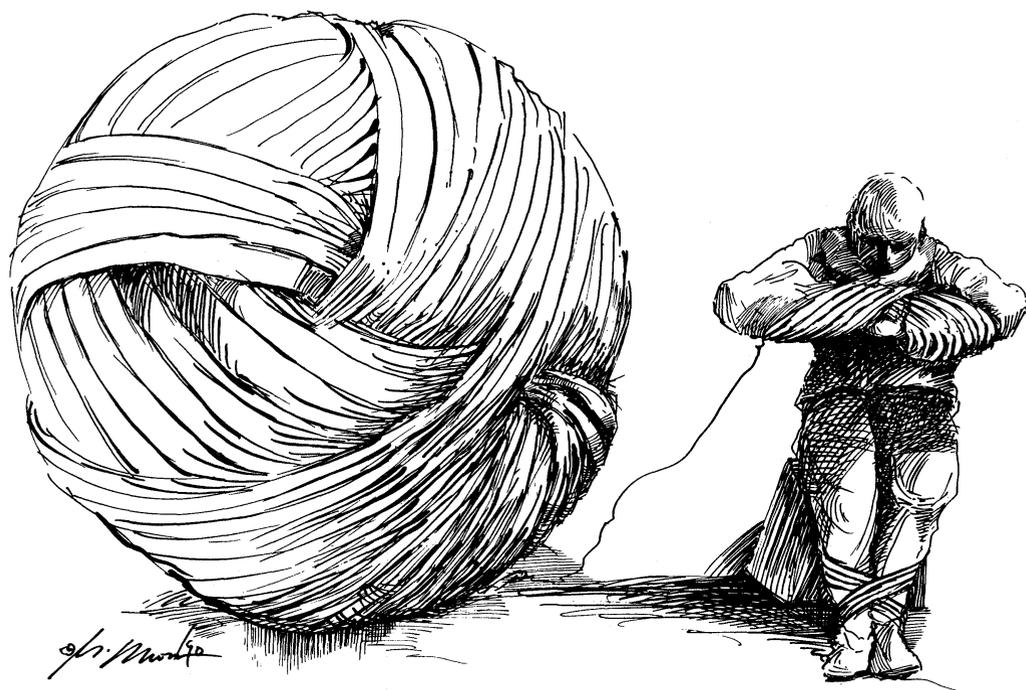
Men and women of a certain mind-set tend to dominate the present political scene at the national, state, county, and city levels. Schooled in the relativism and futile delights of statism, these individuals display a particular predilection in favor of government solutions for all real or imagined ills of society, and a distinct distrust and disfavor of private ownership of real property and personal motor vehicles. Given their options, these statisticians would eliminate the single-family dwelling and the private automobile from the face of America, and would substitute in their stead a gaggle of happy serfs trundling between their governmentally owned and subsidized hovels and their state-regulated employers on the shiny, gaudy buses of the

urban mass transit system.

Maintenance of a bias against private ownership and the accumulation of wealth is one thing; control of the political apparatus and legal system with ability to effect these prejudices is quite another. Unfortunately, persons possessing the catechism set forth now occupy a position to destroy ownership, particularly of real property and motor vehicles, in their drive to subjugate the citizenry. Even more unfortunately, the victims—those people who have labored creatively for years to exchange their stored-up labor for an automobile, home, and garden—cannot or do not grasp what their traducers are about. Too often too many of us believe that man is inherently good, that mankind is perfectible, if only left to its own devices; that is simply not true, but because of this fantasy, the victims—the producing class of the United States—just cannot believe how mean and low the modern slave-masters have become. I believe. I have been there. And, I am here to reveal the warts and blemishes of this ugly play.

Sovereignty consists of three great divisions of legal power (eminent domain, taxation, and police power), and the dictators of our communities make most effective use of each type of power in their quest for total control of all real property in the area. And, make no mistake, the goal is complete government dominance and ownership of all realty within a few short years. Concomitantly, they seek to do away with the mobility provided by the automobile, cognizant of the fact that freedom falters without personal mobility and a sanctuary to which to repair. By taxation, by regulation, by planning, the Machiavellis of "Our Town" bite off great chunks of liberty by the subterfuge of conservation, environmental protection, and progress. As delineated earlier, they gain their ends by playing to base human emotions and inducing citizen participation in a monumental farce.

Of course, home ownership and our love affair with the automobile constitute two of America's most desirable and cherished personal rights, ranking high on the list of values maintained by many people. Therefore, a frontal attack by the statisticians might meet with too great an opposition; not only might the power play fail but also those who tried to seize control might lose their state-paid jobs with all the fringe benefits of wealth and power. Thus, we witness a subtle yet effective assault upon our ownership and our freedom of movement, an



assault fueled by the politics of envy. Companion to this veiled riposte, one soon discovers that the victim is given a role to play, a role that tends to make him or her a willing participant in his own hanging. This role is labeled "participatory democracy," and it is molded cleverly and welded well by the power-masters and their lackeys.

Simply put, today's town meeting never serves to correct or constrain the planner. By means of careful orchestration, the state architects always produce seeming community support for their pre-ordained choices. Their supporters, often cloaked, always muster forth with pat lines; their detractors strangely never receive notice of the meeting or, if by mistake notice does arrive, they find it postponed, or their comments ignored, or their participation strictly limited. The hearing room is always stifling in summer and freezing in winter. The meetings are long-delayed or boring, so that citizens who must arise in the morning to attend to work or school cannot stay until their regulated turn arrives. Plan contents change magically and without notice. Transcripts and exhibits vanish. All but the most hardy become discouraged, as the assault of the meetings continues until all adver-

saries disappear from weariness or frustration. Thereafter, the commission or hearing officer always smiles sweetly while making an "objective" decision forecast by the staff henchmen.

In a sentence, the coercers offer the opiate of a public hearing, of citizen involvement, to the residents of the area, encouraging them to believe that they are participating in a grand experiment in self-governance, when in reality they are executioners of their neighbors' rights, and pallbearers at the funeral of their own freedom. □

1. U.S. Constitution, Art. IV, Sec. 4.

2. 49 USC Sec. 1604.

3. Or. L. 1973 c 80; ORS 197.030-197.095.

4. Note that the committee is "advisory" only; as demonstrated under section III B, *infra*, it would not do to give residents too much control over their own lives and land. They might rebel and abolish the Land Conservation and Development Commission, and then how could the power-hungry and cost-absorbing bureaucrats achieve their ends?

5. See, e.g., Ridgway K. Foley, Jr., "Individual Liberty and the Rule of Law," *Willamette Law Journal*, December 1971, pp. 396-418 and *The Freeman*, June 1971, pp. 357-78; and "The Source of Sovereignty," *The Freeman*, March 1982, pp. 167-75.

6. As demonstrated in section III B, *infra*, the adjudication truly belongs to the planners and the politically powerful; community action represents a cruel charade.

Population Matters

by John Chamberlain

“Life on earth is getting better, not worse.” So proclaims Julian L. Simon of the University of Maryland in a book called *Population Matters: People, Resources, Environment, and Immigration* (Transaction Publishers, New Brunswick, N.J., 577 pages, \$34.95 cloth). This sounds like Émile Coué speaking back in the Twenties, but Simon depends on much more than facile inspiration for his optimism. He lists some obvious things. The improvement in the life expectancy figures is on his side. Pollution is probably more and more under control. We are getting more wealth for less work. Diseases such as typhoid and polio have ceased to be menaces.

The only trouble (and here Simon gives a personal twist to his writing) is that there are not enough people around to enjoy the better life. We have been listening to the likes of Paul Ehrlich, who wrote *The Population Bomb*. But Ehrlich's own figures contradict his worries. We are not even producing two children per family in some nations of the West.

This fact sets things up for Simon's theories about immigration. If we can't reproduce ourselves, we can make up the deficiency by an immigration policy that would let people of talent and personal resources into the country. We can continue to wink at illegal entries. The Mexicans aren't overwhelming, and besides, most of them go home again to put their newfound grubstakes into land. Simon thinks we should auction off entry permits and possibly use the money to do something about the national debt. If talented immigrants can't

come up immediately with the needed auction funds, they could be allowed to pay out of future income-tax deductions.

Talk about selling entry at Ellis Island may not sound very altruistic. But Simon says the famous Emma Lazarus poem about welcoming the refuse of a teeming shore is a phony anyway. Our immigrants of the late 19th and early 20th centuries were mostly in their robust 20s and 30s. They had brawny arms and a willingness to work without asking for welfare. In taking jobs, they began to earn money that paid more in taxes than was set aside for welfare.

Simon is extremely critical of what he thinks is a national commitment to family planning. The Ehrlichs want to keep families small. Simon's own theory is that people should have as many children as they want, provided they can pay for their food and educate them. The limitation of family numbers cuts down on the total citizenry that can be the source of new and creative ideas. Soichiro Honda, founder of the automotive firm, put it aptly when he said, “Where 100 people think, there are 100 powers; if 1,000 people think there are 1,000 powers.”

In his interchange with Ehrlich, Simon does a job on those who hold, with the authors of the Global 2000 Report, that the future will bring scarcities. “About ‘loss of land’ and ‘desertification,’” says Simon, “some arable land surely is deteriorating. But Ehrlich and current news stories imply a more general proposition: that the world's total supply of arable land is decreasing.

Yet the truth is exactly the opposite: [Joginder] Kumar (1973) made a country-by-country survey of the changes in arable land from 1950 to 1960. His finding: there was 9 percent more total arable land in 1960 than in 1950 in the 87 countries (constituting 73 percent of the land area of the world) for which he could find data—a gain of almost 1 percent per year. . . . And the increase in effective crop area was greater yet, because of the increase in multiple cropping in Asia and elsewhere.”

Some of Ehrlich's past prophecies now seem particularly ludicrous. In 1969 he wrote in a “scenario” of the future: “The end of the ocean came late in the summer of 1979,” and he went on to predict “the final gasp of the whaling industry in 1973”; “the end of the Peruvian anchovy industry in 1975”; a reduction of the fish catch to 30 million metric tons by 1977—all this contributing to “50 million people per year . . . dying of starvation” in 1977. These were crazy guesses. By 1977, for example, the fish catch was 73 million tons.

There is a valid criticism of Simon's way of writing a book, which is to send his readers backward and forward to recapitulate material that should have been presented in simple chronological order even at the risk of repetition.

A final criticism: Simon doesn't show how life for victims of socialism can be getting better. □

ECONOMICS ON TRIAL: LIES, MYTHS, AND REALITIES

by Mark Skousen

Business One Irwin, Homewood, IL 60430 • 1991 • 314 pages
\$21.95 cloth

Reviewed by David M. Brown

“No comment,” says Paul Samuelson. What he's declining comment on is Mark Skousen's *Economics on Trial*, a trenchant analysis of the concepts, theories, and delinquencies of the “top 10” economics texts used in college classrooms today. But it's a work that Samuelson would do well to study carefully.

Samuelson's *Economics*, which has been through 13 editions since its original publication in 1948, is the leader of the pack, the neo-Keynesian template for the modern textbook approach. Samuelson was among the first of the “armchair economists” to sic such Keynesian notions as “the paradox of thrift” and the wonders of deficit

spending on the unsuspecting college students of the postwar world.

John Maynard Keynes' mammoth—and mammothly misleading—*General Theory* saw print in 1936, at a time of growing intellectual hostility toward capitalism. Economists and other professional thinkers of the day were vastly susceptible to plausible-seeming rationalizations of government intervention in the economy. Although only the Austrian school of economic thought, as represented by Ludwig von Mises and Friedrich Hayek, had successfully predicted the scourge of the Great Depression and could now prescribe the needed policy antidote, the anti-interventionist analysis of the Austrians was washed aside in the wake of the Keynesian theoretical tsunami. And so, even though many of the Keynes-inspired “models” of economic activity blatantly contradict observable reality and common sense, they have nonetheless emerged as standard textbook fare.

Mark Skousen is an emissary from the real world. Far from being a mere subsidized armchair theorist, he has actually engaged in extensive entrepreneurial activity in what we call the economy, the realm of goods and exchange and profit-seeking. He has built his reputation as a financial analyst and is intimately acquainted with market conditions and the consequences of government controls. He has also traveled quite a bit and done some savvy comparison-shopping of the world's economies. And as far as theories go, Skousen is most sympathetic to the Austrian school, which defines economic value as “subjective” (i.e., dependent upon personal valuation and action rather than being intrinsic in any good or service), spurns mathematical formulae in favor of verbal deductive reasoning, and emphasizes the crucial role of production and the entrepreneur in a healthy market economy.

Economics on Trial should be required reading in all Econ 101 courses. Skousen has supplied a need that he himself felt as an economics student—the need for “a book that would simply but thoroughly dissect the large number of dubious theories and questionable doctrines taught in the classroom.” He takes on about 20 concepts or perspectives of modern economics and devotes a chapter to each, first giving the textbook version of things, then stripping away the rationalistic veneer of official doctrine to expose its logical and factual deficiencies.

Take, for example, the Keynesian notion of the “paradox of thrift.” This is a conceptual glass house that has been popularized by Samuelson. The contention is that, while savings may well be beneficial on an individual level, the effects can be deleterious for “society as a whole,” at least during economic downturns. Instead of thrift and savings, therefore, during slow times we should stress and encourage the demand side of the economy (buying). Otherwise, businesses will be deprived of the funds that have been tucked away in savings. Says Samuelson, “If people try to increase their saving and lower their consumption for a given level of business investment, sales . . . will fall. Businesses will cut back on production. How far will production fall? GNP will fall until people stop trying to save more than businesses are investing.”

Skousen has no trouble disposing of this strange claim. First, he notes, Samuelson ignores the probability that an individual’s savings, rather than merely moldering in a bank vault, will be lent out to business enterprises and thus contribute to production. “Second, investment under Keynesian theory is primarily a function of business expectations of consumer demand. An increase in consumption will stimulate investment, and vice versa. This is contrary to classical economic theory, which contends that investment decisions are determined by the profit margin of business opportunities. Demand is just one side of the equation. Businesses also consider such factors as the level of interest rates and the costs of production—not just final demand—to determine their profit margins.” But the most central objection that can be raised against the Keynesian approach is that it imposes its own blindered short-term outlook on economic actors in the market:

The Keynesian model assumes that the only thing that matters is *current* demand for final consumer goods—and the higher the consumer demand the better. But this view fails to recognize another force that is just as strong as current demand—the demand for *future* consumption. . . . [I]f every attempt to curtail consumption results in a proportional decline in production, as the Keynesian theory contends, then no addition to a nation’s wealth could ever occur from increased savings. By the same token, if everyone went on a buying spree at the local department store or grocery store, invest-

ment would not necessarily expand. Certainly, investment in consumer goods would expand, but increased expenditures for consumer goods will do little or nothing to construct a bridge, build a hospital, pay for a research program to cure cancer, or provide funds for a new invention or a new production process.

What the Keynesians have overlooked is that the decision to save is an act of time preference, the choice between current spending and future spending. Savings do not disappear from the economy; they are merely channeled into a different avenue. Savings are spent on investment capital now and then spent on consumer goods later.

How do the textbook writers manage to get away with such sophistries as the view that planning for the future is an economic ill? One reason is that policy-makers are looking for ways to rationalize their indulgence in short-term expediency. Another is that students come to class with little or no real-world economic experience, and usually without the intellectual wherewithal to challenge the conventional wisdom. This wisdom is wrapped up in arcane terminology and then formally represented in forbidding-looking graphs, with the relevant fallacy neatly plotted along the x and y axes; it’s easier to memorize the graph than to argue with the professor and risk a bad grade.

There’s a huge question as to the intellectual utility or propriety of graphic representations in economics—even when they represent economic truths—inasmuch as these models tend to hint at or presuppose constant relationships that simply do not exist in the realm of human action. Mises eschewed such visual tools completely, although, as Skousen notes, many of his followers have not been so finicky. Perhaps graphs do have some kind of heuristic role if not taken literally, but to avoid misconception the stress has to be on verbal ratiocination. Students must be able to spell out causal connections in step-by-step fashion if they are to attain and demonstrate real economic understanding. Skousen thus makes the pro-Misesian reader a little uneasy when he occasionally overturns a neo-classical model only to offer a new and improved version of his own; the lines are still too neat.

A few other objections could be raised about Skousen’s own theoretical approach, but thank-

fully these add up to a very minor and peripheral flaw in the book. Overall, *Economics on Trial* achieves its goal of providing simply and clearly argued objections to the textbook orthodoxy, and it does so with eminent fairness. Skousen gives credit where credit is due, and when he critiques an idea he often mentions which texts feature it and which ones (if any) adopt a more sensible perspective. He also provides much that is just plain *missing* from the official version of things, such as discussions on the history of money, the workings of the world's healthier economies, and the relevance of the Austrian school of economics. No economics student—or, for that matter, textbook author—should be without a copy of *Economics on Trial*. □

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IDEAS, INTERESTS & CONSEQUENCES

by Andrew Gamble, et al.

London: Institute of Economic Affairs; North American Distributor: Atlas Foundation, 4210 Roberts Road, Fairfax, VA • 22032 • 1989 • 133 pages • \$15.00 paper

Reviewed by Peter J. Boettke

This collection of essays from a Liberty Fund symposium held at Windsor Castle on June 26-29, 1989, addresses one of the most important theoretical and practical problems of our day. If political decisions are largely the outcome of interest-group pressure, then what role is left for ideas in changing the polity? Do ideas make a difference? All six authors—Andrew Gamble, Mancur Olson, Norman Barry, Arthur Seldon, Max Hartwell, and Andrew Melnyk—address this problem from various historical, theoretical, philosophical, and practical perspectives.

John Maynard Keynes concludes his *General Theory of Employment, Interest and Money* with the famous statement that

[t]he ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influ-

ences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. *I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.* (emphasis added)

But can we be so sure? Consider the so-called Thatcher and Reagan popular free-market “revolutions.” Neither constituted any fundamental change in the basic institutions of the polity or instituted constitutional changes in the rules. As a result, despite whatever short-term gains, with regard to releasing the power of free markets, might have been achieved—a very doubtful proposition even at that level—the long-term prospect is simply more of the same welfare/warfare policies that preceded Thatcher and Reagan. It is “policy within politics” as usual.

The evidence from these “revolutions” suggests the analytical power and empirical relevance of the extreme interpretation of public choice economics. This argument stated in the extreme proclaims the victory of interests over ideas. Indeed, the world is ruled by little else. Politicians are vote-seeking “entrepreneurs,” and most voters are rationally ignorant of the preponderance of issues—concentrating instead on only those issues that are of special interest to them. The interaction between rationally ignorant voters and vote-seeking politicians produces a bias in government decision-making toward policies that yield short-term and easily identifiable benefits at the expense of long-term and hidden costs. This usually produces policies that result in concentrated benefits to well-informed and well-organized interest groups, with costs dispersed among the ill-informed and ill-organized mass of voters.

This public choice argument is a powerful one, but one that is generally misunderstood. It is not the case that interests rule out the influence of ideas, just that within any *existing* polity interests have certain advantages over rational argument when it comes to satisfying the demands of political actors. But ideas can and do make a difference.

Political actors must make decisions concerning their political future within a *climate of opinion*. If the climate of opinion were one that questioned redistribution of income, then politicians who were exposed as advocates of redistribution would

be easily challenged. On the other hand, if the climate of opinion were such that collectivist policies and redistribution were the accepted norm, then a politician favoring individual freedom and free markets would be considered reactionary and suffer at the voting booth. Ideas matter in changing the constraints in which political actors seek to maximize their personal gains in terms of votes, campaign contributions, and prestige.

Organizations such as FEE, therefore, are not assigned a negligible role in society. Instead, they assume a role of fundamental importance by influencing the climate of opinion. But in addition to determining the climate of opinion, ideas also play an extremely important role within the political economy.

Most scholars and intellectuals misunderstand the methodological perspective of public choice economics, and particularly the branch of public choice economics termed constitutional political economy. Public choice scholars, such as the 1986 Nobel Laureate James Buchanan, want to examine decision-making at both the pre- and post-constitutional level. The pre-constitutional level deals with ideas concerning good and appropriate rules by which to organize society. Post-constitutional analysis, on the other hand, seeks to understand and explain the various strategies actors will employ within an already existing set of institutions or rules. The weaving together of pre- and post-constitutional analyses to tackle the problems at hand constitutes the method of the constitutional political economist.

The extreme variant of the public choice argument presented above is a correct representation of the role of interests in the political processes that occur in the post-constitutional arena. Ideas con-

cerning what is moral and good, or simply what would be the most effective way to organize society, affect the rules of social interaction. Intellectual advances and the promotion of ideas represent remote stages in a time structure of production that eventually produces public policies. The investments in ideas are capital investments, which can yield great returns for those investors in the long run. It is in the *interest* of some to invest in *ideas*. Depending on the nature of those ideas—liberalism or socialism, for example—their impact can be of great benefit.

In the end, therefore, Keynes's statement contains great truth. The individual papers in this volume all demonstrate this with notable clarity. On the surface the paradox between interests and ideas confronts a serious problem to liberalism—pointing out its inherent fragility in the face of interest-group pressure. But, the problem, while serious, is not so deadly as one might suspect. An understanding of the role of interests is fundamental to developing ideas that can protect us from the rule of special interests. At the constitutional level, as the American founders sought to do, we can establish rules that reduce the negative role of interests. To do that requires a victory in the battle of ideas: both in the academic community where social philosophy emerges and in the general populace where the climate of opinion is formed. Ideas can and do make a difference, they do have consequences, as this volume of essays conveys with force. □

Peter J. Boettke is a professor of economics at New York University and author of The Political Economy of Soviet Socialism: The Formative Years, 1918-1928 (Kluwer Academic Publishers, 1990).

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Nurturing Good or Evil

C. S. Lewis, in his preface to *The Screwtape Letters*, reminds us that good and evil do not spring up in a moral vacuum. He writes: "The greatest evil is not now done in those sordid 'dens of crime' that Dickens loved to paint. It is not done even in concentration camps and labor camps. In those we see its final result. But it is conceived and ordered (moved, seconded, carried, and minuted) in clean, carpeted, warmed, and well-lighted offices, by quiet men with white collars and cut fingernails and smooth-shaven cheeks who do not need to raise their voice."

Thus, for instance, we find the roots of Nazism in the works of seemingly genteel philosophers who long predated the rise of Adolf Hitler. And, to cite a more felicitous example, Thomas Jefferson's Declaration of Independence was inspired by the writings of John Locke, who died 40 years before Jefferson's birth.

So it is with all social movements. Good and evil take years to nurture. The lives of children yet unborn will be affected by our thoughts, our examples, our actions. It takes time to improve the world, and we won't be around to get the final verdict. But we have the rest of our lives to improve ourselves.

—BRIAN SUMMERS

Cheap Lunches

The slogan "There is no free lunch" seems to imply that we have to pay for everything we get. Here a good thought is going wrong by being applied to situations it was not designed for. This slogan was originally intended to suggest that the *government* cannot supply free lunches to *all of us*, that there is no magic trick by which we can increase our total national resources by passing laws and setting up bureaucracies; rather, we as taxpayers have to pay indirectly, sometime.

In other contexts, however, there *are* free (or below full cost) lunches all the time. None of us always pays the full cost of production for what we get. In the modern world each generation gets its lunch at a lower cost of labor than did earlier generations, because earlier generations responded to their economic problems with ingenuity and ener-

gy. Our ancestors bequeathed us the intellectual wherewithal to get our lunch, if not entirely free, at least much cheaper than if we had to start from scratch. Compare what we “pay” to what Europeans had to “pay” for lunch and the other meals a few hundred years ago. They paid most of every day’s work, whereas we can buy the same amount of raw food with a small fraction of the work time it cost them. And there is no economic or physical force, and no concept in standard economic theory, that suggests that this progressive reduction in the cost of lunch cannot continue indefinitely. We eat our cheap lunch courtesy of the sweat of our ancestors’ brows in mental as well as physical labor.

—JULIAN L. SIMON
Population Matters

The Threat to Christian Schools

The Christian schools have wisely backed away from federal funds and, as long as they do so, they will be able to maintain their freedom and control. But, more and more, we are hearing Christian school administrators and pastors talk of the burden of Christian education. More than one Christian school has dabbled with the idea of reaching for the carrot of subsidies. Some have even stated that when the controls come, they will scramble to high ground. How foolish to think you can play with fire and not be burned.

Now, the government has offered a second carrot, but this time it has been extended, not to the school, but to the parents. Direct aid to the parent through tuition tax credits, the voucher system, child care, transportation reimbursements just to name a few. This is but a back door approach. If they cannot bring the school to accept the funds, they will seek to encourage the parents. They are banking on *their* need and ignorance. Once the parents have become accustomed to receiving the funds, you will find that these funds will be withheld if the school of their choice does not meet particular criteria. If they cannot control the school directly, they will attempt to control the flow of students, thus forcing those schools who will not conform out of business.

—JAMES R. PATRICK,
writing in *Foundations of Liberty*

Taxing Investments

The main cause of a near horizon in investment planning today is not investors or managers—it is government, especially the income tax system. The tax system penalizes saving relative to consumption. That encourages potential investors not to save, or, if they do save, to do so for less time than they otherwise would. With depreciable assets, the tax system’s cost recovery allowances systematically favor short-lived assets over long-lived ones because the allowances have a smaller present value as asset life rises. Revenue-raising changes in the tax code, which have occurred almost yearly in the last decade, also shorten investment horizons. When these changes are frequent, long-lived investments become riskier and thus less desirable than short-lived ones. Because short-lived investments mature quickly, investors in them soon have an opportunity to reshape their plans in light of the new tax rules.

—MICHAEL SCHUYLER
Institute for Research on
the Economics of Taxation

Reader’s Digest

“Another World,” by Richard L. Leshner, which appeared in the September 1990 *Freeman*, has been reprinted in the January 1991 issue of *Reader’s Digest*, as part of the feature titled “That’s Outrageous,” pages 163-165.

A False Prosperity

War prosperity is like the prosperity that an earthquake or a plague brings. The earthquake means good business for construction workers, and cholera improves the business of physicians, pharmacists, and undertakers; but no one has for that reason yet sought to celebrate earthquakes and cholera as stimulators of the productive forces in the general interest.

—LUDWIG VON MISES
Nation, State, and Economy

The Terrible D-Word

by Donald G. Smith

As a person who makes his living with words, I am often disturbed by the misuse of a word. The word *articulate*, for example, does not mean knowledgeable, but only that a person is easily understood. *Infer* and *imply* are often used interchangeably, even though their meanings are quite different. *Irregardless* goes a step further by having no meaning at all.

These words, however, are only minor annoyances when compared with the over-used and misused *discrimination*, the terrible d-word. It is a far more serious breach of linguistic rules because it has the backing of government, which is another case of federal, state, and local governments going where they have no business being.

The once legitimate word has become so pejorative that one can imagine a group of street thugs taking it into a back alley and working it over until it is time to call for an ambulance. When used today, it is accompanied by excess amounts of sneering and finger wagging, all with government blessing, so that it is not only an accusation but an indictment.

The simple truth is that discrimination is not always a bad thing, only something that can, under certain circumstances, be undesirable. There is bad discrimination and there is good discrimination. Let's call them "X" and "Y" discrimination. "X" discrimination can be demonstrated by telling a non-white person that he or she cannot use a city facility when that person's taxes are helping to pay

Mr. Smith is a writer living in Santa Maria, California. He is a frequent contributor to The Wall Street Journal.

for it. It is indeed the proper function of government to enforce anti-discrimination laws in this instance and open the use of public facilities to all citizens.

"Y" discrimination is another matter entirely because it exists almost exclusively in the private sector. An example would be an all-male organization barring females from membership, or an all-female organization barring men. In these instances it is not the function or the business of government to enter the picture at all, and most certainly not to pressure or threaten such groups to change their membership policies.

In the case of private organizations—clubs, lodges, associations, and interest groups—there will necessarily be discrimination because that is the sole reason for existence. An organization is formed only to bring certain kinds of people together and therefore excludes those who are not of that kind, persuasion, or general interest.

The Knights of Columbus, for example, is a fraternal society for Roman Catholic laymen. As such, it excludes from membership *all* women, *all* children, and *all* men who are not Roman Catholic. It is obvious that this organization excludes a whopping majority of the human beings who populate this planet. This is discrimination in its most blatant form, but what rational person can argue that it is wrong? The Knights of Columbus would serve no purpose if it didn't exclude these people.

An alumni organization is another example of gross discrimination because it excludes all people who did not graduate from a given university; but,

again, how could such an organization exist otherwise?

There are social clubs for tall people, which serve the very legitimate and understandable purpose of bringing together men and women who are considerably taller than the norm; but they exclude people who aren't tall. There are clubs for left-handed people, for people over and under a certain age, for twins and triplets, for women who have had mastectomies, and for ex-band singers. There is even a Jim Smith Club, which excludes everyone on earth who isn't named Jim Smith.

All of these are examples of "Y" discrimination and they all serve to bring certain kinds of people together, which is another way of saying that they exist only to exclude other people; they discriminate. They have to because it is their only reason for being, but it still isn't difficult to foresee the demise of these groups due to pressures from a government that cannot see the difference between using a public building and getting a date with another tall person.

There is truly a super-sensitivity existent in the land that, to quote the Bard, "makes cowards of us all." We generally knuckle under rather than face an accusation of discrimination, even when that discrimination is justified and in fact desirable. I well recall the sports announcer who covered a televised fight between a black man and a white man and consistently identified the black fighter as

"the one in the blue trunks." The distinction was made for identification purposes only and the obvious difference was that one person was black and the other white, but the announcer preferred to play it safe with the blue trunks. Presumably if he had seen Gary Coleman in conversation with Wilt Chamberlain, he would have differentiated between the two by the color of their socks. After all, we don't want height discrimination.

We see the pervading fear of Big Brother at work when the Los Angeles Friars Club, an all-male group of entertainers, backed down and admitted a female attorney who was ready to take them to court. We see it today in the presence of female reporters in male locker rooms, when owners of professional sports teams can no longer decide who will, and who will not, be admitted to their own facilities. We see it in hiring quotas for private businesses, in committee memberships, and even in Little League. We see it in the regular use of such contrived, and rather stupid, words as *chairperson* and *spokesperson*.

It is time, I am convinced, to call a halt to all of this nonsense by the simple and well-tested American practice of telling government that we have had enough and that we want the executive, legislative, and judicial branches to do those things that they were created to do and to get out of our personal lives. As a recent First Lady so succinctly put it: just say no. □

Discrimination

Many of the leading problems of our day, I believe, stem from a thought-disease about discrimination. It is well known that discrimination has come to be widely scorned. And politicians have teamed up with those who scorn it, to pass laws against it—as though morals can be manufactured by the pen of a legislator and the gun of a policeman. . . .

If a man is to continue his self-improvement, he must be free to exercise the powers of choice with which he has been endowed. When discrimination is not allowed according to one's wisdom and conscience, both discrimination and conscience will atrophy in the same manner as an unused muscle. Since man was given these faculties, it necessarily follows that he should use them and be personally responsible for the consequences of his choices. He must be free to either enjoy or endure the consequences of each decision, because the lesson it teaches is the sole purpose of experience—the best of all teachers.

—F. A. HARPER

IDEAS
ON
LIBERTY



A Chat with a Mass-Man

by Michael Reed

“The only thing a psychically-human being can do to improve society is to present society with *one improved unit*.”—Albert Jay Nock

A short while ago, my partner and I were invited to attend a gallery opening for an artist friend of ours. By the time we arrived at the gallery, he had already happily sold several pieces. This did not come as a surprise as our friend is blessed with a marvelous talent. Indeed, we found his new paintings to be sublime, almost dream-like creations that juxtaposed soft air-brushed tones with intensely vibrant hues.

After our tour of the new works, our friend invited a group of us over to his studio for a small, post-opening celebration. Included in the invitation were a husband and wife, I'll call them Don and Brenda, whom we hadn't met before. As we wandered back to the studio, we reveled in one of those rare, perfect summer evenings—the warm, lazy breeze whispered its lulling promises, while the huge orange moon hung in magical suspension at the end of the boulevard.

When the cork on the champagne was cheerily popped, we all toasted our friend the artist and warmly congratulated him on a successful opening. Over in the corner, I could hear Don telling someone that he had been out of a job for six months and that his unemployment was running out that month and he was getting worried. But, he added with a sly smile, it had been a *great* summer—implying that he had been using the unemployment money for goofing off and now he was in a spot. During the course of the evening I learned that Don had been

publishing a small, local magazine for a few years and that he had decided voluntarily to stop publishing it and “pursue other interests.”

The conversation turned to recent books, music, and films. The topic of some of the top-notch arts programming on cable television came up. Brenda and Don, who had recently returned from visiting Brenda's family in Europe, began complaining that in her country the government was going to allow television to become “commercial.” They lamented that this was going to be the end of good TV over there.

I inquired about the current setup and discovered that the government had limited broadcasters to just two channels. As I understood it, people pay for subscriptions to broadcasting companies who produce various programs. These programs are then divvied up between the two channels. However, it seems that sometimes a considerable number of political debates are broadcast and that both of these channels simultaneously broadcast the same debate, but in different languages. In addition, so they can view this wondrous assortment of channels, everyone needs to buy a license to own a television set. The license fee is, of course, another way of saying “tax.”

I asked what was wrong with having commercial TV and they said they thought the government shouldn't allow it because it was, well, it was just obviously a bad thing . . . just look at how lousy TV is in America because of the commercialized aspects (totally ignoring the earlier remarks of how good some of the “commercial” cable TV programs are). Of course, I had to ask why the government had to get involved at all.

Don aggressively replied that government is a good thing and that the concept of big government shouldn't be scary to people, but instead they should be scared of big business.

I said it seemed to me people should be wary of big business when it colludes with the government to receive special treatment that effectively allows them to remove themselves from market competition—much to everyone's detriment.

As the discussion continued, it became apparent that Don had it all worked out, but I found his arguments riddled with inconsistencies ("sinking in a sea of butts," Leonard Read used to call it). Government is good, big business is bad—but only as Don defines government and big business. It seems that the idea of big-business McDonald's (which sells food he doesn't care for) disgusts him, but big-business airlines are O.K. because they'll fly him to Europe. As for government, give him socialism. Yes, people are rejecting the oppressive socialist governments all over Eastern Europe, but, in his estimation, they haven't totally rejected them, which, of course, is good.

We kept verbally thrusting and parrying for a while and finally he demanded to know how I thought things should be. So, I told him. People should be free to do anything they wish so long as it is peaceful. The government's job is to uphold voluntary contracts between individuals and to protect life and private property. Period. If people want to set up commercial TV stations, let 'em. Nobody's forcing you to watch them.

At this point, all conversation in the room had stopped and I could feel an almost electric sizzle in the tension our discussion was generating. I saw that the questions being asked of me were of the tedious "what is your plan for creating this society" variety. I've noticed that people who want to hear master plans are not interested in the prospective creativity of individuals.

And then I felt the peaceful, calming influences of Albert Jay Nock and Leonard Read. I smiled and said that obviously we had great disagreements which we would probably never settle, most certainly not tonight. Someone breathed a sigh of relief and said, "How did we get on that topic anyway?" The conversation quickly veered off onto other matters.

Later, as I reflected on what had been said and why, Mr. Nock came to my assistance again. I

realized that Don is a prime example of what Nock called a "mass-man." He is like a child who "knows everything" yet still needs to hang on to the apron strings of a parental government—a government that tells him what is best—and, when he doesn't get his way, thinks it is perfectly fine to throw tantrums in the street. The mass-man seems unable to comprehend the ideal of the free individual.

As Mr. Nock so eloquently put it, "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. . . . He appears as not only weak-minded and weak-willed, but as by consequence knavish, arrogant, grasping, dissipated, unprincipled, unscrupulous. . . ."1

Because of their inconsistent master plans the mass-men do not (or cannot) understand that their plans are not the point at all. As Leonard Read affirmed, "Neither we nor anyone else can design or draft or organize a good society. No one person nor any committee can make even a pencil; a good society is more complex than that! A pencil or a good society or whatever is but a benefit or dividend which flows as a consequence of antecedent attention to one's own emergence toward excellence."² Who knows what unlimited wonders a society of peaceful, creative individuals will devise? But talk of voluntary peaceful agreements between individuals pursuing their own creative interests whirls around the mass-man like so much cotton candy that instantly melts when it meets the inferno of his coercive convictions.

Later that evening, Don unknowingly weakened his case further with a final inconsistency: he and Brenda were gushing over how wonderful Disneyland is and what great things are being done by Walt Disney Productions. Somehow I had the presence of mind to refrain from pointing out that Disneyland and Walt Disney Productions are certainly two of the scariest big businesses on the planet. □

1. Albert J. Nock, "Isaiah's Job" reprinted in *Notes from FEE* (Irvington-on-Hudson, New York: Foundation for Economic Education, July 1962).

2. Leonard E. Read, *Anything That's Peaceful* (Irvington-on-Hudson, New York: Foundation for Economic Education, 1964), p. 237.

State Subsidy to Private Schools: A Case History of Destruction

by John Chodes

This is a story of how government aid entangles private schools in public policy and eventually leads to state control. It is especially pertinent today because many parents with children in public schools are lobbying state legislatures for help: tax credits, vouchers, or even direct subsidies to put their children into private schools. Parents hope that they can obtain government aid and still maintain control over their children's education.

History shows that this is an illusion. State subsidies to private schools create legal conflicts that lead to their eventual takeover or destruction. The conflicts arise from inherent contradictions between parental values and public policy.

Our story begins in the 1790s in the slums of London. A young Quaker, Joseph Lancaster, was excluded from an education monopolized by the Church of England because of his religion. His father taught him at home. Embittered, Lancaster conceived a radical, cheap method for schooling the poor and disenfranchised such as himself. His "monitorial system" was so effective, it spread around the world.

Lancaster had the brighter children (the monitors) teach the slower, in order to cut costs. This also developed their leadership ability. There was one monitor for every ten students. Because of this small-group interaction, no one was bored, even though the subjects taught were more than the

basics. They included algebra, trigonometry, and foreign languages.¹

Lancaster's methods brought out students' entrepreneurial spirit. They were paid to be monitors in "merit badges," which were like Green Stamps, having considerable value when redeemed in bulk. Students purchased school goods and services with them, learning market-place dynamics.²

The system was profitable even with a tuition fee of only four shillings a year. Lancaster felt it was critically important that the students, no matter how poor, pay so as to strengthen their motivation to succeed.³

Four shillings was a fraction of what it cost to operate church-run or private schools. Lancaster, however, had cut costs to the bone. Students wrote on slate instead of paper. Paper was expensive, slate indestructible. One book per subject per class was used. Each page was separated and placed on a board suspended over a circle of ten students. Each group studied that page as a lesson. Then the groups rotated. Lancaster even designed prefab school buildings that could be constructed in days.⁴

The State's Monopoly in Education

Since the Enlightenment, all governments, whether monarchies, democracies, or dictatorships, have considered education a legitimate

John Chodes is the Vice Chair of the Libertarian Party of New York City.

arena for state monopoly. Values, the rules of citizenship, respect for authority, and homogenized cultural diversity were imperatives for stability.

Freedom lovers, on the other hand, saw the danger of extending despotism through this process. Also, church and private school systems perceived that state-funded education would undermine them, since their values often were at odds with government policy.

Due to these fears and the large taxpayer expense, government-financed schools advanced slowly in the United States. Then the Lancaster system attracted state attention because of its extreme economy. Taxpayers could accept its small burden.

The negative aspect for government was that Lancaster's methods produced leaders. They were entrepreneurs, not bureaucrats. To the state, "good citizenship" meant restrictions on self-assertion.

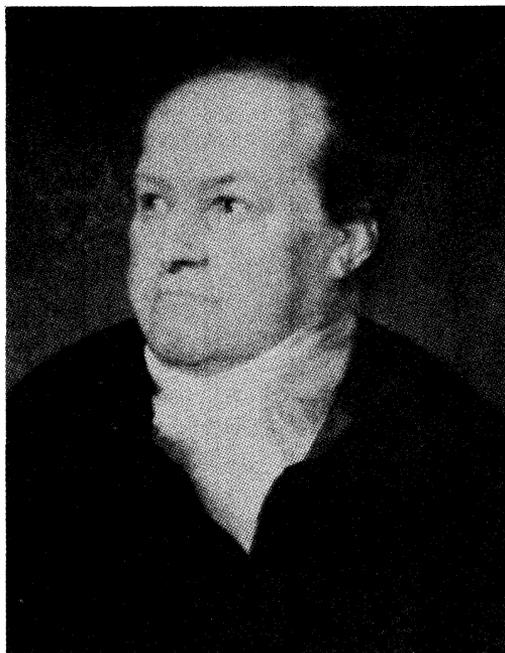
In 1805 New York City was an isolated island of educational choice and freedom. It had many private and church schools. Some were free, some inexpensive. It had no state-funded common schools. It was surrounded by a government near-monopoly of education throughout the rest of the state, financed via the School Fund, which pressed for school uniformity throughout its domain. The city resisted.

There was an illiteracy problem in New York City associated with poverty. Children not affiliated with a religious or charitable organization often didn't attend school. In April 1805 several prominent philanthropists met to discuss an educational plan to reach these youngsters. Benjamin Perkins had just returned from England where he had seen the Lancaster system in operation. He felt it was perfect for New York. The others agreed.

They incorporated under the title: "A Free School for the Education of Poor Children who do not Belong, or are not Provided by, any Religious Society."

Its charter directed the Society for a Free School to seek private contributions. Unfortunately, this meant disregarding Joseph Lancaster's original insights. Student payment and profitability were cast aside. This diffused the advantage of the marketplace and self-motivation. Charity became the philosophical basis.

Initially, contributions kept the Society free from



De Witt Clinton

political influence. In the first year enough money was raised to open a school and hire teachers. There was no thought of or need for a state subsidy.⁵

The Influence of De Witt Clinton

The private nature of the Society for a Free School changed radically when De Witt Clinton was elected president and began to assert his influence. Clinton (1769-1828) was one of the most famous political figures of his day. He was a 10-term mayor of New York City and also served as the state's governor. He promoted state intervention in education as an "indispensable foundation of democracy. . . the first duty . . . and the surest evidence of good government is the encouragement of education . . . that will watch over the liberties and guard them against fraud, intrigue, corruption and violence."⁶

Clinton had heard of Lancaster's early success and the low cost of his methods. When Benjamin Perkins went to England on business, it was Clinton who asked him to investigate how the Lancaster method worked in practice. Perkins' report created the Society for a Free School along Lancasterian lines.⁷

Clinton attached himself to the Society from the outset. The trustees were only too pleased to have

him participate. His prestige made it easy to raise contributions.

Even though the Society had no need for government subsidy, Clinton approached the state legislature for assistance. With his political clout, the Society received state aid. The trustees believed his view that it was important to be in the good graces of the government.

The initial \$4,000 grant toward building a school and \$1,000 for expenses was less than had been raised privately. Yet even this small subsidy required changes in state tax policy. To pay for it, the levy on taverns and liquor was raised.

Then Clinton showed his true colors. In an 1807 speech at the opening of a second Society school, his views were diametrically opposed to the Society's stress on student self-assertion and entrepreneurship. Clinton blamed the business ethic and wealth for moral depravity and poverty. He stated that schools should perform a social, not a personal function. Now that the state had a toehold, Clinton altered the Society's position to be more like the government's.⁸

Subsidy Alters Ideals

Subsidy was never needed, but subsidy radically altered the fundamental stance of the Society for a Free School. State aid provoked a charter revision which extended the Society's operations to "all children who should be the proper objects of gratuitous education." Then the name was changed to the Free School Society. No longer were the poor and disenfranchised the targeted student group. The new aim was universality. This was the state's position through its common schools, putting it on a collision course with both the common and the religious schools. The original charter's careful wording ("... for the education of poor children who do not belong, or are not provided by, any religious society") had avoided conflict with other systems.⁹

The new charter meant another change: education was no longer important for employability and self-improvement. Now the Free School Society (F.S.S.) reflected the state policy of education to "enlighten" voting habits: "[What educational system] is best adopted to meet the wants of the state? In our country... the ballot box... a power, capricious and mighty... which rolls over the land with the tremendous pressure

of an ocean swelling on and overbearing every obstacle... such a power must be controlled and guarded or its exercise will be the destruction of everything dear to the citizen..."¹⁰

Secular vs. Nonsectarian

In 1813 the Free School Society accepted a portion of the state's School Fund. This proved to be another crucial error, allowing New York State to extend its power into the city. This made the F.S.S. more like a government agency, formalized by having the mayor, city recorder, and first judge of the city on its board of trustees.

Superficially, it seemed that the state and the F.S.S. were in agreement on curriculum policy. In fact, they were completely at odds. This disagreement, never reconciled, would finally bring down the Free School Society.

The School Fund was created to develop the state's own common school system. Curriculum was mandated along secular lines. The F.S.S. taught its students a nonsectarian point of view. This difference generated the conflict of public versus private values in the legislature.

Common schools were compelled to exorcise any trace of religion or partiality in values from their curricula. Free School Society schools provided the basic moral tenets that all Christian sects could agree upon, but which favored no single denomination. (Religious schools that followed a specific doctrine were labelled "sectarian.")

Both secular and nonsectarian schools tried to be universal. But the state legislature wondered: Can the Free School Society receive the School Fund with no legal objection, or is it simply another Christian sect? If the latter, then state aid would be unconstitutional.

No matter how the F.S.S. twisted to adjust its position to the state, it couldn't be done. A major collision was inevitable. John Spencer, Secretary of State of New York, said the F.S.S.'s curriculum values would "endlessly be a source of irritation and complaint" to the legislature.¹¹

These explosive forces led to a confrontation from an unexpected source and resulted in a landmark legislative response, all stemming from the subsidy.

The Bethel Baptist Church ran a school for its parishioners. The trustees voted to build a second school on New York City's Walker Street.



One of nineteenth-century New York's most notable charities was The Newsboys' Lodging House where orphan newsboys paid a nominal amount for their upkeep and evening school.

The Free School Society eyed the site with the same intention. Bethel and the F.S.S. each feared that a rival school in the same district would diminish its own enrollment. Contrary to law, Bethel also received a portion of the School Fund. Both sides appealed to the state for help, thus turning a simple property dispute into a legislative battle.

Initially the Free School Society tried to get the legislature to revoke Bethel's share of the School Fund by raising the issue of separation of church and state. Then the F.S.S. evoked the specter of religious intolerance, predicting that each sect would fight desperately over the remainder of the fund. "A spirit of rivalry [will] disturb the harmony of society [and put] prejudices in the minds of children," the F.S.S. maintained.

All this helped the Free School Society win the battle, but it was a Pyrrhic victory. The city expropriated Bethel's school but, in the process of pleading its case, the F.S.S. brought into the open questions that the legislature used against it. For instance, there was the contradiction of taxes for a

civil purpose (the School Fund) being controlled by a private organization. This generated a landmark amendment to the School Fund bill. The state gave New York City's Common Council the power to administer the fund, bringing the common school secular curriculum into the city for the first time. The F.S.S.'s nonsectarian studies came under state attack.

In defending the expansion of secularism, a State Assembly report tried to show that secularism calmed the "dangerous passions" of religious rivalries. In fact, it drove many of the religious groups to humiliate their rivals as they fought for a share of the School Fund. State officials themselves fanned denominational hatred with comments like "ecclesiastical despotism is the most oppressive tyranny" to justify withholding monies from the sects.¹²

Now the state was in a better tactical position to overpower objections to a common school monopoly. The *coup de grace* against educational pluralism was completed by a second battle against a religious school system.

Subsidies Lead to Strife

It was 1840. The F.S.S. (now renamed the Public School Society to show its universal character and association with government) ran 98 schools and taught 23,000 students annually.¹³

The Catholics petitioned the Common Council for money from the School Fund. Their spokesman, Bishop Hughes, said his people could not send their children to P.S.S. schools, which excluded their form of Christianity. The Catholics wanted to create their own schools with the state's help.¹⁴

This put the Public School Society into a legal bind, due to its entanglement with the School Fund. Committed to universal education, it was forced to accommodate the Catholics or face losing the subsidy. The attempt at compromise with the Catholics created new turmoil with the state.

The P.S.S. tried to draw the Catholics into its system by expurgating blatantly anti-Catholic portions of its textbooks. Bishop Hughes was unimpressed. In arguing to the Common Council, Hughes presented the implications of secular schools that no one had stated before: both the state and the P.S.S. were moving from a common education toward a common religion via secularism, which excluded Christianity but presented its own rational morality.¹⁵

The issue became more exacerbated, but nothing was resolved. Bishop Hughes escalated the struggle by shifting the debate to the state legislature. He organized a political party to put forward candidates who would vote to give Catholics some of the School Fund. This failed but it drew Governor Seward and Secretary of State Spencer into the controversy. The gradual retreat by the Public School Society turned into a rout. All the charges that the Catholics hurled at the P.S.S. were now included in Spencer's proposal for a new school bill. He attacked the P.S.S. as a closely held corporation where the taxpayers had no control over its administration. While this wasn't true, the legislators believed it. Spencer detailed the endless conflicts between the secular and nonsectarian views that would never be resolved until the state controlled all education.

Spencer mollified the Catholics by saying that in his plan, voters in each school district would choose the moral values they wanted. But since the rules of the School Fund outlawed all religious teaching, politicians, not voters, had

already determined the correct ethics.¹⁶

In 1842 Spencer pushed a bill through the state legislature that enlarged the New York City common school system by creating two distinct branches: the secular schools and the P.S.S. schools. A new bureaucracy, the Board of Education, coordinated the two branches. Now state commissioners could inspect P.S.S. schools to see if any religion was being taught. If so, all funding would be withdrawn.¹⁷

By 1847 the end was at hand. The Public School Society petitioned the Board of Education for money to build a new school. The petition was denied because nonsectarian doctrines would be taught in it. Only secular values were permissible. This was the kiss of death. The city immediately absorbed every P.S.S. school and hired all the trustees as state employees. The Public School Society, which over a 40-year period had taught more than 600,000 children in New York City, was gone. Pluralism and large-scale private education ceased to exist in New York State.¹⁸

If we ignore the tragic history of the Public School Society we will repeat it today. Current efforts to win government aid to private schools via vouchers and tax credits will mean another cycle of legal conflict and restricted freedoms. □

1. David Salmon, *Joseph Lancaster* (London: Longmans, Green and Co., 1904), pp. 1-15.

2. Joseph Lancaster, *The Lancasterian System of Education, with Improvements* (Baltimore: William Ogdan Niles, 1821), p. 23.

3. Joseph Lancaster, *Outline of a Plan for Educating Ten Thousand Poor Children* (London: Joseph Lancaster, 1806), pp. 8, 10-15.

4. Lancaster, *The Lancasterian System*, pp. 1, 2, 17. See illustrations, pp. 30-31.

5. William Olan Bourne, *History of the Public School Society* (New York: William Wood and Co., 1870), pp. xvii, 1-27.

6. Edward A. Fitzpatrick, *The Educational Views and Influences of De Witt Clinton* (New York: Columbia University, 1911), pp. 47-49, 74.

7. William Campbell, *Life and Writings of De Witt Clinton* (New York: Baker and Scribner, 1849), pp. 316-20.

8. Bourne, pp. 15-24.

9. *Ibid.*, p. 12.

10. *Ibid.*, p. xviii.

11. *Ibid.*, pp. 48-75.

12. Diane Ravitch, *The Great School Wars* (New York: Basic Books, 1974), pp. 20-21. See also Bourne, pp. 48-75.

13. Bourne, p. 359.

14. Ravitch, pp. 36-45.

15. Bourne, pp. 324-49.

16. Ravitch, pp. 46-76.

17. Bourne, pp. 521-25.

18. *Ibid.*, pp. 526-85, 592.

Unions Drop Their Mask

by Charles W. Baird

The New York *Daily News* strike that began on October 25, 1990, has been characterized as “an old-fashioned labor-management blowout, the likes of which are rarely seen anymore.”¹ Extreme overt violence and threats of violence by strikers and union hooligans against replacement workers, news vendors, newsstands, and delivery trucks have attracted national and international attention, including that of London’s *Economist*. Elaborate and expensive strike preparations by the Chicago-based Tribune Company, owner of the *Daily News*, which included secret training sessions for management personnel in Florida, a fenced and guarded “phantom newsroom” in New Jersey, and a nighttime guarded caravan transporting editors to the New Jersey site along a roundabout route designed to foil union spies, have added intrigue and even some entertainment value to the tale. But the level and character of violence in this strike give one pause. It is unique in recent history. It is a return to the tactics of the bloody union battles of the late 19th and early 20th centuries.

Violence in Labor Disputes

There is nothing unusual about violence in labor disputes. For example, in the recent Pittston Coal strike, which lasted from April 1989 to February 1990, \$65 million in fines were levied against the United Mine Workers for such activities as obstructive mass sit-down demonstrations, “rolling roadblocks” to stop coal trucks, spreading spikes on roads, and occupying a production plant for

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four days. Although the strike settlement included amnesty for all union acts of violence, the Virginia judge who imposed the fines has thus far refused to lift 80 percent of them.

Violence against buses and replacement drivers has been widely reported in the ongoing strike by the Amalgamated Transit Union (ATU) against Greyhound. In May 1990, National Labor Relations Board General Counsel Jerry Hunter authorized a complaint against the ATU in which he cited specific acts of violence, mass picketing for the purpose of intimidation, and miscellaneous picket line misconduct.

In 1983 the Wharton School published Armand Thieblot’s and Thomas Haggard’s massive study of union violence in contemporary labor disputes. The 20 unions most frequently involved in violence had a total of 1,844 cited incidents from 1975 through 1981.² The authors state that “Labor laws and their interpretations by the courts have failed to curtail or circumscribe overt violence, and application of criminal law is hampered by the collective nature of much of it and the inability to fix blame on particular individuals. The end result is that violence continues, and can occur in a modern strike or organizational drive just as easily as it did at the turn of the century.”³

Unionists would have us believe that a strike is merely a collective withholding of labor services in the face of unacceptable terms of employment offered by an employer. But that is not all there is to it. A strike is a collective withholding of labor services, but it is also an attempt to shut down an employer by cutting off his access to replacement workers, suppliers, and customers. It is one thing for a group of like-minded workers to withhold

their own labor services from an employer. It is quite another thing for them to attempt to force other workers, suppliers, and customers to refuse to do business with the struck firm. Such attempts are acts of trespass—in broad terms, acts of violence—against the voluntary exchange rights of non-strikers and the strike target.

Yet the sine qua non of every strike is the picket line, whose only purpose is to interfere with exchange activities between non-strikers and the strike target. As the United States Supreme Court recognized in the 1921 *Tri City* case, even a peaceful picket line is inherently intimidating. The Court's solution to protecting the rights of non-strikers in that case was to limit picketing to one picket per entrance. This may seem to be merely a particularly benighted ruling by a pre-New Deal Supreme Court, but the activities of the *Daily News* strikers demonstrate where the opposite view can lead. If "peaceful" acts of interference with the exchange activities of non-strikers are permissible, then strikers cannot be blamed if recalcitrant non-strikers must be convinced of the folly of their ways by using more "persuasive" tactics. The 1940 *Apex Hosiery* decision shows that even the Supreme Court can be seduced into approving acts of extreme overt violence on the grounds that the offenders are pursuing legitimate union objectives.

The Norris-La Guardia Act (1932) and Wagner Act (1935) gave unions legal privileges and immunities that were specifically designed to eliminate violence in labor disputes. Congress reckoned that if employers couldn't fight back, there would be peace. As it turned out, violence didn't abate, but it did become largely limited to the picket line, and it seldom involved third parties. With the passage of the Taft-Hartley Act (1947) and Landrum-Griffin Act (1959), unions lost some of their privileges and immunities and were forced to adopt a mask of civility and reasonableness.

Daily News Violence

In the *Daily News* strike, however, violence took to the streets to an extent unheard of in recent memory. The striking unions dropped their mask. News vendors have been intimidated, beaten, bombed, and shot. Newsstands and their inventories have been looted, bombed, and trashed. Delivery trucks have been bombed and

torched, and their drivers have been beaten. Members of the general public who have been imprudent or unlucky enough to be close to acts of sabotage have been injured, and even more of them have been endangered. As Michael Gartner has aptly pointed out, this no-holds-barred attack against the newspaper amounts to thugs' attempting to tell us what we can and cannot read.⁴

James Hoge, publisher of the *Daily News*, has alleged that there had been, as of November 26, some 700 serious acts of violence. The New York Police Department claimed knowledge of only 229 such incidents, and discounted any union conspiracy behind them. Apparently the police don't want to antagonize the unions in one of the most pro-union towns in America. The *Daily News* had to hire protective services from private security companies.

On November 14, at a union rally in front of *Daily News* headquarters, AFL-CIO president Lane Kirkland blamed all of the violence on the newspaper. According to him, "the economic violence of stealing people's jobs—that's the root of anything that might be called violence."⁵ If anyone other than a union spokesman had made such a claim he would have been laughed off the stage. To suggest that hiring willing workers to do the jobs that strikers refuse to do is justification for violence against people and property is ludicrous. Strikers do not have property rights to jobs they refuse to do. The employment relationship is one of contract between willing employees and willing employers. If one group of employees is unwilling, the employer has a moral and legal right to make contracts with others. Yet Brooklyn Assemblyman Frank J. Barbaro, in response to the *Daily News* strike, has introduced a bill in the New York State Legislature to outlaw the hiring of replacement workers. Only unions can practice violence with the blessing of politicians.

It Has Happened Before

The *Daily News* strike is very reminiscent of the 1892 Homestead strike. Today there is a 10-foot-high gray slab monument in Homestead, Pennsylvania, that commemorates "the iron and steel workers who were killed . . . on July 6, 1892, while striking against the Carnegie Steel Company in defense of their American rights." In fact, the Homestead strikers were violently attempting to

deny the “American rights” of non-strikers.⁶

Like the Tribune Company, Carnegie had undertaken elaborate preparations for an expected strike. There had been a violent strike at the plant in 1889, during which the strikers drove out the Allegheny County sheriff and his deputies who were trying to maintain order. In preparing for the 1892 strike, Carnegie manager Henry Frick had a nine-foot board fence, topped with barbed wire, constructed around the perimeter of the Carnegie property. Mindful of the impotency of the sheriff three years earlier, he also arranged for 300 Pinkerton guards to be brought in, should the need arise, to protect plant property and non-striking workers.

On July 6, 1892, after the strike began, Frick tried to land the Pinkerton men at the fenced-in Carnegie dock along the Monongahela River. The strikers tore down the fence, charged the dock, and fired on the tow boat and barges that were carrying the Pinkertons. At least one Pinkerton guard was killed. The tug escaped, leaving two barges filled with Pinkertons behind. They fell under siege, complete with cannon and dynamite. There were additional deaths on both sides. At one point there was an unsuccessful attempt to burn the barges to drown the occupants. In the end, the Pinkertons surrendered. They were savagely beaten and incarcerated in a local theater. The strikers’ advisory committee then proceeded to usurp all the governmental functions in the town. Like Robespierre’s Committee of Public Safety in the French Revolution, the Homestead Advisory Committee policed all movement and activities of people in the town, especially members of the

press. The press was censored, and several people were incarcerated simply because of what they had to say about the strike. The only thing missing was the guillotine. On July 10, Governor Robert E. Pattison activated the National Guard and took the town back from the strikers, who offered no resistance. Peace was restored, replacement workers went to work, and eventually striking workers crossed the picket line. On November 20 the union officially called off the strike. The strike was lost.

In Conclusion

History has been kind to the Homestead strikers. Their actions have been excused by most labor historians as extreme but necessary measures of self-defense in a just war against an oppressive and exploitative employer. But there is no romance left in such a view. Today, most people recognize that the employment relationship is not one of exploitation, it is one of contract. In today’s competitive environment, if mutually acceptable collective bargaining contracts cannot be implemented, mutually acceptable individual contracts—i.e., union-free operation—will take their place. □

1. *The Wall Street Journal*, November 2, 1990.

2. Armand J. Thieblot, Jr. and Thomas R. Haggard, *Union Violence: The Record and the Response by Courts, Legislatures, and the NLRB*, University of Pennsylvania, The Wharton School, Industrial Research Unit, 1983, p. 55.

3. *Ibid.*, p. 4.

4. Michael Gartner, “Nation Shrugs as Thugs Firebomb Freedom,” *The Wall Street Journal*, November 29, 1990.

5. *The New York Times*, November 15, 1990.

6. This section is based on my “Labor Law Reform: Lessons from History,” *Cato Journal*, Spring/Summer 1990, pp. 175-209.

The Right to Strike

The problem is not the right to strike, but the right—by intimidation or violence—to force other people to strike, and the further right to prevent anybody from working in a shop in which the union has called a strike. When the unions invoke the right to strike in justification of such intimidation and deeds of violence, they are on no better ground than a religious group would be in invoking the right of freedom of conscience as a justification for persecuting dissenters.

—LUDWIG VON MISES
Human Action

IDEAS
ON
LIBERTY



Old Letters and Old Buildings

by Walter Block

James Joyce's grandson Stephen burned dozens of letters written by his aunt Lucia, the daughter of the famous Irish poet and novelist.

Stephen Joyce explained as he destroyed the letters, "I didn't want to have greedy little eyes and greedy little fingers going over [these letters]. Where do you draw the line? Do you have any right to privacy?"

Naturally, Joycean scholars were aghast. They had hoped this material would provide information on anything from Oedipal relations amongst the Joyces to Lucia Joyce's relationship with Samuel Beckett.

But Stephen Joyce was determined that his family, at long last, should be offered a modicum of privacy. Lucia Joyce had spent time in a mental institution, and the young Mr. Joyce feared that the psycho-biographers would try to "re-psychoanalyze my poor aunt." Burning this woman's letters might obscure an important part of literary history, but it at least protected her reputation from further degradation.

This episode highlights the tension between the public good and private interests. Society's "right to know" all about James Joyce is in conflict with the privacy rights of his family.

Strictly speaking, of course, there is no such thing as a generalized "right to know" that applies

to members of the general public. If there were, you and I and everyone else would have a legal obligation to reply truthfully to the sometimes impertinent questions of journalists, detectives, and nosy bureaucrats about the most intimate aspects of our lives. Stephen Joyce could have been fined or jailed for destroying his own private property, on the grounds that others, or "history," had a proprietary interest.

Similar conflicts over property rights arise in other areas. For example, consider the case of historical landmarks. Although not a direct analogy—there is no issue of privacy involved—whenever the owner of an historical edifice decides to renovate or demolish it, he places his interest against that of society at large. Old letters, and old buildings too, are replete with historical significance. If we can label some of the latter as landmarks, and refuse to allow the owner to destroy them, can we not decide that some individuals are of such historical importance that no one may destroy their papers and other artifacts?

If we did so, society in effect would be asserting that it, and not the famous person in question, is the rightful owner of the product of his labors. Evidently, not many would hold that we have the right to interfere with people's property rights in their letters. How is it then that we regularly interfere with their right to dispose of their own physical property—so-called historical landmarks? Something to think about. □

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Ecology, Socialism, and Capitalism

by Tibor R. Machan

The socialist—or, more generally, the collectivist—economic system has fallen into disrepute. Theoretically there were hints of this as far back as the 4th century B.C. when Aristotle observed in his *Politics* that private ownership of property encourages responsible human behavior more readily than does collectivism (as spelled out in Plato's *Republic*). Aristotle said, "That all persons call the same thing mine in the sense in which each does so may be a fine thing, but it is impracticable; or if the words are taken in the other sense, such a unity in no way conduces to harmony. And there is another objection to the proposal. For that which is common to the greatest number has the least care bestowed upon it. Every one thinks chiefly of his own, hardly at all of the common interest; and only when he is himself concerned as an individual. For besides other considerations, everybody is more inclined to neglect the duty which he expects another to fulfill; as in families many attendants are often less useful than a few."

In our time, Ludwig von Mises advanced the same general observation in more technical and rigorous terms in his book *Socialism*, although he was mainly concerned with economic problems of production and allocation of resources for satisfying individual preferences. More recently, however, Garrett Hardin, in his famous essay "The Tragedy of the Commons," argued that the difficulties first noticed by Aristotle plague us in the quintessential public realm, the ecological environment.

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These various indictments of collectivism, coupled with the few moral arguments against it, didn't dissuade many intellectuals from attempting to implement the system. Our own century is filled with enthusiastic, stubborn, visionary, opportunistic, but almost always bloody efforts to realize the collectivist dream. Not until the crumpling of the Soviet attempt did it dawn on most people that collectivism is simply not going to do the job of enabling people to live a decent human social life. Although most admit that in small units—convents, kibbutzim, the family—a limited, temporary collectivist arrangement may be feasible, they no longer look with much hope toward transforming entire societies into collectivist human organizations.

The most recent admission of the failure of collectivism—in the wake of the collapse of the Soviet-bloc economies—comes from Robert Heilbroner, one of socialism's most intelligent and loyal champions for the last several decades. As he puts it in his recent essay, "After Communism," "Ludwig von Mises . . . had written of the 'impossibility' of socialism, arguing that no Central Planning Board could ever gather the enormous amount of information needed to create a workable economic system. . . . It turns out, of course, that Mises was right. . . ." (*The New Yorker*, September 10, 1990)

But, not unlike previous thinkers who have seen examples of the failure of some kind of perfectionist, idealist normative moral or political scheme, Professor Heilbroner cannot quite say goodbye to his utopia. He notes that there are two ways it may remain something of a handy concept. First, it may leave us piecemeal social objectives to strive

for—but these have always come in the context of essentially capitalist economic systems. Second, it may re-emerge as an adjunct of the ecological movement. As Heilbroner puts it:

The ecological crisis toward which we are moving at a quickening pace has occasioned much scientific comment but surprisingly little economic attention. [Professor Heilbroner does not follow the burgeoning literature of the New Resource Economics—e.g., the works of John Baden and Richard Stroup.] Yet if there is any single problem that will have to be faced by any socioeconomic order over the coming decades it is the problem of making our economic peace with the demands of the environment. Making that peace means insuring that the vital processes of material provisioning do not contaminate the green-blue film on which life itself depends. This imperative need will affect all social formations, but none so profoundly as capitalism.

What is one to say about this new fear, a new problem allegedly too complicated for free men and women to handle? Heilbroner continues: “It is, perhaps, possible that some of the institutions of capitalism—markets, dual realms of power, even private ownership of some kinds of production—may be adapted to that new state of ecological vigilance, but, if so, they must be monitored, regulated, and contained to such a degree that it would be difficult to call the final social order capitalism.”

This somewhat novel but essentially old-fashioned skepticism about capitalism needs to be addressed—if only because it is time that the technique it exhibits of undermining human freedom be exposed.

There is no justification for any of this distrust of the market, as opposed to placing our trust in a scientific bureaucracy. If men and women acting in the marketplace, guided by the rule of law based on their natural individual rights to life, liberty, and property, were incapable of standing up to the ecological challenges Heilbroner has in mind, there is absolutely no reason to believe that those challenges could be met better by some

new statist means. Why should ecologically minded bureaucrats be better motivated, more competent, and more virtuous than those motivated by a concern for the hungry, the unjustly treated, the poor, the artistically deprived, the uneducated masses of the world? There is no reason to attribute to any ecological politburo or central committee any more noble characteristics than to the rest who have made a try at coercing people into good behavior.

If free men and women will not manage the environment, neither will anyone else. In fact, more optimism about the market is warranted when we examine the sources of our ecological troubles. Given, especially, collectivism’s record of far greater environmental mismanagement than the mixed economies we recklessly label capitalist, there is already some suggestion here that the problem is too little capitalism. What Heilbroner and friends fail to realize or reveal is that the environmental problems most people fret about are due to the tragedy of the commons, not due to the privatization of resources and the implementation of the principles that prohibit dumping and other kinds of trespassing. With more attention to protecting individual rights to life, liberty, and property, solutions to our problems are much more likely.

The best defense of the free market rests on the realization that it is the nature of human beings to be essentially individual. In other words, the individual rights approach is most natural—it most readily accommodates nature and, therefore, the environment. If there is a crisis here, it amounts to the history of human action that has been out of line with ecological well-being. But how do we know what kinds of human action might have been more or less conducive to a healthy environment? We need to know about human nature—what it is that human beings are and what this implies for their conduct within the natural world. If, as the natural rights (classical liberal) tradition has intimated, human beings are individuals with basic rights to life, liberty, and property, then this is how they are best fitted within the rest of nature. Environmentalism must learn to trust free men and women, not the state. □

The End of Communism

by David Glasner

The collapse of the totalitarian empire of the Soviet Union and the increasingly clear signs that the U.S.S.R. is approaching the final stages of an irreversible process of disintegration close one of the grizzliest chapters in human history. The debacle has come with a speed that has stunned almost everyone, especially those who believed that (with generous doses of Western aid) Mikhail Gorbachev could contain the forces of dissolution he had helped unleash. But now it is clear that Gorbachev is presiding over a system that is collapsing at its foundations, and no amount of outside aid can avoid or even postpone for much longer its ultimate demise.

Recent events in Eastern Europe and the Soviet Union have been startling not simply because change has come so quickly. Their impact was magnified because Communism had seemed to be so solidly entrenched in those countries that fundamental change was out of the question. The illusion of permanence, in turn, helped to gain currency for a view of Communism which held that by supplying the basic necessities of life to populations previously denied them, Communism had won a degree of acceptance, if not support, from those populations. The implication of this view was that rather than seek to dislodge Communist regimes from power, the West ought to reconcile itself to Communism as a permanent fixture of the world order.

Yet the permanence of Communism was not a universally accepted proposition. Indeed, as early

as the 1920s there were some who perceived that vesting ownership of all productive resources in the state was deeply irrational, for once all markets and market prices were abolished, there would be no basis for computing or comparing values and costs and no way to determine how the available resources could be used efficiently.

This insight was first articulated by the Austrian economist Ludwig von Mises in a critical study of socialism published in 1922 (translated into English in 1936 under the title *Socialism*). So fundamental a challenge to the official ideology of the emergent Soviet state and to the deeply held faith of socialists the world over drew a quick response from socialist economists, who observed that orthodox economists had already shown how to characterize the equilibrium of a market economy as the mathematical solution of a system of equations. A similar system of equations, the socialists maintained, could just as easily be written down and solved to characterize the equilibrium of a socialist economy. Thus Mises' contention that a socialist system is inherently irrational was apparently overcome.

But in response, Mises' followers, particularly F. A. Hayek and Lionel Robbins, observed that the difficulty with central planning is not that no one could write down a formal solution to the abstract mathematical problem of efficiently allocating known resources to a given set of ends, which, in a purely mathematical sense, is indeed analogous to solving a system of equations for the equilibrium of a market economy. Rather, Hayek and Robbins argued, the problem in real life is that no one needs to find a concrete numerical solution to that system of equations.

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In practice, the market more or less approximates a solution spontaneously through the profit-seeking, self-interested behavior of many millions of firms and households every hour of every day. Market prices continually change to reflect the relative scarcities of goods and resources. When a change in supply or demand threatens to disrupt producers' or consumers' plans to sell or buy, price changes induce them to alter their plans just enough to allow their revised plans to be realized simultaneously. One may be able to say something about the formal mathematical properties of such a solution, but the number of equations to be solved and the amount of information required to give concrete form to abstract terms is so incredibly vast that no numerical solution could ever be found to that mathematical problem.

Nor would finding a numerical solution to the socialist planner's resource-allocation problem begin to solve the practical problem of coping with the overwhelming informational burden of comparing all possible uses of resources over all possible configurations of output to decide how best to deploy the given resources. Mises' original point was simply that, without a system of prices to reflect the relative scarcities of resources and their relative yields in alternative uses, socialist planners would be unable to allocate resources rationally. The attempts to rebut his argument, Hayek and Robbins demonstrated, completely missed the point.

To the general Mises-Hayek-Robbins critique of central planning no effective reply has ever been given, though not from want of trying. Some socialists suggested that a socialist system could introduce markets that would function more or less as capitalist markets do and that socialist planners could use the prices emerging from these markets to allocate resources efficiently. But these arguments failed to reckon with the question of how markets in the productive resources—capital and land—owned by the state could be established. If only one agent in the economy—the state—is legally entitled to own productive resources, how can markets and market prices for those resources be established? Without markets in which productive resources could be bought and sold, there would be no way of comparing the relative efficiency of different firms and different methods of production. Moreover, unless they had to answer to private owners of firms whose wealth depended on efficient operation, managers would have no inter-

est in making efficient, cost-minimizing, decisions.

But, quite remarkably, the belief that the Mises-Hayek-Robbins critique of central planning had been refuted became the more-or-less accepted version of the outcome of the socialist calculation debate. That the outcome of that debate was so totally misunderstood probably stems chiefly from the strangely wrongheaded assessment rendered by Joseph Schumpeter. The premier authority on the history of economics and himself one of the outstanding economic theorists of his era, Schumpeter boldly asserted in his most famous book, *Capitalism, Socialism, and Democracy* (1942), that Mises' assertion of the impossibility of socialist calculation was refuted by the fact that socialist planning could be reduced to the mathematical problem of solving a system of equations analogous to the one characterizing a market equilibrium, and proceeded to dismiss the Hayek-Robbins rebuttal to the supposed refutation in three paragraphs of remarkable, almost astonishing, superficiality. Yet this verdict, coming from so eminent an authority as Schumpeter, whose unmistakably conservative, though highly idiosyncratic, views made it impossible to dismiss his judgment as the expression of a pro-socialist bias, seemed to settle the issue in favor of the socialists.

Although we cannot be sure what led Schumpeter to commit such a colossal blunder, one suspects that it was forced on him by the need to provide an economic basis for his book's ingenious sociological argument that democratic capitalism was regrettably doomed by its own success to be replaced by a system of socialist central planning. That argument was tenable only on the presumption that socialist central planning was a workable system, which of course is precisely what the Mises-Hayek-Robbins critique denied. It would be fascinating to delve more deeply into the sources of the pessimism that compelled Schumpeter to forecast the downfall of capitalism and its replacement by a system with which he personally had no sympathy, but that would be the subject of a much different essay from the one I have embarked on here.

The Appearance of Growth

But even Schumpeter's authority would not have sufficed to rewrite the outcome of the socialist calculation debate had it not been for the evi-

dent capacity of the Soviet Union and later Eastern Europe and China to create seemingly sustainable economic systems, and even for a time to create the appearance of rapid economic growth. The apparent success of the Soviet Union under Stalin and Khrushchev in industrializing and in generating economic growth, as well as its impressive technological achievements in building nuclear bombs, guided missiles, and launching unmanned and manned satellites, created the illusion that a collectivist system could promote rapid economic and technological progress and might even be able to outperform free-market capitalism—an illusion to which a generation that had lived through the Great Depression of the 1930s was perhaps understandably susceptible.

Yet it is also worth noting that the Mises-Hayek-Robbins critique destroys the credibility of the statistics that purported to show rapid economic growth in the Soviet Union between 1920 and 1960, even if we assume that the underlying data themselves weren't fraudulent. Measuring economic growth means measuring total national output over time. But total output is not a homogeneous mass, so measuring it requires measuring the physical volume of heterogeneous outputs and attaching values to those outputs in order to calculate the aggregate value of all output. But since almost all Soviet production except raw materials was consumed or used internally or by other centrally planned economies, the prices at which those products were valued for statistical purposes had no rational basis. Even if the physical volume of output (say, measured by weight) was rapidly increasing, we literally have no information about what the value of that output was since almost none of it had to be sold in a free market. Enormous quantities of unusable and worthless goods could have been produced, and they still would have been measured at arbitrarily determined prices. Indeed one can easily imagine that the cost of removing and disposing of piles of worthless goods would have been added to their nominal value in computations of Soviet output.¹

Even after the dismal reality behind the illusion of rapid economic progress in the Soviet Union and other centrally planned socialist economies had been widely exposed, central planning still seemed workable. Though it gradually became clear that it couldn't produce the consumer prosperity that Western societies took for granted and that even

the more successful developing countries had attained, Communism still appeared to some to be providing for the basic needs of the masses and thus to have secured the support of the large majority of the populations under its control. Indeed, the very fact that the Soviet Union and other centrally planned systems had survived as long as they did suggested that they enjoyed an underlying popular base of support, without which, surely, the regimes would have been replaced by some other economic and social system.

How Does Socialism Survive?

The events of the last two years, however, have drained all plausibility from the notion that Communist regimes enjoyed significant popular support. What is it then that explains the survival of centrally planned socialist economies for two, three, and even four generations before suddenly collapsing of their own weight? Despite the overwhelming irrationality of an economic system lacking any method for evaluating the costs and benefits of inputs and outputs, that system must have had some features that enabled it to survive for as long as it did. Attributing its survival solely to a military establishment too powerful to be overthrown either by external or internal opponents doesn't solve the problem, because rulers who become sufficiently unpopular and discredited inevitably lose control over their armed forces and over the population at large. That simple fact is what made it possible for so many to presume that Communist regimes must have won a sizable measure of popular support, because without such support no regime could remain in power for decades, let alone for generations.

However, the failure of economic irrationality and popular hatred to dislodge the Communist regimes of Eastern Europe and Asia for as long as seven decades is paradoxical only if we ignore their totalitarian character. Totalitarian regimes do not depend on popular consent to retain power (though they may depend on it to acquire power), for they can extract consent not willingly offered. The distinction between authoritarian and totalitarian regimes is one that was once widely accepted. But the distinction became unfashionable when it was routinely invoked to justify U.S. support for undemocratic and repressive allies in implementing an anti-communist foreign policy. According to

the influential formulation of the distinction offered by Jeane Kirkpatrick, namely that authoritarian regimes can be overthrown while totalitarian regimes cannot be, the collapse of Communism in Eastern Europe would suggest that the regimes were not truly totalitarian. My purpose here is thus not to seek retroactive justification for U.S. anti-communist foreign policy, but to make clear an analytical distinction which, however imperfect, has an empirical counterpart in the real world.

The notion that a regime—even a totalitarian regime—could survive the universal disapproval of its subjects is difficult to comprehend. Ordinarily one would assume that a nearly unanimous desire by the subjects of a regime to oust it eventually would make it impossible for the regime to retain power. After all, the regime couldn't function if all those who wished to see it replaced stopped carrying out orders. However, unless a sufficient number of people simultaneously stop following orders, it is suicidal for any one person to stop obeying. The goal of a totalitarian regime is therefore to isolate individuals: to manipulate the information available to them so completely that they do not realize that opponents are in the majority, or, even if they do realize it, that they don't trust their compatriots enough to risk exposing themselves.

The Prisoner's Dilemma

The nature of the problem of opposing a totalitarian regime is nicely elucidated by a theoretical device called (appropriately enough) the prisoner's dilemma. Developed by mathematical game theorists, the prisoner's dilemma helps us understand the nature of a totalitarian regime's control over its population and the necessary conditions for maintaining that control.

The dilemma describes a parable in which the authorities hold two suspects who, the authorities are sure, have committed several crimes together. But lacking enough evidence to convict them of the more serious charge, the authorities can convict them only of a less serious charge unless they can induce one of the suspects to confess and incriminate himself and his partner. How can a legal confession be extracted (without using force)? It can be done by creating incentives that induce the prisoners to confess in their own self-interest. This seems difficult since the self-interest

of the prisoners is obviously best served by resisting all inducements to confess to the more serious charge. If they resist, the prisoners can be convicted only of the minor offense.

The authorities can overcome the self-interest of the prisoners by saying to each of them: "We realize that if you and your partner both refuse to confess you will both be convicted only of the lesser charge. However, should you confess to the more serious charge while your partner refuses to confess, we will drop the charges against you and set you free. On the other hand, should you refuse to confess while your partner confesses, we will seek the maximum sentence against you on the more serious charge and drop all charges against him. And should you both confess to the more serious charge, we will seek a reduced sentence on that charge."

Given these alternatives, each prisoner realizes that whatever the other prisoner decides, he will be better off by confessing. Thus, both prisoners confess and wind up serving a reduced sentence on the more serious charge.

The prisoner's dilemma can illuminate a wide range of social interactions in which two or more individuals are confronted with choices that, when made independently, leave them worse off than they would have been if they somehow had coordinated their decisions. But the choices reflected in the model constitute a true dilemma only if those faced with the choices are unable to communicate either openly or even tacitly with each other. Once communication becomes possible, the decision-makers may be able to cooperate in their mutual self-interest. If the two prisoners in the parable could have communicated with each other, they might have made credible commitments to each other not to confess (or perhaps to punish one who did confess) that would have enabled them to overcome the incentives to confess created by the authorities.

But direct communication and the explicit exchange of promises or threats may not even be necessary to secure cooperative decision-making in such situations. In a fascinating book, *The Evolution of Cooperation*, Robert Axelrod showed how the simple recognition that people would repeatedly be subjected to a prisoner-dilemma-like situation would lead them spontaneously to begin cooperating in their mutual self-interest by not seeking to achieve an advantage at the other's

expense. Thus, much to the dismay of the commanding officers on both sides, German and Allied soldiers in the trenches of World War I reached tacit understandings to aim their artillery shells to minimize “enemy” casualties.

An unpopular regime is vulnerable to two types of uprisings. One is a popular revolt that draws all or part of the military to its side. The other is an uprising by a small strategically located group (a coup d'état) that paralyzes the regime and draws enough forces to its side rather than to that of the regime to enable the insurgency to take power. Both types of uprisings have one common feature: they depend on communication among individuals who must cooperate actively or passively for the uprising to succeed.

What a regime must avoid at all costs is a chain reaction in which the opposition of a single individual or a group induces others to resist its authority. That is why it is so important for an unpopular regime to create the illusion of popular support, misleading its opponents into believing that they, and not the regime and its supporters, are in the minority. There is strength in numbers. And believing in one's strength creates courage.

Control over information is absolutely necessary for such a regime. Not only would information about the true (miserable) state of affairs create further opposition, but even the existence of internal opposition cannot be acknowledged. The transmission of such information could encourage latent opposition to surface elsewhere. Individuals must be convinced 1) that opposition does not exist, and 2) that even if it did, its chances for success would be nil. If there are opponents, they must be branded as tools of external forces and condemned as traitors.

The few people who start an uprising must take extraordinary risks, because they must expose themselves in the expectation that their example will attract the support of others who will join them in defying the regime. But if too few follow their lead, the leaders will have sacrificed themselves in a futile gesture. Moreover, any organized opposition to the regime requires communication between individuals. If no one expresses his thoughts of opposition to anyone else, opposition to the regime can be virtually unanimous and yet be ineffectual.

Thus, to eradicate all possible opposition, an unpopular regime determined to stay in power

must suppress any form of social intercourse—indeed any social relationship—that is outside the master-subordinate relationship it imposes on its subjects. Any social relationship is a potential threat to the regime because it allows the transfer of information that could be inimical to its interests. But more fundamentally, even the mere expression of thoughts, feelings, and emotions creates a degree of intimacy, trust, and obligation that the regime cannot easily tolerate. Even if the thoughts, feelings, and emotions are completely unrelated to the regime (which as the regime becomes more intrusive into the lives of its subjects becomes ever less likely) the expression of those thoughts, feelings, and emotions is potentially subversive because such expressions build the mutual trust that would allow people to discuss the regime and to voice (however softly and discreetly) their opposition to it.

It was thus profoundly insightful for George Orwell in *1984* to have focused his portrayal of Big Brother's destruction of all opposition on the power to force two lovers to betray each other. Any feeling of intimacy, trust, and mutual dependence by two people for each other was by its nature subversive to Big Brother and had to be extirpated.

The Threat of Voluntary Associations

All voluntary associations of individuals are suspect under a totalitarian regime and are either suppressed or subverted. Obviously no independent political parties or political associations, no independent labor unions or professional associations, no independent business or enterprise, not even an independent sports team or cultural organization can be tolerated. Religion is perhaps most threatening because the obligation it tries to persuade people to accept so clearly conflicts with the demands of the regime. Religious institutions must therefore either be suppressed outright or co-opted through infiltration by agents of the regime.

Not only is every organized social association suppressed or subverted, but informal social relationships including (indeed, especially) family relationships are controlled or perverted by the regime. The regime assumes the burden of raising and educating (indoctrinating) children. It teaches them to reserve feelings of loyalty and devotion

for the regime not their parents. Loyalty to anything or anyone other than the regime is an intolerable offense. Indeed, loyalty to the regime can best be demonstrated by betraying one's parents or loved ones by denouncing them for disloyalty to the regime.

A totalitarian regime is therefore driven to destroy all relationships that characterize a normally functioning society, because all such relationships create a context within which opposition feelings could be nurtured, articulated, and perhaps channeled into concrete actions. To convince people that any act of opposition is futile and pointless, they must be cut off from all forms of authentic social intercourse and genuine comradeship. What is left is a collection of disconnected and disoriented individuals whose only meaningful relationship is with the regime. Indeed, any meaningful relationship to which the regime is not a party is, from the standpoint of the regime, a kind of treachery.

Nothing was more critical to the establishment of a totalitarian political system in the Soviet Union and in other Communist countries than a socialist ideology that allowed the regime to appropriate to itself all private property and in the process to eradicate the pre-existing legal systems whose primary function in any normal society is to define and protect private property rights and to facilitate the voluntary re-configuration of those rights. It is the existence of private property rights that cannot arbitrarily be infringed upon by other people, or even the state, that creates a sphere of personal autonomy for individuals and allows them to engage in productive and satisfying social relationships with each other. It is only by stripping people of the protection of private property rights defined and enforced by an impartial rule of law that a regime can subject them to the totalitarian control Communist regimes required to maintain themselves in power.

Few totalitarian regimes have perfected their apparatus of repression to such a degree. The Soviet Union and possibly its Eastern European satellites under Stalin, China under Mao, Romania under Ceausescu, Cambodia under Pol Pot, and perhaps a few other instances seem to be the extreme cases.

Whether Hitler's regime ever dominated the lives of ordinary Germans as completely as Communist regimes have dominated the lives of their

subjects, notwithstanding the unparalleled horror of its crimes against Jews and others specifically designated for victimization, is not entirely clear, though undoubtedly no principle of law or property ever prevented the Nazi regime from exercising whatever degree of control it chose to impose over any individual. Nevertheless, by not appropriating to itself title to all property, the Nazi regime did preserve a limited and highly uncertain personal sphere within which a German citizen had a minimal degree of autonomy. The mechanisms for controlling and manipulating the lives of ordinary Germans were therefore not as all-encompassing under Hitler as those developed under Communist regimes.

Totalitarian Controls

Indeed, precisely because Communism seeks to achieve a more all-encompassing control over the economic life of its subjects than the Nazis sought, it can more effectively deploy the instruments of totalitarian destruction of social relationships. Moreover, the more completely a regime attempts to control the economic life of society, the more irrational its decision-making becomes and the more likely that the everyday observations of individuals will reveal that irrationality. Such observations breed cynicism about and opposition to the regime responsible for such irrationality, which in turn intensifies the need for perfecting the mechanisms of totalitarian domination of society.

What makes a regime totalitarian is, thus, the degree to which it is unwilling to recognize a sphere of personal autonomy within which the regime will not intrude. Authoritarian regimes seek to control the overtly political actions and expressions of their subjects without insisting on dominating every aspect of their private lives.

It is hard to specify exactly how closely a regime attempting to impose central planning must approximate the ideal totalitarian model to sustain itself in power. But once a regime establishes its credibility by ruthlessly suppressing even its potential opponents, it can command a general level of obedience that will allow it to retain power even if it reduces somewhat the degree of totalitarian control it attempts to impose on its subjects. Thus, after Stalin and Mao established themselves in power, their successors could relax somewhat their grip on society with-

out appearing at first to lose any real control.

In China, the reintroduction of limited degrees of private ownership and free markets led to a limited relaxation of totalitarian controls in other spheres of life. But this relaxation eventually led to a clash between the public seeking further liberalization and the regime. The regime then had to choose between yielding to public opposition or reasserting its control by brute force. Determined not to surrender power at any cost, the regime ordered the massacre of Tiananmen Square and has since reversed its economic liberalization and reimposed totalitarian controls on the population. However, the population now knows how widespread opposition to the regime is, and the experience of the past several years in China and other socialist states has revealed the brittle nature of the regime's hold on power. A political awareness and a conscious opposition to the regime has grown up which will not easily be crushed without an even harsher repression and a more complete reversion to totalitarian methods of control than the regime has yet been willing to adopt. Events in China may well follow the pattern of the first Solidarity uprising and the ultimately unsuccessful martial-law crackdown by the Polish Army.

In Eastern Europe, periodic demonstrations of Soviet power were required to suppress popular uprisings which sprang up against the totalitarian puppet regimes that Soviet armed forces imposed on the indigenous populations. Overwhelming Soviet power in Hungary in 1956 demonstrated the futility of popular revolt against the Soviets, and the 1968 invasion of Czechoslovakia demonstrated the impossibility of dismantling the totalitarian system by a process of internal reform even within the framework of avowed allegiance to Moscow.

Solidarity Succeeds

The turning point was the challenge by Solidarity to the Polish authorities in 1980. Coming on the heels of the Soviet invasion of Afghanistan which had reawakened fears of Soviet power in the West and had endangered Soviet hopes for obtaining Western credits to prop up its failing economic system, the Soviets were unable to crush the Solidarity movement so quickly and decisively as they might have had they not been militarily committed on their southern border, or unwilling to risk a cri-

sis in relations with the West. By the time the Soviets could engineer the suppression of Solidarity through the martial-law regime of General Jaruzelski, Solidarity had established itself as a permanent alternative force within Polish society that could not be crushed by Polish resources alone. No longer able to impose its will arbitrarily in Poland, checked militarily by the Afghan resistance, its economic situation deteriorating steadily, the Soviet regime became increasingly vulnerable to internal and external pressures.

It was in this deteriorating situation that Gorbachev took power. His calls for glasnost and perestroika were an open acknowledgment of the crisis in which the Soviet Union found itself. What he may have hoped to achieve when he took up the cause of reform, it is impossible to say. However, by assuming a reformist role and seeking to exploit it to his own advantage in the West, he sacrificed the option of taking the brutal measures that would have been necessary to reinforce the crumbling Soviet position in Eastern Europe. When it became clear that Poland would dissolve into chaos and bankruptcy if the military regime did not negotiate a settlement with Solidarity, Gorbachev had no choice but to acquiesce, since the use of Soviet forces to restore Communist control was no longer possible. But once Communist control over Poland was surrendered peacefully, Communist rule anywhere else in Eastern Europe became unsustainable, because that rule had all along been based solely on the fear of Soviet armed intervention. The rapid unraveling of those regimes was a foregone conclusion once the Soviet military threat was removed.

And, of course, the end of Communist control within the Soviet Union itself now seems inevitable, though what will replace it is not at all clear. However limited the policy of glasnost may have been in its original conception, tolerating a freer flow of information, which for the first time allowed grievances against the regime to be aired publicly, has irreparably undermined the bedrock of totalitarian control.

Eliminating the mechanisms for totalitarian control has not automatically restored the mechanisms for rational decision-making. That will require dismantling the entire apparatus of state ownership of resources and central planning, in short the repudiation of socialist ideology and a more-or-less open embrace of capitalism. But in

“ . . . without a legal system that will protect private property rights, the transition from a command to a market economy cannot even begin.”

the current situation in which totalitarian control is no longer exercised by the regime, the impossibility of making rational economic decisions combined with the nearly total destruction of all spontaneous social institutions that, in a healthy society, preserve some tolerable state of peace and order make the continued disintegration of the Soviet Union into deepening chaos and civil strife almost inevitable.

Property Holds the Key

Until the Soviet authorities are prepared to recognize private property rights in all resources and to tolerate free markets, no amount of aid or technical assistance from the West can stop that disintegration which is a necessary consequence of the irrationality of decision-making and of the dismantling of the totalitarian controls that enforced a brutal peace on the Soviet population for almost 70 years. Unfortunately, having laid waste to society and its institutions, the Soviet regime cannot now simply will back into existence the complex web of institutions that are necessary for a society to function normally.

Private property cannot be created by fiat. It is an institution which has slowly evolved together with systems of law over millennia. That evolution was violently and unnaturally aborted when the Soviet state abolished private property and instituted a system of socialist law—a kind of anti-legal system—antithetical at its very soul to the concept of an impartial rule of law. But without a legal system that will protect private property rights, the transition from a command to a market economy cannot even begin. Even the 500-day plan of Stanislav Shatalin and Boris Yeltsin provides no mechanism for creating the legal and institutional preconditions for privatizing the Soviet economy. And it may be that there is no way out of this dilemma short of allowing foreigners to buy and

operate Soviet property in accordance with the home legal systems of the new foreign owners.

Thus, the last few years have belatedly provided the empirical vindication of the Mises-Hayek-Robbins critique of socialist central planning. Such a system is indeed impossible in the sense that no community would freely submit to it when given the opportunity to choose a different system either by a free vote or the opportunity to emigrate freely. Indeed, only by creating a totalitarian system of social control were systems of centrally planned socialism able to remain in power. Those economic systems truly were a road to serfdom.²

Unfortunately the roads did not stop at serfdom, but went beyond it to something even worse. Those systems proved to be so irrational and so unworkable that even the most oppressive totalitarian systems of social control ever devised have proved unable to save them. Whether the free institutions of private property, voluntary market exchange, and democratic choice can be re-instituted rapidly enough to prevent the complete dissolution of the Soviet Union into chaos and civil war may well be the most urgent question of the last decade of a century so blighted by its earlier irrational crusade against those institutions. □

1. In fact, it is now universally believed that the estimates of Soviet economic growth that were generally accepted by the academic and intelligence communities in the West were inflated by at least 50 percent. While the illusion of rapid economic development was created, the Soviet Union never succeeded in rising above levels common in the Third World.

2. It was a vulgar mistake to have misinterpreted Hayek as saying in *The Road to Serfdom* that any government intervention in the economy would inevitably lead to totalitarianism or that there is a perfect correlation between the degree of economic intervention by the state and the absence of political and personal freedom. What Hayek said was simply that to institute a system of thorough-going central planning would prove to be incompatible with the maintenance of democracy and of the civil and personal freedoms taken for granted by most citizens in Western democracies. On this point he was, as Keynes once said of Franklin Roosevelt, not only right, but magnificently right.

Why Communism Failed

by Bettina Bien Greaves

Editors' note: This article, written for FEE's op-ed program, has been carried by newspapers in Alabama, Arkansas, California, Indiana, Missouri, New Jersey, New York, Pennsylvania, and, in Spanish-language translation, in New Mexico, New York, Mexico, and the Dominican Republic.

Three years after the Russian Revolution, an Austrian economist, Ludwig von Mises, argued that Communism would fail and explained why. Communism, or socialism, couldn't succeed, Mises wrote in 1920, because it had abolished free markets so that officials had no market prices to guide them in planning production. Mises was relatively unknown when he made his controversial forecast, but he acquired some international renown later as the leading spokesman of the Austrian (free market) school of economics. Since his death in 1973, his theories have gained new adherents, some now even in Eastern Europe.

The Soviet Union was launched with high hopes. Planning was to be done by a central committee, insuring plenty for everyone. The state was to wither away. But things didn't work out that way. The Soviet state soon became one of the most oppressive in the world. Millions of Russians starved in the 1920s and 1930s.

As Mises pointed out, the raw materials, labor, tools, and machines used in socialist production

are outside the market. They are owned by government and controlled by government planners. No one can buy or sell them. No market prices can develop for them because they aren't exchangeable.

Modern production is time-consuming and complicated. Producers must consider alternatives when deciding *what* to produce. And they must consider various means of production when deciding *how* to produce. Raw materials, tools, and machines must be devoted to the most urgent projects and not wasted on less urgent ones.

Consider, for instance, the planning of a new railroad. Should it be built at all? If so, where? And how? Is building the railroad more urgent than constructing a bridge, building a dam to produce electricity, developing oil fields, or cultivating more land? No central planner, even with a staff of statisticians, could master the countless possibilities. Machines might be substituted to some extent for labor; wood, aluminum, or new synthetic materials might be substituted for iron. But how will the planners decide?

To make these decisions, planners must know the relative values—the exchange ratios or market prices—of the countless factors of production involved. But when these factors are government-owned, there are no trades, and thus, no market prices. Without market prices, the planners have no clues as to the relative values of iron, aluminum, lumber, the new synthetics, or of railroads, oil fields, farm land, power plants, bridges, or housing. Without market prices for the factors of production, the planners are at a loss as to how to coordi-

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nate and channel production to satisfy the most urgent needs of consumers.

More than 70 years have passed since the Russian Revolution and 45 years since the end of World War II. Why then do the Russian people still lack adequate housing and many everyday items? Why does agricultural produce rot in the fields for lack of equipment to harvest and transport it? Why are factories and oil fields so poorly maintained that production declines? Because the raw materials, tools, machines, factories, and farms are not privately owned. Without the bids and offers of private owners, prices reflecting their relative market values cannot develop. And without market prices, it is impossible to coordinate production activities so that the goods and services consumers need will be available. That is why Communism fails.

In a competitive economy, where factors of pro-

duction are privately owned, these problems are solved daily as owners calculate the monetary values of the various factors and then buy, sell, and trade them as seems desirable. As Mises wrote in 1920, "Every step that takes us away from private ownership of the means of production and from the use of money also takes us away from rational economics."

Today, even Communists are coming to recognize that Mises was right. The U.S.S.R., a socialist society without private property and monetary calculation, is still "floundering in the ocean of possible and conceivable economic combinations," as Mises foresaw in 1920, "without the compass of economic calculation." Will she now take the important step Mises recommended of introducing private ownership of the means of production? □

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Foreign Investment Helps Americans

by Cecil E. Bohanon and T. Norman Van Cott

Americans' fear of foreigners owning U.S.-based economic wealth has taken on epidemic proportions. Never mind that past periods of rapid U.S. economic growth have been accompanied by foreign investors' active participation in the economy, the fear that "they" will own "us" is now endemic to the U.S. economic culture. Not surprisingly, political and media entrepreneurs have trotted out various proposals for government to restrict foreigners' access to "our" wealth.

Support for these proposals is usually grounded in nationalistic rhetoric. That the United States lacks such restrictions, for example, is characterized as unilateral economic disarmament. Foreign investors, in turn, are equated with foreign economic armies. All in all, the perspective on foreign investment is one of foreign investors re-slicing the U.S. economic pie in their favor and against Americans.

For the most part, opponents of foreign investment restrictions leave this re-slicing perspective unchallenged. Instead, they contend that Americans' current concern over foreign investment is much ado about nothing, because the fraction of foreign-owned assets in the United States remains small despite the substantial new investment of recent years.

While the opponents' statistics are correct, their tacit acceptance of American losses needlessly cedes the debate's higher ground. In a debate charged with nationalistic fervor, countenancing foreigners looting the American economy as long

as the booty is within "manageable proportions" cedes the outcome before it begins.

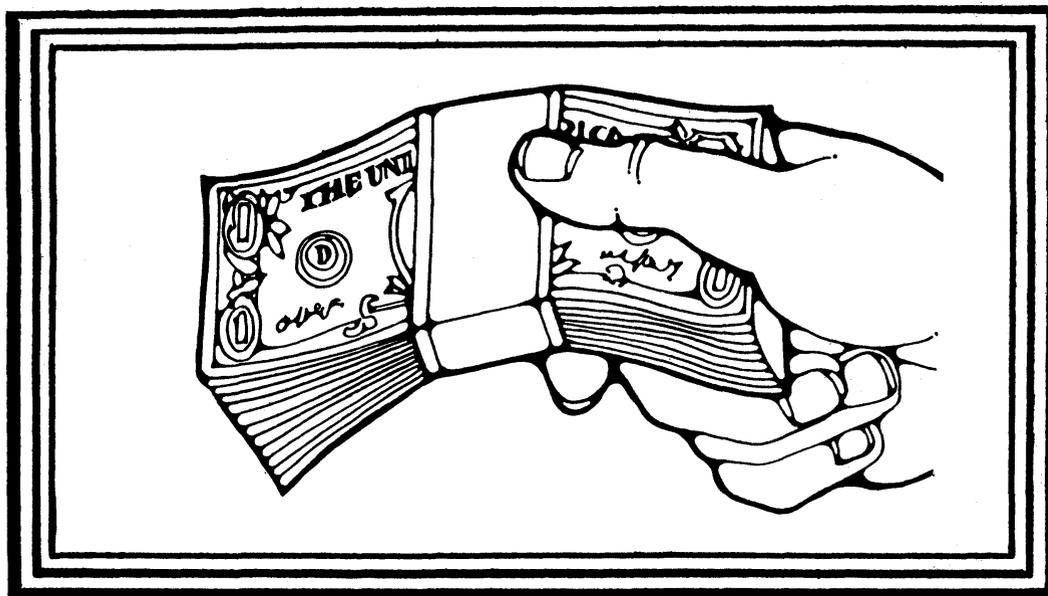
This weak-kneed posture is unnecessary. Rather than looting the economy, foreign investors increase Americans' economic pie. Restricting foreign investment would diminish the pie because it would weaken a linchpin in the institution of private property—namely, the right to transfer ownership that resides with individual owners. Leaving this right unencumbered increases the likelihood of ownership of productive resources flowing to those who use resources most productively. While foreign investment does not provide Americans with free lunches, it makes for better helpings.

A Foreign Investment Scenario

Suppose an American, Mr. Brown, decides to sell his chain of XYZ Hardware Stores and retire to Florida. Two suitors wish to buy XYZ, an American firm and a Japanese firm. The Japanese make the higher bid. In choosing to sell XYZ, Mr. Brown obviously believes that he is better off. More important, by selling to the Japanese, he is better off compared with being limited to the American firm's lower bid.

Note that Mr. Brown is *not* selling "our" hardware stores. He is selling *his* stores. Even though the Japanese will receive XYZ's future profits, this in no way disadvantages "us." Prior to the sale, XYZ's profits were Mr. Brown's, *not* "ours." Tax or other obligations attached to ownership of XYZ are not nullified by the sale; such obligations become the responsibility of the Japanese.

The Japanese are able to offer the higher bid for XYZ only to the extent XYZ will be more prof-



itable under their ownership compared to alternative ownership. There are two possible sources for this increased profitability: the Japanese offer a more attractive product and/or they decrease XYZ's costs. Mr. Brown participates in this increased profitability by accepting the Japanese bid. So do the Japanese, their portion providing them the incentive to buy out Mr. Brown.

Less apparent to many, perhaps, is that other Americans also share in the expansion of the economic pie. If the Japanese offer more attractive retailing services to American consumers, these consumers are obviously better off. On the other hand, a decline in XYZ's costs also raises Americans' living standards. Since costs are lower, if the Japanese keep XYZ's output at its pre-acquisition level, fewer inputs will be required. Because the inputs released from XYZ necessarily have alternative production capabilities, Americans will be able to enjoy the original hardware store output *plus* additional amounts of other goods and services.

The improvements foreign investors confer on Americans are similar to what happens with technological innovation. New technologies also lead to better products and/or lower costs of producing existing products. Interestingly, it is not unusual

for entrepreneurs who adopt new technologies to encounter "sky is falling" resistance similar to that engendered by foreign investment. The difference is that anti-technology crisis mongers assert that labor-saving machines rather than foreign investors swallow up economic wealth.

Whither Freedom?

A curious irony attaches to foreign investment restrictions. While their ostensible purpose is to increase "national independence," their end result is to reduce individual freedom. Abrogating Mr. Brown's ability to sell his hardware store to whom he pleases, on terms that are suitable to him, is equivalent to confiscating part of Mr. Brown's property.

Private property rights have been the bedrock of the American economic and political system. They are the reason thousands of Mr. Browns worked and saved to establish productive enterprises. To take away these rights, even partially, insures that Americans have a smaller economic pie. It is hard to conceive how "our" interest is served by less freedom and lower living standards. □

Term-of-Office Limits Won't Reduce Government Abuse

by Gary M. Galles

Public outrage at an increasingly irresponsible government, especially at long-term incumbents who seem immune to re-election pressures, has led to a rising wave of sentiment to limit the number of terms elected officials can serve. An Oklahoma term limitation initiative received 67 percent of the vote last September, and similar referenda in November won in California (53 percent) and Colorado (71 percent).

Term limitation measures will clear out those who cannot grandfather themselves in, throwing many of those symbolizing the system's failings out of office (probably into lucrative lobbying careers). They also will eliminate Congressional Methuselahs in the future. But it is not clear that they will lead to a more responsible government.

Term limitations are unlikely to contribute much to fixing our nation's governance problems because these failings are primarily rooted in what the government is allowed to do, not in which particular members do it for how long. The central problem is that long-standing Constitutional constraints limiting government power have been progressively eroded, so that government has increasingly turned from being the protector of the property rights of its citizens against the violations of others to being itself a pervasive violator of those rights. The resulting ability to help your friends at others' expense leads to the abuse of government power regardless of how long any individual may stay in an elective office.

Consider Article 1, Section 8 of the Constitution, granting Congress the power to levy "uniform taxes" to provide for the "general welfare." In contrast, today's tax code is riddled with discriminatory taxes designed to burden particular subgroups of the population, following the dictum: "Don't tax you. Don't tax me. Tax the fellow behind that tree." Furthermore, a large share of government expenditures, such as the multi-billion dollar agricultural price support programs, are designed to benefit certain groups at taxpayers' expense. There is nothing in the Constitution that even hints that using general tax revenue for the provision of benefits to such special interests is a legitimate Federal function. But the fact that such policies are now considered acceptable (even commendable, by the beneficiaries) leads to abusive government.

Consider also the Fifth Amendment's statement: "nor shall private property be taken for public use, without just compensation." While this prevents the government from physically taking your property without payment, current court interpretations let the government take large parts of its value to benefit particular special interests through regulations and restrictions (such as rent-control laws, which may not physically take apartments from their owners, but which transfer much of their value to current tenants). This ability to regulate costs onto others in order to help supporters is another source of abusive government.

Similar reinterpretations have befallen other parts of the Constitution, such as the contracts and commerce clauses, which essentially have been

transformed from barriers against government intrusion into open invitations under almost any pretext. Again, the effect has been to expand the power of legislators and bureaucrats into areas our Founding Fathers tried to put beyond their reach.

The result of such changes has been an increase in the power of a few government officials to do what our Constitution formerly ruled out, and this has led to governance that is a far cry from one primarily concerned with promoting the general welfare. Once these powers have been seized by government, concentrating them further in illimitable legislators can worsen the results. But reforms such as term limits would not solve the underlying problem: government theft (involuntary transactions where some are made worse off is a necessary corollary of violating either the takings clause or the general welfare requirement); it would only alter who would be allowed to do it.

As term limits became law, parties could control seats through a series of candidates instead of through particular party members, especially as

squeezing party contributors and gerrymandering become more precise sciences. Substituting party power for that of individual members may well move our government farther from its Constitutional ideal. Term limits could also make legislators even more keenly aware of their future job prospects, increasing special interest influence over those involved in current legislation. Further, making all elected officials more transitory would increase the power of the unelected, permanent bureaucracy, hardly a prescription for more responsible government.

Reforms such as term limits attempt to address aspects of irresponsible government that are unfortunately far from its core. Unless the Constitution's restrictions on government powers are taken more seriously, term limitations will do little to produce a more responsible government. In fact, absent a return to the more limited role for government envisioned in the Constitution, there are no "reforms" that are likely to substantially reduce government abuse. □

The Nature of Political Power

When the nature of political power is put under the microscope of analysis, its incorrigible penchant for predation becomes understandable. For then one sees that political power is not "in the nature of things," but in the nature of man. It is not, like the force of gravity, self-operating and inexorable, but is an expedient devised by man to facilitate his urge for acquiring satisfactions with the least expenditure of labor. In essence, political power is the physical power, or the threat of it, that one man or a group of men may bring to bear on other men to effect behavior. It may originate in a body of social sanctions, but it is hardly political power until these sanctions are implemented with a police force. In any case, it is exercised by human beings, and therefore must be related to the all-pervasive law of human action, the drive to get the most for the least.

—FRANK CHODOROV
"A Case of Corruption"

IDEAS
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LIBERTY



Economic Development or Economic Disaster?

by Bill Anderson

In the past decade, Chattanooga's downtown district has undergone a virtual face lift. Parks have been created, trees have been planted, new buildings have been built, and old ones improved. The city and county governments have constructed a gleaming trade and exhibition center with a high-rise hotel attached, while the Tennessee Valley Authority, a Federally owned utility, built a massive downtown office complex. A city-owned downtown theater was restored to mint condition, recalling the grandeur of 1920s architecture. Construction companies—some owned by blacks—helped renovate downtown store-fronts, making them more attractive to shoppers; and developers rebuilt aging and decrepit office buildings.

Much of this downtown "redevelopment" was financed by grants from the federal government, more specifically, from the Department of Housing and Urban Development (HUD) through the Urban Development Action Grant (UDAG) program, which was touted as a "public/private partnership." If one were to compare the attractiveness of Chattanooga's downtown to its less glamorous condition in 1980, one most likely would say that the Federal grants were both necessary and beneficial. That is certainly what local officials, a local newspaper editor, and private civic leaders believe.

In fact, to argue against these grants is to argue

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against progress and development, according to our leaders, yet that is precisely what we are going to do. Many of the policies for downtown development followed by Chattanooga's city officials during the last decade have been economically unsound, reflecting a faulty theory of economic development. And Chattanooga's leaders have simply followed the path set by nearly every large and mid-sized municipality in the United States.

Allocation of Resources

A basic premise of market economics is that people, given the opportunity to make free choices, will use resources in a way that will draw them from lower-valued to higher-valued uses. For example, raw petroleum pumped from the ground is nearly useless as a consumer good; petroleum that has gone through the refining process has a number of highly valued uses such as powering vehicles, heating homes, and helping create electricity. Petroleum is also used to make important products such as plastic, polyester, and nylon.

How does one decide the "appropriate" use for petroleum? After all, oil used for plastics or polyester cannot also be used to heat a home in Maine on a blustery winter day. In short, there are competing uses for oil, uses that are determined by the price system. Producers determine the mix for products according to the level of potential profitability for each. Appropriateness is determined

by price, not by political decisions. (In fact, when the Department of Energy controlled domestic oil prices and allocation a decade ago, its “appropriate-use policies” caused considerable dislocations in oil markets.)

The appropriate uses for Chattanooga’s downtown, however, have been decided by a different method, one in which economics has been co-opted by the phenomenon of “political investment.” City officials, encouraged by numerous sectors of the community, have sought to remake the center city into a place that reflects an image of prosperity and sophistication. In this case, “appropriate uses” reflect political, not economic use of resources.

Downtown History

From the turn of the century through World War II, Chattanooga’s downtown was both residential and a shopping center. Like many other U.S. cities, its downtown was declining by the late 1970s. Shoppers now preferred the many attractive and convenient shopping malls that had sprung up during the decade. By the mid-1980s, Miller Brothers had left its large downtown store, J. C. Penney was gone, and Sears had announced it was leaving for the new regional mall, Hamilton Place. Only one large retailer, Loveman’s, remained committed to the downtown.

But the big retailers weren’t the only ones having financial problems in the center city. Small merchants, too, were struggling, as were the downtown movie theaters, which finally closed their doors. Empty store-fronts dotted the city, causing concern for local politicians and civic leaders. From that concern sprang a number of Federally funded projects to “revitalize” the downtown.

The first large-scale project tore up a section of Market Street, removing on-street parking areas, and constructing wide sidewalks patterned after pedestrian malls. For more than a year, a four-block section of Chattanooga’s busiest downtown street was barely passable or closed altogether. The significant effect of the project, ironically, was to drive shoppers from the area. Merchants—who were supposed to receive the primary benefits from the new, attractive downtown—complained that they weren’t making enough money to stay in business. Indeed, some merchants were forced to close. Those who remained became eligible for

Federal funds to redesign their store-fronts. One merchant, in particular, spent large sums of both his own money and taxpayer funds to change the exterior of his two shops. Both were bankrupt within a year. Shoppers complained that the new pedestrian-oriented market center eliminated many parking spaces, making it even more difficult for them to shop downtown.

Fortunately, not all the downtown redesigning came from the taxpayers. Blue Cross-Blue Shield of Tennessee, a health insurer, purchased the Miller Brothers building and renovated it into an architecturally pleasing office complex. A local developer turned the Sears property into an office building. Both projects have been financially successful, and neither was built at taxpayer expense. But these were exceptions.

At the southern end of the downtown business district is an old railroad freight depot. In the early 1980s it was used as a railroad salvage company where consumers sought bargains by purchasing damaged goods. The large facility wasn’t aesthetically pleasing, but it was a popular place to shop.

Developers from a northern city saw the facility as a potential renovated up-scale shopping center, and set to work using financing obtained through HUD. What emerged was a sparsely attended mall that went bankrupt within a few years—and still stands empty today. According to city officials, the up-scale mall was more economically “appropriate” than the railroad salvage company. Consumers, however, had their own opinions about what was the more appropriate use of the facility.

None of the Chattanooga UDAG projects has met with near the success projected on their grant applications. This is hardly surprising. The Chattanooga experience mirrors that of the rest of the nation, as scores of UDAG projects, including luxury hotels and housing developments have gone bankrupt or faced severe financial problems.

Why the high rate of failure? The answer is found in the price system, which moves resources from lower-valued to higher-valued uses. When given free choice in a market system, consumers decide appropriate uses of resources. In the case of Federally funded projects in our city, however, consumer choice wasn’t considered. Projects were funded not because they seemed to be good business investments, but because they were supposed to create jobs and make the downtown area more attractive.



ROBIN RUDD

Warehouse Row and TVA complex, Chattanooga.

Capital Malinvestment

These failed UDAG projects are malinvestments of capital. *Malinvestment* has been used by the Austrian school of economics to describe capitalization during an economic boom that has been triggered by a monetary expansion caused by the nation's central bank. The tool for monetary expansion is below-market interest rates. In the case of UDAGs, the key to attracting developers has also been the promise of below-market rates of interest. Because a lower (i.e., subsidized) rate of interest means a lower debt service, developers supposedly will have a greater chance of profit.

However, full conventional financing for such projects is usually not available because of their high risks, which reflect their potential profitability. In other words, markets for many of these projects are, at best, weak because of factors that have nothing to do with interest rates. Markets reflect demand and potential demand of consumers, and if demand doesn't exist, lower lending rates won't suddenly make those projects more appealing to the buying public.

Profitability, unfortunately, has become subordinate to political wishes. Thus, precious capital has been invested in projects of questionable merit, and taxpayers are the losers. In Chattanooga's case, the city government did not invest large sums of local tax revenues, so the local liability, while significant, doesn't threaten the fiscal health of the city. However, politicians from other municipali-

ties, anxious for any downtown development, have staked city funds as well as Federal money for risky projects, and the economic cleanup costs will be very high for many cities.

Supporters of downtown development, when faced with the arguments given here, reply that if millions of Federal dollars had not been poured into Chattanooga's downtown, then the area would have further deteriorated, thus hurting the city's image. In other words, while the results haven't been as successful as projected, leaving the center city to the whims of private, conventionally financed developers would have made things even worse.

Such reasoning, however, begs the question. To move capital from *higher-valued* to *lower-valued* uses, as was done with most of the Federally sponsored development, will usually result in long-run problems. Malinvested capital brings about projects that cannot stand by themselves in a market, projects that ultimately must either be permanently subsidized or allowed to fail.

Allowing a free market solution to downtown development, whether in Chattanooga or anywhere else, will not necessarily produce results that mesh with the visions of politicians or civic leaders. Stores may stand empty for a time while developers ponder other uses for the property. What appeals to an investor may not appeal to a city planner. But, in the end, uses that keep the market in mind will most likely be more profitable and beneficial to the city's development than those based on political wish lists. □

Dubcek

by John Chamberlain

William Shawcross, the author of *Dubcek* (Simon and Schuster, 244 pages, \$22.95 cloth, \$10.95 paper), has seen it all in central Europe. In the summer of 1968, a 22-year-old graduate of Oxford, he traveled with his sister on a student train to Prague. He had lucked in on what would soon be known as the Prague Spring. The trip, as he says, changed his life. Let him describe his sensations:

Like anyone who has ever been there, we were overwhelmed by the faded but then blooming summer beauty of the city—the dark narrow streets of the Old Town and the Jewish quarter where Kafka lived, the graceful statues on the Charles Bridge, the tiny lanes winding up the hill to Prague Castle and the cathedral. From Prague we took long rides on rattling buses and on ironclad steam trains, marvelous behemoths. . . . We rumbled through long fields of corn ready to be harvested, in and out of dark pine forests where the cart tracks meandered across the rails . . . most of all I remember the extraordinary *joie de vivre* of almost everyone we met. The joy of talking and of being allowed to remember—and to hope! . . . I had never seen such a bubbling of hope and excitement. I remember one countrywoman looking with astonishment at photographs of the Masaryks I had brought from Prague. “Six months ago we were not allowed to know that these men existed.” That the Communist Party of all institutions was offering such freedoms! It was too good to believe!

Over long jugs of black beer everybody in the beer halls showed contempt for the Russians. Special toasts to Alexander Dubcek were drunk over and over again.

The Prague Spring became the Prague Autumn on a night in August when, on orders from the Kremlin, some 200,000 troops of the Soviet Union, Poland, East Germany, Hungary, and Bulgaria crossed four frontiers into the Czechoslovak Socialist Republic. The charge from the Kremlin was that the Communist Party in Prague had lost control of the nation because Dubcek had lost control of the party. Dubcek was portrayed as a “weak and mindless” man who had fallen into the clutches of such “vicious agents of imperialism” as Dr. Ota Sik. Dubcek was not accused of leading a counter-revolution, but of “allowing a counter-revolutionary situation to develop.”

Dubcek was dragged off in handcuffs to Moscow, where he uttered a cry of anguish “that they should have done this to me, after I have devoted my whole life to cooperation with the Soviet Union.” It was, he said, “the great tragedy of my life.”

The unity of Czechs and Slovaks prevented the Russians from installing a puppet traitor, but Dubcek was forced to make an agreement with the Soviets. Shawcross and his sister returned to Prague in the winter of 1968-69. The Russians were using “salami tactics,” whittling away the measures of the Prague Spring one by one. Freedom of the press had crumbled. Shawcross, on a wet afternoon, walked up the slope of Wenceslaus Square to the statue of King Wenceslaus, which

had become a shrine since a boy had been shot there by the Russians as he pushed a Czech flag down the barrel of a tank during the invasion. A Czech student, Jan Palach, had set himself on fire, as a fierce rebuke to compromise. In April of 1969, after ferocious demonstrations that marked the defeat of the Soviet ice hockey team by the Czechs, the Russians finally removed Dubcek and replaced him with Gustav Husak, his enemy. At this point Shawcross decided to write a book about Dubcek.

Under Husak and pressure from the Brezhnev regime, Czechoslovakia became once more one of the most viciously and stupidly run countries in Europe. More than 120,000 Czechoslovaks went into exile, and a half million who stayed became "non-persons." Writers became window cleaners, doctors became porters. Nothing changed until the advent of Gorbachev.

Shawcross's biography was published in 1970. His principle criticism of it today is that "I did not realize . . . that the experiment of humane Communism, or Socialism with a Human Face, was impossible, or even a contradiction in terms." He now says he was naive. "The last twenty years," he says, "have shown us nothing so much as the catastrophic nature of Communism everywhere . . . wherever Communism has triumphed . . . Vietnam, Cambodia, Laos . . . its consequences have been utterly disastrous. . . ."

For his new edition, Shawcross has provided an afterword. Dubcek had been banished to an insignificant forestry job. By now another man, Vaclav Havel, a playwright, had emerged as the moral spokesman of Czechoslovakia. The European Parliament, however, had not forgotten Dubcek, who was flown to Strasbourg to receive the Sakharov Prize.

Together, on November 24, 1989, Havel and Dubcek appeared on a balcony overlooking Wenceslaus Square. It was, says Shawcross, "a remembrance of youth and optimism." Standing beside Dubcek, Havel was equally cheered by the crowd. Within three weeks of their appearance on the balcony "the Stalinist structures of Czechoslovakia had been swept away by the tidal wave of reform which was roaring across Eastern Europe in the last months of 1989." Dubcek had been appointed Chairman of the Federal Assembly. It fell to him to propose a single candidate for the Presidency of Czechoslovakia—Vaclav Hav-

el. In Havel's words, "history began again for Czechoslovakia."

What happened in 1968, says Shawcross, "was a flawed experiment. 'Socialism with a Human Face' could not have worked; people would have wanted more—a human government without socialism. But Sakharov was right: Dubcek was an inspiration and the Prague Spring did indeed provide an exhilarating breath of freedom."

Ota Sik, Dubcek's economic counselor, was right, too. His New Economic Model didn't go far enough to champion a complete free market society. But the hints were there. □

THE POLITICS OF RICH AND POOR: WEALTH AND THE AMERICAN ELECTORATE IN THE REAGAN AFTERMATH

by Kevin Phillips

Random House, 400 Hahn Road, Westminster, MD 21157
1990 • 262 pages • \$19.95 cloth

Reviewed by Ben Asa Rast

Don't let the politicians and economists confuse you. There are only two moving parts to our economy. One creates wealth. The other just moves it around. The first part is made up of people buying and selling goods and services in mutually agreeable, mutually beneficial transactions. Everyone wins, nobody gets hurt, and wealth is created. This is the part of the economy where, as Murray Rothbard says, "The greater a man's income, the greater his service to others."

The second part of our economy doesn't create wealth. It moves wealth around by force. When a thief moves money, we call it a crime. When a politician does it, we call it government policy. In this part of the economy there are winners and losers, and each transaction is accomplished by coercion. Here, the greater a man's income, the greater his ability to force other people to give him money. The most violent disagreements in crime and politics are about dividing up the loot.

This simple, two-part economic system means there are two ways to accumulate wealth: you can earn it or you can steal it. Unfortunately, too few people make the distinction. A primary case in

point is Kevin Phillips, author of the best-selling *The Politics of Rich and Poor*.

Phillips cites lots of statistics trying to prove that there is a growing disparity between rich and poor. He argues that government policies redistributed income from the poor to the rich during the 1980s. The problem is he never distinguishes between the rich who earned their wealth and those who had it redistributed to them. And that's a big difference.

Phillips assumes that all wealth comes at the expense of the poor via government policy. This assumption isn't just unfair, it's absurd. And it's too bad, because the point he's trying to make is emotionally appealing and morally correct: government should *not* take money from the poor and give it to the rich.

Most of us would agree that it's immoral for the government to plunder the poor for the sake of rich. But it's immoral to steal anything from anybody, rich or poor. The bottom line is that government policies shouldn't redistribute wealth up or down the economic ladder. Rich and poor people should be allowed to keep what they earn, and give away what they want.

Now if government policies were the only way to get rich, Phillips might have a point. But remember that new wealth is not the result of government intervention; it springs from creativity, service, and risk-taking. Lots of wealthy people earn their money by serving others. How can anyone justify taking money from them, or anyone else for that matter?

Phillips tries to strike an objective, analytical tone that hides his biases against free enterprise, rich folks, and Ronald Reagan. And he is really after Reagan more than anything else. The whole book seems designed to pin income inequality on Ronald Reagan. Perhaps the Reagan Administration did redistribute income—that's what politicians do—but to imply that government policies moved all the wealth to the rich is nonsense. Many people made money in the 1980s because they worked hard, not because some bureaucrat had his hand in a poor person's pocket.

Phillips just doesn't understand free market economics. His ignorance is especially obvious when he constantly confuses the term "capitalist" with "Republican." Some Republicans are capitalists (so are some Democrats), but not all capitalists are Republicans. Phillips never takes the time to make an intelligent distinction between these terms. He just lumps Republicans and capi-

talists under one label, even though he admits that Richard Nixon followed a rather populist set of policies, and it was Jimmy Carter who started the process of deregulation.

Another example of Phillips' misunderstanding of economics is when he calls a tax cut a redistribution of income from the poor to the rich. Clearly, when the government lets rich people keep more of what they earn, that doesn't mean it is taking money from poor people.

This book is flawed because Phillips condemns the worthy with the unworthy. But to condemn the productive part of our economy for enabling people to become wealthy is bad economics and misguided public policy. □

Mr. Rast is a financial advisor with Prudential-Bache Securities and a Fellow of the Committee for Monetary Research and Education.

AGRICULTURE AND THE STATE: MARKET PROCESSES AND BUREAUCRACY

by E. C. Pasour, Jr.

Holmes & Meier, 30 Irving Place, New York, NY 10003
1990 • 258 pages • \$39.50 cloth, \$19.95 paper

Reviewed by Brian Summers

Federal agricultural programs cost American taxpayers billions of dollars a year, and add hundreds of dollars to the average family's food bill. Yet few people are more than vaguely aware of these programs, and almost no one outside academia has a real handle on how they work. Now, however, E. C. Pasour, Jr., a professor of economics at North Carolina State University, has produced a superb analysis of U.S. agricultural policy that is scholarly yet readily accessible to the lay reader.

Pasour begins with a fundamental question: What is the role of economic theory in agricultural policy analysis? The answer, he says, depends on how you view economics. If you try to measure real-world agricultural markets against the norm of perfect competition, they will be found woefully lacking because "perfect competition" is an idealized, artificial construct. If, however, you view competition in terms of market processes—as competitors trying to outdo one another—then economics can tell you a lot more about the merits

of free markets versus centrally planned systems.

Pasour then turns to public choice theory, the study of how economic principles explain political decisions. He shows that there is a bias in the political process in favor of programs where benefits are immediate and concentrated on a special-interest group, and costs are deferred and spread over the general public. A classic example is the sugar program, which yields enormous gains for a few thousand U.S. producers, while spreading the costs over 250 million U.S. consumers.

It is much the same with other agricultural programs. Tobacco growers and peanut farmers, for example, have their marketing quotas. Farmers who grow wheat, cotton, peanuts, tobacco, rice, feed grains, milk, soybeans, wool, mohair, or honey have price supports. The list is seemingly endless. If you (or your father or grandfather) got in at the right time, you probably are doing very well.

But many farmers aren't doing especially well. For every farmer who has an acreage allotment, there are farmers who are legally locked out by the system. Each increase in price supports encourages more intensive farming, which drives up costs, misallocates resources, and depletes the soil. What value is it to a poor farmer if support prices are capitalized into the price of farmland, so he can't afford to buy or even rent land? Tobacco price supports, for example, have raised some yearly rents by over \$1,000 an acre.

Of course, the federal government has an alphabet soup of credit agencies ready to "help" farmers. But when a farmer can't get a loan in the private sector, and has to turn to government-subsidized credit, doesn't that say something about his ability to repay a loan? Is the government doing a farmer a favor when it encourages him to expand beyond his means, as many farmers were encouraged in the 1970s?

Pasour covers these and just about every other economic aspect of U.S. farm policy, including an excellent chapter on international trade and one discussing the merits of private versus government-subsidized crop insurance schemes. However, although his analyses clearly lead him to the free market position, he limits his policy prescriptions to a few comments. For this type of book, where the message is in the analysis, this is ideal. □

Mr. Summers is a Senior Editor of The Freeman.

MARKET SOCIALISM: A SCRUTINY

by Anthony de Jasay

London: Institute of Economic Affairs; North American Distributor: Atlas Foundation, 4210 Roberts Road, Fairfax, VA 22032 • 1990 • 35 pages • \$8.00 paper

Reviewed by Peter J. Boettke

In this brilliant essay, Anthony de Jasay critically examines the proposals for "market" socialism offered by a leading group of British socialist academics. With the failure of "real existing" socialism evident throughout the world, socialist theorists have been working overtime to salvage their ideal. As the East European countries move to market-based social systems of production, many men of action as well as of ideas will try to maintain the socialist system of distribution. The welfare state is basically what is left of socialism after the lessons of its 70-odd years of experience are absorbed.

De Jasay concentrates his critique on the fundamental ambiguity of many of the proposals offered by market socialists. For example, market socialists argue for "social ownership," where the capital stock is *owned* collectively by society, but administered by a group of workers. But as de Jasay points out, social ownership if it means anything is state ownership of the means of production. So what we have at the heart of the proposal, then, is a state-owned market: an oxymoron of near-perfect dimensions. This market is then to be *controlled* by society to limit the size of firms, protect against unemployment, and insure an equitable distribution of income. This produces the fundamental promises of market socialism: "social ownership," "equality of opportunity," and "equal positive freedom." Such promises, however, are inconsistent with the existence of functioning markets. As de Jasay demonstrates, though, the advocates of market socialism that he is extensively confronting have no clue to how wrong-headed and empty their phrases are.

"Plainly," he states, "advocates of a new kind of socialism have an implausible case to plead, and their chief fault is to imagine that it is a natural winner." De Jasay concludes: "Never did a political theory, in its eagerness to escape the liabilities of its predecessor, put forward so superficial an analysis and so many self-contradictions, as market socialism. Nor does any single market

socialist promise, let alone two, never mind all three—an efficient market economy without capitalist ownership, equality through equal opportunity without imposing equal outcomes, and free choice without freedom of contract—look capable of being fulfilled, each being an open contradiction in terms, much like hot snow, wanton virgin, fat skeleton, round square.”

This slim volume is highly recommended for

anyone interested in finding out what socialist thinkers are advocating these days and how empty their proposals are when confronted by logic and economic argument. □

Peter J. Boettke is a professor of economics at New York University and author of The Political Economy of Soviet Socialism: The Formative Years, 1918-1928 (Kluwer Academic Publishers, 1990).

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The Hard Line

Leonard Read was a hard-liner. He believed that a person should practice what he preaches. Perhaps he had this in mind when he established FEE to promote a *moral* foundation for economic education, advocating a solid ethical basis for the free society.

In 1961 he wrote in *The Freeman*: "The crown of virtue should rest uneasily on any man until he has given evil a setback. . . . Ever so many persons think of themselves as virtuous simply because they have done nothing they conceive to be wrong. . . . Political virtue, however, is a false claim until our affinity to right principles has been tested and found unbreakable. . . . The measure of character is recorded in how each of us responds to the question, 'Do I yield or triumph over what I believe to be wrong?'"

Leonard Read's approach requires that men develop respect for human life and private property. They must use common sense in the understanding of economic principles. And they must erect a limited government, designed to protect them, their civil rights, and their property, to act with force against wrongdoers and to settle disputes. These basic guidelines lead to a society of peace and prosperity.

The hard-liner must be an extraordinary person to maintain a constant philosophical position. He must be willing to give up material gains for moral rectitude. He must be prepared to choose right over wrong at the risk of great personal sacrifice. The choice to hold fast on moral terms demands complete adherence to the fundamentals of the free society—peace, tolerance, and respect. Capitalism promises hope for the future to those willing to stand on the hard line for liberty, those who try to do good and refuse to do evil.

The concept of the moral hard line flows from the basic idea of liberty. The positive side of liberty is the potential reward for prudent action. The negative side is the potential punishment for imprudent behavior. One side leads toward mankind's advancement to higher levels of civilized conduct. The other side keeps us from sliding back into barbarism. The essence of the idea of liberty is that a person must decide to take one side or the other. He must choose good or evil.

Leonard Read started FEE for hard-liners. He believed that every human being must take a moral stand. He knew that the only method for achieving peace on earth, and the only intellectual basis for a tolerant and prosperous society, is to draw a definite ethical line between good ideas and bad ideas that men cannot cross. He became a hard-liner himself and a living example for the free society. He practiced what he preached, and that is what FEE is all about.

—CARL HELSTROM

Real Money

Gertrude Stein once told a story about her young nephew who, while out walking, saw some horses and came running in to tell his father that he had seen “a million horses.” “A million?” the father asked.

“Well, three anyway,” the boy replied.

There is, of course, a difference between three and a million. Three we can understand. We can picture three horses in a field, with maybe a few trees and a fence around them. But a million is too many. We can’t grasp such numbers.

Politicians face this problem every day. They spend millions, and billions, and even trillions of dollars. But what does it all mean? You can’t picture that kind of money. Mind games don’t help much either. It takes, for example, about 10,000 dollar bills stretched end to end to cover a mile. Can anyone really visualize a billion dollars (\$100 bills stretched out for 1,000 miles)?

Maybe that is one reason why politicians, except perhaps at the very local level, seem so out of touch with their constituents. When they sit in a budget committee somewhere, they don’t seem to be functioning in the real world. They appropriate and allocate and budget for this or that, but the numbers are so big that the money has an ethereal aspect to it. It just doesn’t seem real anymore.

But the money is real. Every dollar spent by the government has to be paid by someone somewhere in one way or another. So let’s try to put it into perspective.

Federal, state, and local government spending will amount to about \$2 trillion this year. In terms of dollar bills stretched end to end, that’s 200 million miles. But in the real world, where Americans try to make ends meet, it comes to \$8,000 for every man, woman, and child, or \$32,000 for a family of four.

Now \$8,000 or \$32,000 we can understand. We know what it takes to earn that kind of money, and what it means to our budgets. We have a pretty good idea of how to allocate such sums to meet our family needs. We know that when our money runs short we will have to turn down the thermostat, put off a vacation, try to keep the old car running, and hope that no one loses a filling. To us, as individuals, \$8,000 per family member is real money.

Of course, most politicians have spent real money at one time or another. They have some idea of what it takes to write out a mortgage check, pay for heat, or go through a checkout line. The troubles begin when they sit around those budget tables, where the numbers become astronomical and the real problems of Americans seem so distant.

—BRIAN SUMMERS

Play Money

Because they typically lobby for restraints on resources and property that do not belong to them, environmentalists bear few of the costs of their actions. When they secure legislation that prohibits oil and gas drilling, for example, or development of a mall on a specific tract of land, the costs are borne to a disproportionate degree by the owners of the land or by the users of the goods and services that would have been produced.

It is not unlike playing Monopoly. With board game money, you can be reckless, make wild purchases, and otherwise be extravagant in ways you would never consider in real life. When playing with real dollars, however, people have to balance other considerations like the need to secure food and shelter.

—JO KWONG ECHARD

*Protecting the Environment:
Old Rhetoric, New Imperatives*

Learning Not to Love Revolution

by George Friedman

For the past two centuries every revolution has wanted to serve as the model for all future revolutions. Since 1917, two regimes have laid claim to be the rightful heir of the revolutionary tradition. For most of that time, it appeared to reasonable observers that it was the Soviet Union that would serve as exemplar to the world. In a stunning reversal of fortunes, the Soviet model has fallen into disrepute, and most of the rebellious world appears to be taking its bearings from the American regime. It is the Statue of Liberty that moved the crowds in Peking and Prague rather than “L’Internationale.”

While this is a very satisfying view of things, it should not be accepted too quickly. This is not because the American model is not superior to other models but, rather, because the world, and particularly those rising up against Communist tyrannies, have not yet learned one of the fundamental teachings of the American Revolution: Don’t enjoy revolutions too much. They have not learned to expect only the bare necessities from politics and to seek the more sublime joys of life elsewhere.

Eastern Europeans still expect great things from revolution. Coming together in rebellion is seen as a great moment. They see their revolution

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as paving the way to a generally and radically improved human condition. Such expectations place them at odds with the modesty of the American Revolution. In their great hopes for more than a mere “more perfect union,” the crowds of Berlin and Prague still share much with their oppressors and less than they should with us. They understand revolution very differently from our founders; it follows that the sorts of regimes they will found will be very different from our own and, I think, terribly inferior.

When Revolutions Are Young

There is a certain ineffable sweetness about revolutions when they are very young. In the beginning, when they strike out against tyranny, they are poems to decency and community, promises of radical simplification. They are odes to joy more than exercises in political theory or action. Consider the words of Schiller immortalized by Beethoven:

Joy, bright spark of divinity,
 Daughter of Elysium,
 Drunk with fire we walk in
 Thy celestial holiness.
 Thy spell reunites
 What custom has divided,
 All men become brothers
 Under Thy lingering, gentle wings.

This poem and Beethoven’s symphony are not incidental to politics. Beethoven wrote the Ninth

Symphony with the French Revolution very much in mind. Perhaps more immediately relevant, the "Ode to Joy" movement of Beethoven's Ninth is the anthem of the European Community, the Community that the Eastern Bloc now very badly wants to join.

Elysium was, in Greek mythology, the field on which the gods and those humans the gods favored came together in peace and harmony. Schiller in his poem combines three themes. First, there is the promise of a pastoral redemption. Second, the means are those of a fiery intoxication. Third, there is the secular vision of human brotherhood, the Elysian Fields brought to earth. In this fusion of pagan and Christian symbols, and of divine and secular principles, Schiller celebrates the central theme of the Enlightenment: that men will become like gods in their power and perfection. And nowhere is this fire-drunken surge to perfection more practically visible than on the barricades of a revolution.

Young revolutions are festivals, celebrations of youth, bravery, and innocence. Men and women, boys and girls gather together with the simplest and noblest dream, that the wickedness of the past will end. Young revolutions are a universe in which good will would appear to be a sufficient basis for political life. In a way, revolution is a time when a new species of man already appears to have been born, possessing a new relationship to everything old and commonplace. Even in the most brutal of revolutions, this poetry of redemption permeates. Consider, in John Reed's *Ten Days That Shook the World*, his description of an old man, telling the young soldiers, "Mine, all mine now! My Petrograd."

At that moment, it was his Petrograd. He had lived in it when it had belonged to others, when he was the city's demeaned and exploited guest. He had joined with others against the manifest wickedness of his dispossession, and now the city was his. But, as with the sentiments of lovers, thoughts that seem absolutely true at the instant of expression may become false or banal, even a mockery.

The simple truthfulness of the old man's sentiment at the moment of the triumph of Bolshevism inexorably turns false. The sweetness of his sentiment becomes a mocking indictment of the revolution, as the words "my Petrograd" become a cruel joke. The moment at which the Russian Rev-

olution became a lie was when the sentiment "my Petrograd" had to be turned from an aesthetic celebration into a principle of political operation. What did it mean for a citizen to lay claim to his city? Such a question required sober reflection, and such sobriety is the antithesis of the revolution's joy. Revolutions do not fail because wicked men seize hold. They fail because the very practicality of governing is a betrayal of the revolutionary sensibility. Revolution is about the sublime and the sacred. Governing is about the prosaic and the profane.

In Paris in 1789, in Petrograd in 1917, and in Berlin or Prague or Bucharest or Peking in 1989, the men and the women in the streets did not see themselves as merely overthrowing the old. The act of coming together in the streets had created a new species of society, the community of the celebratory crowd. As Germans danced on top of the Wall, it appeared that all things were suddenly possible for Germans and humanity alike. Both on the highest and most ordinary levels, revolutions make the revolutionaries feel that the mundane profanity of everyday life has already given way to something new and unprecedented. As with all revolutionaries, those of 1989 want their glowing moment to suffuse everything that comes after.

America's Modest Revolution

An Eastern European intellectual was asked by a reporter about the sort of society he hoped to create. His answer, consistent with those of others, was apparently modest: he wished to borrow the best ideas from socialism and capitalism and combine them into something new, something suitable to his country. On the surface this was a reasonable answer.

Two things were striking about the answer. The first was that the question and answer always involved society rather than the regime. Society encompasses all human relationships while the regime confines itself to political ones. True to the more radical revolutionary tradition, the Eastern Europeans remain committed to social restructuring, to creating a new society, instead of seeking to free people to live their private lives without demanding that they measure those lives against standards of social significance.

This raises the second striking point about the answer: that one was given at all. Another answer



The storming and taking of the Bastille by the citizens of Paris, July 14, 1789.

to the question might have been: "I haven't given it a thought. I personally plan to open a hardware store." But the intellectual had an answer. He intended to create a new and better world for others to live in. Unlike Marx or Lenin, the intellectual had no complex system of thought to guide him. But quite like them, the revolutionary of Prague or Berlin in 1989 was convinced that the power to reshape society was now his.

If the city belongs to the revolutionary, then he is morally obligated to do something with the city to improve it. He cannot just go home to make a living. A revolution feels itself morally bound to improve the human condition as a whole, rather than just the condition of a single private citizen. To have replied: "I want to go home and make money" would have been a betrayal of the deepest moral principle of revolution.

Almost all modern revolutions have suffered from being both too beautiful and too ambitious. The one exception to this was the American Revolution. Its very sobriety and modesty caused many to argue that it was not a genuine revolution at all. Its desire to found a regime rather than create a new species of man has caused many to dismiss the American example as an anti-colonial war that left the social order intact. It fell short of

the spirited beauty expected of revolutions.

Our founders wished neither to construct a new society nor to perfect the old. They sought merely to found a regime that would protect society from its own ambitions, leaving men free to find their own way in the world. Our founders sought to create a world in which men of modest vision could pursue their private ends in peace, entering public life only as necessary, and reluctantly. There is a vast difference between the right to "life, liberty and the pursuit of happiness," and "liberty, equality, fraternity." The former is a promise to individual men concerning their private lives. The latter is a promise of a new species of man with a new understanding of what it means to be human.

Learning to Value Hardware Salesmen

In 1917 and 1789 all eyes were on the capital city, first on the streets and then on the public buildings. The public's eyes never left those buildings, except in despair or terror, when citizens sought refuge in private lives far more distant from public affairs than anything envisioned by our bourgeois founders.

Our founders were not eager to go to the capital

“It is substantially true that virtue or morality is a necessary spring of popular government. The rule indeed extends with more or less force to every species of free government. Who that is a sincere friend to it can look with indifference upon attempts to shake the foundation of the fabric?”

—GEORGE WASHINGTON
Farewell Address
September 17, 1796

to begin reforming the world. They were eager to go home to their plantations, law practices, and businesses. What went on in our public buildings never came close to telling the tale of what went on in America. The capital was never the center of our society. We never really had a center, and therefore, we could never have a great, unifying moral project.

George Washington was not so interesting a man as Robespierre or Lenin, but then his heirs were not Napoleon and Stalin. It is in the banality of Washington that we can best understand the virtue of our regime. Although he was accomplished in many ways, Washington does not appear to have had great imagination in public matters. In his public life, he did what he had to do, reserving his imagination and zest for his private pursuits.

The energy of the American Revolution went into business, church, and school, rather than into politics. When it did involve public life, it was more likely to concern one's village than national matters. Nothing great was expected from the central government. Going home to open a hardware store would not be seen as a betrayal of the American Revolution, in large part because the American Revolution did not draw its energy from the dangerously seductive power of the revolutionary moment. The American Revolution, between the cerebral brackets of the Declaration of Independence and the Constitutional Convention, was a long and dreary war—long on pain and drudgery, short on glory and beauty. The main wish of the American revolutionaries was that the war should end so that they might go home in peace. One could long for Red October or 1789. Who could pine for Valley Forge or the cool deliberations in Philadelphia?

This is a lesson that a man like President Vaclav Havel ought to ponder. Right now, all eyes are on

Prague. During its peaceful revolution, great beauty and righteousness resided in Prague. Both the aesthetics of revolution and the realities of power have converged on one place, the government buildings of Prague. If it goes on this way, the aesthetic sense will dissipate, and all that will remain will be the profane reality of centralized power. It will be centralized in two senses: in that power will be in the capital rather than in all of the small towns and cities, and more important, in that political life will be the central organizing sphere of society, rather than one limited sphere among many.

Havel is an artist. He surely saw the beauty of the Prague rising. It is not clear whether he sees beauty's danger. If Havel succumbs to the danger of picking and choosing as if he were an engineer, while seeing the state as society's engine, little will have been won. If Havel the artist faces the threat that his own revolution poses, and repudiates its beauty, if he learns from the American Revolution to value the banality of the hardware salesman, then he might escape the eternal return of European tyranny.

Eastern Europe must learn to love private life more than public. After the orgiastic pleasures of the revolution, this will be a hard lesson to learn. Victorious revolutionaries are rarely modest men. It is not easy for the victorious to be modest. To go home to make a living for one's family, after having danced on the Berlin Wall with a million other brothers and sisters, may be more than anyone's soul can bear.

This is the most important lesson that Eastern Europe can learn from the United States. The revolution is over. It is time to go home, fall in love, raise children, make money, and see the sacred in the banality of everyday life. Unfortunately, the lure of the public buildings in “my Petrograd” might prove to be irresistible, after the revolution. □

Albania: Europe's Last Marxist Holdout

We hate Communism; we love capitalism," the young Albanian told me, with his eyes blazing. On a trip to Albania last October, I was befriended by a 20-year-old who led me down rubble-strewn alleyways in the nation's capital, Tirana, to a squalid house where I talked politics for five hours with him and two other young men. Out of view of the security police, they were strident in voicing their hatred of the government. They asked me when America and Britain would send troops to liberate them.

At the time of my visit, Albania was the last state in Europe where unreformed Communism ruled, but then it has always been something of an oddity. The Communists came to power in 1944, led by Enver Hoxha (pronounced Ho-ja). At first they allied with the Soviet bloc, but Hoxha (1908-1985) cut off all links with Moscow in 1960 because of what he saw as Khrushchev's revisionism. Relations with China replaced the Soviet connection from 1968 to 1978, but after that the country was kept in isolation.

To the Western visitor, Albania has the appearance of a living museum, with the only signs of the 20th century provided by a scattering of imported goods. Very few people have been allowed in or out, although, since my visit, several thousand Albanians have illegally crossed into Greece. Tourists are stared at by curious locals.

Some of Hoxha's policies were as much bizarre as repressive: religion was banned, beards were made illegal, and until 1989 listening to Western

pop music was an offense. In 1965 a government decree banned individuals from having "inappropriate names and offensive surnames from a political, ideological, or moral standpoint." Trying to escape was a capital crime. On the day before my trip, the newspapers reported that two men had been shot while attempting to flee, and their bodies put on show as a gruesome warning.

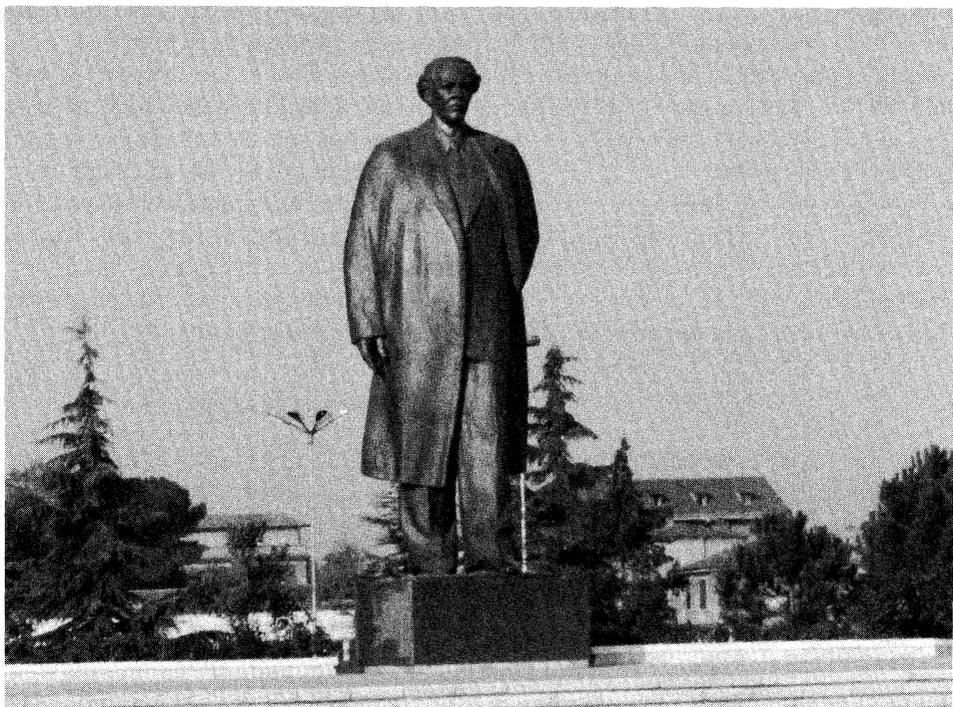
Other policies clearly demonstrated Hoxha's paranoia. Driving through the country, one sees the landscape littered with concrete pillboxes, built in the 1960s to defend against imperialist attack. Radio Tirana, whose transmissions could be heard in Britain, offered vehement denunciations of both superpowers as well as of many other nations.

No Sign of Wealth

The country is breathtaking in its lack of development. All the roads are narrow and pitted, and it was no pleasant motoring experience touring the country in an old bone-shaker Czechoslovakian bus. Private cars are illegal too, so the few rusting Ladas seen on the roads are driven by the police. The only other vehicles seen are prewar Chinese trucks, which seem to form the backbone of the transport system. Farm animals wander over the roads at will. To get around, ordinary people ride donkeys or bicycles.

No hint of affluence lightens the picture of poverty. There are no smart shops or houses. Buildings look cheaply made, with irregular bricks and uneven concrete. The countryside is beautiful but somewhat bleak, craggy, and sun-hardened, with little foliage. The striking thing is the lack of

The author, a journalist with an American news agency, remains anonymous to protect sources in Albania.



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The statue of Enver Hoxha, which dominated the center of Tirana, was toppled by the people in a February demonstration.

evidence of human industry. There are odd pieces of rusting farm machinery, but the overwhelming picture is of a peasant society, with rows of workers toiling in the fields. There are small towns every few miles, but none take up more than a few hundred meters of roadway.

The other bizarre sight in Albania is the Marxist iconography. In Berat, in the south of the country, "ENVER" is carved in huge letters into a distant mountainside. In Gjirokaster the same letters decorate the hillside, but this time on stilts, Hollywood-style. Statues of Lenin (and until recently, Stalin) still adorn town centers. In the center of Tirana stands the Enver Hoxha Museum, a huge glass and steel pyramid, dedicated to glorifying the life and works of the Albanian dictator.

My young friends resented these symbols as much as they resented the system. "Stalin, Lenin, Hitler, Hoxha, all the same," said one as he ticked off the names on his fingers. Another of their friends, they told me with glee, had attacked a statue of Stalin during the uprisings in June 1990.

With Communist governments overthrown in all the other Eastern European countries, the Albanian dictatorship has stood alone and vulnerable. Last June, thousands of young people in

Tirana scaled the walls of foreign embassies to escape to the West. Five thousand were allowed out to Italy. At the same time, demonstrations erupted in Shkoder and Kavaje.

The regime denounced the escapees as "criminals," and fired on them with live ammunition. My young friends told me that 100 people were shot dead in Tirana, and then hurriedly buried in a mass grave. In Kavaje, a 22-year-old man was shot dead by troops after making a victory sign with his fingers.

Since then, walls around the embassies have been fortified, and armed soldiers posted outside. I tried to walk past the Turkish Embassy, but was ushered out into the road by a scowling guard.

Riots and demonstrations have erupted several times since early December. Some demonstrators have been given 15- and 20-year prison sentences.

The Albanian Communists are worried that their fate might be the same as that of Nicolae Ceausescu and his officials in neighboring Romania. Chairman Ramiz Alia, who took over when Hoxha died in 1985, is trying to improve the regime's image. Locals are now allowed to talk with tourists, and more visitors are admitted. Alia hopes to have Albania admitted to the Interna-

tional Monetary Fund and the Conference on Security and Co-operation in Europe (CSCE), and to establish diplomatic links with Britain and the United States. Some private markets have been legalized, where half the profits go to the state and half to stall-holders.

But, my young friends pointed out, the changes were limited, cosmetic, and grudging, and the country remained essentially an unreformed Marxist dictatorship. They were nervous about the secret police (*sigurimi*), and constantly checked that we were not followed. According to their count, one-third of the pedestrians in Tirana were either police or *sigurimi*.

Their caution became even more understandable when they told me that they knew of someone who had been given a 25-year sentence at the prison camp in Berul for expressing anti-Marxist political opinions. At Berul, they explained, prisoners are forced to dig coal, and are often buried alive in poorly supported mine shafts.

According to the International Society for Human Rights, there may be up to 50,000 political prisoners in Albania. The difficulties in confirming any such estimate are that there is so little access to the country, and that people who escape are rarely willing to endanger their relatives by going public with what they know.

Even so, some details are known. Human rights groups report routine torture, imprisonment without fair trial, and execution for anti-state activities. The Albanian government is one of only three ever to be publicly sanctioned by the United Nations for its record on human rights.

I was quite sickened to learn that at Sarande, a resort town where I strolled along the waterfront in the sunshine, there is a jail for political dissidents. Outside my hotel in Sarande was the smartest Albanian car I saw, a well-polished Mercedes-Benz. It was undoubtedly the property of a senior official, holidaying next door to a prison camp of his government's making.

As with Ceausescu's Romania, there are plenty of socialists in the West prepared to see no evil in their praise for Albanian socialism. Written while Hoxha still ruled, *Albania Defiant* by Jan Myrdal and Gun Kessle is an adulatory account of a workers' paradise fighting to retain independence from the alien and corrupting influences of the outside world. Christopher Brown, writing in the supposedly moderate British socialist newspaper *Tri-*

bune (June 9, 1990), eulogizes the simple life enjoyed by Albanians, freed from the pressures of materialism. This article, incredibly, makes a virtue out of things that most reasonable people would consider appalling limitations of freedom: the banning of private cars, the illegality of religion, and most contemptibly the refusal to allow people to leave. One can only hope that when all the outrages perpetrated by the Albanian dictatorship have finally been revealed, these apologists will be called to account.

Simmering Discontent

There are good reasons to think there will be a revolution in Albania. According to our tour guides there is no unemployment, but this claim became patently ridiculous as in every town we saw large groups of working-age men milling around at all times of the day.

Of the three young men I talked with, two were unemployed, and in their estimation the proportion was one in five. They were numbingly bored, and passed the time listening to poor quality cassettes of rock music and considering their situation. Unemployment leads to discontent and provides the time to plan insurrection.

Ironically, the Albanian government may have hastened its own demise by allowing in tourists. Albanian people can now compare their own situation with that of people from free Europe, and can learn more about the world outside.

My 20-year-old acquaintance told me bitterly, "When I see a tourist I see a free man. He can leave." The obvious passion of his wish for liberty was moving. He declared that he would rather sweep the streets in America or Britain than stay in Albania.

Much of the conversation with my hosts consisted of comparisons of what could be earned and what could be bought in Albania and the West. They told me that the bottle of hard liquor I shared with them cost the equivalent of a whole day's pay. A sweater costs two weeks' money, and to buy a bicycle requires five years of saving.

"My father earns four packs of cigarettes in one day—how much are you paid?" one of them asked. I grappled with the problem of converting my daily earnings into cigarettes, guessing at 100 packets, which made him gasp in disbelief.

Officially, all Albanians are paid 500-1,000 lek a



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Aging Chinese trucks are the backbone of the Albanian economy.

month, which at their exchange rate converts to about \$25-\$50, but since locals were reluctant to take the currency there is good reason to think that the rate is an artificial one. When tips were in order, no one would take lek, but would take small items like chewing gum. The official rate was recently devalued to give 20 lek to the dollar, but on the black market a dollar exchanges for about 100 lek.

There is also very little to be bought with lek. There are few goods, and those on sale are shoddy. Many Albanian men look identical because they wear the same state-issue brown trousers and jackets. There appear to be only three or four different styles of men's shoes.

The house I visited was cramped, kept as homey as it could be, but obviously lacking in material comforts. The only modern item, and what seemed to be the most prized possession, was a cassette player sent by the brother of one man who had escaped to Italy through the embassy.

Albanians have television that broadcasts from 6 to 10 P.M., but my friends preferred their rock

music to what they denounced as "Red propaganda." I offered to send a rock music magazine, but they told me it would be stolen by the bureaucrats who open the mail.

Education and health care are ostensibly free, but in reality bribes ensure that some are more equal than others. When I asked my friends why they didn't study at the university—as they were clearly bright enough—they smiled and indicated empty pockets. In the Peoples Socialist Republic of Albania, the only affluent people are the Communist officials who, my friends told me, "live like Americans."

For all the squalor and repression, I found it heartening that the young Albanians I met had not been crushed or molded. They were lively, intelligent, and held no illusions about the government. They seemed to believe more passionately in individual liberty than most people in the West could appreciate. I told them I would visit again when Albania is a free country, and they smiled at the thought. □

Do Wars Cure Ailing Economies?

by Mark Ahlseen

The military action in the Persian Gulf has rekindled the belief that war can stimulate the American economy. No one, to be sure, is claiming that this is an acceptable trade-off—American lives for American prosperity—but it is argued that this positive effect cannot be ignored. After all, didn't World War II pull the United States out of the Great Depression?

The World War II mobilization did, to be sure, put people back to work—some into the armed forces, some into war production industries. Unemployment, which stood at 14.6 percent in 1940, was reduced to 1.9 percent by 1943. However, the idea that war improves the economic welfare of a people is a dangerous error.

Advocates of the “war-is-good-for-the-economy” doctrine surely must limit this to foreign conflicts. If a war is fought on domestic soil, the destruction of production facilities can only worsen the economic welfare of the citizenry.

But can foreign wars help a domestic economy? Many people argue that increased government spending will put Americans to work and reduce, if not prevent, the effects of a recession. This, however, is nothing but Keynesian economic thought dressed in patriotic garb. It is the notion that increased government spending, on national defense in this case, will stimulate aggregate demand and prevent an economic downturn.

If reduced unemployment is the key, it is less

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costly, in terms of lives and resources, for the government to hire one group of unemployed workers to dig holes and another to fill them. Few would argue that this would benefit the U.S. economy. It is not employment but productive employment that is beneficial. In fact, the true indicators of economic well-being are the lifestyles enjoyed by Americans, not their employment status. Included in these are the goods and services consumed by Americans as well as the leisure time they enjoy.

The crux of the matter is whether war production can stimulate domestic production so as to improve the welfare of the general public. Ignoring the possible benefits from an increased sense of security, war production creates no good or service for the civilian population to enjoy. In fact, real per capita Gross National Product (GNP), excluding defense spending, grew at a relatively slow rate in World War II—from \$1,774 in 1940 to \$1,866 in 1944 (these numbers are adjusted for inflation, using 1967 as the base year). By way of comparison, real per capita GNP, again excluding defense spending, was \$1,124 in 1932, \$1,538 in 1936, and \$2,307 in 1948. World War II was no bonanza for the domestic economy.

It is not my intention to debate the validity of American involvement in the Persian Gulf—that will be left to foreign policy experts. However, to suggest that a war can pull the United States out of a recession must be vigorously opposed. □

Pigeons and Property Rights

by Donald G. Smith

I like pigeons. They are independent creatures who would survive whether I fed them or not, which is probably the reason that I feed them.

This is why I was in the park on that bright autumn day. I was visiting some of my old haunts in Los Angeles, and I never let a trip to my old hometown pass without a few minutes on my personal park bench with a bag of bread crumbs, surrounded by some of the most noble creatures on the planet.

I was in the process of convincing myself that a fat charcoal-colored bird remembered me, when I was alerted to some activity at the other end of the park. I wandered down the path to see what was happening. It wasn't long until I discovered that it was a rally, and a rally in a public park usually means that a group of people who despise the idea of free enterprise have gathered to vent their anger. Run-of-the-mill establishment people aren't big for rallies and are not inclined toward marching either.

I don't remember the name of the organization that was rallying that day, but they were a scruffy-looking bunch, and they seemed to be in unanimous agreement that anyone who had more than five dollars on his person was in league with the devil.

A particularly shrill female was addressing the group as I approached. I immediately sensed what was coming, having heard such oratory before. I knew that within three minutes I would hear the stirring words: "Property rights must give way to human rights." There would be, of course, an excess of *n*'s in the word *human*. As it turned out,

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the speaker didn't disappoint me, and the elongated word *human-n-n-n-n* soon echoed through the park with the audibility of a thousand iron bells.

I heard the rest of the speaker's message, which could be encapsulated into the thought that all successful people should be executed without benefit of trial, and then returned to the bench and completed my rendezvous with the pigeons. When the bread-crumbs supply was depleted, I said another farewell to Los Angeles and began the pleasant three-hour drive to my home in Santa Maria, where people in a less harried environment seem to have no problem with the concept of property rights.

The simple truth is one that the Far Left seems to miss with predictable regularity, this being that without property rights there can be no human rights. So let's look at these rights.

We talk, for example, of freedom of the press, but this is a political concept and has no meaning whatever without economic freedom. If an individual cannot own a printing press and a building in which to house that press, there just isn't going to be any free dissemination of information. If the same individual cannot employ the people who operate that press, who write the words that go onto it, and who deliver those words to the consumer, then there is no free press, regardless of governmental statements to the contrary. A government-owned printing press in a government-owned building managed by government employees is nothing more than a very large house organ. It is a somewhat sophisticated version of the king's messenger tacking up the newest regulations in the town square.

Or let's look at the concept of religious freedom when the government owns all the church build-



ings. It is not truly a house of worship when Big Brother is taking attendance, when indeed he holds the only key to the building.

Can there be freedom of speech when no citizen is allowed to criticize his rulers when standing on government property, and all property belongs to the government? Can there be freedom of assembly if people have no place to assemble?

Political Freedom Is Dependent on Economic Freedom

Property rights are the cornerstone of all human rights because political freedom is totally dependent upon economic freedom. A totalitarian government can issue a constitution, as many have done, but human rights are only paper and ink when they are not supported by the right to own property. The Soviet Constitution, for example, even in those dread, dark days of Joseph Stalin,

guaranteed many of the rights found in the United States Constitution, with the rather notable exception that a citizen couldn't exercise these rights while on government property.

Political rights are much like paper money, which has lasting value only when backed with silver or gold. If not, it is just paper. Political rights must be backed by economic rights. When this doesn't happen, we have nothing more than a personal guarantee from a man in a checkered suit who sells snake oil from the back of a wagon.

The strident lady in the park didn't understand this and neither did the motley band of admirers who egged her on, but it is one of the immutable facts of life that all the rhetoric of the world isn't going to change. Some things just aren't open for debate. Wednesday follows Tuesday, dogs chase cats, days are shorter in winter, and people who are forbidden to own property have no rights at all. □

The Roots of the Liability Crisis

by James L. Payne

Swapping stories about the outrages going on in American courts these days is like playing “Can you top this?” There seems to be no limit to either the size of the awards or the frivolity of the lawsuits. This system of sue, sue, sue costs us billions in lawyers’ fees and insurance premiums. This cost is, in effect, a tax on virtually all public and private activities, from running Boy Scout summer camps to delivering babies.

The liability system has gotten so far out of hand that it’s starting to gobble up our civil liberties too. Consider the case of Larry Fine. Fine is a piano technician who wrote an excellent volume entitled *The Piano Book*, in which he gave a frank assessment of the virtues and defects of each brand of piano. The first edition of the book appeared in 1987. In preparing a second edition for 1990, he sent all manufacturers a copy of his proposed evaluation of their pianos, asking for comments and corrections. Most manufacturers, he reports, were “gracious in accepting criticism.” Some, however, reacted negatively, even using their attorneys to suggest possible lawsuits. As a result of this pressure, says Fine in the preface of the second edition, “some reviews have been ‘softened’ a little to keep the peace and avoid expensive litigation.”

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One company, a famous American piano maker, I’m sorry to say, was especially threatening. Fine reports it “sent a letter saying that if I published the reviews the company might file a lawsuit against me.” Fine pondered this threat and realized that “even lawsuits that have no merit can be prohibitively expensive and time-consuming to defend oneself against.” He decided to delete the reviews of the company’s pianos from the second edition.

So there it is: censorship. Violation of freedom of the press courtesy of the great American liability system. Fine could not say what he wanted to say, and his readers could not learn what they wanted to learn because of the threat of a lawsuit. If we keep going down this road, will we have any freedom of expression left? Will a movie critic pan a film, or an auto magazine rate a car?

What can we do about this problem of rampaging “sue-itis”? The starting point is to take a clear view of what a legal system really is. The courts with their judges, lawyers, and laws are, at bottom, simply a complicated arrangement for applying physical force. This is the system that directs policemen, jailers, and SWAT teams. If someone is being violent, then this system of deploying force is necessary to restrain him. That is the mundane task of a proper judicial system. It is socially necessary, but not an activity that reflects man’s higher nature.



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In the modern era, this view has been obscured. The courts seem an attractive institution, and we see litigation as a noble, patriotic way of accomplishing our goals. We fail to realize that in suing or threatening to sue we are actually reaching for the use of force against others. It is true that the “legal” use of force is generally a little less destructive than using force directly ourselves. If you are so angry at someone that you feel you must use force, then it’s better to use force through the courts than on your own. But you shouldn’t be very proud of what you are doing. You shouldn’t have this anger and this urge to use force against your neighbor in the first place.

It’s easy to overlook this moral perspective, given the example of government, which has gotten itself so deeply into the coercive regulation of practically everything. With thousands of special interests descending on Washington to use the force of the state to get what they want, we say,

“Why shouldn’t I use a little of the force of the state to get what *I* want?”

But if we think about it honestly, we know it’s true: nice people don’t sue. The ancient Christian teachings are explicit on this point. Paul, in his first letter to the Corinthians, criticized his followers for using the courts. “When one of you has a grievance against a brother, does he dare go to law before the unrighteous instead of the saints?” he asked. “Can it be that there is no man among you wise enough to decide between members of the brotherhood . . . ? To have lawsuits at all with one another is defeat for you.”

The politicians may be able to patch over some of the worst problems of the liability system. But real reform awaits a change in the attitudes that are at the root of the problem. It awaits an awareness that the use of aggressive force, be it private force or governmental force, is an unsound approach to our problems. □

Home Schooling: A Personal Experience

by Hannah Lapp

“Where did you get your education?” or “Which college do you attend?” are questions I find harder to answer than most people do. Education has meant much more to me than mere academic study.

My own formal education, and that of most of my 11 brothers and sisters, consisted of eight years of schooling at home. Our teacher was Mother, or our big sister Lydia. Going to school meant going to an upstairs hall or other suitable room in one of the sundry and fascinating dwellings we called home in those days. Our curriculum contained the basics for each grade in English, arithmetic, geography, and so on. Lydia selected our books from companies such as Scott, Foresman and Company, Laidlaw Brothers, and other publishers; some of the texts were as old as the McGuffey Readers.

As students, we were aware that education is serious business, and we worked our brains to the fullest. School was a thrilling opportunity. It opened the doors of knowledge and was a path into the mysteries of grown-up life.

Inborn in a healthy child is a thirst for the liberating powers of knowledge. Our teacher utilized these instincts of her students in introducing us not only to hard academic facts, but to an infinite learning process whose boundaries only our own self-discipline could shape. School learning meant learning how to expend mental energy to get information we wanted. Thus our minds were exercised not only in academic questions, but also in such difficult social concepts as freedom through meeting obligations, and the price of privileges.

“How can eight years be enough?” is a justifi-

able challenge offered against an educational background such as my own. Certainly the potential of young minds is much too valuable to justify halting education at age 14.

It does not occur to me to separate the education I received after the age of 14 from my eight years of formal schooling. For I regard the disciplined acquisition of knowledge too highly to draw its boundaries at the doors of an academic institution. I also respect it too much to assume that it is best taken care of by a government bureaucracy or any other monopolizing agency. For where, but within individual minds and circumstances, can it be determined what type of knowledge is the most needful and how it is best obtained?

The most suitable continued education for me and most of my siblings involved such things as skills training on our farm and self-help through reading, using libraries, taking short courses in specific subjects, and so on. Those of us who later decided to pursue specialized professions had no problem passing a high school equivalency test and taking off from there.

Even during my years of going to school at home, those hours of book-learning that qualified as a legal education were only a small part of my total education. More than we could fully comprehend at the time, we youngsters were receiving daily moral, emotional, and intellectual exercises that were just as important in preparing us for adult life as the mandatory hours spent in school. For just as becoming literate was essential to a self-sufficient and productive future, so also was learning responsibility and proper human coexistence. These concepts were instilled in us through necessity in our large, close family with many children to feed.

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My family's search for a suitable private school, and finally the search for a region having laws compatible with home schooling, was a major factor in our many migrations when I was small. It was also a factor in our often tight finances. We children learned thriftiness from infancy, and enjoyed few niceties. But it was enough for us to be healthy and happy.

The same circumstances that appeared at times unfortunate endowed us with learning experiences which could well be envied by the less needy.

For example, my older brothers and sisters were compelled to search out employment from a young age in order to help support the family. During one school term, two of my sisters took turns babysitting for a neighbor lady who was consequently able to stay off public assistance by holding a job. In the absence of welfare, two low-income families were drawn together to trade resources, thus benefiting all parties involved. My sisters were able to maintain their grades in school by taking their books to work, and their job in itself provided excellent hands-on education. Lydia, one of the two, would go on to instruct her younger siblings and, afterward, many other students during her teaching career.

Our quest for jobs where we could work together to support ourselves while being home schooled led us to a number of different states. Among other ventures, we traveled about in our family station wagon, following fruit harvests in their season. Where our employers permitted it, family members six years old and up helped to earn. It was through their children's ambitious participation that my parents were able to save up a considerable sum of money so that by 1972 they purchased the farmstead that would come to embody our long-time aspirations.

Dad picked Chautauqua County in western New York for the site of our farm because of reasonable land prices and job opportunities on the abundant fruit and vegetable operations lining the nearby shores of Lake Erie. He also questioned our real estate agent about New York's tolerance toward home schooling.

"Try it and see," was the agent's response.

My parents proceeded to do so.

School officials first confronted us five months after we arrived in Brocton, New York. At the time, we knew of no other families who attempted to home school in New York, and we had no idea

what to expect. However, my parents determined to stand on their beliefs, come what may.

Lydia was teaching six of us younger ones at home when school officials came to question Mom. We heard them speak from where we were studying in an upstairs room, and teacher and students fell silent, trying to catch their words. "We have to see to it that these children attend school legally," a woman's voice was stating. Many scenes raced through our minds, including those frequent wearying travels we'd undertaken in our determination to home school. And we pictured a drama of recent years when school officials chased Amish children through an Iowa cornfield, trying to forcibly enroll them in public school.

Challenging the State

Our right to home schooling was challenged even more severely after we moved to a farm in Cassadaga, which was to become our permanent home. The Cassadaga school administrator was greatly annoyed by the presence of this family from out-of-state attempting to defy his previously unchallenged authority. "Child neglect" was the charge he filed against my parents in family court.

The danger of forcible removal from our parents was the only thing we children could not acceptably face. So we banded together and arranged a secret hideout, unknown even to our parents, to which we would flee if the officials ever came for us. We never had to use it. Acquaintances and employers of ours were vocal in our defense, and the case was thrown out of court, thus demonstrating the power of concerned citizens in reining in oppressive government. Also somewhat influential in our case was a brand-new Supreme Court ruling in favor of Amish families who had objected to public schooling and education beyond the eighth grade for their children.

We cooperated with Cassadaga school officials as far as possible throughout our years of home schooling. Initially we underwent inspections, exams, and interviews. The Cassadaga school principal came to observe our school and concluded of the teacher, "She may not be certified, but she's certainly qualified."

Later on we simply maintained free and friendly communications with school officials. Local teachers offered us their out-of-date books. On several occasions Lydia was even asked by area parents to

tutor their children whose public school education was proving insufficient.

After teaching at a mission school in Belize, Central America, for five years, Lydia returned home to teach her own daughter along with several nieces and nephews. Present regulations require her to submit quarterly progress reports on each student to the Cassadaga school. The paperwork aside, she still teaches as she sees best, and with her superior results, no one wants to interfere.

The success of schools such as Lydia's and other private schools is drawing more attention with every new statistic on the disappointing results of public education. I have heard various suggestions advanced by citizens concerned with bringing American education back to par: teach teachers better, return to the three R's, require more hours in school, and so forth. The difference between private and public education, however, involves issues more fundamental than these arguments. It involves the entire teacher-student relationship. Private, competing schools are bound to the individual choices of those whom they serve. Schools bound to mandatory regimens rather than client interests are inherently incapable of providing what I call true education—i.e., knowledge garnered through the inner instincts to inform yourself to your own benefit. There's a difference between this type of knowledge and the kind that is methodically dumped upon you by the state.

Since knowledge that benefits one person may not benefit another, true education is infinitely diverse, varying from methods as ancient and basic as apprenticeship, to the most sophisticated academic instruction.

We as a family are now far from alone as home schoolers in our county and state. Lydia meets and exchanges ideas with a number of other parents who teach their own children. She also subscribes to *The Teaching Home* magazine, where one can gather or share helpful information as well as insights into national home schooling developments. *The Teaching Home* (P.O. Box 20219, Portland, Oregon 97220-0219) informs us that there are 4,000 children on record as being home schooled in New York State. We know that there

are more who are not on the record, perhaps fortunate enough never to be discovered by the educational bureaucracy. All told, there are an estimated 300,000 to 500,000 children being taught at home in the United States (*The New York Times*, November 22, 1990).

The Advantages of Home Schooling

It is from my own experience that I call these children fortunate. If their education bears any resemblance to my own, it will possess several advantages.

First, it will contain a much richer infusion of parental interests, which are more sensitive to a child's individuality and total needs than are bureaucratic state interests.

Another rather marked contrast between public schooling and home schooling involves children's peer relationships. The home-educated child is spending more time with adults and siblings and therefore devotes more mental energy to relationships spanning age and generation gaps. Some parents may not see this as desirable. Others find it offers a healthy alternative to the intense peer pressure in most public schools. Excessive peer pressure can and does inhibit a human being's ability to think freely.

In my own growing-up experience, I spent fewer than average hours with children outside the family, and zero hours watching television. Certainly this restricted my range of interactions with others. It did not, however, restrict my intellectual exercises in the least. I turned to my own unbounded imagination. I turned to exploring everything in sight, including books. Adult books were interesting enough to read cover to cover before I was 10 years old. For some reason, I never experienced, nor could I mentally conceive, the boredom with life displayed by many other youngsters.

Learning is exploration and discovery, whether you are observing the development of an ear of corn, working alongside Mom in the kitchen, going to school at home—or even attending a prestigious university. □

Medicare: Prescription for a Fool's Paradise

by Dianne L. Durante and Salvatore J. Durante

Suppose I promise you health care like you've never had before. When you visit a doctor or a hospital, all you'll have to do is show a card, and someone else will foot the bill. You'll never have to fill out another insurance form or wait for another reimbursement to come in. And, I promise, you'll get the same quality of care you get now, and won't have to pay more taxes for it.

Would you vote for me? Most people would. Would you get what I promised? No, because it's impossible to deliver. This is the promise of those who advocate "national health care" or "universal health insurance" (on either the state or national level). In either case, what is involved is extensive or complete government control of health care: control of who pays for services, who provides them, and who receives them.

We have, before our eyes, an example of a very similar system that has been operating now for 26 years: Medicare. This article aims to demonstrate, by a detailed look at Medicare, that such government interference in health care is harmful from the first to buyers and providers of health care, and in the long run is disastrous. Government medicine, on the national or the state level, is a prescription for a fool's paradise.

To understand the economic principles involved in government intervention in medicine, let us look at something less emotionally charged than medicine. Hats, for instance.

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Basic Economic Lessons

Let's say we all agree that hats are worth having, or even a necessity, and that all Americans have a right to them. We pass a law stating that the government will pay for everyone's hats, through taxpayer dollars. What happens? First of all, hat sales skyrocket. I'm not particularly fond of hats, but if I can get them for free or below cost, why not?

Lesson One: there is no limit to demand, if those who get the product or use it are not paying, directly or in some way they can see. This is unavoidable. The freeloaders will try to get all they can, and most of the rest of us will want something to show for our tax dollars.

If such a law passed, most hatmakers would be delirious with joy. Everyone wants hats! They expand their shops and produce as many hats as they can. What happens next? The average price of hats shoots through the roof. Why?

There are two reasons. First, of the hats now being sold, the more expensive ones—the ones only a few people could afford before—will now be in much greater demand, since the individual hat-buyer no longer has to pay from his own, limited resources. If the latest style is a platinum-plated beret, anyone who wants one will now get it.

The other reason for the rising prices is competition: specifically, lack of it. New products, such as the first camcorders or the first compact disc players, are usually expensive. Prices drop because more people want to make money from a product: they try to come up with cheaper and more efficient ways of producing it, so they can sell the product more cheaply and grab some of the mar-

ket. Our unlimited government funding of hats has completely cut out the need for competition. Any hatmaker can stay in the business, no matter how high his prices.

Lesson Two: prices will skyrocket if there's no limit to how much people can spend on a product. If anyone who wants the product can buy it, price no object, there is absolutely no reason for the manufacturer to try to cut his prices, and no reason for the buyer to control how much he spends.

The government, and *only* the government, can give people virtually unlimited amounts to spend on a product. In short, it is not the greed of the manufacturer or the consumer, but the mere fact of the government funding of hats that is making hat prices exorbitant.

Next step: the government, and hence the taxpayers, are faced with enormous hat bills. Mrs. Smith may have confined herself to one hat, but Mr. Jones wanted five, and Mrs. Imelda wanted 52 Paris originals. The government knows it can't continually raise taxes to pay for hats. Assuming it wants to keep the hat program intact, it has two choices: restrict the number of hats any one person can buy, or restrict the price of hats. In political jargon, that means rationing or price controls.

From a politician's point of view, setting limits on the price of hats is the obvious way to go. There are fewer hatmakers who vote than there are hat wearers, and it's easy enough to paint the hatmakers as greedy exploiters of the hatless. So a new law is passed: no hats may be sold for more than \$15, even if the buyer is willing to use his own money. The immediate result will be that the best quality, most expensive hats become unavailable. No more Paris originals.

Lesson Three: you can't make a silk purse out of a sow's ear. Good materials and good workmanship cost money. Yes, competition among manufacturers in a free market will cut prices in the long run. However, legislating a lower price for a product is not a shortcut to cheapness. It merely makes those who were selling more expensive goods go bankrupt, before anyone has time to work on price reduction.

We could try some complicated and devious maneuvers to lessen the effect of price controls. For instance, we could slap a \$5 tax on shoes and use the money for the hat program. Then we could have a maximum hat price of \$15, but still pay the hatmakers \$20 per hat. That would mean, of

course, that some poorer people wouldn't be able to afford shoes, and the government would end up subsidizing shoes, too. Even so, price controls on hats will have to be instituted in some form, because demand is so high. Remember that it is government spending for hats that made the demand and the prices so high in the first place: nothing except removal of the government's money will get the situation back under control. But let's keep trying.

We've now legislated a maximum price for hats. Nevertheless, Mrs. Imelda has bought another 35 hats, and the rest of us are still trying to get our taxes' worth of hats. Not surprisingly, the amount that taxpayers are shelling out for hats hasn't significantly decreased, despite our price controls. The next step? Well, of course, restrict the number of hats each person can buy: ration them.

Now what happens? A lot of hatmakers go out of business. They can't sell hats for more than the maximum price, and they can't make up for the loss in income through selling more hats. Bureaucrats demand forms in triplicate and slap fines on them at every turn. The best hatmakers soon leave the field in disgust. We are now facing a decreasing supply of hats, if not an actual shortage, because there are far fewer manufacturers.

But hats are a necessity, aren't they? So we will have to pass a law forcing hatmakers to remain in business, whether they can make a profit or not. However, even a government order can't make a business run for long at a deficit, whether it's a hatmaker or a child's lemonade stand or a bank. The hatmakers will go out of business, one by one.

The government will have to step in and make hats. Given the quality of most government products, you can imagine what kind of hats we'll get. And given the efficiency of most government manufacturing operations, we won't be surprised if we're told we can each have one hat, in our choice of four styles, every other year.

What began as a seemingly praiseworthy law—to provide all Americans with hats—has ended up driving the hatmakers we know and trust out of business, and given us government-produced hats of considerably inferior quality and very limited numbers. This result is absolute, inevitable, and non-negotiable: none of the economic rules above can be avoided, and they can only be temporarily circumvented by allowing the government to interfere in yet more private business.

Lesson Four: what the government pays for, the government has to control. Government funding of hats led to government control of hat prices, hatmakers, and finally everyone who is even remotely connected to hats. The only cure would be to end government funding of hats.

Back to Health Care

Comparing hats to medicine may seem even less appropriate than comparing apples to oranges, but the same economic principles apply, and precisely the same developments can be seen in the 26-year history of Medicare.

In 1965 the government passed Medicare legislation, providing basic medical services to the nation's retirees. Physicians and hospital administrators were delighted. They built new hospitals and enlarged old ones. They began providing the medical equivalent of the best Parisian hats to all comers. Why not? The government encouraged physicians by asking them just to send the bill to the American taxpayer. Patients, as well as physicians, no longer had to consider costs. Everyone simply demanded "the best"—price no object. Medical expenditures in the United States were 4.3 percent of GNP in 1952; by 1982 they exceeded 10 percent, and were still rising. In the same period the government's share of these expenses nearly doubled, from 22 percent to over 40 percent. Here is Lesson One in action: with the government footing the bill for a substantial number of those receiving medical care, there was suddenly an enormous demand for medical services.

At the same time, prices for medical care soared. The legislation deliberately removed any incentive to keep prices low: in fact, removing concern about costs was the point of the program. Many of us can remember that prior to 1965 a few days in the hospital did not threaten to bankrupt the average middle class family. Today, many find the cost of a hospital stay prohibitive, because the rise in medical costs has far outpaced the general inflation rate.

Why? Because of Lesson Two. Prices skyrocketed precisely because the government was providing unlimited funds for medical care. Consumers demanded the most expensive treatment, and medical facilities didn't have to keep prices low to maintain a competitive edge.

By 1983, Medicare threatened to bankrupt the

entire Social Security system. It was clear that something drastic had to be done to control runaway costs. Taxes were raised, of course, but this was not enough. Like the manufacturers in the hat illustration, health-care professionals were (and continue to be) denounced as the greedy culprits who had to be controlled; price controls were slapped on hospitals and doctors. Under this system, called Diagnosis Related Groups, all hospital admissions of Medicare patients are classed in one of 486 categories, and the hospital receives a set fee for the patient, regardless of his length of stay or the amount of care provided. When it was pointed out that this might lead to inadequate treatment and early discharges ("quicker and sicker" releases), the government responded by imposing further complicated regulations.

The federal government has also set a limit on what doctors can charge patients over the age of 65, and some states now refuse to license doctors who don't accept the Medicare fee as full payment. Just to receive the government-approved payment, doctors must comply with a bewildering, and sometimes contradictory, array of regulations from several different agencies. The process a doctor is required to go through to obtain payment from Medicare makes filing your tax return look like simple arithmetic, and your doctor does it many times per day, not once a year. Also, a simple error in filing that would result in no monetary gain for him, such as using an incorrect code for a diagnosis, can mean no payment at all on the claim, plus a fine of thousands of dollars.

Not surprisingly, doctors are leaving the profession and the number and quality of medical school applicants are falling. In 1974 there were nearly three applicants for every opening in medical school; by 1986 there were fewer than two. What bright young college graduate would want to get involved with such a mess?

Lesson Three comes into play: you can't make a silk purse out of a sow's ear. In this case, you can't get top-notch, dedicated individuals to enter and remain in the medical profession while controlling their activities and their earnings, and calling them greedy exploiters to boot.

And guess what? Costs are still rising uncontrollably, despite stringent controls on medical expenditures. (Given the fact that it was government funding that made prices skyrocket, and that the government is still funding medical care, the con-

tinually rising prices should come as no surprise.) The government is now considering more drastic measures, such as rationing and "universal insurance." Massachusetts has already adopted such a plan, which led to the exodus of doctors from that state and contributed to its recent financial collapse and tax increase. Similar plans are under consideration in many other states, and even more appalling "solutions" have been proposed. The director of the Hastings Center, a bioethical think tank in Briarcliff Manor, New York, recently recommended that, by law, no one past age 80 or 85 be given access to aggressive life-saving equipment and medication. A medical economist from Tufts University has suggested legally banning all new technology: since not everyone can afford it, no one should have it.

Here, as expected, is Lesson Four: what the government pays for, the government must control. In the very near future, if a physician tells you that your life could be improved with bypass surgery or a hip replacement, you will have to petition the government and take a number. Perhaps your petition will be approved, once all the appropriate government bureaucrats have debated its merits. Perhaps it won't.

Likewise, every aspect of a physician's practice will have to be dictated and controlled: most of them are already. He'll be told whom he can treat, and how, and what payment he'll receive. His livelihood and his freedom will be in the hands of the same bureaucrats who hold your life and health.

What About Rights?

The final step in the process outlined above brings us to the most important reason that the Medicare and Medicaid programs should not be expanded or imitated, but must be scrapped. In the United States, we recognize certain basic rights: life, liberty, the pursuit of happiness. When those words were written, it was understood that those were the rights to your own life, your own liberty, and the pursuit of your own happiness.

The "right" to hats or to medical care is fundamentally different from these basic rights. Such a "right" depends on the efforts of others, those who make the hats or study medicine. If we declare that citizens have a right to hats or to medical care, we are declaring that the hatmakers or the doctors are

obliged to provide it, no matter what the cost, somehow, and that if they don't do so willingly, the government will force them to do it.

Although your own life is of enormous value, you can't use that fact to justify taking someone else's life, unless he threatens to kill you first. "But the Medicare laws don't kill doctors," you say. "They just tell doctors what to do and take away some of what they earn."

If you locked up a dachshund, forced it to obey contradictory commands, and fed it at unpredictable times and in continually decreasing amounts, you'd have a mob of government officials and animal rights activists at your door. Killing the dog quickly, they'd say, would be kinder than this long-drawn-out torture. The same treatment has been applied to doctors for many years now, and few voices have been raised in their defense.

When you take away a man's right to think, to act for himself, and to keep what he earns from that action, you make him at best a slave dependent on your goodwill, and at worst a corpse. Thinking for oneself, acting on those thoughts, and keeping the fruits of one's effort are what allow one to live, whether one is a physician, a teacher, a garage mechanic, or a stockbroker.

One hundred twenty-six years ago we finished fighting a bloody civil war to make slavery illegal throughout the United States. Twenty-six years ago, with the passage of Medicare legislation, we sanctioned it again—not on the basis of race, but on the basis of the dedication and skill and intelligence it takes to become a medical professional.

It is still slavery. It is still immoral. And that is why the Medicare system and all such government programs that interfere with the free market in medicine must be dismantled: not merely because they do not work, but because they require that the men and women who literally save our lives be made into slaves.

The same is true of any government-funded program of medicine, whether based on the Canadian or British or Swedish or Soviet model. Government funding of medicine ultimately results in the enslavement of doctors, and is therefore immoral.

Perhaps you are thinking that violating your doctor's rights is acceptable, in return for assuring that you and the rest of his patients are able to afford medical care. Think again. What you'll be

“Let each of us take back into his own hands how much he spends on medical care, when he spends it, and what he gets for it.”

getting if you violate his rights is not care from the type of doctor you know and trust. The traditional kind of doctor, who went into medicine for the challenge of using his mind and working independently, will find it impossible to work under such a system, and will gradually disappear.

When the government controls health care, it will attract a new breed of doctor: the kind who is content to work 9 to 5 for a fixed salary, following all the rules in a government code, and is more than happy to let bureaucrats instead of his patients tell him what he's doing right and wrong. If I must undergo surgery, I want it to be at the hands of someone who can observe the facts of my case and is not afraid to make his own judgment and take action on it—and who will answer to me if he makes an error, not cite his compliance with section 1052, paragraph 13 in some government manual.

Government control of medicine means, in short, that the bureaucrats will be telling *you* what services you are allowed to have, and when. If what you want is the best care for the most people, any government-funded medical program is impractical as well as immoral.

The Market Holds the Solution

The only way to assure the highest quality of medical care is to return to the free market. You can have choice only if you are willing to take the responsibility of paying for it. For most of your working life, you have probably been covered by a private insurance company. It worked. In fact, it worked incomparably well until the government's intervention in the health-care market caused

prices to shoot through the roof. If health-care providers have to compete for our business again, the prices will go down, precisely as they do for new electronic gadgets.

Today no private insurance company will cover anyone over 65, except as a wrap-around policy for Medicare. Let the private insurance companies get back into the business. Let families and individuals save for their own medical care, if they wish, by reducing the burden of taxation. Let each of us take back into his own hands how much he spends on medical care, when he spends it, and what he gets for it.

What about those who cannot afford even minimal health insurance? There are many, many physicians and hospitals who provide medical care for free. They don't brag about it, and they are usually ignored when the surveyors collect statistics on the uninsured. Yes, it does mean that the poor would have to ask for charity, rather than receiving care as a matter of "right." Yes, that would be embarrassing: asking for something in return for nothing usually is. But enslaving doctors and putting the health care of all citizens under the control of government bureaucrats is simply too high a price to pay for avoiding embarrassment.

Today's most serious health problem is government intervention in the health-care system. Because the government's spending has driven prices up, we are forced to make do with less care. Because of the controls the government has imposed, we are losing the best minds in the field. The only cure is to return to the system that made American health care the envy of the world: a free market, completely exempt from government intervention. □

Boulwarism: Ideas Have Consequences

by William H. Peterson

“**W**hat’s in a name?” asked Shakespeare’s star-crossed Juliet. “That which we call a rose/By any other name would smell as sweet.”

Boulwarism. An idea. Sweet or sour? Description or invective? The death of Lemuel R. Boulware (1895-1990) in Florida last November recalls the controversy over his name as embodied in a General Electric employee strategy that prevailed for some 15 years after World War II. The controversy is seen in a 1969 U.S. Second Circuit Court of Appeals decision upholding a National Labor Relations Board (NLRB) ruling that GE had committed an “unfair labor practice” via Boulwarism. Asserted the Court in passing: “We do not think that [National Labor Relations] Board Member Fanning’s use of the term ‘Boulwarism’ was indicative of bias; the term is more description than invective.”

Certainly America’s unions sought to make Boulwarism into invective, to undo Lemuel Boulware’s lifelong idea of avoiding force, public or private, by “trying to do right voluntarily.” He held that labor and capital, employees and managers, wages and profits, are allies and not enemies in production. His ideas help explain GE’s innovative employee policy following a rough seven-week strike in 1946 that saw acts of sabotage at various plants.

The strike shocked the company, which had long voluntarily installed such forward-looking employee programs as a suggestion system (1906), pensions (1912), and insurance (1920). Employee

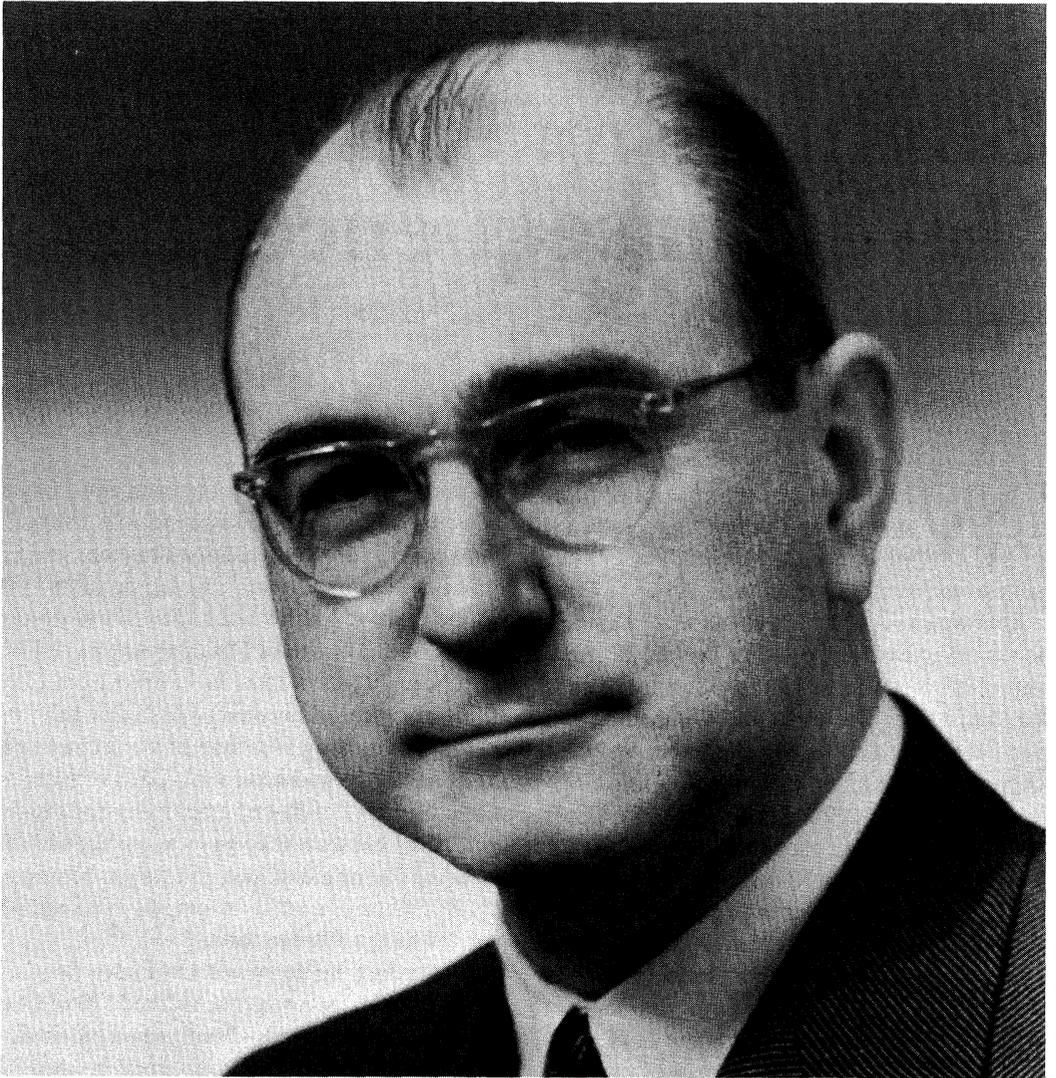
disapproval and distrust of the company, fanned by union hype, were widespread. GE charged Lemuel Boulware to correct the situation.

So began “Boulwarism,” the GE program that can be reviewed in his book, *The Truth About Boulwarism* (Bureau of National Affairs, 1969), written eight years after he retired from GE. Boulware tackled his charge first through job research, applying merchandising techniques that had been successful with GE’s consumer products. He interviewed employees, for example, to find out what they knew about economics including the origin of jobs and wages. His finding: Not much. His solution: employee economic education on a massive scale.

For starters, he borrowed Du Pont’s flannel-board economic study course entitled “How Our Business System Operates,” and gained full participation of every GE employee (then 190,000 of them) “from top management to the last non-supervisory worker.” The course involved three 90-minute sessions on company time. He also distributed thousands of copies of New York University economist Lewis H. Haney’s book, *How You Really Earn Your Living*, to supervisors and other sponsors of study and discussion groups in GE plants, offices, and plant communities.

In addition, in sustained employee communications Boulware hammered on the theme that market competitiveness was decisive, that the GE customer was the ultimate employer and paymaster, that quality and cost control were crucial to GE jobs. As GE’s vice president for employee and public relations, he explained that at bottom industrial harmony springs from employee attitudes and perceptions.

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GE HALL OF HISTORY

Lemuel R. Boulware (1895-1990)

Later on he hired a Hollywood actor named Ronald Reagan to heighten the popularity of GE's TV show. To bring about that goal, Reagan toured GE plants where he found that "we didn't chain the workers to the machines." The GE assignment apparently helped sell free enterprise to the future President.

Breaking Pattern Wage Settlements

The immediate point of Boulwarism, however, was the break with pattern wage settlements that especially had rippled out from auto and steel negotiations. To Boulware that pattern had ele-

ments of theatrics in the postwar era when employers felt they had to go through the motions of first offering essentially nothing when the real plan all along was, say, an increase of five cents an hour. As he put the rest of the scenario in his book: "Then, under public strike-threat pressure, about half would be offered. Then, after all the union representatives had been called in from the plants and the resulting vote for a strike had been well aired in a receptive press, management would 'capitulate' by upping the offer to the full five cents per hour."

Argued Boulware: Pattern settlements played into the hands of union officials who portrayed an employee need to "triumph over greedy and

“**W**e have simply got to learn, and preach, and practice what’s the good alternative to socialism. And we have to interpret this to a majority of adults in a way that is understandable and credible and attractive.”

—LEMUEL R. BOULWARE
1949 Commencement Address
to Harvard Business School Alumni

vicious management,” and who accordingly had to drag an unwilling company into doing the right thing by its employees. Boulware believed that such tactics discredited both capitalism and the company in the eyes of employees. He further believed that those tactics nurtured employee resentment and hurt productivity by appearing to give credit to the unions for wringing from the company what it had been willing to give at the very outset of negotiations.

Accordingly Boulware abandoned the pattern idea. Instead he painstakingly researched each opening GE offer. Soon after that he presented an up-front fleshed-out competitive “product” that he termed “fair but firm”—an offer he felt would be at once attractive to the employees and within the limited means of the company and its customers.

Union officials bristled at this new management approach and argued that the offer was but a rigid “take-it-or-leave-it” stand, that for all its talk of “balanced best interests” GE was “playing God,” that the company was simply not bargaining “in good faith,” that it could have offered GE employees lots more out of its “swollen” profits without having to raise prices.

As Boulware rebutted this soon-standard union rhetoric in his book: “The trouble with our country’s so-called ‘free collective bargaining’ in those days was that it too often turned out to be not free, not collective, and, in fact, too one-sided to be real bargaining at all.” So what often passed for bargaining, he went on, was but the imposition of a settlement that some union officials had already unilaterally decided, even though for public consumption they might later cut their initially too high demands by as much as half in order to look reasonable.

Too, Boulware maintained that he was not inflexible, that only one of his opening proposals wound up without amendment in the GE union contract, that he was always receptive to the idea of letting the unions provide “any old or new information proving changes would be in the balanced best interests of all.” The ongoing Boulware-union officials battle of ideas became public knowledge, and the media had a field day, with politicians, commentators, and editorialists taking sides.

But GE’s 1960 negotiations with the International Union of Electrical, Radio, and Machine Workers, AFL-CIO, misfired, leading to a three-week strike and the NLRB ruling that through Boulwarism General Electric had committed an “unfair labor practice.” For, according to that 1969 U.S. Second Court of Appeals decision sustaining the ruling, GE had allegedly used “sham discussions” instead of “genuine arguments”; too, GE supposedly conducted a communications program that emphasized “both powerlessness and uselessness of union to its members” and that “pictured employer as true defender of interest of employees, further denigrating union, and sharply curbing employer’s ability to change its own position.”

Boulware retired from GE in 1961, and Boulwarism as an idea and policy passed into history. Yet so too did the heyday of adversarial unionism and the tide of union membership, with both the nation’s and GE’s labor force becoming sharply de-unionized in the new age of information and global competitiveness.

Ideas have consequences. Lemuel R. Boulware’s prescient long-run employee economic education program, anticipating today’s quality circles, T-groups, and closer employer-employee rapport, may have triumphed in the end. □

The Objectives of Economic Education

by Ludwig von Mises

Editors' note: Ludwig von Mises (1881-1973) was a pre-eminent exponent of free market economics during his long and distinguished academic career. He was associated with The Foundation for Economic Education as a consultant and part-time staff member from shortly after FEE was founded in 1946 until his death. These extracts from a 1948 memorandum to Leonard E. Read, founder and president of FEE, appear in Economic Freedom and Interventionism, an anthology of articles and essays by Dr. Mises recently published by The Foundation for Economic Education.

The struggle between the two systems of social organization, freedom and totalitarianism, will be decided in the democratic nations at the polls. As things are today, the outcome in the United States will determine the outcome for all other peoples too. As long as this country does not go socialist, socialist victories in other parts of the world are of minor relevance.

Some people—among them very keen minds—expect either a revolutionary upheaval of the Communists, a war with Russia and its satellites, or a combination of both events.

However this may be, it is obvious that the final result depends on ideological factors. The champions of freedom can win only if they are supported by a citizenry fully and unconditionally committed to the ideals of freedom. They will be defeated if those moulding public opinion in their own camp are infected with sympathies for the totalitarian program. Men fight unto death for their convictions. But nobody is ready to dedicate himself seriously to a cause which in his eyes is only 50 per-

cent right. Those who say: "I am not a Communist, but . . ." cannot be counted upon to fight rigorously for freedom and against Communism.

In Russia, in 1917, the Bolsheviki numbered only a few thousand men. From the arithmetical point of view their forces were negligible. Yet, they were able to seize power and beat into submission the whole nation because they did not encounter any ideological opposition. In the vast empire of the Tsars there was no group or party advocating economic freedom. There was no author or teacher, no book, magazine, or newspaper that would have declared that freedom from bureaucratic regimentation is the only method to make the Russian people as prosperous as possible.

All people agree that in France and in Italy [1948] the Communist danger is very great. Yet, it is a fact that the majorities in both countries are hostile to Communism. However, the resistance of these majorities is weak, as they have espoused essential parts of socialism and of the Marxian criticism of capitalism. Thanks to this ideological penetration of Communist adversaries in France and Italy, the chances of the Communists are much better than the numbers of Communist Party members warrant.

Those engaged in the conduct of business, the professions, politics, and the editing and writing of newspapers and magazines are so fully absorbed by the sundry problems they have to face that they neglect to pay attention to the great ideological conflicts of our age. The urgent tasks of the daily routine impose on them an enormous quantity of pressing work, and no time is left for a thoroughgoing examination of the principles and doctrines

implied. Perplexed by the vast amount of detail and trivia, the practical man looks only at the short-run consequences of the alternatives between which he has to choose at the moment and does not bother about long-run consequences. He falls prey to the illusion that this attitude alone is worthy of an active citizen successfully contributing to progress and welfare; preoccupation with fundamental questions is just a pastime for authors and readers of useless highbrow books and magazines. In democratic America the men most distinguished in business, the professions, and politics have today the same attitude toward "theories" and "abstractions" that Napoleon Bonaparte displayed in ridiculing and abusing the "ideologies."

The disdain of theories and philosophies is mainly caused by the mistaken belief that the facts of experience speak for themselves, that facts by themselves can explode erroneous interpretations. The idea prevails that no serious harm can be done by a fallacious philosophy, an "ism," however vitriolic and insidious; reality is stronger than fables and myths; truth automatically dispels lies; there is no reason to worry about the propaganda of the apostles of untruth.

There is no need to enter into an investigation of the epistemological issues implied in this widely held opinion. It may be enough to quote a few lines of John Stuart Mill. "Man," says Mill, "... is capable of rectifying his mistakes, by discussion and experience. Not by experience alone. There must be discussion, to show how experience is to be interpreted. Wrong opinions and practices gradually yield to fact and argument; but facts and arguments, to produce any effect on the mind, must be brought before it. Very few facts are able to tell their own story, without comments to bring out their meaning."¹

Marxian Polylogism

Those people who believe that the mere record of the American achievements of economic individualism makes the youth of the United States safe from indoctrination with the ideas of Karl Marx, Thorstein Veblen, John Dewey, Bertrand Russell, and Harold Laski are badly mistaken. They fail to discern the role that Marxian polylogism plays in the living philosophy of our age.

According to the doctrine of Marxian polylogism,

a man's ideas necessarily reflect his class position; they are nothing but a disguise for the selfish interest of his class and are irreconcilably opposed to the interests of all other social classes. The "material productive forces" that determine the course of human history have chosen the working "class," the proletariat, to abolish all class antagonisms and to bring lasting salvation to the whole of mankind. The interests of the proletarians, who are already the immense majority today, will finally coincide with the interests of all. Thus from the point of view of the inevitable destiny of man, the Marxians say, the proletarians are right and the bourgeois are wrong. There is no need, therefore, to refute an author who disagrees with the "progressive" teachings of Marx, Engels, and Lenin; all that is needed is to unmask his bourgeois background and show that he is wrong because he is either a bourgeois or a "sycophant" of the bourgeoisie.

In its consistent and radical form polylogism is accepted only by the Russian Bolsheviks. They distinguish between "bourgeois" and "proletarian" doctrines even in mathematics, physics, biology, and medicine. But the more moderate brand of polylogism, which applies the "bourgeois" or "proletarian" yardstick only to the social and historical branches of knowledge, is endorsed by and large even by many of those schools and authors who emphatically call themselves anti-Marxian. Even at universities, which radical Marxians vilify as strongholds of bourgeois mentality, general history as well as the history of philosophy, literature, and art are often taught from the point of Marxian materialistic philosophy.

The tenets of people committed to Marxian polylogism cannot be shaken by any argument advanced by an author, politician, or other citizen suspected of bourgeois affiliation. As long as a considerable part of the nation is imbued—many of them unwittingly—with the polylogistic doctrine, it is useless to argue with them about special theories of various branches of science or about the interpretation of concrete facts. These men are immune to thought, ideas, and factual information that stem from the sordid source of the bourgeois mind. Hence 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.

The disinclination to deal with “theory” is tantamount to yielding submissively to Marx’s dialectical materialism. The intellectual conflict between freedom and totalitarianism will not be decided in discussions about the meaning of concrete statistical figures and historical events, but in a thorough examination of the fundamental issues of epistemology and the theory of knowledge.

It is true that the masses have only a very crude and simplified cognition of dialectical materialism and its offshoot, the so-called sociology of knowledge. But all knowledge of the many is crude and simplified. What matters is not to change the ideology of the masses, but to change first the ideology of the intellectual strata, the “highbrows,” whose mentality determines the content of the simplifications which are held by the “lowbrows.”

Marxism and “Progressivism”

The social and economic teachings of the self-styled “un-orthodox Progressives” are a garbled mixture of divers particles of heterogeneous doctrines incompatible with one another. The main components of this body of opinion were taken from Marxism, British Fabianism, and the Prussian Historical School. Essential elements were also borrowed from the teachings of those monetary reformers, inflationists who were long known only as “monetary cranks.” And the legacy of Mercantilism is important too.

All Progressives loathe the 19th century, its ideas and its policies. However, the principal ingredients of Progressivism (except for Mercantilism which stems from the 17th century), were formed in that much-defamed 19th century. But, of course, Progressivism is different from every one of these doctrines, parts of each of which were synthesized to make Progressivism what it is. . . . Among those who call themselves Progressives there are certainly a number of consistent Marxians. . . . The great majority of the Progressives, however, are moderate and eclectic in their appraisal of Marx. Although sympathizing by and large with the material objectives of the Bolsheviks, they criticize certain attending phenomena of the revolutionary movement, for instance, the Soviet regime’s dictatorial methods, its anti-Christianism, and its “Iron Curtain.” . . .

Many outstanding champions of Progressivism openly declare that they aim ultimately at a substi-

tution of socialism for free enterprise. But other Progressives announce again and again that by the suggested reforms they want to *save* capitalism, which would be doomed if not reformed and improved. They advocate interventionism as a permanent system of society’s economic organization, not as do the moderate Marxian groups, as a method for the gradual realization of socialism. There is no need to enter here into an analysis of interventionism. It has been shown in an irrefutable way that all measures of interventionism bring about consequences which—from the point of view of the governments and parties resorting to them—are less satisfactory than the previous state of affairs which they were devised to alter. If the government and the politicians do not learn the lesson which these failures teach and do not want to abstain from all meddling with commodity prices, wages, and interest rates, they must add more and more regimentation to their first measures until the whole system of market economy has been replaced by all-round planning and socialism.

However, my purpose here is not to deal with the policies recommended by the champions of interventionism. These practical policies differ from group to group. It is merely a slight exaggeration to say that not only does each pressure group have its own brand of interventionism but so does every professor. Each is keenly intent upon exploding the shortcomings of all rival brands. But the doctrine which is at the bottom of interventionist ventures, the assumption that contradictions and evils are allegedly inherent in capitalism, is by and large uniform with all varieties of Progressivism and generally accepted with hardly any opposition. Theories which are at variance are virtually outlawed. Anti-progressive ideas are represented in caricature in university lectures, books, pamphlets, articles, and newspapers. The rising generation does not hear anything about them except that they are the doctrines of the economic Bourbons, the ruthless exploiters and “robber barons” whose supremacy is gone forever.

The Main Thesis of Progressivism

The doctrines which are taught today under the appellation “Progressive economics” can be condensed in the following ten points.

1. The fundamental economic thesis common

to all socialist groups is that there is a potential plenty, thanks to the technological achievements of the last 200 years. The insufficient supply of useful things is due merely, as Marx and Engels repeated again and again, to the inherent contradictions and shortcomings of the capitalist mode of production. Once socialism is adopted, once socialism has reached its "higher stage," and after the last vestiges of capitalism have been eradicated, there will be abundance. To work then will no longer cause pain, but pleasure. Society will be in a position to give "to each according to his needs." Marx and Engels never noticed that there is an inexorable scarcity of the material factors of production.

The academic Progressives are more cautious in the choice of terms, but virtually all of them adopt the socialist thesis.

2. The inflationist wing of Progressivism agrees with the most bigoted Marxians in ignoring the fact of the scarcity of the material factors of production. It draws from this error the conclusion that the rate of interest and entrepreneurial profit can be eliminated by credit expansion. As they see it, only the selfish class interests of bankers and usurers are opposed to credit expansion.

The overwhelming success of the inflationist party manifests itself in the monetary and credit policies of all countries. The doctrinal and semantic changes that preceded this victory, which made this victory possible, and which now prevent the adoption of sound monetary policies are the following:

a. Until a few years ago, the term *inflation* meant a substantial increase in the quantity of money and money-substitutes. Such an increase necessarily tends to bring about a general rise in commodity prices. But today the term *inflation* is used to signify the inevitable *consequences* of what was previously called inflation. It is implied that an increase in the quantity of money and money-substitutes does not affect prices and that the general rise in prices which we have witnessed in these last years was not caused by the government's monetary policy, but by the insatiable greed of business.

b. It is assumed that the rise of foreign exchange rates in those countries, where the magnitude of the inflationary increment to the quantity of money and money-substitutes in circulation exceeded that of other countries, is not a consequence of this monetary excess but a product of other agents,

such as: the unfavorable balance of payments, the sinister machinations of speculators, the "scarcity" of foreign exchange, and the trade barriers erected by foreign governments, not by one's own.

c. It is assumed that a government, which is not on the gold standard and which has control of a central bank system, has the power to manipulate the rate of interest downward *ad libitum* without bringing about any undesired effects. It is vehemently denied that such an "easy money" policy inevitably leads to an economic crisis. The theory, which explains the recurrence of periods of economic depression as the necessary outcome of the repeated attempts to reduce interest rates artificially and expand credit, is either intentionally passed over in silence or distorted in order to ridicule it and to abuse its authors.

3. Thus the way is free to describe the recurrence of periods of economic depression as an evil inherent in capitalism. The capitalist society, it is asserted, lacks the power to control its own destiny.

4. The most disastrous consequence of the economic crisis is mass unemployment prolonged year after year. People are starving it is claimed, because free enterprise is unable to provide enough jobs. Under capitalism technological improvement which could be a blessing for all is a scourge for the most numerous class.

5. The improvement in the material conditions of labor, the rise in real wage rates, the shortening of the hours of work, the abolition of child labor, and all other "social gains" are achievements of government pro-labor legislation and labor unions. But for the interference of the government and the unions, the conditions of the laboring class would be as bad as they were in the early period of the "industrial revolution."

6. In spite of all the endeavors of popular governments and labor unions, it is argued, the lot of the wage earners is desperate. Marx was quite right in predicting the inevitable progressive pauperization of the proletariat. The fact that accidental factors have temporarily secured a slight improvement in the standard of living of the American wage earner is of no avail; this improvement concerns merely a country whose population is not more than 7 percent of the world's population and moreover, so the argument runs, it is only a passing phenomenon. The rich are still getting richer; the poor are still getting poorer; the middle classes are still disappearing. The greater part of

wealth is concentrated in the hands of a few families. Lackeys of these families hold the most important public offices and manage them for the sole benefit of "Wall Street." What the bourgeois call democracy means in reality "pluto-democracy," a cunning disguise for the class rule of the exploiters.

7. In the absence of government price control, commodity prices are manipulated *ad libitum* by the businessmen. In the absence of minimum wage rates and collective bargaining, the employers would manipulate wages in the same way too. The result is that profits are absorbing more and more of the national income. There would prevail a tendency for real wage rates to drop if efficient unions were not intent upon checking the machinations of the employers.

8. The description of capitalism as a system of competitive business may have been correct for its early stages. Today it is manifestly inadequate. Mammoth-size cartels and monopolistic combines dominate the national markets. Their endeavors to attain exclusive monopoly of the world market result in imperialistic wars in which the poor bleed in order to make the rich richer.

9. As production under capitalism is for profit and not for use, those things manufactured are not those which could most effectively supply the real wants of the consumers, but those the sale of which is most profitable. The "merchants of death" produce destructive weapons. Other business groups poison the body and soul of the mass-

es by habit-creating drugs, intoxicating beverages, tobacco, lascivious books and magazines, silly moving pictures, and idiotic comic strips.

10. The share of the national income that goes to the propertied classes is so enormous that, for all practical purposes, it can be considered inexhaustible. For a popular government, not afraid to tax the rich according to their ability to pay, there is no reason to abstain from any expenditure beneficial to the voters. On the other hand profits can be freely tapped to raise wage rates and lower prices of consumers' goods.

* * *

These are the main dogmas of the "un-orthodoxy" of our age, the fallacies of which economic education must unmask. 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. If the right men are lacking in the hour of decision, the fate of our civilization is sealed. Even if such pioneers are available, however, their efforts will be futile if they meet with indifference and apathy on the part of their fellow citizens. The survival of civilization can be jeopardized by the misdeeds of individual dictators, Führers, or Duces. Its preservation, reconstruction, and continuation, however, require the joint efforts of all men of good will. □

1. Mill, *On Liberty*, Third Edition, London 1864, pp. 38-39.

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The Re-legalization of Drugs

by Tibor R. Machan and Mark Thornton

Americans are growing increasingly skeptical of the government's claims about winning the war against drugs. Should this war be supported because a smaller percentage of teenagers use marijuana, or should it be opposed because a larger percentage of teenagers and young adults use cocaine and crack? Should people be optimistic when multi-billion dollar shipments of cocaine are confiscated, or pessimistic that seizures continue to increase yet have such little impact on price and consumption? We argue that drug prohibition was doomed to failure and that the best alternative is an immediate return to complete legalization of such drugs.

One of the clearest lessons from history is that suppression of voluntary trade only drives the market underground and adds a criminal element. We claim that the trade and use of drugs should not be prohibited and must be dealt with by means of education, character building, willpower, and social institutions, without benefit of force of arms. Unfortunately this proposition is no longer obvious in our "free" society—perhaps due to the widespread conviction that individual responsibility is merely a relic of ancient philosophy and religion.

The war on drugs received several major increases in funding during the 1980s, and the U.S. military is now heavily involved in drug-law enforcement. Despite these increased resources we are no closer to success with drug prohibition than socialism is at creating a "new economic man." The fact that a full array of illegal drugs is available for sale throughout the Federal prison

system, the Pentagon, and in front of the Drug Enforcement Administration building in Washington, D.C., demonstrates that little has been accomplished.

One lofty goal of drug prohibition was to prevent crime by removing access to mind-altering drugs. The great American tragedy is that prohibition has created a vast new area of criminal activity—crimes such as robbery, burglary, and prostitution committed in order to pay for the high prices of illegal drugs. It is well documented that drug users commit crimes to pay the high prices brought on by prohibition and that wealthy addicts do not.

The rate of crimes with victims increased during the alcohol prohibition of the 1920s only to decline rapidly in 1933, the year Prohibition was repealed. Crime continued to decline until the mid-1960s and has been increasing ever since. The prison population increased by 35 percent between 1984 and 1988. During that period the "criminals on parole" population increased by over 50 percent! More innocent bystanders are being killed, more school systems are infected, and more neighborhoods are destroyed by the growing problems of prohibition.

The 1990 arraignment of Mayor Marion Barry was a spectacular media event, but drug prohibition has been corrupting the political process for a very long time. This corruption is not confined to the United States. A look around the globe shows that countries that produce, process, and sell illegal drugs are also afflicted with corrupt political systems—consider Southeast Asia, Lebanon, Mexico, South America.

The government recently reported with great pride that a smaller percentage of teenagers are

Professors Machan and Thornton teach in the Department of Philosophy and the Department of Economics, respectively, at Auburn University.

regular marijuana smokers. What was left out of that press release is that consumption of virtually every other type of drug has increased and that the number of reported deaths associated with illegal drug use continues to skyrocket. New types of drugs such as smokable cocaine and synthetic opiates are being introduced onto the streets at an alarming rate. The switch from marijuana to the more potent and dangerous drugs is directly attributable to the enforcement of drug laws.

Prohibition forces black market suppliers to take precautions against detection. This ever present profit-making incentive takes on several forms such as:

1. Producing only the most potent form of a drug.
2. Switching from low potency drugs, such as marijuana, to high potency drugs, such as cocaine and heroin.
3. Inventing and producing more potent drugs, such as "designer drugs," which are synthetic opiates thousands of times more potent than opium.

These results have been labeled accurately in the popular press the "Iron Law of Prohibition."

The history of drug prohibitions reveals that black markets produce low quality, high potency, and extremely dangerous products. The most powerful weapon of these black marketeers is not the gun, but the ability to stay at least one step ahead of law enforcement.

The population of the United States is growing older and more affluent. Normally these demographic changes would reduce drug use and addiction. Even habitual heroin users stabilize their habits and mature out of addiction if they survive the war on drugs. However, these beneficial trends have been far outweighed by the increased severity of the effects of prohibition. In fact, we would be surprised if prohibition actually did work. Any law or program that undermines individual responsibility and liberty has little chance of enhancing a democratic and free market society.

Most Americans agree that prohibition is not working—the dispute is over what to do about it. Many argue that we don't have the right people in charge, but we have been changing the guard (and the law) now for over 150 years. Others argue that we just haven't done enough, but things have only become worse as we devote more of our resources

and surrender our liberties to this cause. The support for prohibition rests on the fact that people cannot contemplate the obvious alternative—legalization.

The Benefits of Legalization

Legalization has many obvious benefits. Lower prices would mean that drug users would no longer have to resort to crime to pay for their habits. With the tremendous profits gone, corruption of public officials would be reduced, and because Americans constitute a bulk of world consumption, political corruption worldwide would be reduced.

Government budgets at the Federal, state, and local levels could be cut as entire programs are dismantled. However, one thing legalization would *not* do is balance government budgets. There is no way that tax rates on drugs could be raised high enough to offset the more than \$300 billion Federal deficit. Furthermore, high tax rates would encourage the black market to continue, people would still commit crimes to pay the high prices, and politicians would still be involved in corruption.

Legalization will create jobs in the private sector. People will be employed making heroin, cocaine, and marijuana for "recreational" and "legitimate" users. All of these products have legitimate uses and may have as-yet-undiscovered uses. Marijuana (hemp) will be a valuable (and environmentally safe) source of products such as paper, fiber, fuel, building materials, clothing, animal and bird food, medicine and medicinal preparations, and a protein source for humans. It can be grown in a variety of climates and soil types and grows well without chemical fertilizers or pesticides.

The repeal of drug prohibitions will allow police, courts, and prisons to concentrate on real criminals while at the same time greatly reducing the number of crimes committed to pay for drugs. No longer will judges be forced to open prison doors because of overcrowding. The courts and police will be better able to serve and protect—crime will pay a lot less! Street gangs will deteriorate without their income from illegal drug sales.

The people involved and methods of producing and selling drugs will change dramatically. The current dealers of drugs will not survive in a competitive marketplace. Large companies will produce and distribute these drugs on a national scale. In such an environment the drugs will be less

“Re-legalization is the admission of government’s failure in pursuit of a lofty goal, not a ringing endorsement of drug abuse.”

potent and less dangerous. Consumers will be safer and better informed—changes in the product will be consumer-driven. The producers will face many legal constraints such as negligence and product liability laws. The threat of wrongful death suits and class action lawsuits will also constrain their behavior.

It is not surprising that these products were much safer before drug prohibition. The makers of Bayer Aspirin sold heroin pills that were safe enough to prescribe to babies, and the Coca-Cola company used cocaine in its product. These products were generally non-poisonous, non-toxic, and non-lethal. The three major free market drugs—alcohol, caffeine, and nicotine—are substantially safer today than they were 10 or 30 years ago. The average potency of all three continues to decrease over time.

Constructive debate can overcome political and ideological maneuvering only if people clearly understand the differences between prohibition and legalization. Prohibition is simply a piece of legislation enforced by use of law officers, guns, and prisons. Prohibition is *not* drug education, drug treatment centers, rehabilitation centers, self-help programs such as Alcoholics Anonymous, religion, family, friends, doctors, help hot lines, and civic organizations. “Just Say No” does not have to leave because we say goodbye to prohibition.

“Private Prohibitions”

In discussing the problems of drug abuse many people feel that legalization would only reduce the prices of drugs and therefore only increase the amount and severity of drug abuse. People would be smoking marijuana in McDonald’s, the school bus driver would be shooting up heroin, and airplane pilots would be snorting cocaine before takeoff. This confusion results from a failure to distinguish between prohibition

and private contractual regulations.

Restaurants could prevent people from smoking marijuana just as they have the right to prevent people from smoking cigarettes or from entering without shoes. Airlines, railroads, and nuclear power plants have the right and incentive to contract with their workers, for example, not to drink alcohol on the job. These “private prohibitions” are generally aimed at the most significant problems of drug use such as safety. Not only are they specifically targeted, they are better enforced—co-workers, customers, unions, insurance companies, and management also benefit from such restrictions and therefore contribute to enforcement. The use of private restrictions and drug testing will be enhanced after the repeal of prohibition.

While we haven’t examined all aspects of prohibition and legalization, enough of the issues have been discussed to refute many of the myths of legalization and to make the question of quantity consumed a non-issue. Re-legalization is the admission of government’s failure in pursuit of a lofty goal, not a ringing endorsement of drug abuse.

Legalization has been labeled immoral by prohibitionists, but nothing could be further from the truth. Reliance on individual initiative and responsibility is no sin. It is not only the key to success in the battle against drug abuse, it is also a reaffirmation of traditional American values. How can someone make a moral choice when one is in fact forced into a particular course of action? How is the fabric of society strengthened when we rely on guns and prisons to enforce behavior rather than letting behavior be determined by individual responsibility and family upbringing?

The sooner we move toward re-legalization, the sooner we can begin the process of healing the scars of prohibition, solving the problems of drug abuse, and curing this nation’s addiction to drug laws. □

Knowledge-Processing, Spontaneous Order, and the Free Market

by Sylvester Petro

I hope with this to spoil the fun they are having in the groves of academe with the ideas about knowledge and “spontaneous order” that Friedrich Hayek has emphasized so much over the years. Even while agreeing that the ideas are interesting, I think they have become distracting. Knowledge is generally admired; academic freedom is rampant except where restrained by the dominantly leftist professoriate; and San Francisco, Paris, London, Berlin, Florence, and all points between are flooded with “spontaneity,” while lacking in decent order. Knowledge, information-flow, and “spontaneous order” are in no danger.

Your truly endangered species today is economic freedom. Intoxicated with joy over the breakdown of the Iron Curtain countries, we are paying too little attention to the restraints on economic activity burgeoning in the West. Yes, of course, free enterprise will continue to feed the people even as governments are killing it bit by bit. But killing is killing, and no human institution is indestructible. If discovery and spontaneity are in no danger, while economic freedom is threatened, common sense tells us to concentrate our resources where they are most needed.

Make no mistake about it. Free enterprise has never been in more danger in the West. Both here and abroad swollen bureaucracies are approaching critical bloat, absorbing enormous shares of national product while pushing for more authority

to direct the rest. Legislatures, flouting constitutional restraints, devote themselves exclusively to confiscation and redistribution; they take wealth and freedom from the savers and producers and give them to the bureaucrats, the looters—the Greens, the reds, the blues—the ecology lobby, the big spenders, the regulators, the ever-active interventionists. Thus statism burgeons in the West while it disintegrates in the East. And even as we are drowning in debt our governments keep spending like drunken sailors, piling up ever-increasing deficits, and taxes, and funny money. It will be a miracle if we don’t run into big trouble.

It doesn’t seem right to be fiddling with knowledge-processing and spontaneous order while the free enterprise system is going up in smoke.

Certainly the more we know the better off we are, as a rule; and the more liberty we have to acquire and to disseminate knowledge, the more productive our society will be. No one except the Marxists has ever doubted this. But until lately center stage for Austrian libertarians has been occupied by *total* freedom, the freedom to *act*, freedom of which knowledge-processing is but a part, and which is better described as rational than as “spontaneous.”

Let us quit confusing the parts with the whole.

A person is free when he owns himself and the fruits of his labor. For slavery is understood to be the condition in which one person and his labor are owned by another, involuntarily. Further, owning means the power of disposition. The free person is at liberty to consume what he owns, to

exchange it with anyone willing to participate in the exchange, to preserve it if he can, to discard it if he wishes, to destroy it if he can do so without hurting anyone else, and to invest it. These incidents of the right of private property are what create a free society, the only setting in which a market economy is possible.

The Essence of the Market

So why all the preoccupation with the role of knowledge in the economy? It is but one feature of the market economy, and by no means “of the essence.” The essential feature of the market economy is not knowledge, its generation, or its dissemination. If the market economy generates and distributes knowledge more efficiently than other systems do, and makes better use of it, that is because the market economy is the best way to organize human society, to get the most and the best out of human beings. Human beings flourish in freedom, and desiccate and deteriorate in slavery. For human beings, freedom is the optimizing institution. It fits us fine.

The heart of the matter is freedom, the freedom to act and to interact: to produce, to consume, to invest, to exchange, to work, to think, to communicate or to remain silent. With this unitary freedom we have a market economy; without it we don’t. It’s *human action* that counts. Knowledge is just a piece of the action.

How far would we get if there were only the freedom to think? How far if there were only the freedom to write? To speak? Imagine a society in which you could think, or speak, as you wished, but where you could not work at any job you could find, and your possessions were insecure, and you had no privilege of investment at will. What if you could say whatever you wanted, but you had to work where you were told to work, and you would be hanged if you offered what you owned for sale?

Let us have an end of this exaggerated empha-

sis upon the role of knowledge in the market. It is a fad, an academic fashion show. It is overkill. And a free society has no more to do with “spontaneous order,” either. More thought, and infinitely better thought, has gone into the development of the free society than has gone into all the other, failed, systems. Painful thought, hard work, excruciating rationality—these are our heritage, the heritage of the laborious West and of its current Oriental epigoni.

Of course every Austrian libertarian thrives on spontaneity, when it is disciplined by reason and moral restraint. But real, unplanned, genuine spontaneity is likely to do the market order in if we aren’t careful. This country, with all its faults, remains the closest thing to a market order that the world has ever known. It is seeing, though, that genuine spontaneity does not produce order; it produces chaos. We are in trouble because while we have spontaneity, we don’t have order, a fact that raises questions about the term “spontaneous order.”

Our educational and spiritual institutions are in shambles. Our kids are wayward, indolent, ignorant, addictive to a greater extent than I have encountered before, in life or in books. Our politicians, for the most part irresponsible, are strangling the right of private property and diminishing the competitiveness of the American economy in countless ways.

But is anyone threatening academic freedom or adolescent, or spiritual, or political spontaneity? I recommend that we direct less of our ratiocinative energies to “knowledge-processing” and to “spontaneous order,” whatever that self-contradictory term is supposed to mean, and more to the way that governments, trade unions, and the more freakish members of our society are limiting the freedom to act, to save, to invest, to produce. The current emphasis on knowledge and “spontaneous order” is a cop-out, or the tail wagging the dog, or both. Away with it. □

“**T**he market process is coherent and indivisible. It is an indissoluble intertwining of actions and reactions, of moves and countermoves.”

—LUDWIG VON MISES
Human Action

Stalin's Apologist

by John Chamberlain

S*talin's Apologist* is an apt title for S. J. Taylor's absorbing story of Walter Duranty (Oxford University Press, 404 pages, \$24.95 cloth). But whether Taylor's subtitle of *Walter Duranty, the New York Times's Man in Moscow* holds up in all its implications depends entirely on whom the reader chooses to question.

The *Times* certainly used Duranty, who had a facility for turning out readable "I was there" copy. It played up Duranty's stories in columns adjacent to those written by Jimmy James, the *Times* managing editor. But James, along with Freddie Birchall, a previous managing editor who worked out of Berlin, disliked Duranty and would never have accepted him as an official spokesman. Eventually James let Duranty go on a \$5,000 retainer that kept him out of Moscow for nine months of the year. It was a pleasant way of being fired.

As the *Times* daily book reviewer in the Thirties, I handed my copy directly to James, who seldom questioned anything. I listened to his tirades about Duranty. I also listened to Joseph Shaplen and Simeon Strunsky, who wanted to see Duranty replaced, as he eventually was by Harold Denny.

The main count against Duranty is that he was Stalin's man no matter what. Nobody on the *Times* said so openly. I was flabbergasted when in the elevator I heard Duranty, on one of his trips to New York, say that three million people had died in the Ukraine in a man-made famine. This seemed to me tremendous news. I repeated what I heard, but Duranty, worried no doubt about a return visa, denied he had ever said it. That made me a liar, but Simeon Strunsky, who had heard Duranty too, came to my rescue.

The *Times* could have had a major beat if

Duranty had been willing to tell all he knew about Stalin's decision to starve out the better farmers known as kulaks. But it remained for others—in particular, the *Manchester Guardian*—to get the beat. An exasperated William Henry Chamberlin quit his job as Moscow man for the *Christian Science Monitor* to get the story told in the West.

Ms. Taylor lets Joseph Alsop have his bitter say in an introduction to a chapter called "The Masters of Euphemism." Says Taylor: "On the 30th of December, 1974, syndicated columnist Joseph Alsop was bowing out. His last column, intended as a warning against the dangers of 'the reporter's trade,' turned into a character assassination of Walter Duranty—a man who had succumbed, as Alsop said, to that 'fatal hankering to be fashionable. . . .' Alsop's shot at Duranty was based on the famine cover-up, and he singled Duranty out as the one who threw a blanket over the fire. 'Duranty . . . covered up the horrors and deluded an entire generation by prettifying Soviet realities. He was given a Pulitzer Prize. He lived comfortably in Moscow, too, by courtesy of the KGB.'" In discussing Duranty privately, Alsop called Duranty "a fashionable prostitute" who made lying his "stock in trade." He even lied, though facetiously, about his wooden leg.

While Duranty was busy "prettifying" Soviet realities, hardier souls were trying to evade travel restrictions to find out what had actually happened in the anti-kulak drive. William Stoneman of the *Chicago Daily News* and Ralph Barnes of the *New York Herald Tribune*, acting on a tip from Eugene Lyons, went to the North Caucasus and the Ukraine, only to be arrested and sent back to Moscow. But they had seen enough. Mal-

colm Muggeridge, just out from England, bought a ticket to Kiev. His article, which appeared in the *Manchester Guardian*, corroborated the findings of Stoneman and Barnes. The big follow-up of the pioneering three was provided by Gareth Jones, who reported fully on his three-week walking trip.

Duranty's reaction to the findings of Stoneman, Barnes, Muggeridge, and Jones was that the famine was "mostly bunk." He led a pack in "throwing down Jones," which had a popular run on the Left.

Oddly enough, it was Stoneman who made excuses for Duranty. Nobody, says Stoneman, seemed in a hurry to cover the famine story. As Stoneman saw it, Duranty was "simply amoral, without any deep convictions about the rights and wrongs of Communism." In sending out Joseph Alsop's "assassination" column, Stoneman would always add a note that Duranty behaved as other *New York Times* men did during the same period in Paris, Berlin, and London.

What moved Duranty was a desire to be right about the future. He had placed his bet on Stalin. Everything else followed from that. Even the purges were justified as necessities for keeping Stalin in power.

Duranty's great sin was to care more about guessing right than about the nature of right itself. He was far from being alone here.

In the end Duranty was to suffer for guessing wrong. He had never saved any money, and he was reduced to the status of beggar when editors turned him down. His women friends saved him. After Stalin's death he married one of them just before he died.

Duranty had been an opium smoker as a young man. He gave up opium because it interfered with his sex life. The *Times* did not worry about his past or his womanizing as long as the good stories flowed. In all, the *Times* was as amoral as Duranty himself.



THE ROAD TO A FREE ECONOMY

by Janos Kornai

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Reviewed by Peter J. Boettke

The heady events of 1989 in Eastern Europe have given way to the sober reality of the 1990s. The road from serfdom will not be easy. As Czechoslovak Foreign Minister Jiri Dienstbier recently said: "It was easier to make a revolution than to write 600 to 800 laws to create a market economy." (*The Wall Street Journal*, September 18, 1990)

Perhaps the biggest problem is the advice of Western "experts" who warn East Europeans of the dangers of free markets. Most Western economists are convinced that the formerly socialist economies simply pursued the *planning* principle too vigorously, thus confronting the bureaucracy with an overly complex task. In addition, they maintain, in those cases where partial marketization did occur, East European economists didn't learn how to *manage* their economies effectively. With the right institutional framework—a central bank, a Federal Trade Commission, an Environmental Protection Agency, and so on—the economy could be managed efficiently, and the vagaries of unfettered markets could be controlled.

Moreover, Western institutions, such as the World Bank and the International Monetary Fund, continue to provide aid for the *planning* and *management* of economic development to some 75 governments around the world, including those in Eastern Europe. The IMF has committed \$2 billion since February 1990 to Poland, Yugoslavia, and Hungary; the World Bank plans to lend between \$7 and \$8 billion to East European governments over the next three years. A new European Bank for Reconstruction and Development has been formed, and President Bush has pledged \$1.2 billion in U.S. funds.

This all flies in the face of the overwhelming failures of government economic planning and foreign aid programs. The very aid packages offered, by subsidizing existing political/economic structures, would undermine the revolutionary transformation that is needed if the formerly Communist economies are to get on their feet.

There are, fortunately, some clear thinkers on

this matter. One of the best is Janos Kornai of Harvard University and the Hungarian Academy of Sciences. Professor Kornai, one of the leading scholars of the socialist economy and a longtime reform economist in Hungary, explains the deep structural problems that socialist economies face. He then offers an uncompromising solution to those problems.

According to Kornai, the fundamental problem confronting socialist economies is that socialist enterprises encounter only "soft" budget constraints. By this he means that state subsidies destroy any profit incentive for socialist firms to act in an economic fashion. Instead, political rationales govern the allocation of resources, and problems of bureaucratic management result.

But Kornai's argument is not that the government should somehow try to harden the budget by tinkering with incentive schemes. He wouldn't, for example, substitute profit targets for gross-output targets or bonus schemes. Such tinkering with the industrial system doesn't work, he stresses. Effective "hard" budget constraints are possible only in a market economy with the rights of private ownership secured by the rule of law. The idea of markets without property rights is an illusion. The idea of "market socialism," Kornai concludes, has revealed itself in theory and practice to be a "fiasco."

In reaching this conclusion, Kornai correctly recognizes that this was a point emphasized by the great classical liberal economists of this century, Ludwig von Mises and F. A. Hayek. Not only does he acknowledge his intellectual predecessors, he adopts a basically classical liberal agenda as a model for the transition to free markets. As he states: "There is no need for hundreds of new regulations

that fuss over significant modifications of the bureaucratic restrictions on the private sector, and vacillate over whether to yield at one point or to maintain curbs at the other. *It would be more expedient to approach the issue from the opposite direction, by giving unambiguous and emphatic statutory force to the principle that the private sector has unrestricted scope in the economy.*" (emphasis added)

Kornai refers to his program as a "surgery" and argues that reform must be accomplished *in one stroke*. The program entails, on the micro-economic side, the establishment of a constitutional right to private property, freedom of entry, and unrestricted market pricing to guide exchange and production. On the macro-economic side, Kornai argues for a program that: (1) stops inflation, (2) balances the budget, and (3) eliminates price and production subsidies.

One may disagree with Kornai on specifics of his program—for example, his qualifications concerning externalities, his arguments about managing macro-demand, and his call for continued Western aid. But his overall vision of the transformation process is the closest thing to a classical liberal program for Eastern Europe yet available. Even the much lauded 500-day plan of the Soviet economist Stanislav Shatalin pales in comparison with Kornai's vision of economic liberalization. One only hopes, for the fate of the people climbing out of the Communist rubble, that Kornai's words get through. □

Peter J. Boettke, Assistant Professor of Economics, New York University, is the author of The Political Economy of Soviet Socialism: The Formative Years, 1918-1928 (Kluwer Academic Publishers, 1990).

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Agricultural Policy

Agricultural policy in the United States is in a mess, to put it mildly. It is costly; it is controversial; it is counterproductive.

Federal income transfer payments to farmers have been at near record levels, but news stories persist of farm failures, pressures on agribusiness firms, and the need for new rural development initiatives.

Commodity group is set against commodity group as grain producers seek higher prices and livestock producers grapple with artificially stimulated feed prices.

Our grain and cotton producers are geared to produce for the export market, but they are tied to governmental price and production programs designed primarily for the domestic market. Their first market, too often, is essentially a government bin or a government warehouse.

In several states last year, farmers got more than half of their net cash farm income in the form of a government check. . . .

It is instructive to note that only about 40 percent of U.S. farm commodities are under effective price support. Non-price supported commodities include cattle, hogs, poultry, fruits and vegetables and, until recently, soybeans. These commodities, in the main, have been profitable. They don't cost the Treasury large sums of money. Producers are free to expand or contract as they choose. They need not seek "permission" from the county ASCS office to plan the scope of their operation. They have expanded their markets.

The troubled areas are precisely those commodities that have had the largest degree of governmental price intervention. These include feed grains, food grains, cotton, peanuts, sugar, and tobacco. These are the commodities that have suffered market loss and have borne oppressive production and marketing controls.

Basic Observation: The higher the degree of governmental involvement in pricing and marketing, the deeper the economic pit in which the commodity wallows.

—EARL L. BUTZ, Dean Emeritus of Agriculture, Purdue University. This is from a summary of his remarks delivered on July 28, 1990, in Abilene, Kansas.

Meeting of the Minds

Drink tea, and you give a friendly pat on the back to the people of India or Sri Lanka. Eat a banana and you stroke the people of Ecuador or Costa Rica. Bite on a bar of chocolate and you help add dignity to the people of Ghana or the Ivory Coast. Fly Lufthansa, Alitalia, or Japan Air and you advance our relations with our former adversaries, the once-Axis Powers of Germany, Italy, and Japan. Motor down the highway and you just may be something of a goodwill ambassador to Saudi Arabia, Venezuela, or Indonesia.

Even local frictions and antagonisms tend to be smoothed over and calmed down through marketplace voting. Catholics and Protestants trade with each other—i.e., vote for each other!—in Belfast, as do Malays and Chinese in Kuala Lumpur, Hindus and Moslems in Bombay, Arabs and Jews in Jerusalem, blacks and whites in Johannesburg. For to a very great extent, the marketplace is color-blind and bias-free in a one-on-one global meeting of the minds.

—WILLIAM H. PETERSON,
speaking at Gettysburg College,
September 27, 1990

The Chess Men

Adam Smith, in *The Theory of Moral Sentiments*, compares central planners to chess players:

“The man of system . . . is apt to be very wise in his own conceit; and is often so enamored with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests, or to the strong prejudices which may oppose it. He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it. If those two prin-

ciples coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder.”

As we examine U.S. policy in the Middle East, Smith's words return to mind. Do not, in fact, State Department strategists view the Middle East as a giant chess-board, as they decide whom to subsidize, whom to arm, whom to attack, and whom to try to turn against whom?

Central planning has failed around the world. Trying to play chess with nations hasn't worked very well either.

—BRIAN SUMMERS

Soviet Freedom of the Press

The current situation is that the state possesses a monopoly on printing presses, paper, and distribution facilities; and the success of a publication depends less on the marketplace than on its relationship with the state. Such freedom of the press is no more than a Soviet propaganda bluff unless the owners of new media enterprises gain entrepreneurial freedom. There is little point in having the right to reach a mass public without also having the right to organize the effort so that it can endure. A free press will not long remain free if its editions appear only on state paper and are printed only on state printing presses at the pleasure of state agencies.

—ALEXANDER PODRABINEK, writing in the June 26, 1990, issue of the *Express-Chronicle*, a pro-democratic newspaper published in Moscow. Translation by the Center for Democracy in the U.S.S.R., 358 West 30th Street, New York, NY 10001.

Reader's Digest Reprints China Article

“*Kun Shou You Dow: Even a Cornered Beast Will Fight*,” by Marcella Smith, has been reprinted in the March 1991 issue of *Reader's Digest*. This article originally appeared in the December 1990 issue of *The Freeman*.

Freeman readers may obtain copies of the *Digest* version of the article by writing to FEE.

Transforming the Command Economies

Hans F. Sennholz

To transform a Communist system into a market order is like trying to reform a person suffering from alcoholism or drug addiction. The addict, knowing little of healthful living, has developed a multitude of physical and psychological deficiencies and dependencies. When he finally musters the strength for reform, he soon suffers the symptoms of withdrawal such as weakness, trembling, and mental depression. The discomfort and pain then cause him to return to his addiction.

Despite all the talk about transformation to a market order, progress is lacking almost completely in the Soviet Union and is limited rather narrowly in the satellite countries such as Poland, Czechoslovakia, Hungary, Romania, and Bulgaria. Although most Communist leaders solemnly acknowledge that an eventual systemic change is necessary, they are afraid of many aspects of the market order of which they know so little. In particular, they are fearful of mass unemployment and other forms of "exploitation of the weak and poor" which, they are convinced, are clear results of capitalism. This fear is echoed by a diverse chorus of ex-Communists, socialists, social democrats, and erstwhile central planners who, despite their free market rhetoric, are addicted to the old order.

President Gorbachev and his followers are deploring the "extremely high costs" of transform-

ing the command economies. They are warning of the economic crashes and disruptions that "radical restructuring" is said to bring about. They point with alarm at Poland's gross national product which is reported to have declined by 16 percent since an economic reform program was initiated in January 1990; unemployment is said to have risen to one million, and goods prices allegedly outpaced wages by 35 percent. Wherever they look, they seek and find reasons or excuses for delaying and temporizing.

In reality, the costs and pains of transition are minimal provided the transformation is swift and comprehensive. When man is free to improve his well-being he does so without delay, even on the first day of reform. He does so in Budapest as well as in Moscow. Every 1990 reform that actually set him free, therefore, immediately improved his economic condition—no matter what the statisticians want us to believe.

The economic data that the Eastern European governments are so quick to release are flawed for a number of reasons. They rest on the spurious statistics of output and income of the prior command system which are compared with the real levels of productivity in the fledgling market order. Poland's 16 percent decline in GNP is calculated from pre-reform Communist statistics that were greatly overstated. After all, economic command systems, lacking the guidance of market valuation and pricing, always operate in the dark, unable to compare the value of input with the value of out-

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put. Their production statistics include much physical but valueless output, such as clothing no one can wear or food no one can eat. Similarly, since the statistics of command production have to meet quantitative norms rather than produce valuable items for the market, they fail to allow for inferior product quality. And finally, Communist statistics are frequently based on faulty reporting—the embellishment of data to meet or exceed the expected quotas. The central authorities then further “improve” the faulty data for propaganda purposes.

Before Communist East Germany was reunited with West Germany, its per-capita GNP was reported at 88 percent of that of West Germany. Recent estimates suggest that the Communist figure was overstated by more than 50 percent. If this rate of overstatement holds true also in Communist Poland, the reported 16 percent decline in GNP since the inauguration of reform may actually signal a significant rise in production and income.

The unemployment statistics that frighten the reformers are equally misleading. They compare the rates of unemployment that become visible today with the make-work, featherbedding, and pay-without-work unemployment that is hidden in all political command systems. They reveal the truth that heretofore was hidden behind the veil of Communist fiction and probably indicate real improvement in productive employment.

Finally, the post-reform inflation that is laid on the doorsteps of the market order is completely misplaced. It actually springs from the hidden inflationary practices of the command regimes. When goods prices are set free after many years of command pricing, they immediately adjust to the true state of affairs. Soaring prices promptly remove the money “overhang” left by the previous system, solve the goods shortage that constitutes a money surplus, and eliminate the long queues of people waiting patiently to buy a few shabby items. The inflation the reformers lament clearly is the inevitable consequence of command policies.

Price inflation may also be the undesirable result of current money creation and credit expansion. The reformers, most of whom are ex-Communists and socialists, continue to wield complete control over their country’s money and banking structure. For one reason or another they indulge in massive deficit spending which they easily

finance through the issue of large quantities of monopolistic legal-tender money. The subsequent rise in goods prices is foreseeable and unavoidable. Yet the reformers are quick to place the blame for the rise on the private-property individual-enterprise system.

Reform is a test of beliefs. It must be preceded by a profound acceptance of the values and principles of the market order. Otherwise, all efforts will be futile, and the new social and economic edifice will be built on the shifting sands of the command system.

Five Steps of Reform

To transform a Communist economy to a private-property economy is a formidable but tractable undertaking. The tractability requires five steps of reform that need to be taken simultaneously or in short order:

1) The Communist regime must relinquish direct and indirect control over the people’s money and credit. The central bank that issues monopolistic legal-tender money must be abolished or, at least, be prevented from engaging in inflationary practices.

2) The regime must relinquish all manifestations of control over the capital market. Therefore, it must exert budgetary discipline and abstain from draining and mutilating the capital market.

3) All price, wage, and rent regulations, which are really people controls, must be abolished so that consumers rather than politicians and officials determine the mode of production and rewards. Free prices must be permitted to restore the link between consumers and producers and allocate income according to costs and productivity.

4) All means of production now owned or controlled by the regime must be privatized forthwith. They may be returned to the individuals and their heirs from whom they were seized or, if no heirs can be found, be distributed among the workers who use them. The new owners, in turn, must be free to sell their shares in the capital market.

5) To link the transforming economy to the world economy and to international competition, all import and export restrictions must be lifted and the people be permitted to exchange their goods and services with people everywhere.

To focus on one or another of these steps and exclude the rest is to invite failure and disappoint-

ment. It may even lend strength and support to the enemies of reform who would love to repair their power of command and restore the old system. All five steps need to be taken simultaneously or in short order so that the market order emerges unhampered and unimpaired and is permitted to function efficiently.

Omitting a single step may jeopardize the reform. The money monopoly in the hands of government is likely to lead to soaring inflation and monetary disintegration. Continuing control over the capital market may permit government to engage in massive capital consumption, to exhaust and deplete the market, and cause economic stagnation and decline. Price, wage, and rent controls would prevent the readjustment of production to consumer choices and preferences. Government

ownership of the means of production would continue to breed inefficiency and corruption and protect officials and servants from the fresh air of competition. It would deprive the people of competent services and burden taxpayers with the losses incurred by the public enterprises. Finally, continuation of export and import restrictions would deprive the people of the tremendous advantages that flow from the international division of labor.

A move toward reform is simply the result of ideas of reform taking hold on the mind. Such ideas are burgeoning throughout the Communist world, no matter what the detractors may do to stifle them. Many mistakes are likely to be made on the road to individual freedom and the private-property order. Yet mistakes provide opportunities for learning and lessons in wisdom. □

1990-91 Essay Contest Winners

“A World Without Walls:

Prospects for Freedom in Eastern Europe and China”

sponsored by The Foundation for Economic Education

COLLEGE DIVISION

First Prize (\$1500): Joel Frederick Kluender, University of Connecticut, Storrs, Connecticut, “The Prospects for Freedom”

Second Prize (\$1000): Paul Cwik, Hillsdale College, Hillsdale, Michigan, “From the Tops of Mountains”

Third Prize (\$500): Howard S. Hogan, Georgetown University, Washington, D.C., “The Rewards of Freedom”

HIGH SCHOOL DIVISION

First Prize (\$1500 Scholarship): Ilya Somin, Lexington High School, Lexington, Massachusetts, “Freedom for Its Own Sake: Liberty and Eastern Europe”

Second Prize (\$1000 Scholarship): Candi Delgatty, Jack C. Hays High School, Kyle, Texas, “Opening the Door to a Free Society”

Third Prize (\$500 Scholarship): Laura M. Hertel, Brookfield Central High School, Brookfield, Wisconsin, “Free Market Incentives and Freedom”

Honorable Mention: Michael Saller, Glenbrook High School, Glenview, Illinois, “Ulrich”

Germany: The Promise of Freedom

by Donald J. Boudreaux and Thomas K. Plofchan, Jr.

In September 1990, less than a year after the Berlin Wall came crashing down but before the official reunification of Germany, we visited both West and East Germany as participants in the eighth annual Multiplikatoren Seminar. This seminar, which is sponsored by the West German government, brings together young American and German professionals in order to create personal, cultural, business, and intellectual ties between the United States and Germany. Of course, the fall of Communism and the reunification of Germany dominated the discussions of the 1990 seminar.

Visiting Bonn and Berlin during this very exciting time in Europe's history provided unique insight into the events of the past year in Germany and in those nations that just recently escaped the totalitarian stranglehold of Communist rulers. This essay identifies lessons culled from our visit to Germany—lessons applicable both to emerging and to established democracies.

Lesson 1: Communism failed miserably.

Communism's failures are evident everywhere. The most memorable moments of our visit occurred in Berlin where, because West Berlin's hotels were still filled to capacity with refugees who had fled Communist rule, our German hosts put us up in East Berlin's Hotel Unter den Linden. This hotel is said to be among East Berlin's finest,

and indeed, East Germany's premier rock star was a guest while we were there. Upon arrival at the Hotel Unter den Linden we saw firsthand the glories of Communism.

The rooms in this hotel are about the size of a large walk-in closet. We do not exaggerate. A bed here is nothing more than an elevated piece of plywood with an aged and thin pad laid across the top. The linen is threadbare and stained, as are the towels in the bathroom. Whenever a light is turned on, dozens of cockroaches can be seen scampering across the furniture and the floor. In one of our rooms, the window could not be closed, much less locked. Hot showers had to be taken no later than 6:45 A.M. because by 7:00 all the hot water is gone until mid-afternoon. Of course, less-than-luxurious hotels can be found in capitalist societies as well, but such hotels are never billed as being among the finest accommodations available.

Other aspects of our visit provide a more telling contrast between capitalist and Communist societies. Perhaps the greatest testament to Communist "efficiency" is the lack of technical services that citizens of capitalist nations take for granted. When one of us attempted to place a wake-up call to the other, whose room was two floors up, this proved to be impossible. Forget about direct room-to-room dialing; it doesn't exist. So the caller tried to place the call through the hotel operator (who, thankfully, spoke reasonably good English). The caller asked the operator to ring room 602. After several minutes of clicking and clanging, the operator apologized for not being able to complete the call. The operator calmly explained that the

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“sixes” in the hotel’s telephone switching system weren’t working that day!

The lack of modern telecommunications was also apparent when trying to call outside the hotel. One member of our party, dialing direct from West Berlin, made a three-minute call to the United States. The price was \$6.50. At the same time on the following night, this person placed the same three-minute call from our hotel in East Berlin. But because there is no direct dialing from East Germany to the U.S., the call was placed through the hotel operator. The price was \$28!

Despite our hotel’s shortcomings, it had the virtue of being located less than a mile from where the Berlin Wall once stood. (Incidentally, the official East German name for the Berlin Wall was “the anti-fascist wall of protection.” The idea was that the Wall was protecting the citizens of *East Germany* from the capitalist hordes of the West.) Within minutes we were able to walk from ugly and poor East Berlin into attractive and prosperous West Berlin where even the third-class hotels appear to be immensely more comfortable and convenient than East Berlin’s finest.

We spent a good deal of time walking between East and West Berlin. It did our bourgeois hearts good to stroll freely through Checkpoint Charlie—now nothing more than abandoned and dilapidated buildings. These buildings, however, still echo their horrible past when Communist border guards barked out commands and stood ready to shoot any East German for the crime of seeking to live as a free man or woman. These same border guards also caused Western visitors to East Berlin to undergo agonizing minutes (and sometimes hours) of interrogation and intimidation before being allowed access into the supposed workers’ paradise of Communist East Germany.

But now, standing silent, the buildings at Checkpoint Charlie no longer house impediments to the movement of people and goods. The first time we crossed this former border we were overcome with elation at Communism’s recent demise. Millions of people once held hostage in their own land are now free to go where they please, think as they please, work as they please, play as they please, and to own private property and contract freely with others. This thought was inspiring. However, the second time we walked through Checkpoint Charlie anger tempered our elation—anger at the thought of the atrocities committed by the border guards who not

so long ago occupied these crumbling buildings, and even more anger at the thought of the despots who gave authority to these guards.

Lesson 2: People who have experienced Communism prefer capitalism.

Of course, Checkpoint Charlie is not the only part of the Berlin Wall to have crumbled. The entire Wall is now all but completely down. In one of history’s great ironies, the Wall is now being sold in pieces to Western tourists by Germans from the east, Poles, and Turks who operate unregulated stalls along its former path. In addition to selling pieces of the Wall, these upstart entrepreneurs are also quite happy to sell to the highest bidder genuine East German and *Soviet* army uniforms.

An anecdote aptly illustrates the new-found entrepreneurial spirit that for so long was suppressed by Communist government. As may not be known in the U.S., the western side of the Berlin Wall was covered with graffiti while the eastern side was bare. Since the revolution of November 1989, however, the market has revealed a greater demand for colored pieces of the Wall chipped from the western side than for bare pieces chipped from the eastern side. We witnessed entrepreneurs from the eastern section of Berlin approaching the eastern side of the Wall, spraying it with paint, and then chipping off pieces in order to better meet the demands of tourists. Innate entrepreneurial abilities are awakening at great speed in the formerly Communist section of Germany. It is significant that not only is Communist rule dead in Germany, but its symbols are being sold for Western currency in a very free and competitive market.

The overthrow of the Communist regime in East Germany allowed liberty and the free market to gain a toe-hold in East Berlin even before reunification had been officially achieved on October 3, 1990. In East Berlin, just a few yards from Checkpoint Charlie, a new Chinese restaurant recently opened. This restaurant looks like many of the Oriental eateries that are found in West Berlin and all over the free world. Its name is written in bright and bold neon; its interior decor is quite elegant; and its front door sports signs that proudly announce the restaurant’s policy of accepting Visa, MasterCard, American Express, and Diners’ Club credit cards.

In addition, just across the street from this restaurant is a newly opened travel agency. Dis-



COURTESY OF THOMAS K. PLOFCHAN, JR.

Since the revolution of 1989, the market has revealed a greater demand for colored pieces of the Wall chipped from the western side.

played in its window was a poster of a beautiful woman lying on the sands of a tropical beach. The poster advertises TWA flights to Hawaii. The travel agency also accepts all major credit cards. The new Chinese restaurant and the travel agency are solid evidence that capitalism has begun to creep into the eastern part of Berlin. It is only a matter of time before capitalism's creep will turn into a surge bringing greater prosperity and liberty to all the citizens of what used to be called the "German Democratic Republic."

Lesson 3: Rejuvenation cannot happen overnight.

Regardless of how bright East Germany's economic future may be, signs of its horrible centrally planned past remain evident. For example, under Communism's iron fist, only 7 percent of East German households had telephones. Though this no doubt will improve in the future, it currently is still quite difficult (as described earlier) to make a phone call from anywhere in East Germany. Another example of socialism's utter inability to provide for its citizens is seen in the bullet holes that today still mark many of East Berlin's build-

ings. These bullet holes—hundreds of them in each building—were put there by the invading Soviet army in 1945. Most of these buildings haven't been repaired, renovated, or even painted since World War II. The amount of capital required to bring this former "Communist jewel" up to minimum Western standards is awesome.

The East German automobile is evidence enough of Communism's grotesque inefficiencies, as well as of the effort required to establish a productive economy in eastern Germany. Called the Trabant, this car was nearly the only personal automobile found on East German roads during the three decades preceding the 1989 revolution. The Trabant looks like an early 1960s economy car. Trouble is, it is far from economical. Its selling price was equal to the average yearly wage for an East German worker. And the waiting list for a Trabant was approximately 10 years for citizens of East Berlin and 15 years for citizens of other parts of East Germany.

Once an East German finally acquired a Trabant, he needed more than 30 seconds to accelerate from zero to 60 miles per hour. According to *Car and Driver* magazine, this acceleration rate is

“slower than anything not rolling on eighteen wheels.” A healthy Trabant’s maximum speed is a measly 66 miles per hour. Also, in addition to being a pollution machine, the Trabant is dangerously unsafe.¹ A West German reported to us that, not long after the fall of the Wall, he was driving on a West German autobahn at night when he saw a flickering light just ahead. He slammed on his brakes. Moments later he realized that the flickering light he stopped to avoid was a lone *candle* in the rear window of a slowly moving Trabant. The candle was serving as the Trabant’s taillight! The Trabant undoubtedly makes even the worst American or Japanese car built in the past half-century look like an auto connoisseur’s dream.

With production facilities capable of producing only the level of “quality” evidenced by the Trabant, much time, money, and effort must be expended before the eastern part of Germany will be able to compete with the West. Nevertheless, it is promising that eastern Germans now have the opportunity to compete without the heavy shackles of Communism weighing them down.

Lesson 4: A reunified Germany poses no threat to world peace.

Although there are obstacles to overcome, the Germans want the citizens of other democratic countries to look favorably upon their reunified nation. They want non-Germans to understand that there is little threat of the rise of a militaristic German state. America and the rest of the world’s democracies can trust a unified Germany because of two fundamental differences between today’s Germany and the Germany of the pre-World War eras.

First, postwar Germany has joined the ranks of the world’s most prosperous nations, and is integrated into the world economic order in a way that wasn’t true during the first half of this century. Germany is a major exporter. Its economic prosperity is protected and furthered by production and trade with peoples of other nations. As long as Volkswagens and Braun coffee makers are crossing Ger-

man borders into other countries, there is little threat that Germany will send missiles and bombs across these same borders. No economically prosperous nation increases its wealth by bombing its trading partners.

Second, today’s Germany is a constitutional democracy in which the military is solidly under civilian control, and a system of checks and balances characterizes the German federal government. Democratic nations with such constitutional safeguards are not likely to be militarily aggressive.

Because of these characteristics, which differentiate present-day Germany from its past, Germans realize that military aggression is unproductive and would only lessen the world economic influence that their post-World War II leaders have worked so hard to acquire. The not-uncommon suggestion that Germans are especially disposed to sacrifice their wealth and position in the world economic order because of some expansionist forces inherent in German blood is nothing more than a reflection of naive racism.

Conclusion: Germany’s future is bright for Germans and for all free people.

Of course, the most direct beneficiaries of the death of Soviet-dominated Communism in Europe will be the people who were prisoners of those totalitarian regimes. But people from every nation that trades with Germany and other former Communist countries will have their lives improved by the burial of Communism. Eastern Germany’s future promises hard work, to be sure, but it also promises freedom and prosperity for a people who have long been thirsting for both. In their attempts to quench their thirst, former captives of the Communist regime in eastern Germany will create wealth and prosperity which, through their trading practices with other nations, will be shared with the entire free world. □

1. *Car and Driver*, December 1990, pp. 89-97. The quotation in the text is found on page 94. This article also reports the result of their Trabant road test. Not surprisingly, the car received an incredibly low score.

Unsafe at Any Speed: The Case of Repetitive Motion Injuries

by John Hood

One of the hottest issues on the social activism circuit is “repetitive motion injury.” It refers to any of several workplace hazards of the modern economy: stress on arms and shoulders from working on computers, muscle pulls and injuries related to sorting mail or gutting chickens. A host of interest groups has sprung up across the country to organize class-action suits and push for legislation regulating “repetitive motion” workplaces. Late last year, San Francisco enacted the nation’s first comprehensive ordinance regulating video-display terminals (computers), mandating certain work-station designs, and guaranteeing aid to workers injured by constantly working on VDTs.

At first glance, the problem seems real enough. The Bureau of Labor Statistics reports that repetitive motion injuries made up 48 percent of 241,000 workplace illnesses in 1988, up from 18 percent of 126,000 illnesses in 1981. Thus both the actual number of such injuries and their share of total workplace illnesses rose significantly during the 1980s.¹

The culprit, say the pro-regulation forces, is automation, which has replaced heavy-lifting, manual-labor jobs with high-speed tasks. Indeed, automation is a symptom of other trends, according to Peter Kilborn of *The New York Times*: “Experts say the actual number of injuries are proliferating because people are being pressed to

work hard—in private industry to keep up with foreign competition, in government to hold down spending.”² If competitive markets and fiscal restraint are the problem, then regulation and government spending must be the solution.

The flaw in this analysis is a familiar one: static thinking. If automation changes the demands of a job from heavy lifting to speedy typing, simply documenting the harms of speedy typing won’t prove the existence of a new workplace hazard. The true measure of safety would be to compare accident and fatality rates of heavy lifting with those of speedy typing. As it turns out, the National Safety Council reports that during the 1980s, the chance of *dying* from a workplace injury fell almost 30 percent.³ It’s not hard to see why. Operating the levers of a crane at a construction site may put significant strain on the fingers, but carrying dirt and gravel on your back is liable to cause more serious injury. Similarly, keeping copious corporate records on computer may cause hand and eye strain, but it reduces the number of times heavy boxes or cabinets must be lifted and moved.

Even if modernity has increased overall danger to workers, the idea that government regulation is the answer should be viewed with great skepticism. First of all, workplace safety regulations disproportionately affect small firms because there is a fixed cost to implementing design changes or other measures that are beyond their means.⁴ Moreover, one reason small businesses haven’t striven to reduce repetitive motion injuries is that state-regulated markets for workers’ compensation

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insurance don't encourage such changes. Insurance companies generally have the expertise and the incentive to identify design and operation changes that would reduce injuries, but they have no incentive to compare the costs of those changes with their benefits to workplace safety.

That's the job of the firm. In a free market, firms would implement only the most efficient changes—those for which the safety gains exceed the costs of implementation. If they implemented every change insurers suggested, insurers could gain from fewer claims but firms would pay exorbitant and unwarranted costs. If they implemented no changes, insurance firms facing potentially numerous and expensive claims might withhold coverage.

State-Regulated Insurance Harms Incentives

But in state-regulated insurance markets, all firms must have insurance. Even if firms completely ignore safety concerns, they still retain their coverage—and in most states their rates are no higher than those of safety-conscious firms, since rates are also regulated. Because firms cannot benefit economically by experimenting with safer workplace designs, they don't experiment. Thus the problems activists attribute to competitive forces are actually caused at least in part by a *lack* of competition in workplace safety insurance.⁵

Another problem with regulation is that it imposes a "one-size-fits-all" mandate on situations that by their very nature are varied and unique. One firm might reduce repetitive motion injuries most effectively by changing shifts, production timetables, or other schedules. Other firms might redesign work stations and pass some of the costs along to workers in the form of delayed pay raises or reductions in other benefits. There is no single solution to a dilemma generated in the give-and-take of economic actors—workers, firms, insurers—in a free market. Workers can, after all, choose not to work for a firm that doesn't care about their safety—and whose poor safety record has made it uninsurable for workers' compensation (assuming, of course, that a free market exists for insurance).

There is another strong argument against the regulatory response. Study after study has documented that unemployed people are less healthy,

more prone to injury (especially serious injury), and more prone to mental illnesses than their employed counterparts. So if regulation were somehow to cause workers to lose their jobs, there would be no net gain in safety, and instead a net loss.

In general, researchers have found that the costs of government regulation of the workplace—including unemployment—far exceed its benefits. University of Alabama economist Harold W. Elder found that "all increases in safety are paid for through lowered output and factor employment."⁶ Examining the case of regulating asbestos exposure, University of Toronto researchers Donald N. Dewees and Ronald J. Daniels concluded that "the amount of asbestos to which a worker may be exposed yields a cost per life saved far in excess of the costs for occupational accidents."⁷ On balance, such regulations cause decreased output, consumer price hikes, and unemployment, without significantly increasing worker safety.

Pro-regulation activists question such analyses by stating that economic costs should never be compared dollar-for-dollar with "human costs" such as injuries. But even if that were true (though it's hard to see any other way of assessing the desirability of regulation except by counting the number of lobbyists on each side), the fact is that regulation can *decrease* safety if it leads to unemployment and thus to the harmful effects of joblessness. And a related fact is that innovation and automation, when driven by the competitive market, tend to *reduce* the most serious dangers to workers—by replacing relatively hazardous tasks with non-hazardous ones. □

1. Peter T. Kilborn, "Repetitive-Motion Injury Plagues Workers," *The New York Times*, July 24, 1990.

2. *Ibid.*

3. Trish Hall, "Accident Death Rate Drops in '80s, Report Says," *The News and Observer* (Raleigh, N.C.), October 7, 1990.

4. Ann P. Bartel and Lacy Glenn Thomas, "Predation Through Regulation: The Wage and Profit Effects of the Occupational Safety and Health Administration and the Environmental Protection Agency," *Journal of Law and Economics*, October 1987, p. 257.

5. John T. Sholz, "In Search of Regulatory Alternatives," *Journal of Policy Analysis and Management*, 1984, p. 114.

6. Harold W. Elder, "An Economic Analysis of Factor Usage and Workplace Regulation," *Southern Economic Journal*, October 1987, p. 120.

7. Donald N. Dewees and Ronald J. Daniels, "The Cost of Protecting Occupational Health: The Asbestos Case," *The Journal of Human Resources*, Summer 1986, p. 381.

Homosexuality's Legal Revolution

by Carl F. Horowitz

Last April, a brief series of events occurred in a Madison, Wisconsin, restaurant that spoke volumes about the current character of the homosexual rights movement. An employee of the Espresso Royal Cafe asked two women—presumably lesbians—to refrain from passionately kissing as they sat at a window table. Madison's gay community was not amused. The very next day, about 125 homosexual demonstrators showed up on the premises, and conducted a "kiss-in" for several minutes. A spokeswoman for the protesters, Malvene Collins, demanded, "You say gays and lesbians cannot show affection here? Why not here but in every other restaurant in Madison?" The establishment's chastised owner, Donald Hanigan, assured the crowd, "I regret that this incident ever happened. I want all of you to come in here every day."¹

In October, several dozen homosexual males, many of them dressed in women's clothing, openly hugged and kissed in a terminal of Seattle-Tacoma Airport, and handed out condoms and leaflets to travelers. Matt Nagel, spokesman for the Seattle chapter of a new homosexual organization, Queer Nation, seemed to sum up the feeling among militants in the local homosexual community. "We're going to homophobic bars, we're going to pack them, we're going to be openly affectionate, we're going to dance together and make it un-

comfortable for all the straight people there."²

At the same time in Chicago, six homosexual couples staged a "kiss-in" at the cosmetics counter of a Bloomingdale's department store until they were escorted out by security guards. Far from being deterred, the couples shortly went down to the cafeteria of a nearby office building, where they resumed their public display of affection.³

A Bid for Legitimacy

After some two decades of confrontation, the homosexual rights movement is consolidating its bid for legitimacy. The phrase, "Out of the closet, and into the streets," sounds quaint. That battle has already been won. Openly homosexual adults are certainly in the streets—and in stores, airports, and "homophobic" bars. Openly gay television characters, each with handsome, well-scrubbed looks, populate daytime and evening drama. Gay-oriented news programming is available on radio and television. Homosexual activists have all but completed their campaign to persuade the nation's educational establishment that homosexuality is normal "alternative" behavior, and thus any adverse reaction to it is akin to a phobia, such as fear of heights, or an ethnic prejudice, such as anti-Semitism.⁴

The movement now stands on the verge of fully realizing its use of law to create a separate homosexual society paralleling that of the larger society in every way, and to intimidate heterosexuals

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uncomfortable about coming into contact with it. Through aggressive lobbying by such gay organizations as the Human Rights Campaign Fund, the Lambda Legal Defense and Education Fund, and the National Gay and Lesbian Task Force, the first part of that mission has enjoyed enormous success. About 90 counties and municipalities now have ordinances banning discrimination on the basis of gender orientation. There are roughly 50 openly gay public officials, up from less than a half-dozen in 1980.⁵

Gay couples are increasingly receiving the full benefits of marriage, if not through state recognition of homosexual marriage ceremonies, then through enactment of domestic partnership laws.⁶ The State of California recently took a big step toward legalization of such marriages: this December it announced that “non-traditional” families, including homosexual couples, could formally register their unions as “unincorporated non-profit associations.”⁷ Divorced gay parents are receiving with increasing frequency the right to custody of natural children. Gay adults without children are increasingly receiving the right to adopt them. Aspiring homosexual clergy are demanding—and receiving—the right to be ordained. Openly gay teachers are teaching in public schools. Homosexual soldiers, aware that their sexual orientation is grounds for expulsion from the military, openly declare their proclivities.

A Federal gay rights bill is the ultimate prize, and homosexual activists are blunt and resolute in pursuing such legislation. For example, Jeff Levi, spokesman for the National Gay and Lesbian Task Force, remarked at a press conference coinciding with the national gay march on Washington in October 1987:

... we are no longer seeking just a right to privacy and a protection from wrong. We also have a right—as heterosexual Americans already have—to see government and society affirm our lives. ... until our relationships are recognized in the law—through domestic partner legislation or the definition of beneficiaries, for example—until we are provided with the same financial incentives in tax law and government programs to affirm our family relationships, then we will not have achieved equality in American society.⁸

Yet, homosexual activists know that this legal

revolution will never succeed without the unpleasant task of coercing heterosexuals into masking their displeasure with homosexuality. It is thus not enough merely to break down all existing barriers to homosexual affection being expressed through marriage, child-rearing, or employment. The law must additionally be rewritten to make it as difficult as possible for heterosexuals to avoid contact with such displays, or to show discomfort toward them.

This two-edged approach would create a world in which stringent laws at all levels, aggressively enforced and strictly interpreted, force business owners to refuse to discriminate against the openly homosexual in patronage, leasing, and hiring. Removing overtly homosexual patrons from a bar, an airport, or any other public space would result in heavy fines and even jail sentences against property owners or their employees (or in lieu of these sanctions, mandatory purgation). Derogatory remarks directed at homosexuals, even with sexuality only incidental, would likewise result in criminal penalties.

1990: A Pivotal Year

The year 1990 was pivotal for the homosexual legal revolution. The states of Massachusetts and Wisconsin in the late 1980s had enacted laws forbidding discrimination against homosexuals. The victories would come quickly now, especially at the local level. In March, the City of Pittsburgh voted to include sexual orientation as a right protected under the City Code. In October, Stanford University allowed homosexual couples to qualify for university student housing. In November, voters in San Francisco, buoyed by a heavy turnout of that city's large gay population, produced a “lavender sweep,” not only passing Proposition K, a city initiative to allow homosexuals to register as domestic partners at City Hall (a similar measure was defeated in 1989), but electing two openly lesbian candidates to the City Board of Supervisors, and an openly homosexual male candidate to the Board of Education.

Voters in Seattle refused to repeal an existing gender orientation ordinance. Congress did its part early in the year by overwhelmingly passing the Hate Crimes Statistics Act (or Hate Crimes Act), which requires the Justice Department to publish hate crime statistics accord-

ing to classifications that include sexual orientation.⁹

This agenda would likely have been even further realized with Michael Dukakis as President. In 1988, his Presidential campaign organization placed an advertisement in a New York homosexual newspaper, pledging, "As President, I will fight for Federal legislation to add a prohibition against discrimination based on sexual orientation to the existing protections of the 1964 Civil Rights Act."¹⁰ Rank-and-file pressure on even a centrist Democratic Presidential candidate would be difficult to fend off. Rule 5C of the National Democratic Party currently states: "With respect to groups such as . . . lesbians and gay men . . . each state party shall develop and submit party outreach programs for such groups identified in their plans, including recruitment, education and training, in order to receive full participation by such groups in the delegate-selection process and at all levels of party affairs."

For close to 20 years, old-time party regulars have been walking on eggshells on this issue, praying it would go away, yet never really having the stomach for open conflict. Now the day of reckoning looms. Democratic candidates and party officials opposing this recent requirement (none dare call it a quota) must be willing either silently to watch the slow disintegration of their party, or to speak out and face *de facto* expulsion. It is therefore not surprising that all candidates for the Democratic Party Presidential nomination in 1988, in response to a questionnaire circulated by the National Gay and Lesbian Task Force, promised to support a Federal gay rights bill.

Republicans offer only little more resistance. The few among them who do speak out against the homosexual lobby—most notably, U.S. Representative William Dannemeyer of California—enjoy little support from their party.¹¹ One need only remember how reluctantly and belatedly Congress acted merely to reprimand U.S. Representative Barney Frank, Massachusetts Democrat, for aiding a male roommate in running a prostitution service from the basement of his Washington, D.C., townhouse. One need only remember also how quickly a Bush White House official, Doug Wead, who circulated a memorandum complaining of the high visibility of gay activists at the Hate Crimes Act signing ceremony, was fired from his post.

"Gay Civil Rights"

The homosexual lobby speaks of itself as struggling for "civil rights." "The gay community's goal is integration—just as it was with Martin Luther King," argues homosexual activist and San Francisco Board of Supervisors President Harry Britt.¹² Yet, underneath the surface, gay civil rights seems analogous to black "civil rights" after Reverend King's death. Far from seeking integration with the heterosexual world, it vehemently avoids it. More important, the movement seeks to win sinecures through the state, and over any objections by "homophobic" opposition. With a cloud of a heavy fine or even a jail sentence hanging over a mortgage lender, a rental agent, or a job interviewer who might be discomforted by them, homosexuals under these laws can win employment, credit, housing, and other economic entitlements. Heterosexuals would have no right to discriminate against homosexuals, but apparently, not vice versa. Libertarians as well as traditionalists ought to be troubled by this.

Consider a recent controversy in Madison, Wisconsin, as noted earlier a national bastion of "enlightened" attitudes. Three single women had recently moved into the same apartment, and one announced that she was a lesbian. The other two, not unreasonably, asked her to move. The lesbian filed a grievance with the local Human Rights Board, and, predictably, won. The shock came in the punishment. The two heterosexual women had to pay \$1,500 in "damages" to the lesbian, send her a public letter of apology, attend a two-hour "briefing" on homosexuality (conducted, needless to say, by homosexuals), and submit to having their living arrangements monitored for two years.¹³

With such laws in effect, this outcome would not be so much played out as simply avoided. Let one hypothetical example suffice, one that no doubt *has* been played out regularly, and that goes a long way in explaining why in any metropolitan area gays tend to cluster in a few neighborhoods.

A man enters an apartment rental office, inquiring about a vacancy. He openly indicates he is a homosexual, or at least implies as much through certain mannerisms. For good measure, he brings along his lover. The rental manager fudges, clears his throat, and says, "Well, er, several people are looking at the apartment. Call me later." An hour later, a second man, alone, walks in. He does not



WIDE WORLD PHOTOS

Members of the group ACT-UP march through New York's Grand Central Station.

announce his sexuality. Who gets the apartment?

In the absence of gay protectionism, and assuming equal incomes, the manager (sighing with relief) would probably award the apartment to the second applicant. Gay militants would cry, "Discrimination!"—and miss the point. Discrimination based on sexual orientation is fundamentally different from that based on race. Homosexuality constitutes a behavioral, not a genetic trait. It is within the moral right of a landlord, job interviewer, banker, or anyone else performing a "gatekeeper" function to discourage economically risky behavior, sexual or otherwise. Libertarian columnist Doug Bandow articulates this:

The point is, homosexuals have no right to force others to accept or support their lifestyle. Certainly government has no business discriminating against them: Anti-sodomy laws, for instance, are a vicious intrusion in the most intimate form of human conduct. And gays who pay taxes have as much right to government services and employment as anyone else.

But someone who decides to live openly as a homosexual should accept the disapproval of

those around him. For many Americans still believe that there is a fundamental, unchangeable moral code by which men are to live. . . .

Using government to bludgeon homophobics into submission is even more intolerant than the original discrimination.¹⁴

Under normal circumstances, the rental manager would not want to lease to gays who, once moved in, might tell their friends that the neighborhood could have possibilities as a "gay" one. Word-of-mouth travels fast within their world. Beyond a certain "tipping-point," many heterosexual residents near and within the complex, rather than risk feeling stigmatized, would choose to move. Their places largely would be taken by overt homosexuals.

In fact this is exactly how neighborhoods such as Castro (San Francisco), West Hollywood (formerly part of Los Angeles, now separately incorporated largely due to gay pressure), the West Village (New York City), and Dupont Circle (Washington, D.C.) all rapidly developed reputations as "gay neighborhoods," and how large sections of Martha's Vineyard, Fire Island, and Rehoboth Beach became

"gay resorts."¹⁵ The tipping-point principle also applies to public facilities such as restaurants. At the Grapevine Cafe in Columbus, Ohio, for example, heterosexual customers stopped coming when the clientele became heavily gay.¹⁶

What would happen with a sexual orientation law in place? The rental manager knows that if he turns down an openly homosexual applicant, he risks prosecution. Any rejection can serve as proof of discriminatory intent, even with factors such as length of employment, income, and previous tenant record taken into account.¹⁷ In response to such a fear, the manager, though reluctantly, is likely to award the apartment to the homosexual.

For gay activists, therein lies the payoff. By codifying into law "protection" of homosexual mannerisms, they can intimidate gatekeepers into providing job security and housing for the openly homosexual. Thus, without necessarily mentioning anything about quotas or, for that matter, homosexuality, law in the U.S. is increasingly mandating *homosexual affirmative action*.¹⁸ Such law has the same intent as the recently vetoed Kennedy-Hawkins Civil Rights Act.

Sexual Schism

If the homosexual rights movement is in large measure an affirmative action strategy, certain consequences should be evident, all of which already are on their way to being entrenched. Most obviously, American culture is experiencing a sexual schism as deep as any racial one. There are other damaging ramifications.

First, wherever such laws exist, they will attract homosexuals to the jurisdictions enacting them. Common sense dictates that any community laying out the welcome mat for homosexuality lays it for homosexuals, implicitly telling others to kindly step aside. Aside from legal protection, there is political strength in concentrated numbers. Most aspiring elected officials in San Francisco, for example, must now pay homage to the achievement of local gays, and show up at gay events. As Proposition K coordinator Jean Harris remarked following the November elections, "We've shocked the world and made history with this lavender sweep. . . . It's clear that if you don't get the support of the gay-lesbian community you're going to be in trouble."¹⁹ While the homosexual voting bloc will never be a majority in any city, even

San Francisco, it can wield enormous veto power over the objections of all other blocs.

Second, having learned the power of the gatekeeper role, many homosexuals will seek to become gatekeepers themselves. It takes no great stretch of imagination, for example, to understand that the growing number of college administrations severely punishing anti-gay harassment (even if such "harassment" takes no more sinister a form than a satirical campus newspaper editorial or cartoon) has much to do with the growing number of college administrators and faculty who are themselves homosexual (and possibly were hired on that very basis).²⁰ Nor does it take much imagination to understand that gay employers have more reason than ever to favor homosexuals in their hiring and promotion practices.

Third, these laws will create market bottlenecks. Heterosexuals and even "closeted" homosexuals will be at a competitive disadvantage for jobs and housing. For them, prices will be higher and wages lower than in the absence of such "safeguards." This is especially significant since gay culture is visible in high-cost cities such as New York and San Francisco.

Gays view economic victories to be won here, and few have been as resounding as the *Braschi* decision.²¹ In July 1989, the New York State Court of Appeals ruled that a gay lover had the right to stay in his deceased partner's rent-controlled apartment because he qualified as a member of the partner's family, a decision recently upheld by the Appellate Division of the State Supreme Court. "We conclude that the term 'family,'" the lower court argued, "should not be rigidly restricted to those people who have formalized their relationship by obtaining, for instance, a marriage certificate or an adoption order. . . . a more realistic, and certainly equally valid, view of a family includes two adult lifetime partners whose relationship is long term and characterized by an emotional and financial commitment and interdependence."²²

Gay activists understandably were elated at this imprimatur for homosexual marriage; they know household economics. Homosexual couples defined as "married" could reduce not only their housing costs, but also their income taxes (by filing jointly), pensions, and insurance premiums. They also would qualify for paid medical leave, spousal bereavement leave, and other employee benefits. At this writing, the San Francisco chapter of the

American Civil Liberties Union is considering suing several locally based corporations that deny benefits to their homosexual employees' partners.²³

Fourth, the new legalism will increase heterosexual anger—and even violence—toward homosexuals. Reports of “gay bashing” (the real kind) simultaneous with increased homosexual visibility cannot be a coincidence. What economist Thomas Sowell²⁴ and psychologist Stephen Johnson²⁵ have each revealed about racial affirmative action can apply to sexual affirmative action as well; unprotected groups, lacking recourse through rule of law, may resort to violence against innocent members of protected groups. Those who make it their bailiwick to monitor every incident of petty harassment of gays are impervious to any possibility that when laws force heterosexuals to bottle up dialogue, their feelings may erupt in more destructive ways. *Gay bashing, then, is in some measure a product of the very laws designed to punish it.*

The Language of Victimhood

The radical homosexual movement seeks centralization of state power in the name of “civil rights.” What began as a demand for the state not to interfere against private homosexual behavior has evolved into a demand for the state to intercede on behalf of public homosexual behavior. In so doing, the movement has advanced further into the same totalitarian netherworld that various black and feminist movements also have come to occupy. In each case, activists proclaim “victim” status, malign the intentions of critics, and demand government entitlements that necessarily discriminate against others. “Once upon a time,” syndicated columnist Paul Greenberg writes in *The Washington Times*, “civil rights were unifying and universal—a way to open society to the claims of individual merit. Now ‘civil rights’ becomes a code word for dividing society into competing, resentful groups.”²⁶

Gay militants know the cue-card language of victimhood. For example, Gara LaMarche and William B. Rubenstein write in *The Nation*, “The targets of the 1950s witch hunts were both Communists and other leftists, labeled ‘subversives,’ and homosexuals, labeled ‘sexual perverts.’ Today, as the cold war mentality collapses, enemies are again being found at home, but this time lesbians

and gay men are leading the list.”²⁷ With former President Ronald Reagan and Cardinal John O’Connor leading the list of personages in the “McCarthy” role, the authors can make believe this really is the 1950s.

Just as opposing current racial and ethnic civil rights orthodoxies inevitably invites being labelled “racist” and “ethnocentric,” opposing the current homosexual orthodoxy almost guarantees being denounced as “homophobic.” One is simply not free to not pay tribute to them. The few people willing to toe the line pay the consequences. Pete Hamill, hardly an ally of the hard Right, knows this too well. Having written a column in the August 1990 *Esquire* sharply critical of those aggressively politicizing their homosexuality (though with genuine warmth for his homosexual friends), he was subsequently subject to constant attack by ACT-UP (AIDS Coalition to Unleash Power) and other homosexual gendarmes.²⁸ When early in 1990, Martin Luther King III remarked in a speech in Poughkeepsie, New York, that “something must be wrong” with homosexuals, enraged gay leaders demanded (and got) an apology.

Heterosexuals need not even fire the first shot to invoke gay wrath. When a pair of Queer Nation activists disrupted the airing of the December 14, 1990, segment of *The Arsenio Hall Show*, they insisted that the host explain why so few of his guests were gay. Unappeased by Hall’s assurance that many are, the activists continued their on-camera ranting for about 10 minutes. Hall, of course, must now bear the onus as a “homophobe.”²⁹

Gay activists may incessantly speak of their “rights,” yet oddly care little for those of others. Articles in *Outweek*, a year-old tabloid dedicated to exposing homosexual liaisons (real or imagined) of public figures believed otherwise to be heterosexual, routinely call for removing freedom of speech from anyone alleged to be “homophobic.”³⁰ A placard at a recent gay rights march in Washington read, “BAN HOMOPHOBIA, NOT HOMOSEXUALITY.”³¹ Radical homosexuals apparently do not reciprocate when it comes to the First Amendment.

The most shameful example of the gays’ civil rights double standard, of course, was their temporarily successful attempt to blackball Andy Rooney, long-time humorist of CBS’s *60 Minutes* program. The details of the saga—Rooney’s allegedly anti-gay comments on a CBS news spe-

cial reviewing the events of 1989;³² the subsequent storm of protest by gay militants; Rooney's explanation to them in the form of a letter to and an interview with a national gay newspaper, the *Advocate*; the anti-black comments falsely attributed to Rooney in the interview; and his three-month suspension without pay from CBS—are well-known.³³

Never mind that the interview was a pure frame-up, or that homosexual militants routinely make hate-filled denunciations of "straights." More ominous is how quickly CBS moved to institute damage control, choosing to take the word of a gay cub reporter, lacking any tape of the interview, over that of Mr. Rooney, a loyal and popular CBS employee for some four decades. This is how CBS, which now hires a homosexual group to conduct "gay sensitivity seminars" for its news personnel, responded to its fear of a lawsuit or a boycott of network sponsors. The network's action was an indication of how readily small businesses might capitulate under a Federal gay civil rights law.

Rooney, of course, was reinstated on *60 Minutes* before the three months, but no thanks to any good graces from CBS top brass. Give the credit instead to Rooney's supportive *60 Minutes* colleagues and the show's falling Nielsen ratings. Yet Rooney, chastened, had to issue a public apology prior to reinstatement, one that virtually forfeited his right to say "offensive" things about gays in the future, ironic since his job requires being cantankerously peevish. Free speech lost.

Homosexual militants also have little use for the right to privacy save their own. They view any public figure's possible homosexual behavior as grist for voyeuristic public consumption. The mere existence of a spurious scandal sheet like *Outweek* ought to outrage the sensibilities of all individualists. The hypocrisy of it all begs a comparison. Suppose the *National Enquirer* or some other general circulation gossip magazine exposed as homosexuals the very same celebrities that *Outweek* does. Homosexual activists would properly see this as character assassination. Yet apparently when a homosexual publication engages in the identical practice, it is creating "positive gay role models."³⁴

"Now, the idea that one must be either in the closet or out of it is an invention of those who would politicize sex and abolish privacy," Thomas Short writes in *National Review*. "They wrongly make whatever is not publicly proclaimed seem

secret, furtive. This dichotomy of being either in the closet or out of it should not exist. . . . We all have some secrets to keep."³⁵ Homosexual radicals do not keep sexual secrets. Since a homosexual act is political, even the most casual encounter by an otherwise heterosexual person must be made public, at whatever cost to that person. *Outweek*, and the mentality to which it caters, is more than indiscreet; it is totalitarian.

The Growing Threat of Violence

There is something about encountering homosexuality in its militant and pugnacious form that touches a deep, almost reflexive anger, even among most heterosexual liberals. That is why attempts at "mainstreaming" gay culture, even when holding an olive branch, are bound to fail. One of the saddest books to appear in recent years is *After the Ball: How America Will Conquer Its Fear and Hatred of Gays in the 90s*.³⁶ The authors, Marshall Kirk and Hunter Madsen, both homosexual, advocate a national campaign to cheerfully "sell" gay culture. They suggest, for example, that gay organizations buy up advertising space in "straight" newspapers with pictures of historical figures such as Alexander the Great, asking: "Did you know he was gay?"

Kirk and Madsen, like their surlier compatriots, fail to grasp that public homosexuality strikes at both a heterosexual's fear of loss of sexual identity and sense of belonging to a family. For even in this age of artificial insemination, families are not sustainable without heterosexuality. No matter how much the homosexual activist naively protests, "Gays are people, too," such a plea will receive in return grudging respect, and little else.

In a summary piece for *Newsweek's* March 12, 1990, cover story, "The Future of Gay America," Jonathan Alter revealed a rare understanding of this dynamic.³⁷ He notes, "'Acting gay' often involves more than sexual behavior itself. Much of the dislike for homosexuals centers not on who they are or what they do in private, but on so-called affectations—'swishiness' in men, the 'butch' look for women—not directly related to the more private sex act." Quite rightly so—one doubts if more than a tiny fraction of heterosexuals have even *inadvertently* witnessed a homosexual act. Alter then gets to the core of the issue. "Heterosexuals," he writes, "tend to argue that gays can downplay

these characteristics and 'pass' more easily in the straight world than blacks can in a white world. . . . This may be true, but it's also irrelevant. For most gays those traits aren't affectations but part of their identities; attacking their swishiness is the same as attacking *them*."

Yet if gays, through their carefully practiced "gay" mannerisms, know fully well they are antagonizing many heterosexuals, then why do they display them? Is it not in part to make heterosexuals sweat?³⁸ By aggressively politicizing these traits, and demanding that those objecting must grin and bear it, they are in a sense restricting heterosexual freedom of speech. Male and even female opposition to persons with these traits is slowly taking a nasty turn, moving from violence of language to violence of fists. And yet, given the emerging legal climate, one discovers within oneself a disquieting empathy with the inchoate rage behind such acts.

Most heterosexuals are reasonably libertarian; an October 1989 Gallup Poll indicated that by a 47-to-36 margin (with the remainder undecided), Americans prefer legalization of homosexual relations between consenting adults.³⁹ This is all to the good. Anti-sodomy laws serve no purpose but to intimidate people out of private, consensual acts. On the other hand, the brazen, *open* display of homosexuality—as if to taunt, to tease, to maliciously sow confusion into sexual identities—is something most heterosexuals do not handle gracefully. With an unofficial government mandate for preferential treatment, it is not difficult to imagine a backlash. When homosexual lawyer-artist William Dobbs plastered explicit homosexual artwork throughout the Yale University campus back in 1989, he was not simply making a homoerotic statement; he was daring "homophobes" to remove the art, and risk suspension or expulsion from the university.⁴⁰ Those having little to lose may accept his dare—and it may be people like Dobbs as well as such art that gets torn up.

Should a sober discussion of the possibilities for heterosexual violence be forbidden? Nobody in a *rational* state of mind would seek to emulate the exploits of "skinheads" or the late San Francisco Supervisor Dan White. Yet let readers here imagine themselves in that Madison restaurant or Seattle airport, being witness to mass displays of homosexual kissing, and feeling utterly helpless to evince the slightest disapproval. Would not such a scenario provoke an impulse, however fleeting and

irrational, to do bodily harm? Does not the knowledge that the law is now stacked against even non-violent disapproval ("hate crimes") merely add to the likelihood of a conflagration?

The principal motive of the gay movement is coming into focus with each passing month: to bait heterosexuals' less morally sturdy side, goading them into verbal or (better) physical assaults against the openly homosexual. That way, cries of homosexual victimhood would carry even more self-fulfilling prophecy, so much the better to vilify heterosexuals.

Gay militants aren't hesitant about admitting to such motives. Some want nothing less than war in the streets. Homosexual playwright and ACT-UP founder, Larry Kramer, recently called upon a gay audience to take gun practice for use in eventual combat against police and gay-bashers. "They hate us anyway," he rationalized. A cover of a recent issue of *Outweek* displayed a lesbian pointing a gun at the reader, with the headline, "Taking Aim at Bashers," while another cover announced, "We Hate Straights."⁴¹ Even "mainstream" gay leaders, such as Urvashi Vaid, executive director of the National Gay and Lesbian Task Force, endorse such tactics, whatever the loss of potential supporters.⁴²

The crowning legacy of the new gay legalism may yet be widespread violence, a violence brought on by state inhibition of rational dialogue at the behest of gay radicals, and in the name of "sensitivity." That alone is enough reason to oppose it. □

1. "Gay Rights Protesters Win Right to Kiss," *The Washington Times*, April 18, 1990.

2. Joyce Price, "Queer Nation Decides It's Time to Bash Back," *The Washington Times*, October 15, 1990.

3. Price, "Queer Nation."

4. One of the best arguments that homosexuality is not simply a statistical aberration, but a behavioral abnormality, can be found in Steven Goldberg, "Is Homosexuality Normal?" *Policy Review*, Summer 1982, pp. 119-38.

5. "The Future of Gay America," *Newsweek*, March 12, 1990, pp. 21-22.

6. "Gay Measure Stirs Florida," *The Washington Times*, August 24, 1990.

7. Tupper Hall, "Gay Couples Allowed to File as 'Non-Profit' Associations," *The Washington Times*, December 17, 1990.

8. Jeff Levi, speech to National Press Club, October 10, 1987.

9. The term "hate crime," in the hands of the homosexual lobby, is so vague that even an accidental epithet could qualify as an offense. For example, of the 462 anti-homosexual "hate crimes" committed in Virginia in 1987, 423—over 90

percent—involved mere name-calling. See Patrick Buchanan, "The Real Victims of Hate Crimes," *The Washington Times*, March 7, 1990. The National Gay and Lesbian Task Force (NGLTF), in its own estimate of hate crimes committed nationwide in 1988, admitted that 77 percent were verbal. In fact, the origin of the legislation lay in a 1985 NGLTF presentation before the National Institute of Justice. See Congressman William Dannemeyer, *Shadow in the Land: Homosexuality in America* (San Francisco: Ignatius Press, 1989), pp. 71-75. Congressman Dannemeyer's book is the best currently available on the homosexual lobby.

10. Advertisement in *New York Native*, April 18, 1988.
11. See Dannemeyer, *Shadow in the Land*.
12. Quoted in *Newsweek*, "The Future of Gay America," p. 21.
13. Phyllis Schlafly, "A Choice, Not an Echo in California," *The Washington Times*, March 2, 1990.
14. Doug Bandow, "Government as God," in *The Politics of Plunder: Misgovernment in Washington* (New Brunswick, NJ: Transaction, 1990), pp. 18-20.
15. Even sympathetic observers of this process admit that the public identification of a neighborhood as "gay" induces non-gays to move out. See Manuel Castells and Karen Murphy, "Cultural Identity and Urban Structure: The Spatial Organization of San Francisco's Gay Community," in Norman I. and Susan S. Fainstein, eds., *Urban Policy Under Capitalism* (Beverly Hills, CA: Sage Publications, 1982), pp. 237-59. For a decidedly unsympathetic (and highly personal) account of how the process works in resort communities, see Midge Decter, "The Boys on the Beach," *Commentary*, September 1980, pp. 35-48.
16. James N. Baker and Shawn D. Lewis, "Lesbians: Portrait of a Community," *Newsweek*, March 12, 1990, p. 24.
17. For evidence of this, see Dannemeyer, *Shadow in the Land*, p. 70.
18. For example, gay activists have now convinced the courts that having AIDS qualifies as a condition covered by Federal handicap discrimination laws. *Shuttleworth v. Broward County*, 41 FEP Cases 406 (S.D. Fla. 1986); *Thomas v. Atascadero Unified School District*, 662 F. Supp. 376 (C.D. Cal. 1987).
19. Valerie Richardson, "Gay Voters Claim Biggest Victory in San Francisco," *The Washington Times*, November 9, 1990.
20. At Harvard University, for example, the administration quickly suspended a student who removed a sign from an empty table in a dining hall indicating that it was reserved for a campus homosexual organization. Leave aside the absurd notion that a lunch table ought to be reserved for any particular sexual group, and the absence of malice on the part of the student (who simply sought a vacant seat in an otherwise crowded room). This student's suspension could only have come about either because the administrators meting out the punishment were radical homosexuals, or because they were heterosexual but feared crossing swords with campus homosexuals.
- In a sad coda to this incident, the suspended student later committed suicide. See Thomas Sowell, "Call of the Woolly Pulpit," *The Washington Times*, December 7, 1990.
21. *Braschi v. Stahl Associates Co.*, 74 N.Y.2d 201.
22. Dennis Hevesi, "Court Extends 'Family' Rule to Rent-

Stabilized Units," *The New York Times*, December 6, 1990.

23. Richardson, "Gay Voters Claim Biggest Victory."
24. Thomas Sowell, "Affirmative Action: A Worldwide Disaster," *Commentary*, December 1989, pp. 21-41; see also Sowell, *Preferential Policies: An International Perspective* (New York: William Morrow, 1990).
25. Stephen Johnson, "Reverse Discrimination and Aggressive Behavior," *Journal of Psychology*, January 1980, pp. 11-19; Johnson, "Consequences of Reverse Discrimination," *Psychological Reports*, December 1980, pp. 1035-1038.
26. Paul Greenberg, "Decline and Fall of Civil Rights," *The Washington Times*, November 8, 1990.
27. Gara LaMarche and William B. Rubenstein, "The Love That Dare Not Speak," *The Nation*, November 5, 1990, p. 524.
28. Pete Hamill, "Confessions of a Heterosexual," *Esquire*, August 1990, pp. 55-57.
29. "Gay Protesters Confront Arsenio Hall," *The Washington Times*, December 17, 1990.
30. Quoted in Andrew Sullivan, "Gay Life, Gay Death," *The New Republic*, December 27, 1990, p. 24. That Sullivan, an ally of the homosexual legal revolution, is alarmed over the totalitarianism inherent in such pronouncements should be taken seriously; he supports—on conservative grounds, no less—legalizing homosexual marriage. See Sullivan, "Here Comes the Groom," *The New Republic*, August 28, 1989, pp. 20-22.
31. David Rieff, "The Case Against Sensitivity," *Esquire*, November 1990, p. 124.
32. Here was Rooney's "anti-gay" remark: "Many of the ills which kill us are self-induced." They include, "too much alcohol, too much food, drugs, homosexual unions, and cigarettes." Given that at the time of that statement, over 50,000 persons already had died of AIDS, Rooney would hardly qualify as anything other than a bearer of unpleasant truth.
33. For good interpretations of this episode, see Eric Breindel, "The Andy Rooney Affair," *Commentary*, May 1990, pp. 56-57; Cal Thomas, "Silence from the Pluralism Corner," *The Washington Times*, March 12, 1990.
34. The evidence suggests that increased social tolerance of homosexuality does not necessarily lead to homosexuals themselves being happier. See Martin S. Weinberg and Colin J. Williams, *Male Homosexuals* (New York: Oxford University Press, 1974); Samuel McCracken, "Are Homosexuals Gay?" *Commentary*, January 1979, pp. 19-29.
35. Thomas Short, "Gay Rights or Closet Virtues?" *National Review*, September 17, 1990, pp. 43-44.
36. Marshall Kirk and Hunter Madsen, *After the Ball: How America Will Conquer Its Fear and Hatred of Gays in the 90s* (Garden City, NY: Doubleday, 1989).
37. Jonathan Alter, "Degrees of Discomfort," *Newsweek*, March 12, 1990, p. 27.
38. This is the position taken in McCracken, "Are Homosexuals Gay?" pp. 27-28.
39. The Gallup Report, Report No. 289 (Princeton, NJ: The Gallup Poll, October 1989), p. 13.
40. "The Future of Gay America," pp. 22-23.
41. See Sullivan, "Gay Life, Gay Death," p. 25.
42. "The Future of Gay America," p. 23.

Should Government Subsidize Higher Education?

by James L. Payne

When it comes to agricultural subsidies, scholars line up to criticize. They point out that these government funds cause overproduction and waste, that they stifle innovation, and that they are unfair, since lower-income taxpayers are forced to contribute to wealthier individuals. But on the subject of subsidies to academia, scholars are noticeably silent. They are content with government-operated state universities, and seldom say a word against the many Federal programs that directly or indirectly fund colleges, including student loans, construction grants, work-study programs, and research grants.

This silence is unfortunate, since many of the current problems in American higher education trace to its subsidized character. Those who seek to revitalize academic life can't afford to ignore this issue. It turns out that the arguments against agricultural subsidies apply in equal or greater force to higher education!

Overproduction and waste in higher education take several forms. Because higher education is priced well below cost, many more individuals fill university places than can profit from the training. One result is an oversupply of trained personnel in many fields: Ph.D.'s in English who work as clerk-typists or B.A. graduates in forestry who drive lumber trucks. The waste is also intellectual: many students who sit in the underpriced college class-

rooms lack the capability and motivation to absorb the material. They are frustrated and unfulfilled, and their resistance drags down the quality of education for the others.

Another form of waste is the pursuit of irrelevance. Insulated from the discipline of the marketplace in their taxpayer-supported fiefdoms, many academics pursue silly scholastic dogmas. For example, Marxism thrives among university teachers. Professors of literature embrace inane fads in interpretation that lead them to wrest the life from the books they teach.

A broader consequence of subsidizing higher education is that of preserving an historical anachronism. The four-year liberal arts college emerged several hundred years ago as an educational form to serve a tiny, New England elite. Had this institution not been nurtured by government, the landscape of higher education would almost certainly have evolved differently.

In a system of voluntary, unsubsidized higher education, the four-year college probably would have been replaced by a myriad of schools and programs, all competing to provide the kind of education that Americans wanted and could benefit from. To a large extent, this education would be oriented toward specific technical skills. At the same time, however, the liberal arts could thrive. Instead of being imprisoned in government-subsidized academic "disciplines," subjects such as literature, history, politics, and philosophy could be opened to both teachers and students whose moti-

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vation would more often be curiosity and concern. With government out of the picture, who knows what kinds of exciting variations and innovations would flourish!

Regulations and Red Tape

In agriculture, another cost of subsidies has been to subject farmers to governmental regulations and red tape. The subsidies in higher education have entailed the same burden. Take, for example, affirmative action, the Federal requirement—let's not mince words—that colleges must hire less qualified members of governmentally approved social groups, including women, blacks, and Hispanics. The direct result of this Federal regulation, of course, is less competent faculty members. Its indirect effect on the caliber of administrators may be even more harmful. To be a college dean or president these days, you pretty much have to go along with the premise of affirmative action, which is that social goals can be more important than academic standards. Since uncompromising champions of intellectual excellence cannot accept this premise, these stalwarts tend to be excluded from a leadership role in higher education today.

A final argument against government subsidies for higher education concerns their effect on the thinking of academics. When government pays the salaries, and supports the students, and builds the science labs, and funds the summer research trips

to Paris, scholars are encouraged not to bite the hand that feeds them. For one thing, administrative controls are at work. The scholar who makes a forthright criticism of a spending program that is at all close to his field will often be reprimanded by his superiors. Thus, physicists are deterred from questioning super-colliders, educational psychologists are deterred from criticizing public education, and so on.

There is an even more insidious control, however. The really telling objections to government spending programs involve universal principles that underlie all programs. The state-subsidized scholar is reluctant to unearth these ideas, for they bring into question his livelihood and that of his colleagues. For example, one criticism of government subsidies is that they involve the use of physical force, since force and the threat of force are the basis of the tax system. A profound analysis of subsidies, then, would have to ask whether the use of force is a moral approach to social problem-solving. A scholar who already has a government paycheck in his hand would rather not face this issue—and is, of course, biased if he does address it.

Thus we see that government subsidies of higher education may involve far worse evils than similar payments to farmers. In agriculture, a subsidy merely distorts production. In higher education, it distorts the thinking of the entire intellectual class on one of the critical issues of our era, the proper role of government in the life of a people. □

Subsidy Leads to Control

It is hardly lack of due process for the government to regulate that which it subsidizes.

—UNITED STATES SUPREME COURT
Wickard v. Filburn, 317 U.S. 111, p. 131,
October 1942

IDEAS
ON
LIBERTY



The Centre Square Water Works: A Monument to Government Inefficiency

by James A. Maccaro

The Centre Square Water Works was an ornate structure in the heart of Philadelphia and for many years was one of the city's best known landmarks. Designed in 1798 by Benjamin Latrobe, it resembled an ancient Greek temple, complete with Doric columns and pediments. Although now remembered mainly as an architectural oddity, the Water Works is also a landmark in the history of state involvement in the American economy, and provides a cautionary tale of government waste and inefficiency.

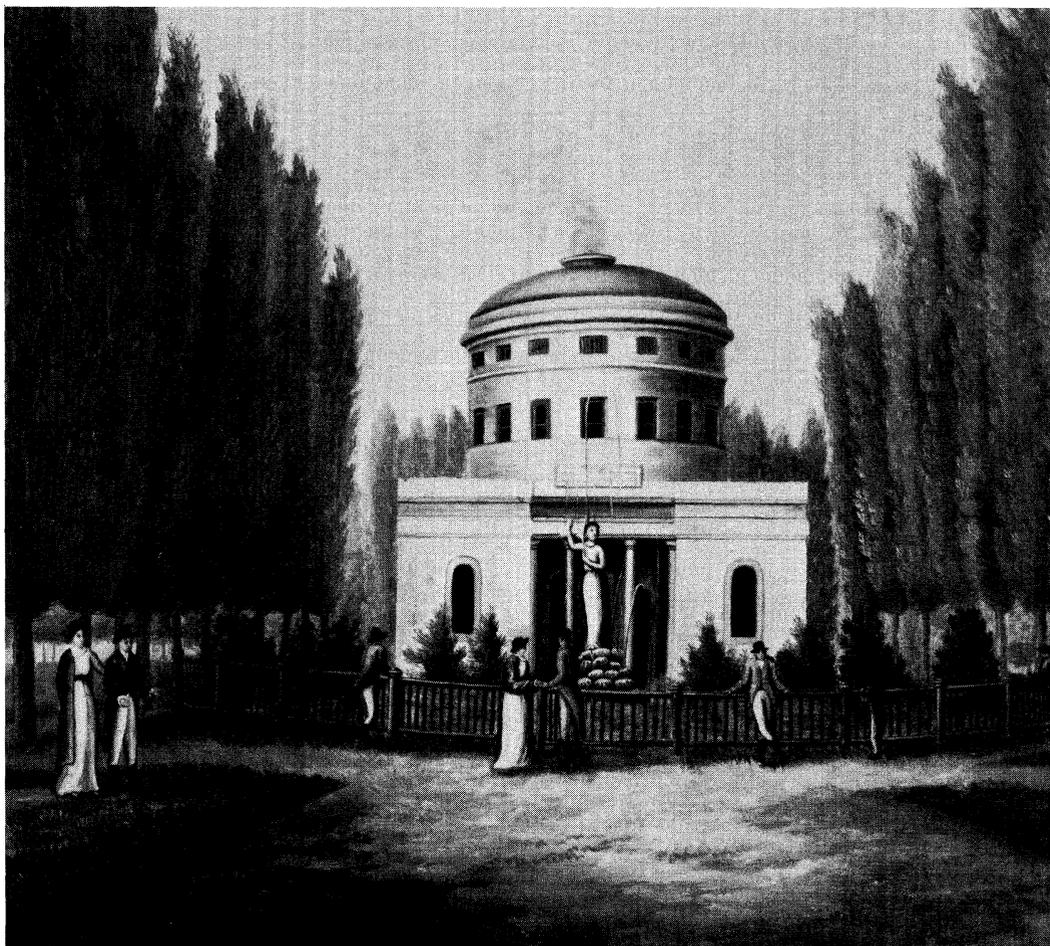
The Philadelphia water system was the first large-scale public works project in our nation's history. As Philadelphia's population grew, demand overburdened its network of public water wells, which once were the pride of the city. In 1797, a group of prominent citizens petitioned the City Council to rectify the situation, and in the following year Latrobe, the nation's leading architect, submitted his plan.¹ It called for water to be pumped, using the newly invented steam engine, from the Schuylkill River to Centre Square, where a steam-powered pump located in the Grecian temple would make it available to the rest of the city.

The Latrobe plan was opposed by Oliver Evans, a pioneer industrial designer. Evans was the inventor of the first practical high-pressure steam engine, and the author of *The Young Mill-Wright and Miller's Guide*, a best-seller that was indispen-

able to the mechanics of the early 19th century. He also is credited with being the originator of the modern assembly line.² Evans noted several glaring deficiencies in Latrobe's system, and put forth his own plan. He correctly asserted that the Water Works' capacity as designed by Latrobe was merely 7,500 gallons, a figure grossly inadequate for the city's needs. Additionally, he argued that the system could not be built at Latrobe's estimate of \$150,000.

While Evans was a better mechanical designer, Latrobe was a far superior lobbyist. The City Council was composed of members of the leading families of the city; they were wealthy and cultured, and patterned themselves after the English aristocracy. Latrobe, a sophisticated and well-educated English gentleman, was skilled in the art of flattering and cajoling the Council into adopting his viewpoint. In contrast, Evans, despite his mastery of the technology of the day and his many accomplishments, was nonetheless, in the words of historian David Freeman Hawke, a "dirty fingernail" man. He, in common with most of the great mechanical designers of the period, was a product of the working class, and knew next to nothing about how to charm socially prominent government officials.

Latrobe realized that the key to winning over his audience was a sophisticated presentation. He published and presented to the councilmen a polished and extensively illustrated booklet that featured some of the highest quality engravings made in America up to that time. While Evans con-



The Centre Square Water Works (from a painting in the collection of The Historical Society of Pennsylvania).

cerned himself solely with the technical issues involved, Latrobe stressed the aesthetic appeal of his plan. He impressed upon the councilmen that they were authorizing not a mere utility, but rather a grand monument that would reflect for generations to come the greatness of the city and themselves.

The Council enthusiastically endorsed Latrobe's plan, and construction of the Centre Square Water Works began in May of 1799. Latrobe, however, grossly exceeded his budget and far surpassed his promised construction time. Instead of costing \$150,000 and taking about half a year to complete, as Latrobe had led the Council to believe, the actual cost of construction was \$500,000 and the time to completion was 18 months. Further, Evans' objections were proved to be fully justified: the Water Works was incapable of meeting the city's demand and operated at a continual deficit. It was finally

abandoned in the early 1800s, to be replaced by a system that adopted many of Evans' ideas.

The Philadelphia government of 1797 recognized the need for a modern water system, but was ill-equipped to evaluate and implement a practical solution. The Water Works fiasco set the trend for future public works projects. Then as now, the procurement process was politicized, costs and time overruns far exceeded expectations, and the end result was a dubious scheme that did little more than waste taxpayers' money. □

1. Benjamin Latrobe (1764-1820) designed the Bank of Pennsylvania building in Philadelphia and supervised the rebuilding of the Capitol after the War of 1812. He died of yellow fever while supervising construction of the New Orleans water system.

2. The career of Oliver Evans (1755-1819) is described by David Freeman Hawke in *Nuts and Bolts of the Past: A History of American Technology, 1776-1860* (New York: Harper & Row, 1988).

The Only Failure We Have to Fear Is the Fear of Failure

by Dwight R. Lee and Richard B. McKenzie

Socialism has been, by any measure of economic success, a total failure. The hope of socialism was that it would promote wealth and distribute it fairly by transferring power away from capitalists interested only in profits and give more control to political representatives concerned with economic growth and social justice. That hope has been dashed. Socialism has succeeded only in providing special privileges to a few by imposing grinding poverty on everyone else.

With socialism a sinking ship, the goal in country after country that has been impoverished by the legacy of Karl Marx is to achieve the wealth-creating power of capitalism. The most dramatic examples of the rejection of socialism and the move to embrace capitalism have come from Eastern Europe and the Soviet Union, countries that have experienced the poverty of socialism firsthand. But countries in Africa, South America, and other parts of the world that have been beguiled by the false promises of socialism also are anxious to trade socialism for capitalism.

While the embrace of the market economy has been widespread, it has been cautious. Everyone wants the wealth created by capitalism, but at the same time the marketplace is seen as harsh, calloused, and unfair. Isn't the marketplace littered with the victims of those who have suffered the failures of bankruptcy, unemployment, and pover-

ty at the merciless hands of market competition? Isn't there some way to accept the wealth that capitalism offers without having to endure the constant failures it imposes? The calls have been for a market economy with a human face, or for a third way between the productivity of capitalism and the compassion of socialism. There is no end of proposals to reform the marketplace in order to protect its innocent victims.

It would, of course, be nice to unbundle the economic package known as capitalism or the free market, and keep the sweet while rejecting the bitter. It also would be nice if everyone had an above-average I.Q. and income. Unfortunately, the only way to avoid the failures that result from capitalism is to pass up the wealth created by capitalism.

Failures in the marketplace serve an indispensable function in the production of wealth: they provide information on the most productive use of resources and the motivation to respond appropriately to that information. Failures are part of the steering mechanism that directs an economy toward prosperity. Attempting to improve the marketplace by preventing economic failure is equivalent to attempting to improve an automobile by removing the steering wheel. It is no surprise that socialistic economies that were applauded initially for eliminating unemployment, bankruptcies, and economic failure of every variety have themselves been colossal economic failures. By allowing economic failures in the small, and converting these failures into useful information, market economies have produced economic

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success in the large. In economics, overall success depends on a constant supply of small failures.

Thus, the general economic failure that is most feared in all societies stems, paradoxically, from the fear of economic failure. The best antidote for this fear is an understanding that economic failure is a necessary ingredient in the market process that leads to higher overall living standards.

Understanding Failure

While economic failure is a positive force in the market economy, it is commonly converted into a destructive force in the political process.

Every economy is a political economy and, for the very reason that economic failure promotes wealth in the marketplace, it promotes political responses that can undermine market productivity. A public understanding of the importance of economic failure is the best way to moderate harmful political responses to that failure. The lack of understanding of the essential role of economic failure is the biggest political obstacle to achieving free market prosperity in formerly socialist countries. The same lack of understanding prevents the market process from yielding the full measure of its potential wealth in those political economies that are predominantly capitalistic.

It is easy to see the failures imposed by market forces as isolated occurrences rather than as an integral part of a wealth-creating process. When viewed in isolation, it is natural to see economic failure as unnecessarily harsh and unfair, and conclude that government can protect people against these failures without harming economic productivity. But government cannot protect everyone against failure. The best government can do is to protect a privileged few against failure by diminishing the opportunity for success of everyone else. Obviously such special interest protection is neither efficient nor fair.

Ironically, for the very reasons that the market economy is both more efficient and fair than alternative economic systems, it appears to be unfair to the superficial observer. Conversely, for the very reasons that the political process is typically less efficient and fair than the market process, it appears to be fair to the superficial observer. Unfortunately, harmful political policies are often fueled by superficial impressions.

The efficiency of the market process derives

from the fact that it holds people accountable for the costs of their actions. This accountability is imposed in ways that are difficult to ignore, such as bankruptcy, unemployment, and other forms of economic failure. Although this market accountability conveys long-run benefits to all by promoting productivity, each economic interest group prefers special protections against the accountability of the market while benefiting from the accountability the market is imposing on others. The fundamental fairness of the marketplace is that it does not allow such free-riding on the contributions of others. In the marketplace we all have to contribute to the general well-being by accepting the failure as well as the success that comes our way.

However, because the benefits from market accountability are general, they are easily ignored and taken for granted. Because the costs and failures of market accountability are concentrated, they easily dominate the public's perception of the market and create the impression of unfairness. Indeed, the failures inflicted by the market appear all the more unfair against the backdrop of economic success made possible by those failures.

The inefficiency of the political process results from the fact that it provides opportunities for people to acquire benefits without being held accountable for the costs. Political action commonly concentrates benefits on a well-organized few while spreading the costs thinly over the general public. As opposed to the fairness of the market process, the political process encourages some to free-ride on the contributions of others. Because political benefits are concentrated, however, they are easily noticed, greatly appreciated, and readily associated with particular policies and politicians. Because the costs are diluted over so many, they are easily ignored. The impression conveyed is that the political process motivates generosity and mitigates the unfairness of the marketplace. The larger the number receiving political benefits, and the more poorly the market operates because of the greater burden of government, the more it is that fairness seems to demand extending political benefits to yet additional recipients.

The impression that failure in the marketplace is unfair, and government action to moderate that failure is fair, is accentuated by special interest politics. No matter how well a group is organized politically, isn't likely to be successful in obtaining special interest subsidies, protections, and

other exemptions from the discipline of market competition by arguing that its members want to benefit at the expense of the general public. A far more effective technique is for a special interest to claim that they, and the public interest, are being threatened with bankruptcy, job losses, and dislocations by unfair market forces. Whether it is farmers facing foreclosure, steelworkers facing indefinite layoffs, or the Chrysler Corporation facing bankruptcy, their chances of appealing to public compassion and obtaining political protections against market pressures are increased with a persuasive argument that those pressures are unfair.

Of course, with public compassion being fanned by interest groups using economic failure as a pretense for capturing special privileges, the result is unlikely to be very compassionate. Certainly there are people who for reasons beyond their control are left behind in the marketplace, and who deserve our sympathy and help. Unfortunately those who need help the most are the ones whom political action in the name of compassion helps the least. Pointing to the problem of poverty has long been the most effective way of disparaging the market economy and persuading the public

that in the absence of government programs the marketplace would be littered with the poor and the impoverished. What has been almost completely ignored is the government's impotence in helping the poor. Indeed there is reason to believe that by lowering the productivity of the marketplace, government transfer programs have reduced the income of the poor. By concentrating attention on economic failure in the marketplace to justify the expansion of political control over economic decisions, the influence of special interest groups has grown and the scope of economic failure has been enlarged.

Unless economic failures are understood as integral to the successful performance of market economies, they will be seized upon by political interests as justification for expanding government action that stifles general economic productivity for the short-run advantage of the politically influential few. As long as the economic failures that impose the guiding discipline in market economies are widely perceived as unnecessary and unfair, a threat remains to the prosperity of existing capitalistic economies, and a roadblock stands in the path of economic progress in those economies that are trying to escape the blight of socialism. □

The Only Route to Personal Security

If the less productive members of a society truly seek security, let them rally to the defense of the freedom of choice and freedom of action of those who work for a living and who are personally productive. Let them voluntarily deal with one another in a marketplace kept free of compulsion. Such voluntary trading directs the instruments of production and the means of economic security into the hands of those most capable of serving all mankind. It promotes mutual respect for life and property. It stimulates every individual to develop his own talents to their maximum productivity. It encourages saving instead of squandering. The free market, and not its displacement by governmental controls, is the only route to the kind of personal security which makes for harmonious social relationships.

—PAUL L. POIROT

IDEAS
ON
LIBERTY



The Locker Room Is Private Property

by Donald G. Smith

In the past few months we have all read a lot of words on the subject of female reporters in men's locker rooms. I am familiar with the contention of the reporters that they have a job to do and should have the same rights as men. I have also heard the complaints from players' wives that they don't like their husbands to disrobe in the presence of other females. There have been statements that a locker room is a man's world and should remain so. Others claim that a reporter is a reporter and that gender shouldn't matter.

There have also been suggestions to alleviate the problem: put a screen across the middle of the room; keep everybody out for 20 minutes; build a special interviewing room; or do all of the interviewing outside.

It seems to me that we have been wasting a lot of time and newspaper space on concerns that aren't very important. We have—intentionally, perhaps—avoided the one overriding issue that should settle things for all time. I refer to the right of a business owner to admit anyone to the premises that he or she chooses. This is another way of saying *property rights*.

Remember that we live and work in a capitalistic, free enterprise system. Professional sports

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teams are certainly a part of this system. Even when a sports team uses a rented facility, the business part of the arrangement is still private—just as private as any other business that operates in a rented building.

The courts have already established that an owner has the right to move a franchise to another city. Certainly no one disputes the owner's right to control parking and concessions; to release a player who isn't doing the job; to trade the contract of one player for another; to keep fans off the playing field; even to change the team colors. Why then doesn't the owner have the considerably lesser right to determine who will, and who will not, be allowed on the premises?

We are talking here about individuals and individual rights. It is my contention that the owner has the right to ban women, or anyone else, from the locker room for no other reason than simple ownership. This is the same right that a female reporter would invoke to keep any uninvited person out of her home, including a team owner. The team owner doesn't owe an explanation to those who are kept out and most certainly not to any group of political reformers or protest marchers. It is quite clearly none of their business. The same owner has the right to admit only female reporters and to keep the men out, or to allow only reporters over 40, or those with last names beginning A through L. This is the owner's prerogative, and it is not the business of government to determine who is to be allowed in a private facility.

In regard to the contention that reporters "have a job to do," I submit that this situation is not exclusive to the newspaper business. Indeed it applies to every employed person, and we cannot expect doors to open just because somebody has to earn a paycheck. I have been free-lance writing for 25 years, and I have yet to see a publisher accept something that he doesn't want because "Don Smith has a job to do." Nor have I seen affirmative action groups breathing fire because one of my articles wasn't accepted. This isn't the way that the system works, and let's hope that it never comes to this.

Rejection is a part of my business just as other obstacles are an inherent part of any job. Female reporters would do well to remember this the next time they are told that they aren't allowed in a room where men are showering and changing their clothes. □

Affirmative Disintegration: India's Most Dangerous Decade

by Shyam J. Kamath

For the past decade, India has been on the verge of political and social collapse. In recent months, caste riots over a decision to enlarge India's affirmative-action "reservation" policies have claimed hundreds of lives, including an estimated 150 suicides, mainly by distraught youth, many by public self-immolation and ingestion of poison. In just one week, 325 people lost their lives in communal riots sparked by a politically motivated religious dispute between the country's majority Hindus and the minority Moslems.

In the beautiful vale of Kashmir, the idyll has again been shattered by gun battles between Kashmiri Moslem secessionists and Indian security forces with nearly 2,000 people killed. Life in the adjoining state of Punjab remains paralyzed, and the death toll mounts as Sikh secessionists continue their reign of terror. Continuing agitations in the northeastern states, especially Assam, fester and take a heavy toll on human life. Communal frenzy has touched virtually every state while caste divisions seem drawn more sharply than ever before.

In the latest act of a long political tragedy, another Indian government has fallen as a result of the communal and caste frenzy unleashed by its vote-mongering policies. The coalition government that has replaced it is not expected to last long. The situation, uncannily, seems to bear out the gloomy prognostications of Selig Harrison's influential 1960 book, *India: The Most Dangerous Decades*, on the disintegrative forces of caste, region, religion, and language on India's ability to remain united. It seems that

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India's "most dangerous decade" has arrived.

While the causes of the tragic events unfolding in India are complex and varied, there is a common denominator that is insufficiently appreciated. Since India won its independence in 1947, social and economic policy has been dominated by statism. An all-pervasive network of controls on the private sector combined with a framework of centralized planning and an emphasis on public sector activity have stunted economic growth in a land of tremendous human and natural-resource potential. Confiscatory tax rates along with ever-escalating controls have led to the growth of one of the largest and most thriving underground economies in the world, estimated to account for 50 percent of economic activity. Prohibitive tariffs and a policy of inward-looking "self-reliance" have insulated the economy from foreign competition and investment.

Besides preferential policies many times more comprehensive and detailed than similar U.S. affirmative action programs, social policies have included statist labor-market and employment policies, government control over the broadcast media, and socialistic educational and housing programs. These have gone hand-in-hand with the unrestrained growth of a bureaucratic, redistributive state.

Over 20 million Indians are on the public payroll, and around 70 percent of all organized sector employment is in the public sector. The government's wage bill accounts for two-thirds of its annual revenues. During the past 40 years, the public sector has accounted for about 60 percent of total investment. India's jungle of red tape is

said to be one of the largest and most complex in the world.

The result of such a statist development policy has been the neglect and systematic suppression of market activity. Private property rights and voluntary transactions have been severely circumscribed. Anemic rates of economic growth have been the direct result of the suppression of market forces amidst increasing population pressure, rising expectations, and burgeoning powerful special interest groups. These interest groups have competed to commandeer the redistributive powers of the state in their favor, despite sporadic recent attempts at economic liberalization. The tragic events of recent months have been the predictable result.

The caste violence and deaths unleashed by then-Prime Minister V. P. Singh's decision to implement the findings of the 1981 Mandal Commission Report for extending the ambit of India's preferential policies is a case in point. India's 1950 Constitution enshrined the concept of restitution for the "untouchable" castes by allowing the state to "make special provisions for the advancement of any socially and educationally backward classes" and to make "any provision for the reservation of appointments or posts" in favor of such backward classes in the services under the state.

Some 1,765 different groups in India's complex and locally variegated caste system, comprising about 17.5 percent (increased to 22.5 percent in 1970) of the population, were classified as "Scheduled Castes" and "Scheduled Tribes." Quotas in central government employment, legislative representation, education, and numerous other areas were provided by statute. Individual states set up their own "reservation" policies with much higher quotas, in some cases up to 80 percent of government positions. All this was done despite the inability of government committees to come up with clearly defined criteria for identifying the targeted groups.

Subsequent events have borne out the unintended consequences of the decision to put social justice in the political commons. While quotas at the state level proliferated, political pressure for similar policies for the "Other Backward Classes" (OBCs) led to the Mandal recommendations. By its own admission, the commission was unable to define clearly the criteria for identifying OBCs.

When Prime Minister Singh saw his fragile 10-

month-old coalition government on the verge of collapse, he decided to create a "vote bank" by implementing the Mandal recommendations. By doing so, he hoped to command the backing of about 60 percent of the electorate, the total number of "reserved" seats now comprising 22.5 percent for the Scheduled Castes and Tribes, 27.5 percent for the OBCs, with another 5 to 10 percent for the poor. The resulting "anti-reservation" riots have been the outcome of this policy of making politics dominant and the market subservient.

The communal frenzy that has engulfed the nation in recent months is also linked to the dominance of politics over economics. While the 1950 Constitution declared a secular state, political parties have used religious affiliation as a powerful force to gain and hold power. The lack of sustained economic growth and employment opportunities, accompanied by a rapid increase in the numbers of educated but unemployed young people, has contributed to the rise of religious fundamentalism.

The most recent strife has been caused by one of Mr. Singh's coalition partners, the militant Hindu Bharatiya Janata Party (BJP), which has spearheaded a drive to build a Hindu temple at the site of a 450-year-old Moslem mosque in Ayodhya, the legendary birthplace of Lord Rama, the Hindu deity. Events were precipitated by Singh's decision to implement the Mandal recommendations, which the BJP saw as a serious threat to its very existence and its strategy of building a united electorate of Hindus, who comprise about 83 percent of the population. It saw the Other Backward Classes reservation decision as dividing the Hindu vote. In turn, Moslem leaders have raised the specter of Hindu dominance in the face of severe job competition in a stagnant job market and an unsympathetic bureaucracy. The BJP-led march to and temporary occupation of the mosque at Ayodhya prompted a nationwide outbreak of communal frenzy and the collapse of Singh's coalition government.

The same denominator underlies the events in Kashmir, Punjab, and the northeastern states. The redistributive and statist policies of previous governments led to an on-and-off policy of distributing state largesse alternating with the undermining of democratically elected governments in these states. The violent demands for secession provide a paradigmatic example of an effort by regional elites to wrest the coercive power of the

state in order to gain political and economic pay-offs.

Thus, since gaining independence in 1947, India has been epitomized by the replacement of individual pie-enlarging behavior with interest-group oriented pie-slicing behavior. Recent attempts at liberalization have only led to an escalation of fragmentation and violence, since no fundamental changes have been made to restore a market order.

Such fundamental changes would involve an across-the-board scrapping of all controls over the domestic economy and foreign trade and investment, the dismantling of the nihilistic planning sys-

tem, a drastic reduction in the bureaucracy, a restoration of absolute rights to private property and voluntary exchange, and a comprehensive reliance on market forces in every facet of daily life. A constitutional convention to limit the powers of government and guarantee a decentralized, truly federal system of government is also urgently needed. The objective should be to make economics dominant and politics subservient.

Given the political economy of the redistributionist society and the entrenched interest groups and violence, such an outcome is unlikely. But the alternative is the continued unfolding of India's most dangerous decade.

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“Acting Black” Crushes Personal Spirit

by Jason D. Hill

For years I have been disturbed by the psychological batterings and lynchings blacks inflict on each other. All this is performed in the name of some undefined code of “appropriate” behavior: acting black.

There is a strong tendency among many blacks to malign and ostracize other blacks who in their view do not fit within the concept of how a black person should behave. When I was attending a university in Atlanta, a woman in one of my classes accosted me one day. For one thing, she said, I spoke “too proper”; black folks didn’t talk that way. She added emphatically that white people just would not appreciate my being so intellectual in class. I needed to shut up sometimes, she insisted, because white people owned the school.

I looked closely at her to remind myself that this was no dream—that this was the United States of America in the 1990s.

She said she also thought it disgusting that I was studying so much with a white girl. Why couldn’t I share my brains with other blacks? She reminded me that the “sisters” would think I was trying to prove I was too good for them.

On another day, another black student asked me what my major was. When I declared it was philosophy, raised eyebrows, a cynical smirk, and a self-righteous “whoever heard of a black philosopher?” were the responses I received. By the time

the individual discovered that I enjoyed classical music, I was no longer perceived as a real person, let alone a black man.

Another fellow told me that “new blacks” needed to stop going over to Europe and visiting all those cathedrals and patronizing white values, that whites would laugh at us and ask us if we didn’t know that there were African pyramids we should be visiting.

The situation is much worse on the job. Dining with fellow blacks I have been accused of “acting white” because I placed my napkin on my lap. Black people don’t eat that way, I was informed.

A co-worker once told me that I spent too much time reading books and that I should be in the ghetto getting a real education; that because I was a middle-class black who hailed from the suburbs I had not lived the black experience, nor had I lived real life. I wondered if there were blacks who longed for a day when the “black experience” could be seen in terms other than victimization and inferiority.

But I knew such individuals existed because I had met several who admitted they sometimes felt guilty about their success. Some said they would rather bear this agony silently than be labeled an “Oreo,” a disgraceful term used by many blacks to describe a person they feel is trying to be white. When our black academicians and politicians sanction and use such terms, one has to wonder what kind of moral and psychological atmosphere we want for our young people.

Mr. Hill is a senior at Georgia State University. Reprinted with permission of The Detroit News, a Gannett newspaper, copyright, 1990.

This startling revelation was brought home during a conversation I had with an office manager some time ago. Observing him daily, I had the distinct feeling he was more intelligent than he appeared to be. Our conversations confirmed that my assumption was correct. He eventually confirmed that he consciously repressed a great deal of his intelligence.

Since all his employees were black, he said, he was afraid he would be perceived as being arrogant and pompous. It was hard to maintain that degree of professionalism he knew was necessary, he explained, because he had to make his co-workers realize his office position had not alienated him from them. Proof of such commonality took forms such as tolerance of sloppy, vulgar behavior or using curse words. The manager did not want to be labeled as a betrayer of the race, the man who forgot where he came from. Why would any human being apologize for the best within him?

Another fellow, an intelligent college student whom I knew very well, who is an advocate of Black Power, declared that blacks are racially superior to any other group. I pointed out that besides being irrational, such a view had been extolled by other races to dominate other groups throughout history. He said I was nothing more than a self-hating "house nigger" who was selling out.

What I saw in him was the black slave master regulating our activities, defining our emotional, political, and psychological existence to conform to his guilt-ridden, intellectually bankrupt vision. I want no part of this vision.

We scream racism when the Klan hurls racial epithets. When blacks do the same against other races and against their own, it suddenly becomes justifiable. How can one condemn racism while practicing it?

I spent a long time attempting to discern the

nature of this mentality. I realized that in its most blatant and perhaps instinctual form it is tribalism. A tribalist mentality attempts to mold people's character and their values into the image of what constitutes tribal mores. Who are the definers of such values? Everyone and no one in particular. In such a culture, the individualist, the non-conformist, is resented.

It is truly unfortunate that those who dare to break from this hostage/captor mindset are forced to pay such a great price, often in the form of ostracism. Usually, however, the greatest price they pay stems from within. On the one hand the individual is torn between a sense of fulfilling his personal value system and of responding to new growth. But he is also torn by what he feels is his moral obligation to fulfill the implicitly understood code of "black values," even if assuming such a role means displacing and disowning his own personal feelings.

Slavery and years of government-sanctioned segregation forced the "black experience" to be one primarily of pain. But do we want to cling to the past forever? When the history of black people in this country is placed in the mainstream of academic consideration—not with any special consideration, but read simply as a part of world history—it would certainly be pleasing to read of the black experience as merging closer with the traditional American dream.

Until many blacks make a concerted attempt to see the members of other races and themselves as individuals, and start practicing healthy individualism, until they learn to see the universal qualities in education, art, literature, and ideas and stop this generalized talk about white values and white education, until they learn the importance of exploring values for mutual benefit, these psychological lynchings will continue unabated. □

A Matter of Choice

An individual has no choice about the color of his eyes, but he can choose to color his personality by a view of a gray, fogbound universe in which he feels hopelessly lost and powerless to comprehend; or he can color his personality by a view of a sunswept, integrated universe in which he feels at ease and confident in his ability to master.

—ANNE WORTHAM
"Individuality and Intellectual Independence"

IDEAS
ON
LIBERTY



The Right Not to Live

by William B. Irvine

Last December a pair of legal decisions drew national attention. In one case a Michigan judge dismissed a first-degree murder charge against Dr. Jack Kevorkian, inventor of a “suicide machine.” Janet Adkins, who suffered from Alzheimer’s disease, had used this machine to self-administer drugs that caused her first to lose consciousness and then to die.

In the other case a Missouri judge ruled that the parents of Nancy Cruzan, who had been in an irreversible coma since a 1983 car accident, could remove her feeding tube and thereby bring about her death.

What these two cases involve, of course, is the so-called right to die. Many have questioned whether we possess such a right. Indeed, there are those who argue that in order to preserve our right to life, the state should intervene to prevent us from killing ourselves.

I would like to argue that those holding such views are fundamentally confused about what it means to say that we have a right to something. More precisely, they are guilty of ignoring the difference between rights and duties. Indeed, I would even argue not only that we have a right to die, but that this right is in a sense *included* in our right to life.

What does it mean, after all, to say that I have a right to something, e.g., that I have a right to that rusted-out Plymouth Valiant in my driveway? It means in part that I can use it and can restrict others’ access to it (and that the state will back me up when I do so). It also means, however, that when I am done using it, I can give it away, sell it, dismantle it—indeed, that I can blow it up,

as long as I do so in a way that does not expose others to risk.

If the state defends my ability to use the Valiant but obstructs my ability to dispose of it, the state to some extent transforms my *right* to own the car into a *duty* to own it. And in the case of my Valiant, it is a duty that, as the years go by and the steel crumbles into rust, will become ever more burdensome.

Turning our attention back to matters of life and death, if the state declares that our right to life cannot be relinquished—if, that is, it declares that we cannot decide when and how we end our lives—it has not only deprived us of an important element of self-determination, but it has to some extent transformed our right to life into a duty to live—or, in the case of brain-dead people, into a duty to go on breathing. And it has harmed us in doing so.

It is, by the way, important to keep in mind that those who argue that we have a right to die are not arguing that sick people should be put to death against their will (they are not, that is, arguing that we have a duty to die); rather, they are arguing that terminally ill patients who are sound of mind should be allowed to die, if they choose to do so.

Furthermore, many advocates of a right to die are arguing that this right involves not just the right to be starved to death, as was the case with Nancy Cruzan, but the right to die quickly and painlessly, as was the case with Janet Adkins.

We would be mistaken, then, to suppose that the right to life is somehow in conflict with the right to die. To the contrary, the right to die is an inherent part of the right to life. And anyone who truly values the lives of his fellow human beings will respect not only their decisions about how they live their lives, but also their decisions about how they die their deaths. □

The Conservative Constitution

by John Chamberlain

Russell Kirk calls his generally excellent new book *The Conservative Constitution* (Regnery Gateway, 241 pages, \$22.95). The word "conservative" is correctly calculated. The famous 55 men, leaders in their own colonies, wanted to avoid a revolution. They were bent on retaining the historic rights of Englishmen. It was King George III who was the revolutionist, bound to revive the discredited divine right of kings.

So the 55 men—Madison, Hamilton, John Adams, Washington, and the rest—cut loose from Britain, though a bit reluctantly. They followed Montesquieu, who wrongly saw a tripartite division of powers in the unwritten English constitution. Kirk would like to think that Edmund Burke, a friend of the colonists who had no desire to see them separated from England, had more to do with the spirit of the American Constitution than John Locke, who gets a credit deriving from the part he played in the Glorious Revolution of 1688. It just so happened that Edmund Burke was too wrapped up in heading the English opposition to Robespierre and the revolutionary French Jacobins to pay any direct attention to 55 men in Philadelphia.

Just who read Burke and who read Locke are matters for argument. Russell Kirk does his best to get at the truth of influence. Charles Beard, the historian, was insistent that the 55 men had economic interests to protect. Kirk does not disagree. But he writes that factors other than economic interests strongly influenced the delegates, "and their votes at the Convention do not follow the pattern that Beard thought he had discerned; nor did ratification of the Constitution in the several states actually follow the lines of Beard's economic interpre-

tation." The flaw in Beard's thesis is "the hard fact that mercantile, manufacturing and public-security investments were not the more important property holdings of the Convention's delegates." Agricultural property, particularly in the case of the richer delegates, bulked far larger in value. "There occurred no contest at the Convention between capitalist and farmer, nor any other discernible class conflict along economic lines."

The Beard thesis that the line of cleavage was between personal property interests (capitalistic classes) on the one hand and small farming and debtor interests on the other is, as Alabama's Forrest McDonald told Kirk, "entirely incompatible with the facts."

McDonald, a good Hamiltonian researcher, had undone Beard by following Beard's own methods, but with greater thoroughness. Kirk is perfectly safe in taking McDonald's word. But this leads to a great injustice. It so happens that a Michigan professor, Robert E. Brown, anticipated both McDonald and Kirk by some 30 years.

When I was doing the review column for *The Wall Street Journal* in the fifties, my editor, Vermont Royster, handed me Brown's pioneering critical analysis of Beard, a book called *Charles Beard and the Constitution*. You might find this interesting, said Royster.

Indeed I did. Let me quote from my own flabbergasted review column. "As things were actually constituted," I wrote, "the America of 1787 was an agrarian nation in which property was widely and beneficently diffused. As Professor Brown puts it, quoting Gouverneur Morris, 'At least 90 percent of the men were voters because they were freeholders.' Some 97 percent of the people lived in

rural areas, and the local freehold voting qualification admitted the small farmers, including the debtors among them, to the franchise. States in which farming was practically the sole economic interest were among the first to ratify the Constitution. And towns whose citizens owned a lot of 'personality' actually voted to reject the document that had been allegedly rigged in their interest. . . .

"The Founders felt, and rightly felt, that they had a mandate from the people to balance the powers in such a way that the tyranny represented by King George III would never be repeated in America. And, while they admittedly had economic motives, their main effort was to protect the life, liberty and property (small farms included) of everybody, not merely the few who had put their money into movable securities which would benefit by the funding of the debt."

I concluded my review of the Brown book by saying that it failed to give justice to the totality of Charles Beard's work. Beard ended his life believing that the Founders had wrought well. He said many interpretations, economic, moral, and esthetic, were possible. Later I played the part of honest broker when Henry Luce lured Beard into doing a piece extolling the Constitution as a document in which moral factors were even more important in history than economic.

None of my praise for Brown should detract from Kirk's book. It is sound even though he gets some of his figures from a secondary source. My only consideration here is to see that pioneers get credit. I am sure Russell Kirk would agree with me. □

**UNFINISHED BUSINESS:
A CIVIL RIGHTS STRATEGY
FOR AMERICA'S THIRD CENTURY**

by Clint Bolick

Pacific Research Institute for Public Policy, 177 Post Street, San Francisco, CA 94108 • 1990 • 159 pages • \$24.95 cloth, \$12.95 paper

Reviewed by Steven Yates

One cannot close the cover of this new book by the author of *Changing Course: Civil Rights at the Crossroads* (Transaction, 1988) without a disquieting sense of how fragile a thing economic liberty really is: how it depends crucially on the recognition of certain principles

and their embodiment in law, and how easily these principles can be compromised.

It is clear that the civil rights movement is in a deepening crisis. We once heard calls to create conditions for black empowerment by removing the legal obstacles restricting blacks' economic activities; now we see preferential treatment, set-asides, and group entitlement-claims. We have witnessed the empowerment of bureaucrats instead of blacks, the rise of victimology as a growth industry whose clients now outnumber non-victims, the smothering of institutions by all sorts in Federal regulations, and the gradual deterioration of race relations. Meanwhile, evidence is mounting that current civil rights policies leave average blacks no more well off than before and even discourage their economic advancement.

But these remarks only go so far. After all, the problems such strategies were intended to address were real. For years, Constitutional commitments to equality of all citizens under the law were marred by slavery and, later, by the legally sanctioned exclusion of members of nonwhite ethnic groups from significant economic influence. So once we note that "conventional" civil rights strategies fail to rectify things, the next question is, "Where do we go from here?"

Unfinished Business takes up where critics of affirmative action leave off, and offers a strategy very much committed to a free society and a market economy. Bolick's roots are in the 18th-century natural rights tradition, particularly Thomas Paine's version of it. This tradition emphasized individual natural rights and accompanying responsibilities in civil society, a limited government, and equality of all citizens under the rule of law. Civil rights, in this view, are individual rights embodied in and protected by civil law.

Thus the struggle for civil rights must not be merely a struggle *against* discrimination but also *for* individual rights, including the right to own property, to trade one's skills for money on an open market (the right of entrepreneurship), to assemble and bargain for wages, and so on. Excluded are all forms of coercion against other people, including entitlements that can be fulfilled only at the expense of others. Bolick follows F. A. Hayek in noting that liberty is a *negative* concept, the *absence* of coercion by others. This, Bolick argues persuasively, is the real heritage of the civil rights

movement; what has happened in the past two decades is an aberration that shouldn't be seen as a real civil rights strategy at all (his term for it is "civil rights revisionism").

The original civil rights vision was an ideal that had to be implemented gradually over a long period of time. Its first phase began with the formulation of the concepts of natural rights and of political and economic liberty by John Locke, Thomas Paine, Adam Smith, and others, leading to the Declaration of Independence and culminating in the writing and signing of the U.S. Constitution and the Bill of Rights. The abolition of slavery and passage of the 13th and 14th Amendments, with the latter's equal protection clause, was its second phase. The third phase culminated in the Civil Rights Act of 1964 and the Voting Rights Act of 1965 which, in their original interpretations, did away with the last of the laws designed to keep blacks "in their place" and would have prepared the way for an increasingly color-blind society in which, to abbreviate Martin Luther King, individuals would be judged solely on the content of their character—and, of course, on their abilities. As a civil rights attorney with experience in the Justice Department and the Equal Employment Opportunity Commission, Bolick has some specific views on what led to the downfall of the original civil rights vision, and this brings us to specifics.

After the Civil War, the 14th Amendment applied equal protection to all citizens regardless of skin color, but new state laws soon restricted the activities of blacks, particularly in the South. The Civil Rights Act of 1866 was designed to protect blacks against such laws and reaffirm the role of the federal government in protecting individual liberties. But two Supreme Court rulings soon weakened its effects, leaving the door open for government to parcel out favors to some and erect barriers against others on the basis of race.

The first Supreme Court ruling was the *Slaughter-House* decision in 1873; the second was the better known *Plessy v. Ferguson* in 1896, which established "separate but equal" educational facilities. In the first, the Court upheld five-to-four a Louisiana state law that four years earlier had granted a monopoly to certain slaughterhouses in the New Orleans area and ordered others closed, in effect barring newcomers or "outsiders" from entry into a market. The Court's reasoning used a

restricted interpretation of the equal protection clause, in effect dividing citizenship rights into two categories, those of the country as a whole and those of the individual states.

Slaughter-House set a dangerous precedent that was used to uphold similar laws in other states and led to a decline in the willingness of the Federal judiciary to defend economic liberty. In the arena of race relations, it permitted "separate but equal" facilities years before *Plessy*. In the professions, its eventual effect was to permit a legally protected formation of machinery that privileged some at the expense of others. "Establishments" developed in the professions that could protect themselves from competition with an arsenal of government regulations, contracts, and licenses aimed at discouraging or even blocking the advances of outsiders. Such laws did not discriminate against blacks, as such, but rather against outsiders who included nearly all blacks.

As for *Plessy*, the conventional wisdom has it that this decision was effectively overturned by *Brown v. Board of Education* after a long struggle by the NAACP. But to borrow an expression from affirmative action's backers, what was overturned was the letter but not the spirit of *Plessy*. While the "separate but equal" doctrine was repudiated, left intact was the view that government can rely on special "racial facts" as a basis for legislation, and therefore can classify people on the basis of race if such classifications are "reasonable." Thus was the door left open to civil rights revisionism, which has set the agenda for the last two decades.

The cornerstone of Bolick's strategy, then, is bold: to chip away at *Slaughter-House* type legislation until this crucial decision can be overturned, the culmination of an effort similar to the NAACP's campaign to defeat *Plessy*. The overturning of *Slaughter-House*, given its precedent-setting status, would clear the way for a return to judicial protection of fundamental economic liberties for individuals and for full Federal enforcement of the equal protection clause. Such a decision could then serve as the basis for eventually removing every law requiring group classification and every provision protecting some at the expense of others. Then the struggle for civil rights can be set back on course as a struggle for individual economic empowerment in a free market society—a struggle depending on equal protection,

creating conditions for individual self-empowerment through individual action.

In other words, today's situation is the result of two mistakes: the abandonment of the doctrine of individual natural rights and the compromising of the equal protection clause. Both are necessary conditions for economic liberty, in its turn a condition for individual empowerment, black or white.

Unfinished Business is a powerfully argued work, with a wealth of legal citations and a number of case studies illustrating how civil rights revisionism has worked to the detriment of the people it originally set out to help. But Bolick doesn't answer all the questions. One potential problem is that Bolick, like many others, wishes to separate the concept of *affirmative action* from that of *quotas* in order to argue for affirmative action strategies that avoid quotas. This introduces confusion for, contrary to Bolick, when the former term was introduced it had no "original and highest meaning" or any clear meaning at all. This might seem a quibble; but it was partly the abuse of language by civil rights revisionists that created our present dilemmas. Rather than calling his strategy for black empowerment a kind of affirmative action, he should recognize that this term belongs in the vocabulary of the revisionists and accordingly drop it altogether.

As we conclude *Unfinished Business*, a far more troubling question arises, one that returns us to the reflection in my first paragraph. Bolick's premises are clearly stated throughout, and his emphasis on the need for litigation shows that the protection of individual economic liberties by government is no easy matter either to institute or to preserve. This is an issue which freedom philosophers are eventually going to have to address in more detail: individual liberty, the freedom from coercion by others, is neither self-establishing nor self-preserving, as history shows conclusively. Hence it is agreed to be a legitimate function of government to protect it. But how much governmental machinery are we looking at here? Could we find ourselves in the unenviable position of having derailed the drift toward social engineering only to replace it by an arsenal of new rules, this time in the name of economic liberty? Without careful development in the context of particular situations, calls for economic liberty and equal protection will degenerate into slogans. Bolick knows this; accordingly, he does not present

them as universal panaceas. But the issue of how much governmental and legal machinery is required to safeguard individual economic liberty in an imperfect world bears pondering.

Unfinished Business has the merit of proposing a strategy based on principle instead of expedience—even if it doesn't answer every question, offering not a new direction so much as a proposal to get an old one back on course. Everyone involved in one way or another with the civil rights issue can benefit from reading this book. □

Professor Yates teaches in the Department of Philosophy, Auburn University.

THE GREATEST-EVER BANK ROBBERY: THE COLLAPSE OF THE SAVINGS AND LOAN INDUSTRY

by Martin Mayer

Charles Scribner's Sons, 866 Third Avenue, New York, NY 10022
1990 • 368 pages • \$22.50 cloth

Reviewed by William H. Peterson

Martin Mayer, the wise and witty author of *The Bankers* and *The Money Bazaars*, here spins out a tale of wantonness, of banking naivete, dereliction, and culpability reaching into the highest levels of government and business. The culpability is not without irony—the culpable include high government officials such as "the Keating Five," then-Speaker of the House Jim Wright, and other assorted banking regulators elected or appointed to protect the public trust against, ironically, the very malefactors or bunglers they themselves became.

The irony brings to mind Juvenal's unanswerable enigma: "*Sed quis custodiet ipsos Custodes?*" (But who is to guard the guardians themselves?) It also brings to mind Acton's oft-demonstrated truth on the corruptibility of power as well as the regulatory implications of *McCulloch v. Maryland*, the landmark case of 1819 in which Chief Justice John Marshall forbade a state from taxing the Federally chartered Bank of the United States on the grounds that "the power to tax involves the power to destroy"—a line that could be rewritten to the effect that "the power to regulate involves the power to destroy."

In this closely detailed account of recent banking regulation and resulting repercussions, Mr. Mayer

names names (including that of Neil Bush) and reveals the extraordinary ins, outs, and dimensions of the S&L scandal. He makes it clear that the scandal grew from regulatory roots reaching back more than a half-century to the New Deal, that thus was born today's "made-in-Washington" debacle. This debacle will end up costing American taxpayers upwards of \$500 billion over the next 50 years, dwarfing the scandals of the Credit Mobilier in the Grant Administration or the Teapot Dome in the Harding Administration.

Here then is reference to the brazenly named bipartisan Competitive Equality Banking Act of 1987, passed by a Democratic Congress and signed by Republican President Reagan well after everyone inside the Beltway knew the S&L dam had broken, explicitly charging regulators to exercise "forbearance" so as to alleviate insolvent thrifts which should have been immediately shut down, stemming losses that were snowballing day after day—lost money to be made good by the nation's perennial forgotten man, the taxpayer.

Or here are background and details on the central role played by the PAC-financing U.S. League of Savings and Loan Associations, the octopus lobby with virtual veto power over S&L legislation, a situation reflecting one more example of Milton Friedman's brilliant perception of an "iron triangle" or cabal ever at work in Washington (apart from state capitals) of legislators, bureaucrats, and organized interests.

Or here is the bipartisan Democratic Congress-Bush Administration's Financial Institutions Reform, Recovery, and Enforcement Act of 1989

(FIRREA). FIRREA's centerpiece was an initial injection of \$50 billion into the Resolution Trust Corporation, a newly created government agency serving as the receiver for busted S&Ls and making certain that insured depositors got their money back.

But once again Congress and President Bush ducked the hard questions, especially of what to do about government deposit insurance, which continues serenely along at \$100,000 per account (which originally topped out at \$2,500 per account). Comments the author: "Deposit insurance has been an entering wedge for the socialization of losses, for establishing governmental safety nets not only under those who cannot take care of their own interests but also under active and consenting adults who demand to be rescued from the consequences of their own mistakes."

The looting of insured deposits is what this book is all about, validating the idea of Ludwig von Mises that intervention breeds intervention, that interventionism only makes bad situations get worse and worse. Martin Mayer may be a bit shy of putting forth the philosophy of limited government and free market economics (hardly *de rigueur* in a book of this type), but he performs an invaluable public service as he traces corruption between government and business, calls a spade a spade, an inveigler an inveigler. In this era of cover-ups of public venality, that's something. □

Dr. Peterson, an adjunct scholar at the Heritage Foundation, holds the Burrows T. and Mabel L. Lundy Chair of Business Philosophy at Campbell University, Buies Creek, North Carolina.

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Why Welfare Fails

First, government has no money of its own. What money it spends must be taken from the people, or borrowed in the people's name. Therefore, when it takes money from some people and gives it to other people, it is engaging in legal plunder.

Second, the forced transfers are two-edged: those from whom the money is taken are aggrieved, while the recipients are demoralized—they have given up some responsibility in exchange for some dependence.

Third, to the extent that they are dependent, the recipients are less inclined to work harder to improve their condition or to save for retirement.

Fourth, once the transfers have begun, they build their own momentum. The bureaucracy that administers them has a self-interest in expanding both its clientele and the range of transfers it offers.

Fifth, by definition the transfers are taken from the productive sector. More and more of the wealth it creates, instead of being reinvested for the benefit of the whole society, is diverted into consumption.

—KENNETH McDONALD
Toronto, Canada

Too Many People?

The fact that a country is poor . . . does not mean it is overpopulated. . . . China has the same population density as Pennsylvania. Countries like Taiwan, with five times China's population density, and South Korea, with four times the density, out-produce her four and five times respectively. Is the problem too many consumers or too many commissars?

—FRANK RUDDY, writing in the
May 1990 issue of *Crisis*

Red Tape in Bangladesh

It is in the Second Nine-Story Building at the Government's central Secretariat that much of life in this nation of 100 million people slows to a standstill.

Here, in their offices along dark, winding corridors, some of the Government's 1.2 million bu-

reaucrats sit almost motionless amid towering stacks of dusty files tied neatly, by 19th century British tradition, in red tape.

"We move a file from here to there, but no work is done," said a senior Government official. . . .

"The more senior the officer, the higher the stack of files on his table, said A. R. H. Doha, a former Foreign Minister who said one of his main accomplishments in office had been to throw heaps of 40-year-old files out of the window. . . .

Each day, outside the guarded gates of the Secretariat buildings, scores of petitioners gather to pursue the fate of their applications, some of which, tied with a delicate bow in red—or white—tape, have been waiting action for years.

—*The New York Times*

Twenty Miles

While driving to Delaware recently, I crossed the George Washington Bridge from New York City to New Jersey. As I went over the bridge, I glanced at the odometer; it is 20 miles from FEE to the bridge.

You see a lot in those 20 miles. There are palatial homes, middle class neighborhoods, and the slums of the very poor. How, I wondered when I returned to my desk the next day, can we reach so many different people?

On one level, of course, we do reach people from all walks of life. *Freeman* articles appear in newspapers across the United States, from the *Street News* hawked by New York City's homeless to *The Wall Street Journal*. Our Spanish-language translations appear throughout Latin America. *Reader's Digest* reprints *Freeman* articles in several languages around the world. *Freeman* authors even appear on talk shows.

But on another level, the written and spoken word can only go so far. Our message can help people to understand the freedom philosophy; it can inspire them to want to learn more. But in the final analysis, real change must come from within our own homes, our own families, from within ourselves as individuals. We must serve as exemplars, and live the philosophy we espouse. Then we will reach the most important people in our lives, and,

with patience and consistency, our message will spread to the ends of the earth.

—BRIAN SUMMERS

Environmentalism and Capitalism

Our planet's environmental problems will only worsen if the artificially created gap between environmentalism and capitalism is allowed to widen. Although far from perfect, a free market is the most efficient way of distributing commodities to consumers. This basic principle holds true whether that commodity is bread or clean air. It is no coincidence that there is a dire shortage of both bread and clean air in the Soviet Union. Instead of suppressing capitalist forces, environmentalists should harness these forces to the planet's benefit.

—GRANT THOMPSON, writing in the December 1990 *Carolina Critic*

A Big Mistake

Todor Zhivkov, Bulgaria's deposed Communist dictator, long regarded as the East bloc leader most subservient to Moscow, looked back on his long political career during an interview . . . and said it was all a big mistake.

"If I had to do it over again, I would not even be a Communist, and if Lenin were alive today he would say the same thing," said Mr. Zhivkov as he sat in his granddaughter's luxurious villa on a hillside above Sofia, where he remains under house arrest.

Mr. Zhivkov, 79 years old, ruled Bulgaria for 35 years before being forced to resign just over a year ago. He said he began to doubt the Communist system in the mid-1950s and realized after the rise of Mikhail S. Gorbachev in the Soviet Union that Communism's underpinnings were faulty.

"I have been a soldier, I have been a Communist, it is my deep belief and conviction that I served my people and my country," Mr. Zhivkov said. "But I must now admit that we started from the wrong basis, from the wrong premise. The foundation of socialism was wrong."

—CHUCK SUDETIC, writing in the November 28, 1990, issue of *The New York Times*

What Garbage Crisis?

by Charles W. Baird

Last November, several state-wide environmental initiatives—most notably California’s \$12 billion “Big Green” and a \$2 billion New York bond issue for land acquisition, dump closures, and recycling subsidies—failed to pass. Big Green was defeated by a 2-to-1 margin. The then-emerging economic recession has been given most of the credit, or blame, for these outcomes, but there is more to it than that.

The general public is, at long last, beginning to take a more cautious, critical attitude toward the claims of the environmental establishment. Environmental values are still important to the electorate, but so too are other values such as common sense, individual freedom, property rights, jobs, and economic well-being. Moreover, the general public is beginning to recognize that much environmental hectoring consists of gross exaggerations and sometimes, as in the case of Big Green, directly contradicts elementary scientific principles as well as readily available evidence.

For example, the advocates of Big Green overstated the risks of pesticides on fruits and vegetables by 2,600 to 21,000 times.¹ If they had won, produce grown outside of California that didn’t meet Big Green’s pesticide standards could not have been sold there, and the prices of California produce would have risen dramatically. Most physi-

cians agree that eating fresh fruits and vegetables is a good way to reduce the incidence of cancer in the digestive system. As University of California biochemist Bruce Ames has pointed out, if Big Green had passed, Californians would have eaten fewer fresh fruits and vegetables and therefore would have increased their risk of getting cancer.²

Environmental extremism has become the principal means by which many collectivists hope to achieve their dream of a thoroughly regulated, controlled, and planned economy.³ The Red Star is burned out, but the Green Star is rising.

A Quasi-Religion

Consider, for example, the alleged garbage crisis. This year, Congress must decide whether to reauthorize the Resource Conservation and Recovery Act, which is the principal Federal waste disposal law. There is no doubt that Congress will indeed reauthorize this act, and, if the Green Lobby has its way, the law will be substantially strengthened. For example, recycling, regardless of whether it is cost efficient, will be made mandatory for everyone throughout the country.

Environmentalists have already done substantial propagandistic groundwork. For example, recent TV pictures of garbage-laden barges in search of a dumping place were skillfully used by the Greens to suggest that the U.S. is about to drown in municipal solid waste unless we sinful, profligate American consumers reduce our wasteful consumption and take the recycling pledge.

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And sin is what they have in mind. For many environmentalists, pantheism has replaced belief in a transcendent God who grants human beings dominion over the earth and all its creatures. This new (actually it has ancient roots) “earth womb” religion comes complete with its own creed.

One of its most important doctrines is the recycling of municipal solid waste. Landfill sites, the litany goes, are scarce, and, in any case, they are hazardous. Incineration, the litany continues, is unthinkable because of the resulting air pollution and the dangerous content of much of the resulting ash. There are, the litany goes on, only two legitimate acts of contrition—recycling and less consumption. The litany ends with “Go in peace, and abstain from plastics. Thanks be to Mother Earth.”

Landfilling

There is no shortage of geologically safe, potential landfill sites in the United States. Japan, a land-poor country, has 2,400 operational sites. In the land-rich U.S., there are only 4,800. While it is true that one-half of existing landfills are due to close in five years, that is always the case—landfills are designed to stay open, on average, only 10 years.

State-of-the-art landfill technology makes it possible for all new sites to be environmentally safe and people-friendly. There are vast, empty regions in the West and Southwest that aren’t used by anyone for any purpose that could be developed into environmentally safe landfills. Only politics and pantheism stand in the way of common sense.

Private landfill owners have strong economic incentives to use liners, install leachate and methane gas collection systems, and include groundwater monitoring systems. It is only on government-owned landfills that scant attention is paid to such amenities. The reason is simple—private owners are liable for the damages they create, and government operators are not.

Similarly, it is in the interests of private owners to charge fees that reflect the full costs of collection and disposal, which include landfill closure and post-closure maintenance costs. Such fees will be different for different kinds of waste. Individuals and businesses can make rational choices about the composition and quantities of what they dump only if disposal fees embody the true costs of that activity. Municipal disposal fees, politically set, are

usually uniform for all kinds of waste, and they typically cover only current operating expenses. This encourages over-dumping and lack of attention to the composition of the waste.

Moreover, closed landfills don’t have to be dead land. Housing developments, golf courses, and conference centers are only three types of already successful post-closure landfill uses.

The way to overcome the alleged shortage of landfill sites is to get politics out of the way. All existing landfills should be privatized, and government should get out of the landfill business.

The proper role of government in this matter is judicial. If courts held private landfill operators strictly liable for the real harms they impose on others, the operators would internalize those costs and make appropriate decisions thereon. To overcome the not-in-my-back-yard (NIMBY) attitude of most people toward landfill siting, operators would have to offer compensation to people whose property would be in close proximity to landfills. Thus residential and commercial sites that have already been developed would be avoided.

Incineration

State-of-the-art incineration technology makes it possible for new combustor sites to be constructed and operated that would be environmentally safe and people-friendly. According to the U.S. Conference of Mayors, “The technology exists to carry out, monitor, and control the processes of incineration of municipal solid waste (inclusive of ash residue management) in such a way as to completely ensure that potentially harmful constituents are not expected to pose risks to humans and/or the environment which would normally be of regulatory concern.”⁴

We incinerate only 14 percent of our municipal solid waste, and the Environmental Protection Agency (EPA) has set a target of 20 percent for 1992. In contrast, Japan safely incinerates over 60 percent of its waste.⁵ Air pollution from incineration is no longer a problem. Even much of the resulting ash can be put to good use—in secondary road construction, for example. The rest can be safely landfilled. If we incinerated at the same rate as the Japanese, we would cut our need for landfill space by almost half. Only the irrational opposition of environmental zealots and the NIMBY phenomenon prevent us from siting, constructing,

and operating sufficient new incinerator facilities. Just as with landfill siting, NIMBY can be overcome with offers of compensation. Prudent choice of incinerator sites would minimize the compensation bill.

Furthermore, the energy released through incineration can be converted to electricity. Waste-to-energy incineration would reduce our consumption of nonrenewable fossil fuels in electricity generation. About 40 percent of landfill waste is paper and paper products. Paper is a renewable resource. If we incinerated the paper we now send to landfills we would ameliorate two problems with one stroke.

The state of Maine has moved toward prohibiting private ownership of new incinerators, but rational public policy dictates just the opposite. If private owners are held liable for the damages they cause, and if government sets standards while monitoring private operators for compliance, we will have safe and effective incineration. If government agencies operate incinerators, less care will be taken. The reason, again, is simple—private owners have their own wealth at stake, government operators do not.

Recycling

Recycling is not what it is cracked up to be. While it makes economic sense to recycle some things, especially aluminum and ferrous metals, recycling other things, such as most paper, does not. There are already more stored old newspapers waiting to be recycled than the demand for recycled paper can absorb. Much recycled paper is too poor in quality to be used effectively in printing. The bleaches used to de-ink paper during recycling are toxic and present their own environmental problems.⁶ Moreover, most paper comes from trees specifically planted for that purpose. If the demand for new paper is reduced by forced recycling, fewer such trees will be planted. Recycling of paper can be anti-green.

The irrational attachment of EPA bureaucrats to recycling was illustrated by their proposal last December that all municipal waste incinerators be required to recycle 25 percent of the trash they received for burning, notwithstanding any considerations of the cost and benefits of doing so. Fortunately the Vice President's Competitiveness Council quashed

that regulation before it took effect.

The best way to get people to be careful about what they discard is to charge them by-the-can or by-weight garbage collection fees based on the composition of what is discarded. The city of Seattle has set a target of recycling 60 percent of its trash by 1998. Its current recycling rate is 37 percent, the highest in the nation.⁷ Seattle's "pay as you throw" system imposes differential disposal fees for various kinds of waste based upon their disposal costs. Seattle adopted its program as an alternative to the construction of a large incinerator facility. Although its municipal solid waste disposal problem has been ameliorated by this sensible pricing policy, recycling alone will not suffice. The 60 percent target is unattainable without large subsidies. Sooner or later the citizens of Seattle will have to reconsider the incineration alternative.

Thirty-nine percent of American cities don't charge for garbage collection. Of those that do charge, half impose flat fees that are unrelated to the amount and kind of garbage collected. Thus about two-thirds of American cities provide no direct incentive for households to consider the costs of their garbage disposal decisions.⁸ If recycling must be done, the implementation of differential fees based on the separation or non-separation of recyclables and the characteristics of what is discarded is the best way to accomplish the task. Direct command regulations enforced by garbage police and neighborhood monitors should be anathema to Americans. Worse yet is the real danger that school children will be encouraged by their environmentally conscious teachers to become garbage police deputies at home as they try to instruct their parents in environmentally correct thinking and acting.

Plastics

"Plastics" is not a four-letter word. McDonald's recent capitulation to the environmental establishment on the use of polystyrene foam containers was an act of infamy. It is testimony to the power of the environmental priesthood that McDonald's felt it had to take this public-relations step to defend its goodwill capital. Ironically, McDonald's switched from paper to plastic in the 1970s at the behest of environmentalists who were then concerned about excessive harvesting of trees.

Styrofoam is clearly superior to paper in hot

food and drink containers. Moreover, plastics are just as recyclable as paper. Almost 200 companies are in the business of recycling plastic food containers, milk containers, bottles, knives, and forks into such products as carpet backing, paint brushes, scouring pads, appliance handles, floor tiles, automotive parts, and fiberfill for pillows, sleeping bags, and ski jackets. High density polyethylene plastic is recycled into such things as traffic cones, trash cans, and plastic lumber.

Plastic takes up less landfill space per comparable item than does paper and, unlike paper, plastic will not decompose and produce leachate that could find its way into groundwater. Polystyrene foam makes up only one-quarter of 1 percent of landfilled waste, and all plastics make up only 8 percent. Paper, in contrast, constitutes 40 percent.⁹ Moreover, plastics, just like paper, can be safely incinerated. There are simply no grounds for the widespread plastiphobia that the environmental zealots have created.

The Aseptic Package

Many environmentalists seem to fear and loathe any kind of technological innovation irrespective of its environmental impact. The aseptic package is an excellent case in point.¹⁰

An aseptic drink box, for example, can store fruit juices for extended periods without refrigeration or chemical preservatives. These boxes, in single-serving sizes, are sold in most supermarkets across the country. They have become popular with consumers who wish to include such beverages with packed lunches at school or work. They are unbreakable, light in weight, use less material than any other packaging alternatives including those that require refrigeration and chemical preservatives, are energy efficient in production, and have the lowest environmental impact of any alternative single-serve package on the market.

Notwithstanding the fact that in 1989 the Institute of Food Technologists voted aseptic packaging to be "the outstanding food processing technology of the last 50 years," the state of Maine, in that same year, at the behest of environmentalists as well as producers of alternative packaging, banned it. The ostensible reason was that since

aseptic packaging takes more packages to hold the same volume of product as a larger package of a different type, aseptic packaging increases the amount of discarded waste.

But this is a non sequitur. For any volume of product, the total amount of packaging material required by aseptic packaging is less than that used by any alternative. It takes more separate boxes, but all those boxes together require less material than one larger package of a different type that could hold the same volume of product. Maine's action cannot be defended on rational grounds. It was decision-making on the basis of misinformation, superstition, and ignorance.

We should forsake the environmental priesthood and adopt an integrated approach to municipal solid waste management. Such an approach would include sensible landfilling and incineration along with recycling and prudent packaging decisions, all based on cost-benefit comparisons. If we adopt that strategy, the "garbage crisis" of the 1990s will be seen to be as chimerical as the "energy crisis" of the 1970s, and for the same reason. Both were caused by faulty government policy. The cure is simple: discard counterproductive government interventions, privatize, get the prices right, and allow individuals, guided by those prices, to make their own choices. □

1. Warren Brookes, *Revenge of the Killer Watermelon: California's Big Green Initiative* (San Francisco: Pacific Research Institute, July 26, 1990), p. 5.

2. Bruce N. Ames, oral discussion of "Misconceptions About Environmental Pollution and Cancer," paper presented at the General Meeting of The Mont Pelerin Society, Munich, Germany, September 3, 1990.

3. Robert James Bidinotto, "Environmentalism: Freedom's Foe for the '90s," *The Freeman*, November 1990, pp. 409-420.

4. *Incineration of Municipal Solid Waste: Scientific and Technical Evaluation of the State-of-the-Art* (Washington, D.C.: U.S. Conference of Mayors, February 1, 1990), p. 8.

5. Kenneth Chilton, *Talking Trash: Municipal Solid Waste Management* (St. Louis: Center for the Study of American Business, Washington University, September 1990), pp. 9-12.

6. Lynn Scarlett, "Integrated Waste Management: A Primer on Solid Waste Problems and Policy Options," paper presented at Integrated Waste Management Systems: A Seminar for Academics, sponsored by the Foundation for Research on Economics and the Environment, Seattle, Washington, November 2-4, 1990, p. 13.

7. Chilton, *op. cit.*, p. 12.

8. Scarlett, *op. cit.*, p. 5.

9. *Characterization of Municipal Solid Waste in the United States: 1990 Update* (Washington, D.C.: Environmental Protection Agency, June 1990), p. 10.

10. This section is based on Harry Teasley, Jr., President and CEO of Coca-Cola Foods, "Presentation on Aseptic Package to Maine Waste Management Agency," October 9, 1990.

The Samaritan's Dilemma and the Welfare State

by E. C. Pasour, Jr.

The parable of the Good Samaritan in the biblical story is well known. In traveling from Jerusalem to Jericho, the Samaritan came across and assisted a man who had been robbed and beaten by thieves and "left half dead." Under the circumstances of this event, the Samaritan is properly lauded for his exemplary conduct. However, as Nobel Laureate economist James Buchanan demonstrates, a dilemma frequently arises when a modern-day Samaritan's actions are generalized as a rule of conduct for individuals attempting to assist people in need.¹ What should a Samaritan do, for example, if the assistance rendered serves to increase the need for further help?

Most people have personally experienced the Samaritan's dilemma when confronted with winos and other street people "in need." On the one hand, there is a desire to help the less fortunate, some of whom cannot help themselves. On the other hand, there is the recognition that a handout may be harmful to the long-run interests of the recipient. It is shown below why this dilemma is likely to be resolved in a way that is socially more damaging when assistance is provided from the public till. Relatively little attention has been given to the inherent problems of the political process in effectively coping with this pervasive problem.

The Samaritan's Dilemma and Personal Choice

In a broad sense, a Samaritan can be viewed as anyone trying to help people in need. No dilemma

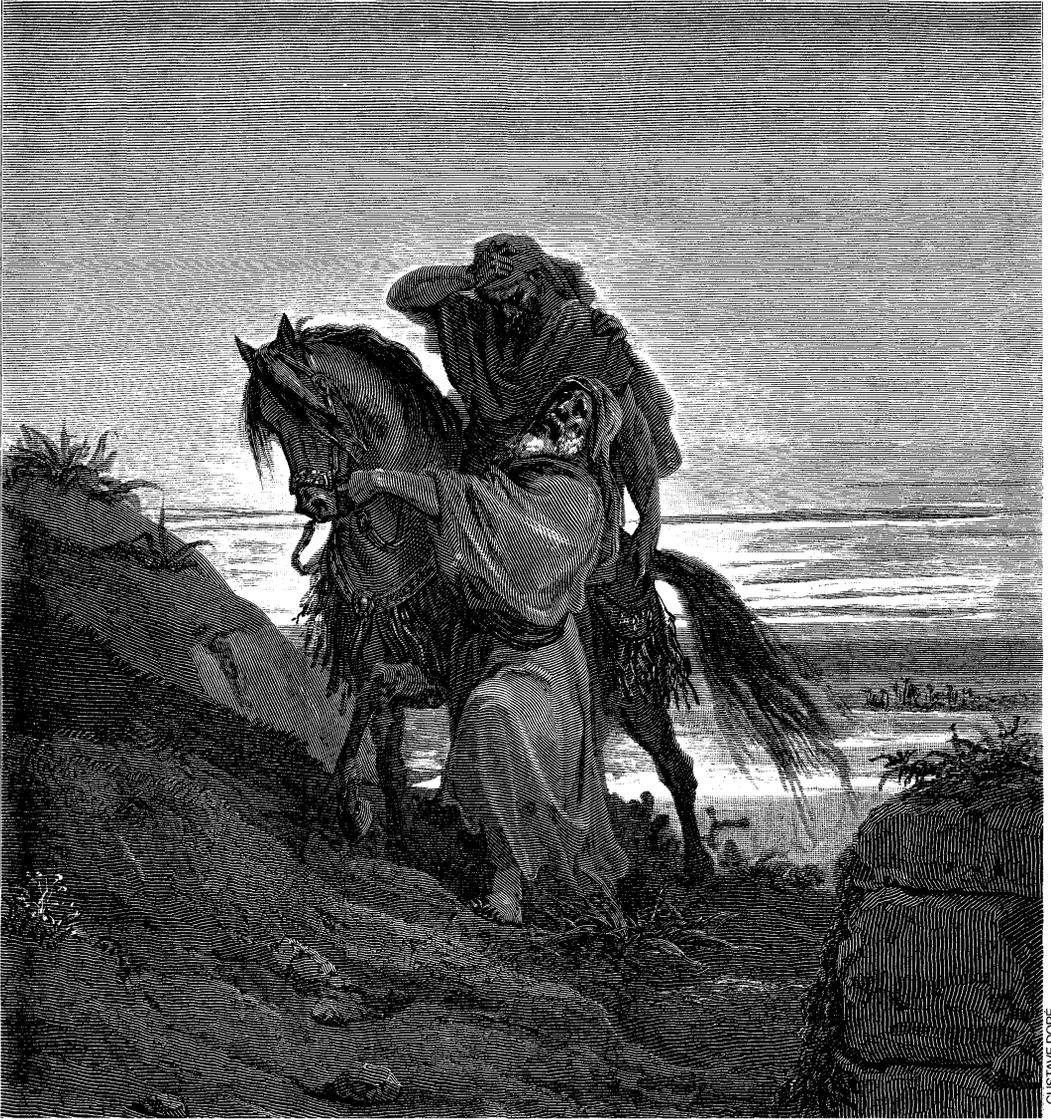
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arises for the Samaritan as long as the condition of being in need is beyond the victim's control. However, a recipient through foresight and effort generally can influence the likelihood of the ensuing condition that evokes offers of aid. Therefore, a dilemma arises for the Samaritan who attempts to do good, as suggested above, if the donor's action leads to an increase in the amount of need.² Moreover, this dilemma arises in personal choice situations in many different contexts when we as individuals try to extend assistance to other people.

The Samaritan's dilemma commonly is encountered in the home. Consider the discipline and rearing of children. Who can deny that the parent who succumbs to pressure from a pleading child to make a purchase while shopping has increased the likelihood that the child will exhibit similar behavior in the future? What should the benevolent parent do in such situations where short-run assistance is likely to create long-run problems? Similarly, should an individual permit a neighbor readily to borrow groceries or tools if this is likely to encourage the neighbor to be in chronic need of assistance?

In the academic area, Buchanan cites the example of the teacher returning exams. Increasing the grade of a single complaining student, one form of giving aid, is the easy thing to do in the short run. However, helping that student makes for long-run problems by increasing the number of student complaints.

The Samaritan's dilemma is inherent in private charity too. A dilemma arises generally because there is a positive relationship between the amount of work a person will do and the financial



GUSTAVE DORE

While the biblical Good Samaritan is properly lauded for his exemplary conduct, a dilemma frequently arises when a modern-day Samaritan's actions are generalized as a rule of conduct.

rewards received from work. Stated differently, there is a trade-off for the aid recipient between work (or income) and leisure.

Consider what happens when a Samaritan tries to assist someone less fortunate, with the more help extended the lower the income of the one in need. If the recipient realizes that the amount of assistance varies inversely with the amount of income earned, he has an incentive to reduce work and income earned. In this situation, the granting of financial aid exacerbates the condition that brings forth the assistance. The only way to avoid the socially undesirable outcome of reduced work

by the needy is to withhold the aid. Hence, the Samaritan's dilemma.

In short, the Samaritan's dilemma for us as individuals in this and other situations arises whenever the extension of aid increases the number of situations requiring aid. Thus, the Samaritan's dilemma is a pervasive problem as people respond individually to those in "need."

Although this dilemma cannot be avoided, we as individuals have an incentive to take a long-run rather than a short-run perspective in dealing with these situations. In the case of private charity where the aid comes from the Samaritan's pocket,

the individual donor has an incentive to monitor the effect of the aid on the recipient's conduct to prevent the recipient from taking advantage of the donor's benevolence. For example, few people today give unsupervised handouts to "street people."

The Samaritan's Dilemma and the Public Till

It is much more difficult to cope with the Samaritan's dilemma when low-income problems are addressed through the political process. Moreover, this dilemma is endemic in government programs to assist the poor. Henry Hazlitt, for example, describes two lessons that can be drawn from the effects of the dole in ancient Rome: "The first . . . is that once the dole or similar relief programs are introduced, they seem almost inevitably . . . to get out of hand. The second lesson is that once this happens, the poor become more numerous and worse off than they were before, not only because they have lost self-reliance, but because the sources of wealth and production on which they depended for either doles or jobs are diminished or destroyed."³

In short, in collectively assisting those less fortunate through the government dole, the number of the poor increased because work incentives were adversely affected.

The Samaritan's dilemma is no less important in government welfare programs today. Consider the food stamp program. The willingness of the state (the Samaritan) to offer food stamps will increase the perceived need for food aid. Moreover, the social problem created by state aid is made worse in this situation because both the recipient and the donor—including those enacting the legislation as well as those administering the program—have an incentive to overstate the need.

First, consider how a state-financed welfare program weakens the incentives by the donor (the state) to deal with the Samaritan's dilemma. A government program inevitably creates a political constituency that benefits from expansion of the program. The food stamp program, for example, provides an important source of political support to Congressmen having large constituencies of low-income people. Moreover, a bureaucrat's salary, perquisites, and patronage tend to increase as the bureau's budget increases. Therefore, gov-

ernment officials administering the food stamp program have a vested interest in expanding the scope of the program. Thus, it isn't surprising that the U.S. government has sponsored mass mailings and door-to-door recruiting campaigns to increase the number of people who will accept food stamps.⁴ In reality, the Samaritan's dilemma for taxpayers funding government transfers is of relatively little concern to those administering welfare programs.

Second, recipients of food stamps (and other welfare programs having a means test) have an incentive to under-report income. Moreover, information problems associated with administering a means test are formidable in the case of low-income workers having income that isn't reported for tax purposes. Thus, it is not surprising that implementation problems constantly plague the food stamp and other government transfer programs.

The problem the Samaritan faces in providing assistance is known in the insurance field as moral hazard. A moral hazard problem arises whenever an individual's behavior is affected because he is protected from the consequences of his actions. Thus, moral hazard means that insurance makes it more likely that the event insured against will happen and that a loss will be incurred. The Samaritan's dilemma is a moral hazard problem. The fact that the Samaritan offers aid will almost certainly affect the recipient's behavior and increase the "need" for aid.

In subsidized credit programs in agriculture, for example, easy credit is extended to farmers who "need a lower interest rate." Government officials here too have an incentive to find needy borrowers, and borrowers have an incentive to overstate their need to obtain the easy credit. Thus, government-run or -supervised credit agencies substitute political judgment for the discipline of the market. Cheap credit extended by the Farm Credit System and the Farmers Home Administration during the inflationary period of the late 1970s was partly responsible for the dramatic increase in farm bankruptcies and financial stress of agriculture during the mid-1980s.

A similar problem exists in government assistance to promote economic development in less-developed countries. Economist P. T. Bauer has shown that government programs to promote economic development instead are likely to retard the

political and economic changes necessary to promote economic growth.⁵

Economic assistance to the Soviet Union is an excellent current example of the Samaritan's dilemma in government aid programs. In late 1990, the news was rife with reports about food shortages and impending famine in the U.S.S.R. In response, the Bush Administration announced that the United States would extend some \$1 billion of economic aid in the form of guaranteed commercial credits for Soviet purchases of U.S. grains, poultry, pork, and other farm products. However, many economic and political analysts, including proponents of economic freedom within the Soviet Union, argued that such aid is a temporary palliative that in the absence of meaningful political and economic reforms is likely to impede rather than promote economic growth.

Will It Hurt or Help?

The Good Samaritan's conduct in the biblical parable is worthy of emulation because the situation encountered presumably was beyond the victim's control. However, in many contemporary situations, the aspiring Samaritan is confronted with a dilemma in dealing with people in need. There frequently is a down side to a Good Samaritan's actions—and not just because the ostensible victim may, as sometimes occurs today, turn the tables and rob and beat the Samaritan!

In determining whether aid of any given type is socially beneficial, we must consider whether it is likely to significantly increase the number and worsen the condition of victims needing aid. The donor is faced with a dilemma whenever the granting of assistance promotes the conditions that evoke such aid.

In private charity, for example, the dilemma for the benefactor is present as long as the recipient's work effort falls as income rises. If aid increases as the recipient earns less income, he has an incentive to reduce earnings to obtain larger gifts. The donor faces a chronic dilemma in attempting to abolish poverty because it is likely that some hunger and homelessness must be allowed for to avoid unduly promoting the conditions that elicit aid.

However, the individual donor who bears the cost of his own benevolence has an incentive to prevent those in need from taking advantage of his

willingness to help. Moreover, in the world of private charity, there is no particular individual or agency who bears final responsibility for letting someone go hungry if he refuses to work in the hope of getting a larger donation. This strengthens the attitude of individual responsibility and the credibility of insisting on self-help as a requirement for aid.⁶

The Samaritan's dilemma poses a more formidable social problem in the welfare state. Democratic governments are much less likely than private individuals to deal effectively with the dilemma when the government acts as a "safety net" or "charity of last resort." In this case, individuals whose earnings are just above the government's safety net have a strong incentive to quit working and take advantage of transfer programs. And, as shown above, there is a short-run bias on the part of those who legislate and administer welfare programs. When contrasted with private donors, government employees have an incentive to be less concerned with the long-run effects of aid on a recipient's behavior.

There is no way to avoid the Samaritan's dilemma in coping with people in need—whether the issue is homelessness, medical care, subsidized credit, or foreign aid. An offer of aid generally will bring about some worsening of the conditions that evoked the initial offer of assistance. However, the above analysis suggests that publicly funded aid is less effective than private charity in coping with this dilemma for two reasons. First, when compared with private donors, the welfare bureaucracy is likely to be less concerned about the societal dilemma inherent in assisting needy people because government employees benefit personally as the magnitude of the aid increases. Second, no one spends other people's money as carefully as he spends his own. □

1. James M. Buchanan, "The Samaritan's Dilemma," in Edmund Phelps, ed., *Altruism, Morality, and Economic Theory* (New York: Russell Sage, 1975), pp. 71-85.

2. A number of the examples used are taken from Richard E. Wagner, *To Promote the General Welfare: Market Processes vs. Political Transfers* (San Francisco: Pacific Research Institute for Public Policy, 1989).

3. Henry Hazlitt, "Poor Relief in Ancient Rome," *The Freeman*, April 1971, p. 219.

4. James Bovard, "Feeding Everybody: How Federal Food Programs Grew and Grew," *Policy Review*, Fall 1983, pp. 42-51.

5. P. T. Bauer, *Dissent on Development*, revised edition (Cambridge, Mass.: Harvard University Press, 1976).

6. Wagner, *op. cit.*, p. 173.

The Shame of the Church

by Norman S. Ream

In 1948 the World Council of Churches held its first assembly in Amsterdam, Holland. In Section III of its concluding report it issued a searing indictment of both Communism and capitalism in which the United States delegates heartily joined. Shortly thereafter, writing in *The Christian Century*, the Reverend John C. Bennett, a prominent American Protestant and a seminary professor, seeking to defend the Council's report, laid out four major indictments of capitalism:

1. Capitalism tends to subordinate what should be the primary task of any economy—the meeting of human needs—to the economic advantages of those who have most power over its institutions.
2. Capitalism tends to produce serious inequalities.
3. Capitalism has developed a practical form of materialism in Western nations in spite of their Christian background, for it has placed the greatest emphasis upon success in making money.
4. Capitalism keeps people subject to a kind of fate which has taken the form of such social catastrophes as mass unemployment.

These same charges have been laid at the feet of capitalism by prominent church leaders of nearly every major denomination for the past 70 years. I can remember in the 1930s hearing a prominent Methodist bishop, just returned from a guided tour of the Soviet Union, extolling the virtues of Communism over those of capitalism. In my seminary days near Chicago, the then-conservative *Chicago Tribune* was consistently ridiculed and

scorned by my professors for its defense of the limited government, private property, free market way of economic life.

Later on when I became a member of the social action committee of my denomination's state body, and it was proposed to endorse the United Nations Declaration of Human Rights that Eleanor Roosevelt had enthusiastically endorsed, I asked the other members of the committee how many had actually read the document. Not to my surprise, nary a one had done so. In their misguided idealism, they were supporting it because it sounded so good and were completely unaware of the traditional rights and privileges it would deny citizens of the capitalist United States.

Over and over again church leaders and church assemblies have passed resolutions that, in substance if not overtly, praised socialism and condemned capitalism. As a consequence, the Christian church and its leadership has made a large contribution to the denial of a higher standard of living and a larger measure of freedom to millions of men and women around the world.

No Perfect Society

Let us not hesitate to admit that capitalism has its faults. Those faults, however, are due primarily to the fact that human beings are human and capitalism gives these fallible human beings the largest measure of freedom in which to exercise their fallibility. As the church itself says, "All men and women are sinners." Or as the Bible puts it, "There is none good but one, that is God." (Matthew 19:17) Those same fallible men and women exist in every society and will exist under any and every economic system. That they continue to exist and don't decrease in numbers is cer-

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tainly due to a failure on the part of religion more than to a failure of the economic system.

There is no such thing as a perfect society, and there never will be. This has been acknowledged by the Christian church since its very beginning. Men and women, being sinners, frequently do what they ought not do and fail to do what they ought. Human beings are also partially ignorant, and thus make errors of judgment. The propensity to sin and the lack of perfection in knowledge and wisdom lead to an imperfect society. The most mankind can hope for is a society that is successful in providing the greatest good for the greatest number.

Without the slightest question, history and the millions of men and women who have lived behind the Iron Curtain of socialism and Communism (the ultimate form of socialism) now testify to the indisputable fact that capitalism is far superior to socialism in providing the necessities of life to the masses, and in doing so without denying them their individual freedom.

But ever since the Russian Revolution of 1917, church leaders have tried to convince church members that socialism meets the moral and ethical demands of Christianity better than does capitalism. They have done so by constantly comparing socialism as they believe it could be with capitalism as it is. In his recent excellent book, *Capitalism*, Arthur Seldon vividly points out that long ago we should have been comparing capitalism as it could be with socialism as it has actually operated in those parts of the world where it was enthusiastically adopted and is now being equally enthusiastically rejected.

The clergy who have praised and advocated socialism through the years have done so, for the most part, without any real knowledge or understanding of economics and political science. They have been well-intentioned and misguided idealists who have looked at the end desired and failed to examine the means and calculate the costs. They didn't heed their Master's admonition in His parable of the builder. (Luke 14:28ff) The clergy have been guilty of what F. A. Hayek calls "the fatal conceit." They were certain they knew what was good for society and for each member of it, and when one is in that position it is difficult not to seek to impose one's ideas and theories on all.

As already pointed out, the great weakness in the pro-socialist clergy's argument has been the

comparison of socialism as an idealistic theory with capitalism as an operating economic system. It would be far more appropriate to compare socialism as it has operated in the Soviet Union with capitalism as it has operated in the United States. That, of course, would immediately and obviously lose the argument for socialism. Socialism only "works" in theory and can work in no other way for it never takes into account human nature. It takes no notice of men and women's burning desire for freedom, their inborn competitive nature, their desire to get ahead, to prosper and succeed, which the church itself has praised in urging them to use their talents and abilities to the full.

For seven decades many, if not most, leaders of the major Christian denominations have advocated a system that is now seen by the entire world as an economic and political disaster. It has robbed millions of their freedom. It has denied them a higher standard of living that could have been theirs. This is the shame of the Christian Church. Joseph Schumpeter wrote in *Capitalism, Socialism and Democracy* that "... the impressive economic and the still more impressive cultural achievements of the capitalist order ... could lift poverty from the shoulders of mankind." Church leaders however preferred blind faith in an abstract idea over recognition of the positive benefits of capitalism.

Answering Capitalism's Critics

Let us now return to the indictment of the World Council of Churches and the criticisms of Professor Bennett, which are prototypical of all those made since.

The first charge is that capitalism does not devote itself to the primary responsibility of any economic system, which is the meeting of human needs. If economics is a science requiring a subtlety of understanding, then it is obvious that anyone making such a charge doesn't understand capitalism.

When I was a freshman in college, I came across Edward Bellamy's paean to socialism, *Looking Backward*. I recall urging my father, a small businessman of that day, to read the work, and gave it my own fulsome praise. My wise and experienced father responded by saying something like, "You can say things in books you can't put into practice

in the real world.” Many clergymen, however, have had little or no experience in the real world and, like politicians, look only at promised results, ignoring the tremendous costs of implementation.

Men and women will differ in their definitions of needs and luxuries, but no intelligent entrepreneur would go into business without being reasonably certain that he was responding to a felt need for his product. Thousands of businesses fail every year precisely because the owners miscalculated and discovered too late an absence of need.

Ask those who have lived in the Eastern dictatorships if the socialist economies met their needs. It is primarily because there are no free markets in those countries, and no private property, that socialism does not and cannot meet human needs in the same abundant fashion as can a free economy. Again it is a case of left-leaning church leaders looking at socialist promises and ignoring capitalist results.

The second indictment has been that capitalism tends to produce serious inequalities in society. There are indeed inequalities in any society. The primary blame, however, needs to be laid at the feet of God. The framers of the Declaration of Independence notwithstanding, there is no sense in which all men and women are created equal. If, as Christianity demands, we use all our talents and abilities to the full, we will become less and less equal. God has greatly blessed some, while others seem terribly deprived.

Egalitarianism plays well on the lips of politicians and the clergy, but in real life its goals are seldom if ever achieved. The *Mayflower* Pilgrims tried it and gave it up as unproductive. Wrote William Bradford of the experience, “For this community . . . was found to breed much confusion and discontent and retard much employment that would have been to their benefit and comfort.” It destroyed the will of the ambitious, and encouraged the lazy and indifferent to continue being so. Socialism equalizes by bringing everyone down to the lowest common denominator (except the ruling class), while capitalism equalizes by tending to raise the living standards of all.

There may indeed be a sense in which capitalism promotes a form of materialism by making available to consumers so much more than socialism ever can. Nevertheless there is a kind of “materi-

alism of misery” that grips those who have very little available to them and who must wait in long lines in order, they hope, to get that little. The “materialism of plenty” would be preferred by the vast majority of people in every country. But rather than being the result of capitalism, one could with equal verity claim that it was the result of politicians undertaking to convince the voters they deserved all of these “things” by right and promising to provide them in return for their votes. The church and the clergy also deserve part of the blame for their failure to effectively teach their people how to assess values.

The final charge is that capitalism subjects citizens to such social catastrophes as mass unemployment. That is the only “social catastrophe” mentioned, and one has difficulty thinking of any others that could be laid at the feet of capitalism.

Let us recall that there was no mass unemployment in Nazi Germany. There is, allegedly, no unemployment in the Soviet Union. But again one must count the cost: no personal liberty, no free markets, constant scarcities of consumer goods. The Soviet Union can make these claims, but it is the only industrial power in the world whose living standards are declining, the only such country where the life expectancy has been falling and infant mortality rates are rising. So much for the benefits of “full employment” under socialism.

Put against the criticisms of church and clergy is one irrefutable consideration: capitalism has produced more to meet human needs and aspirations than any other system known to mankind, and it has done so largely without depriving individuals of their personal freedom. One must insert the word “largely” because even in this country much of the progress made by capitalism has been in spite of the interference of politicians, which results in a loss of freedom. Capitalism has proven itself in practice. Socialism has failed wherever it has been tried.

Capitalism is the morally and ethically superior system, and as such should have been supported, not condemned, by church and clergy. Had the church and clergy supported capitalism, millions of men and women around the world might well have known a larger liberty and a greater happiness. Even today, however, church leaders follow the lead of politicians and power-seekers, and while millions of people around the world reject socialism, they continue to embrace it. □

Vive la Différence

by Ridgway K. Foley, Jr.

Comparisons—purported or real—are dangerous. Superficial arguments can seem so plausible. Since human beings dislike strain and contention, we tend to accept the shallow or one-dimensional assertion without question.

A common example, which appears in many manifestations, is the unflattering comparison of public expenditures by the United States and other nations for various social welfare programs. How often have we heard that “the United States ranks very low among civilized nations in per capita expenditures for education,” or “virtually all Western countries provide greater public support for the (arts, humanities, old people, young people, sad people, bad people) than we do”? Proponents of “social” causes decry this purported governmental and cultural absence of support for their favorite venture as a sign of a failing civilization, as if endless state funds should be committed without question or cavil to child care, elder care, alcohol rehabilitation, sex education, and myriad other proposals and programs limited solely by the fantasies of the activist mind.

The zealot commonly overlooks flaws that threaten his preconceived notions. Serious flaws in addition to those of calculation and conception erode this ineluctable parade of plans for spending “public monies.” These deficiencies arise in no small part from the inaccuracy of the underlying assumption that the United States is an abject failure because it theoretically throws less tax money at any or all such social programs. Let us examine two of the more malignant defects: the inaccurate calculus, and the essential denial of conceptual history and principle.

One may dispatch the erroneous calculation quickly and certainly. A plethora of distinguishing

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computational features and factors differentiate the United States from other nations with which it is unfavorably compared. For example, no one can verify the comparative figures from other countries: How can one equate open and closed societies? And, even in the United States, dishonest political accounting obscures and misleads the student of political economy seeking to discern just how much is spent on a particular function. Further, each nation differs in monetary unit, data base, system content, linguistic labels, political structure, and a whole host of other variables which result in a comparison of incomparables. Thus to say, for example, that Russia, France, or Chile spends more on education than the United States says nothing important at all. The argument satisfies only the utterer because it is meaningless without close examination and verification of many features to assure that the statement compares comparables.

However, the error of the conceptual premise overwhelms this obvious inaccuracy of the calculation. Assume, for the sake of argument, that some or several nations we generally respect spend more tax money on some or all common “social programs.” Assume further that men of good will would generally acknowledge that the end sought is laudable: after all, who among us would dispute that education of the young, medical care for mothers, and rest for the aged constitute fine objects in the abstract? Even the positing of these suppositions will not sustain the argument that the United States is remiss in some duty to its citizenry, and that such an omission may be cured solely by a massive assessment, collection, and application of more taxes to these praised projects. A faulty premise always implicates and erodes a conclusion; in this case, the proponents of more governmental activity have overlooked, misread,

or ignored the foundations of our country.

The 200th anniversary of our Bill of Rights ought to remind us of our beginnings. Our forefathers left their "Old World" and hewed a new nation out of the forbidding wilderness of this "New World." The adjectives "old" and "new" referred not primarily to location. Rather, they connoted and commended a sharp break with the omnipresent past; a past of hunger, disease, incivility, and slavery; a past which those wise and honorable men and women wished to leave behind—in the Old World.

In the Old World, individuals counted for little or nothing; they existed as the king's pawns or nature's playthings. As Thomas Hobbes decried, human life was "solitary, poor, nasty, brutish, and short." Men toiled for a lifetime in the dank and the dark, without hope or help. The feudal monarchs and barons plundered as they wished; it scarcely mattered to the serf or yeoman if his meager possessions were taken by force of arms or by force of law.

Presaging the Instrumentalist revolution in law and education of the late 19th century, the privileged and powerful of the Old World could say with virtual impunity, "The law is what I say it is, and nothing more pretentious." Thus, in the Old World, the state reigned supreme and the individual merely sojourned to serve its greater purposes; the state determined what should be created, how it should be produced, and who should receive the resultant distribution; the state decreed who could engage in each and every task and for what return or recompense; the state declared the existence and content of any and all "social programs"; the state decided who might live and who should die.

New World, New Vision

By contrast, the New World offered a new and singular vision. The original beauty of our nation lay in its creed of expansive freedom of individual action and strict limitation of state control. Men were at liberty to live their lives, take their risks, and reap their rewards as they saw fit without government direction or interference. So long as men didn't plunder or cheat their neighbors, the state kept its nose out of their lives and businesses. Our ancestors specifically sought to escape the squalid model of the Old World with its caste system, fes-

tering poverty, and pervasive malaise. They achieved this goal by a new vision of individual rights fit for the New World and protected by a special structure of limitations upon the state by means of a Constitution that spelled out personal rights safeguarded from collective trammel.

For years, the United States retained and followed this novel vision. In so doing, within a single lifetime, our citizens—all immigrants from the faltering and oppressive Old World—came to enjoy the highest standard of living (including, not incidentally, health care, educational progress, artistic stimulation, and a whole host of other values which form the essence of civilization) that the world, old or new, had ever known. What perceptive philosophers had long surmised became proven in fact: unfettered free men and women will produce the best, most civil, most advanced, most honorable society possible.

Men without chains eliminated drudgery, advanced science, improved life, and engendered happiness for all segments of society. Amazingly, the "poor" benefited relatively more substantially than the wealthy in the United States, a stark contrast to the Old World of privilege and patronage. And, all the while, those truly important "social action" projects were fulfilled in a manner much superior to that prevailing in myopic Old World fiefdoms.

Free men recognize what is essential and proceed to accomplish such necessary tasks, unbound by archaic regulations and stifling bureaucratic murk. Slaves see no farther than the end of the master's nose. After all, it doesn't pay for a servant or a serf to venture into the unusual or unknown.

This century, however, has borne witness to a remarkable turnabout in attitude, integrity, productivity, and civility. This retrenchment seeks to take root in an inordinate idealization of a foreign model, the Old World way of doing things. Gradually we are encouraged to ape Old World social and legal systems, venerating them for their supposed wisdom and humanity, and adopting them for our own. In so doing, we not only depart from the core of our greatness but also take on the trappings of a failing and failed civilization, a social system erected on force, malevolence, mediocrity, and mandate. Our forebears left those Old World evils for good reason; we would do well to emulate our ancestors, not the heritage they discarded. □

The Do-It-Yourself Queen

by Vincent Curcio

In a corner of her living room at The Sherry-Netherland hotel in New York City, a glass case displays a portrait doll of Lucille Lortel, clothed in a billowing black skirt and simple white satin blouse ruffled at the neck. Generous folds of rich auburn hair frame a sympathetic face, whose most striking feature is the huge, liquid dark eyes, the sort that would disconcert if they did not instantly disarm. Adorning her head is a golden crown, its peaks surrounding a puff of royal purple velvet. Nearby, on a yellow damask Louis XVI settee, rests a small petit-point pillow. An old friend has patiently embroidered Gothic letters on the pillow, proclaiming the legend: "It's Not Easy Being a Queen."

In 1962 Lucille Lortel received the first Margo Jones Award for encouraging new American playwrights. On that occasion Richard Coe, drama critic of *The Washington Post*, dubbed her "The Queen of Off-Broadway," an entirely appropriate appellation that has stuck to this day, making her instantly recognizable in theatrical circles throughout the world. For she, along with Joseph Papp and Ted Mann, consolidated off-Broadway, which was not just a location, but a name for the art theater movement consciously developed as an alternative to the Broadway commercial theater.

Though no one would ever speak of the decidedly proletarian Papp or Mann in aristocratic terms, somehow it has always seemed fitting to speak regally of Miss Lortel. It isn't because of her background, which is ordinary middle class, but

more her manner, which has something of an autonomous sweep about it. After making up her mind about projects yea or nay as quickly or as slowly as needs be, she then follows a suitable course of action without admitting any impediment. She does what she has decided is right to do; and time has shown that her judgment is uncannily perspicacious. Though she refuses to allow others to dissuade her from a firm decision, neither does she ask anyone else to be responsible for the consequences—as she calls the tune, she pays the piper. You might say that Lucille Lortel has always been the Do-It-Yourself Queen, and for that reason her little pillow speaks the truth.

“Mad About the Theater”

By her own admission, she has been “mad about the theater” from the start. After graduating from the Neighborhood Playhouse in 1921, she continued her studies abroad, accompanying her mother and brother, the concert violinist Waldo Mayo, to Berlin. While there, she acted for the first time, albeit as a pair of dancing feet in an Emil Jannings picture filmed at the giant UFA studios.

Upon returning to the United States, her theater acting career began in earnest. Initially playing in summer and winter stock productions in Maine and upstate New York, she managed to make her Broadway debut within a year. First came a bit part in the Theater Guild world premiere of George Bernard Shaw's *Caesar and Cleopatra*, starring Helen Hayes and Cedric Hardwicke.

“I played a whore on the wharf,” she recalls. “All I had to do was look sexy and run across the

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stage with a bunch of sailors in hot pursuit. Well, at the first rehearsal I got halfway across, turned around, and in my best melodramatic acting style, threw my hands up in front of my breasts and shouted, 'No! No! I won't let you lay a hand on me!' Guthrie McClintic, the director, stopped everything and asked me where that bit of dialogue had come from. I told him it just 'felt right'; sending a steely gaze in my direction, he told me to cut it out or else. It seems he felt Mr. Shaw was quite capable of writing dialogue without my assistance. So much for my star-is-born debut."

After that Broadway saw her as the ingenue in *One Man's Woman* and the nymphomaniac in *The Virgin Man*. "I didn't really know what a nymphomaniac was, but I did my best to fake it. The critics were enthusiastic, so I must have done something right." Later she played Poppy, yet another nymphomaniac (this time also a drug addict!), in *The Shanghai Gesture*, which starred Florence Reed. "At the end of the show when Miss Reed, who was acting the role of my mother, discovered my dissipation, she threw me to my death down four flights of steps in her brothel. My main memory of that tour was being black and blue all the way from Kansas City to San Francisco."

None of these jobs came easily. "It took me years to get decent paying parts," she recalls. "I was just one of hundreds of young actresses banging on producers' doors, looking for work. On top of that, my family had some financial reverses then, and we had to move into very cramped quarters. I earned the family money, made our budget, and watched every penny. One day the great Luther Adler, then unknown and in the same financial straits as I, borrowed five dollars from me, a considerable sum at the time. He didn't get around to returning it, and years later, when our circumstances were much improved, I jokingly asked him when he was going to pay back the money. 'Never,' he replied, 'So you won't forget how poor we all once were, and how hard we struggled.'"

She never did forget, and for this reason she has always lent a sympathetic ear to the needs of theater artists and companies. Most tend to be impecunious far more often than not, theater being what it is, and a bit of help at the right moment can make the world of difference to an important project or career.

Louis Schweitzer, the brilliant chemical engi-

neer, industrialist, and philanthropist, met and instantly fell in love with Miss Lortel in 1930. After a whirlwind courtship, which included his transatlantic telephone proposal, a then almost unheard-of blandishment, the couple was wed aboard ship on the *Leviathan* in the spring of 1931. Unfortunately, Miss Lortel's mother-in-law did not have a very high opinion of the acting profession, and threatened her son with dire financial consequences if his bride did not renounce the stage. Since he was still under his mother's thumb, he requested Miss Lortel's "retirement," and she agreed, for the sake of family peace.

"I didn't quite give it up completely though," she avers. "In 1930, Sessue Hayakawa and I made a Warner Brothers short of *The Man Who Laughed Last*, which we had played coast to coast in vaudeville. I liked the experience, and while my husband was working in Jersey during the day, I used to sneak away to Brooklyn in the afternoons to make more shorts for Warner's. Lou was none the wiser, so I got bold enough to take a small part on Broadway in the Theater Guild's production of *The Man Who Reclaimed His Head*, which starred Claude Rains. Lou caught up with me that time though, and made me quit. Except I didn't. I just decided to be a little less visible after that, and started doing *Advice to the Lovelorn*, a sob sister show on the radio. Everything was going very well, until critic Ben Gross advised newspaper audiences to tune in to the program to hear my low pitched, 'dramatic' voice; most girls cultivated high pitched, squeaky voices then, and I guess listening to me was a relief. Anyway, Lou saw the column, and this time the jig was *really* up.

"We bought a house in Connecticut in 1938, and for the next few years I was reasonably happy as a socialite. But then Lou's mother died, and suddenly he had a lot of money and none of his mother's restraints for the first time in his life. It turned his head, and he went a little wild, spending much of his time with a new crowd in Europe that I didn't like. I became depressed and sad; not only was my marriage foundering, but the stage career I loved and gave up for him once again began to weigh on my mind. I knew I had to do something, but I wasn't sure exactly what that something should be.

"One day, after the end of the war, I decided to give a party for Children's War Relief at my barn in Connecticut. Lily Pons and Danny Kaye enter-

tained, and during the shindig Danny turned to me and said, 'You know, Lucille, this barn would make a great little theater.' It set me to thinking." Out of those thoughts, and the interventions of fate, came her new career as an art theater producer of worldwide influence and fame.

Since 1947, Lucille Lortel has produced over 500 plays on Broadway, off-Broadway, off-off-Broadway, and in regional and university theaters, both in the United States and abroad. To do it, she either spent her own money or, occasionally, that of a few individuals who shared her vision. But she has never used public funds to support her projects. "I feel that the benefits of government funding aren't worth the bureaucratic red tape one must deal with to obtain it; besides, using private money means I never have to concern myself with what the government thinks about the politics of my artistic personnel or the controversial nature of the statements they sometimes make in their work."

Since she looks to present the best in theater, no matter how conventional or outrageous it may be, ideological independence is of utmost importance to her. "If you are a serious producer, you cannot flinch where artists are concerned," she says. "Even in the days of red channels 40 years ago, I gave all the blacklisted actors who couldn't get work elsewhere a chance to perform in my theaters—Zero Mostel, Kim Hunter, Sam Jaffe, Anne Revere, all of them. People said, 'Aren't you afraid, Lucille?' but I said, 'No, I'm using my own money to hire them, so nobody has the right to tell me what do.'"

The White Barn Theater

Her new career began at The White Barn Theater in the summer of 1947. "Phillip Huston and Canada Lee, two actor friends of mine, had a play, *The Painted Wagon*, that nobody would produce commercially. They asked if they could read it for my theater friends to get their reactions; I said 'sure,' and arranged for the reading to take place in my barn at the country house in Connecticut.

"Afterwards I gave a supper for everyone who attended, to encourage discussion of the play. Nobody liked the show much, but everybody liked the experience of hearing it read. Audrey Wood, a famous play agent who was in the audience, encouraged me to do more of these readings; in



Lucille Lortel

MARC RABOY

fact, she gave me another script immediately. That was *Some of the Sky*, which Joseph Anthony directed. Things were beginning to snowball, and somebody came up with a musical about struggling young actors called *No Casting Today*, which brought me back to my youth. That one introduced both Jo Sullivan (later Mrs. Frank Loesser), who went on to star in *The Threepenny Opera* and *The Most Happy Fella*, and the comedienne Bibi Osterwald. Somebody else gave me *The Ivory Tower*, which gave an early job to Eva Marie Saint; later she won an Oscar for *On the Waterfront*.

"By the end of the summer I had done six of these events. There was great excitement in the air about it all, and people were vying for invitations to get in. Big articles started to appear, both in show business trade papers and the general press. My husband was astonished to read a newspaper headline in Paris proclaiming 'A New Type of Theater' right in his own backyard, and rushed back to find out what all the commotion was about. You

see, there was no off-Broadway or experimental theater then; it was all commercial. Having a theater situation removed from those pressures and problems gave people an exhilarating sense of freedom. Anything seemed possible in my theater precisely because everyone knew that nobody would go broke or ruin a career playing there. For the first time, theater artists knew they had the right to try and fail without risking censure, which is essential if something daring and new is to be attempted.

"I didn't pre-plan anything I was doing when I started, and nobody paid to see the shows or got paid to work. It was just a service for playwrights and other theater artists who wanted a chance to do something new. It's hard to imagine today how fresh the whole experience was, but we were pioneers."

There was one extra-theatrical benefit Miss Lortel received from starting her new theater. "When Lou got back from Paris and saw that I had done something so successful completely on my own, he gained a respect for me as an individual that he had never had before. Suddenly I wasn't just Mrs. Schweitzer but someone of importance in her own right, and that made him very proud. Also, though he wasn't crazy about the theater, he loved having his country home swarming with theatrical people. Their humor and verve were a far cry from the sober-sided business types he dealt with at work, and that was a big lift to him. So as he became interested in the life I was making for myself, we were drawn closer together. You might say that my decision to start The White Barn Theater saved my marriage."

Success, of course, breeds difficulty and expense. "I paid for it all out of my own pocket at first, but by the second year Actors' Equity started making problems. As far as I was concerned, I was giving parties at which a play was read and discussed, but Actors' Equity said no, the actors were working and should be paid a regular salary. They wouldn't let the actors rehearse for my shows. On one memorable Sunday we premiered Sean O'Casey's *Red Roses for Me* without rehearsals (it featured Kim Hunter, along with George Roy Hill, fresh off the boat from Ireland). The director read all the parts to the actors in the afternoon, and they performed at night. Though the show was successful, the experience was harrowing. After that, I agreed with Actors' Equity to pay the actors \$15 a

performance, and from then on my expenses started to rise. In 1949 I began charging \$25 a couple to non-professionals to see the season's shows; they made up about half the audience of 150. The rest were producers, agents, and backers whom I invited to further the careers of the artists.

"As the theater continued to boom and our program expanded, two important things happened. The first was that we created The White Barn Theater Foundation, because my husband was convinced by his advisers that this was the proper set up for a not-for-profit art theater. He began to solicit contributions from theater-minded business associates under the foundation set up. This got me some help with my burgeoning expenses, and allowed the contributors a tax write-off.

"The second thing we did was to renovate the barn, putting in a real stage and real theater seats; previous to 1954, it was just a big room with a platform and drapes at one end, and folding chairs for the audience at the other. Ralph Alswang, the famous theater designer, worked with actress Eva Le Gallienne on the architectural plans for the renovation. Neither of them charged me for their considerable help."

Miss Lortel also began to expand her program in the direction of education. "We began having classes in 1951, first for older students and later for young children. In 1955, Miss Le Gallienne started teaching master classes. I guaranteed her \$5,000 a season, and agreed that she would take only students she deemed worthy of her tutelage. Of course, professional friends and talented young people who couldn't afford it did not pay, and I made up the difference between what the classes took in and her guarantee. At this time also, great choreographers like Valerie Bettis and Jean Erdman began to teach at The White Barn, and we had classes going from early morning until show time. Mariette Hartley, Peter Falk, and Linda Hunt were among scores of students who attended.

"On stage at night, the shows were bigger than ever, some with elaborate sets and casts of 15 or more; in 1955 alone we did 11 shows in a season stretching from July 9th to October 30th. Many famous people, like Peggy Wood, Ruth Chatterton, and Margaret Webster, were now clamoring to work at The White Barn because they could perform there in shows they wouldn't have an opportunity to do commercially. A lot of future stars got a start at The White Barn too, from Rod Steiger

and Geoffrey Holder to Flip Wilson, Mary Steenburgen, and Peter Bogdanovich, the film director.

"My audiences saw new plays, like Beckett's *Embers* and Ionesco's *The Chairs*, that I brought back from Europe every year; I produced Yukio Mishima's plays there for the first time anywhere in the States. Both established American playwrights like Tennessee Williams and beginners like Edward Albee premiered their works on my stage. It became *the* place to go every summer for whatever and whoever was fresh and exciting in theater.

"In fact, things got so hectic that I interviewed prospective audience members before I agreed to let them attend. We had a limited seating capacity, and although extra performances were added to meet the demand for tickets, there was only a certain number of people we could accommodate. If I didn't feel potential ticket buyers were genuinely interested in new theater, I didn't take them. It sounds snobbish, but it wasn't. You didn't have to be rich or social to get in, you just had to love new theater. Otherwise you were taking a seat away from someone who really cared.

"By 1962, it was costing \$30,000 a year to run The Barn, despite all my efforts to hold down expenses. My husband, who saw how hard I was struggling to get by, wanted me to quit. But I felt I couldn't. There was a need for expression in the theater unconnected to financial considerations, and I knew I had a responsibility to see that this need was met. So I kept on."

Off-Broadway Bound

In 1955 Mr. Schweitzer bought his wife the Theater De Lys on Christopher Street in Greenwich Village as a silver wedding anniversary present. The idea was that she would be able to continue her work in New York during the winters. Who could have known that the first show she produced there, *The Threepenny Opera*, would turn into a monster hit that would run for seven years?

The show was so successful that Mr. Schweitzer asked his wife to pay him back what he had laid out to buy the building. "My husband was a great philanthropist, who supported any number of charities, but he always kept business and charity separate. He worked to help me with my theater projects, but he was not disposed to give me money for them. When the De Lys turned out to

be a hit from the word go, he didn't see why he should be out the money it cost to buy it, so I reimbursed him. Actually, he taught me a great deal about how to be frugal and not waste money in the arts. He thought it was a disservice to say something was nonprofit art theater and then throw money around. If it truly was altruistic art theater, then he felt resources should be husbanded so more art could be created. Furthermore, since these theaters represented my taste, he believed it was my responsibility to pay for them. The only way I could do that was to be very, very careful."

In order to relieve her frustration at not being able to do new shows at the De Lys because of the long run of *The Threepenny Opera*, Miss Lortel began the Matinee Series in conjunction with the American National Theater and Academy, or ANTA. These were White Barn-style premieres performed on Tuesday afternoons at the De Lys, when the theater was "dark." The actors, usually playing in long-running Broadway hits, were dying to do something different to keep their creative juices flowing, and this was their chance. Eileen Heckart, then in *The Dark at the Top of the Stairs*, played O'Neill's *Before Breakfast*; Richard Burton from *Camelot* joined Cathleen Nesbit to read Dylan Thomas, and so on. Begun in 1955 and lasting for 20 years, the Matinee Series was the true beginning of off-off-Broadway; Miss Lortel only gave it up when that type of theater was firmly established, and the need for this series was obviated.

Her enthusiasm and capacity for work have never abated. In the 1950s she produced Genet's *The Balcony*, a shocking work comparing society's leaders to pervers in a brothel. She brought the South African playwright Athol Fugard to the U.S. in the 1960s. Persona non grata in his own country and a failure in London, he was set on the path to international recognition by her 1964 New York production of *The Blood Knot*. At this time Miss Lortel also began a 30-year tradition of taking productions of some of her distinguished plays to the Library of Congress in Washington.

A Walk in the Woods

More recently, she was nominated five times for Broadway's Tony Award as producer of the best play or musical of the year. These productions included Lanford Wilson's *Angels Fall*, which pre-

miered at The White Barn; *As Is*, the first play about AIDS; a revival of *The Blood Knot*; the South African musical *Sarafina*; and *A Walk in the Woods*, a landmark drama about Soviet-American arms reduction. The last was of special importance to her.

"The humanity of this play touched me deeply, and I was sure it would have the same effect on thousands of others. It was written in 1987, just as the issue of nuclear disarmament was becoming a subject of crucial importance to people throughout the world. *A Walk in the Woods* put a human face on the situation, dealing as it did with a wily old Communist and a fresh-faced, uptight American, both arms negotiators in Switzerland trying to represent their governments' policies and at the same time achieve genuine nuclear arms reductions. Its downbeat conclusion proved to be very affecting, and more than that, a cautionary tale. Never more so than when I was invited by three Senators to present the piece before an audience of both houses of Congress at the Library of Congress the week they were to vote on the nuclear arms reduction treaty. The treaty was stalled, and had to be ratified very quickly for Reagan to be able to sign it with Gorbachev at the summit. Rarely have I seen an audience as deeply moved as this one was. At the conclusion of the performance Congressmen and Senators stood around in groups speaking of the absolute necessity of ratifying the agreement, and three days later it was approved. That performance was in many ways the high point of my career."

Financially, putting the play together was very difficult. Miss Lortel thought this simple, two-character play should be done off-Broadway, but the author, director, and Yale University, who had done the first production of it, wanted Broadway, and without big star names. Since they controlled the rights, that was how it had to be done, with Yale as a non-financial producing partner.

The big money meeting on the show took place at a luncheon in Miss Lortel's apartment on October 19, 1987. It was Black Monday, the day of the biggest stock market crash in 60 years. As she passed around deviled eggs and crab meat salad, the world was falling apart. Every few minutes her secretary would rush in with the latest bad news: "Down 100 points"; "Down another 150." People around the table were visibly shaken; sweat poured down over their pasted-on smiles. But

Lucille Lortel remained calm, taking care of her guests and discussing the business at hand. She reassured everyone that she intended to continue with the project, no matter what financial difficulties ensued. She had made a commitment, and was going to honor it. All were relieved, thanked her profusely and left.

When asked why she didn't use this crisis as an opportunity to back out of the project, now that its costs were ballooning since the principals were insisting on a Broadway production, she replied that she had given her word and, besides, she felt the play's statement was too important to abandon. "If worst comes to worst, I can always sell my jewelry from the vault. This play just has to be seen."

The worst didn't happen, and public television's *American Playhouse* eventually came in for half the budget. But that didn't end the problems. On opening night, the all-important *New York Times*, which had liked the show at Yale, gave it a bad review. Despite the fact that most of the other reviews were quite favorable, her partners and managers advised her to close the show.

She refused, and put up another \$200,000 (along with \$100,000 from American Playhouse) to give the show a big publicity push. Furthermore, she rolled up her sleeves and got a number of full page ads in the *Times* at deep discounts, arranged for signs on the sides of buses all over town at cheap rates, and put together all the theater parties she could muster. The results: the show ran over four months on Broadway; it was nominated for two Tony Awards; American Playhouse televised it throughout the U.S.; Alec Guinness and Edward Hermann starred in a London production; it was shown to members of both the House and Senate at the Library of Congress; and it became one of the most produced plays at regional theaters throughout the country. "Getting to opening night is just half the battle. Then you have to roll up your sleeves and pull out all the stops to keep the audiences coming. Many fine shows have died on the vine because producers didn't do their jobs," she reminds us.

To top it off, the Soviet government invited her to bring the show to the U.S.S.R., truly amazing at that time, considering that the piece dispenses criticism evenhandedly to both the Soviets and the Americans. Just a year earlier, *A Walk in the Woods* would never have been seen in the

Soviet Union under any circumstances.

Once again, financing this venture wasn't easy. "The Russians paid for living expenses in their country, but I had to come up with the rest, some \$120,000. You'd think people like Armand Hammer or companies like American Express would have been happy to write big checks to be a part of this, but no. I put up a third, and raised the rest from concerned individuals, which was tough. The biggest contribution was \$5,000. It took the better part of a year to complete the financing. But when I saw how grateful the Soviet people were to have the show, I felt it was well worth the struggle to bring it to them."

A Working Monarch

Today, at an advanced stage of life, Miss Lortel is as busy as ever. The White Barn had four shows last summer, and the De Lys, renamed the Lucille Lortel at her friends' insistence in 1981, currently houses the hit musical *Falsettoland*. Her next planned project is *Stevie Wants to Play the Blues*, which she found in California. "It's a musical play about sexual identity set in the world of seedy nightclubs and dope addiction. Some of it is raw and shocking, so it's not for everyone. But it's also very touching, and I feel it should be done."

Since Miss Lortel continues to be so active, she is well aware of how much things have changed since she started. "In 1954, *Threepenny* only cost \$18,000. Today it would cost way over \$1,000,000 off-Broadway, and with a cast of 18 and an orchestra of nine, you would barely break even if you sold every seat. They did a flop production of the show on Broadway last year that lost over \$5,000,000. If he were alive today, my late husband would be shocked to know that The White Barn, which used to cost \$30,000 a year, now costs \$150,000. The economics of producing has complicated the whole situation far more than it should have. People are afraid to take chances on anything new and untried, and that is very bad for the art of theater.

"When I started out I almost never had partners,

preferring to produce on my own because I hated to ask people to invest in my taste. But with costs as they are, I've been forced to go in with others for the last 10 years or so. If I were beginning now, I suppose I couldn't even think of being as independent as I was. I would have to have lots of partners for the commercial ventures and learn all about corporate fund raising for the not-for-profit work. It still would go against my grain to look for government grants though, because of the financial and, potentially, the ideological public accountability. In the arts, one's time and money should properly be spent on artistic matters, not on governmental bureaucracy. To be a great producer, one must understand finance and administration well, but one must understand art even better. That does not happen if you and your staff have your heads buried in government rule books all day.

"However, art does not happen in a financial vacuum. The money has to come from somewhere. People who believe in private support for the arts have to do more than talk about it. They have to spend money on it. Otherwise the most serious art our culture has to offer will be subject to the dictates of the commercial marketplace or government policy, a situation which is at best uncomfortable and at worst dangerous. I lived my life independently, believing that art should be independent. Only the active support of other like-minded individuals will make it possible for people like me to exist in the future."

Asked to sum up her career, she lowers her gaze and thinks for a moment; then she raises her head to fix your eyes with her own. "Basically, despite its complexities, producing is simple. You have to use good judgement to choose a worthwhile property, and believe in it completely. Then you have to use all your resources, both internal and material, to get it on and keep it on. That's simple enough, isn't it?"

As the Queen of Off-Broadway laughs, her great liquid eyes sparkle like deep brown diamonds in the afternoon sun. Her mind is her true crown; the eyes are diadems of the spirit, shining from within. □

Price Controls Do Not Control Prices

by Bill Anderson

As the fighting raged in the Persian Gulf, the conversation in my college economics class invariably turned to the conflict—and its economic effects. In the past several months, students have seen gasoline prices rise and fall rather violently and are puzzled by the whole affair. “How many of you believe,” I ask, “that had the government kept price controls on gasoline instead of lifting them in 1981, gas would be cheaper at the pump than it is now?” Forty hands rise as one, matching the number of students in the room.

I’m not surprised by their response, for even though this is an upper-division class, rarely do college students learn the origin of prices in principles of economics. And even had they learned the dynamics of price theory, most likely they would also have remembered the professor telling them that price controls do produce lower prices—even if those controls cause other economic dislocations. Price controls, their textbooks said, deliver at least some of the goods.

“If we adjust prices to inflation,” I ask, “what, then, would be the 1980 price of gasoline compared to what we pay now?” No hands are raised. “Let’s try \$2 a gallon,” I say, answering my own question. “And remember that in 1980, the U.S. Department of Energy set gasoline prices ostensibly to protect consumers.” The student in the back of the room who had his head on the desk raises up to listen better; suddenly, the discussion has become more interesting.

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In the days since Iraq’s August 2 invasion of Kuwait, we have seen oil and gasoline prices rise and fall with intensity. A few days before the invasion, the price for a barrel of oil stood at about \$18. By October the price was \$40, and “experts” told the U.S. media that, at best, \$30 would be the new floor price. By January 15, the U.N. deadline for Iraq to leave Kuwait, prices were slightly below \$30. A day later, they had plummeted \$10 a barrel.

These numbers are even more significant when one takes inflation into account. In the early 1980s, when the Department of Energy was setting domestic oil prices, the world price for a barrel of petroleum stood at about \$40. After accounting for a decade of inflation, the \$40 barrel would be about \$60 today. The 1981 peak price of \$1.41 for unleaded regular gasoline would equal \$2.10 today.

But even though the prices of oil and gasoline have fallen substantially since their autumn highs (on December 1, I paid \$1.39 for a gallon of regular unleaded at a nearby gas station; in mid-April, I paid \$1.02), the public is still unhappy, and Congressmen have responded by introducing dozens of bills to reimpose price controls.

Do Controls Really Work?

The dynamics of price controls are misunderstood, even by economists. Most economics textbooks accurately portray what happens when government imposes price controls, *at least in the short run*. Because price performs the vital role of allocation of resources, a price held below what

the market will bear causes dislocations in the form of shortages. In the case of gasoline price controls in the 1970s, shortages meant long lines and empty gas pumps.

The gas lines were only short-term effects of price controls, however. Within a few months after the initial crisis, allocation procedures plus the imposition of gas rationing by some states returned what seemed to be a normal market. This was what happened in 1973 and 1979.

An Emerging Pattern

When one examines the two supply shocks in the 1970s, a clear pattern emerges, a pattern tied directly to government price-control and allocation policies. First came the panic, as motorists realized prices were going to rise and that future supplies might be short. Drivers waited in long lines as they sought to purchase gasoline before stocks were depleted.

Second, prices rose as predicted, bringing an angry chorus from the public and legislators. Both times, the federal government strengthened its powers of price and allocation controls. And, both times, prices did *not* fall back to pre-crisis levels. On the contrary, prices remained at the current levels for a short time, then began to creep upward as inflation increased.

Contrast the experience of the 1970s to that of August 1990, when the world suffered its greatest oil shock since World War II. Within hours of Iraq's invasion of Kuwait, prices for oil quickly rose in the world's trading pits, increases that were almost immediately passed on to consumers—bringing the usual chorus of condemnation from politicians and “consumer groups.”

Throughout the early days of the crisis, media commentators predicted that gas lines would be next, and that shortages of heating oil and other fuels would plague our nation as cooler weather approached. Even *The Wall Street Journal* told its readers that “experts” were warning consumers to ready themselves for long lines. The “experts” were wrong. While gasoline prices rose quickly, Americans found that gasoline was readily available. The gas lines never materialized in 1990 and will never occur so long as gasoline is rationed by the price system.

A further important difference between the supply shocks of the 1970s and the supply shock of

1990 is what happened to oil prices after the initial crises abated. In 1973 and 1979, prices climbed to new levels and remained there; but prices during our latest crisis fell back close to where they had been before the invasion.

Why gas lines don't form when price rations gasoline is easily explained. When outside forces (usually governmental) hold prices below market levels, false signals are sent to both consumers and producers. Consumers are encouraged to buy more than what is available on the market, while producers are discouraged from providing that commodity because they cannot receive revenues that justify production and distribution costs. In short, the system encourages consumers to demand more than what producers will make, thus creating bottlenecks in the market. This is what our nation experienced in the 1970s.

Last year, however, prices were allowed to reflect not only the sudden decline in supplies, but also the uncertainty that gripped the oil markets. Given the information available at the time, prices did not send wrong signals about supplies—as had been the case a decade earlier. And because prices transmitted accurate information to consumers, they were better prepared to make rational decisions about fuel use.

Economists have done an effective job of explaining why price controls cause economic damage, whether the damage be gas lines in California or housing shortages in rent-controlled New York City. However, they haven't effectively shown why prices can rise in a controlled environment, yet fall in a free market. As one contrasts the oil shocks of the 1970s to that of 1990, two questions appear: “Why did prices continue to rise when regulators, supposedly working with consumers in mind, were setting them?” and “Why have prices fallen when they were left to profit-minded producers in the marketplace?”

To answer these questions, one must return to the original lessons learned in principles of economics. Yes, shortages occur when controls hold prices below market levels, and those shortages force consumers to incur new costs in order to obtain the commodity in short supply. As Armen Alchian and William R. Allen have pointed out, “. . . if price is restrained below the market-clearing equilibrium, other forms of competition will become more significant. Political power or other costly means of competition for the goods will

decide who gets more and who gets less.” (*Exchange and Production*, Wadsworth Publishing, third edition, p. 62, italics in original)

When the oil shocks occurred in the 1970s, government restrained price increases. While authorities believed they were creating bargains for consumers, they were actually forcing consumers to absorb other costs to substitute for their “savings” on oil. The most obvious cost was time. What had originally been a five-minute stop at the gas station turned into a wait ranging from several minutes to several hours when motorists panicked at news of shortages. Mandatory conservation measures passed by several states, while helping quell consumers’ fears, brought about even more costly delays.

Eventually, oil prices slowly rose as Federal regulators permitted companies to charge at market-clearing levels again. New pump prices replaced motorists’ time costs, trading one set of inconveniences for another. However, because motorists understood that pump prices were legally mandated, they believed prices were at their lowest possible levels. This did not mean that they were satisfied with oil prices; on the contrary, most Americans believed oil companies were gouging them. But because the government set prices, *consumers had no expectations of oil prices ever falling significantly*. Consumers believed the government was “protecting” them (though not protecting them enough, according to critics).

Cost-Plus on the Supply Side

When the supply shocks from the 1979 Iranian Revolution hit the oil market, gasoline prices couldn’t be kept at pre-revolution levels, since oil producers would have had to sell at a loss. As is the case with almost all price controls, the Energy Department based prices on a cost-plus formula. Using industry-supplied figures, it examined the cost structure of the oil industry, then allowed a price that covered costs and afforded a “reasonable” profit.

In an economy with even moderate inflation, operating costs increase on a regular basis. With U.S. inflation in double digits by the early 1980s, there was every reason to anticipate higher and

higher costs in the energy industry. Federal energy regulators, using their cost-plus formula, would have passed those anticipated higher costs on to consumers. Thus, ceiling prices on oil, perversely enough, also would have served as “floor” prices. Had President Reagan continued price controls, gasoline prices most likely would have continued to rise, and Americans would have paid hundreds of billions of dollars more for gasoline and heating oil than they did during the past decade.

Deregulation of oil prices ended the official stamp of approval on price increases. Oil companies, like airlines, had to compete in the open marketplace. Without the protection of price-setting regulators, they had to lower prices when market conditions so dictated. Oil company profits fell back to normal (and even below-normal) percentages.

Prices fell for three reasons. First, as already pointed out, the demise of price controls meant the end of “floor” prices on oil. Second, the Western industrial world, including the United States, became significantly more energy efficient. Third, oil-producing countries had to become competitive in selling petroleum.

This last factor was made possible, however, only with the return of a competitive U.S. oil market, the largest market in the world. Once the Energy Department relinquished price and allocation controls, the U.S. market had to operate according to the same laws of supply and demand that govern other commodity markets.

The dynamics of the market are obviously not limited to oil. Long-term price controls have forced up prices in other markets as well. New York City’s rent controls have created some bargains for people who have held the same apartments for many years, but have imposed higher costs upon people seeking new places to live.

A free market for oil could not protect Americans from high prices in the weeks immediately following the Iraqi invasion of Kuwait. But no energy program could have accomplished that.

What we have found, however, is that the free market enabled us to quickly adjust to the new market realities—and it rewarded us afterwards. □

Why the Welfare State Is Immoral

by Tibor R. Machan

"[The] social point of view . . . cannot tolerate the notion of rights, for such notion rests on individualism. We are born under a load of obligations of every kind, to our predecessors, to our successors, to our contemporaries. After our birth these obligations increase or accumulate, for it is some time before we can return any service. . . . This [to live for others], the definitive formula of human morality, gives a direct sanction exclusively to our instincts of benevolence, the common source of happiness and duty. [Man must serve] humanity, whose we are entirely."

This was written by the 19th-century French social philosopher Auguste Comte. It serves well to identify the viewpoint that welfare statism—whether conservative or radical—wishes to graft onto the unique American political tradition, individualism. It is the viewpoint that drives many intellectuals in our time. On the Left it is economic welfare statism that reigns, while on the Right it is the kind of spiritual welfare statism exemplified in William F. Buckley's recent book, *Gratitude* (which advocates national service for all who wish to attend college at taxpayer expense) that promotes the ideal.

Both Left and Right are critical of individualism. Both suspect it of leading to alienation or anti-social attitudes. At a time when major changes in geopolitical affairs call for answers to broad polit-

ical economic questions concerning which system best suits human community life, it is vital to consider whether socialism should be replaced with its watered-down version, the welfare state, or with an individual rights-based political order. At this point the war of ideas is fought over which alternative to collectivism is best, and individualism is under widespread attack.

What exactly does individualism advocate? It maintains that each normal individual is a sovereign being so far as some very basic choices of his or her life are concerned. A person must be the final authority to decide whether to do right or wrong, to marry or remain single, to choose a career in academe or business, to volunteer for military duty or stay out of the service, to worship in line with one given religion or another, or none at all, and so on. In these matters each of us is ultimately alone. We can gain help, but make our own decisions, for which we are ultimately responsible.

Does this kind of individualism preclude the sociability of human beings? By no means.

Individualism sees human beings as originators of some of their crucial behavior—mostly their thinking processes by which they come to grips with the world around them and proceed to guide themselves. Even as every person learns a great deal from others who have come upon this world before, he or she needs to choose whom to listen to and whom to ignore, whom to trust and whom not to trust, and so forth. And what is best for individuals is most often going to involve extensive and close relationships with others. But even these will be of value only if the individual chooses with-

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out being coerced into them. This is the human condition.

Of course, many prominent thinkers disagree. For example, Karl Marx said that “the human essence is the true collectivity of man,” meaning that when we finally reach our true historical destiny, we will all be part of what he called “the organic whole” of humanity. For such thinkers human beings are but the equivalent of intelligent ants or bees, parts of a larger body, somewhat as our fingers and toes are parts of the hand and foot.

But this view fails to take account of a most fundamental human attribute—freedom of choice or free will. Admittedly, this attribute didn’t appear to be reconcilable with some of the supposedly scientific viewpoints about human nature. Many 17th- and 18th-century thinkers held—and many people still hold—that we are but a part of a mechanistic universe, following impersonal laws of nature. Any other view was deemed mystical and anti-scientific.

Yet it turns out that this belief was no more than a desperate wish, resting on hope rather than evidence. While a human being is, of course, subject to many impersonal laws, there is now evidence and there always has been convincing argument to show that when it comes to a person’s most essential capacity—abstract thought—each of us is on his own. (As a teacher it is only too obvious that we cannot make anyone think—that is always the job of the person, not of outside forces!)

From these considerations follow some very important practical points.

First, we are responsible to do well at our task of living our lives—this is our first choice, implicit in the fact that we want to live. This basic decision puts us on a course that commits us to intelligent thought and action. That is the human mode of life, with all the complexities it implies. It also explains the enormous complexity and challenge of our lives—how each generation practically re-invents culture, even while it draws on what came before.

Second, for a human community to do justice to our need to make basic choices and follow through on them, it must embody a sphere of exclusive

jurisdiction for every person. This is what basic individual human rights accomplish. They are borders around us, recognizing that our lives are ours, not humanity’s or the state’s or the race’s. (Notice that every dictator first denies that a person is his or her own sovereign ruler.)

Third, private property rights are the concrete expression of our sovereignty—the poet owns his poetry, the novelist her novel, the composer his music, the industrialist her plant, the professor his book, the computer programmer her program, and so on. Of course, each will gladly exchange some of what he or she owns for what others own, provided terms are agreed to peacefully. And, of course, there is much benefit to be drawn from community. But it must also be noted that some community is intolerable to a decent person, and only if he or she is able to withdraw to his or her dominion can the judgment to reject the bad company be acted upon.

If private property rights are sound principles of a just society, then the welfare state, since it forces people to part with what is theirs even against their own choices, is unjust. To put it simply, it perpetrates legalized theft by taking from some persons what belongs to them and making it available, without the consent of the owner, to others. While the objective the government may serve by this could be justifiable and even noble, the means used to promote that objective are plainly criminal.

Of course, one can ask, how else might those objectives be achieved? The answer is, “In millions of possible peaceful ways, but not by means of the violation of the rights of individuals.” We are not to be made slaves even with the excuse that the goals of our slavery are laudable. We are not to be deprived of our honest holdings even if we do not use them as generously and wisely as others might think we ought to. Most of all, we are not to be made the subjects of kings, politburos, or majorities who devise the objectives of our lives without our consent. What we do to solve our problems, even those dire ones that lead some very decent people to yield to the pleas for the welfare state, is a matter for us to discover and implement as diligently as possible. □

The Fight for Beijing

by Steven W. Mosher

Two years ago this month the Beijing regime sent troops and tanks to crush China's pro-democracy movement. Here is an eyewitness account of those days of terror in the Chinese capital.

The Communist terror continues to this day, as pro-democracy demonstrators are brought to trial and punished severely.

Rescuing a Friend

"The People's Liberation Army is firing upon the people!" Chen Jian screamed in Tao Ye's ear. Tao nodded. He could see the Communist troops advancing down Changanjie, Beijing's main thoroughfare, firing their automatic weapons at anyone who ventured too close.

When Tao had first heard the distant pop-pop of automatic weapons, he had thought the troops must be firing in the air. He and a group of fellow workers had left Tiananmen Square in the direction of the firing, hoping to form a human barricade against the advancing troops. This had worked before. The troops had been unable to force their way through tens of thousands of people standing shoulder to shoulder, and had turned back.

This time was different. The crowd tried to stand its ground, shouting at the troops not to fire their weapons at unarmed people. The troops answered with their guns. The people would then take flight like a flock of startled sparrows, before coming to rest again the length of a football field

away. Left behind in this wild retreat would be the bodies of the dead and wounded. The troops moved forward steadily. Tao knew what the fate of the wounded would be if they were captured by the army.

"We must save the wounded," Tao told those around him. "Who will join a Dare-to-Die Brigade?" A dozen voices answered him, a dozen shocked and frightened onlookers who were ready to put their lives on the line. They were all workers. A student who wanted to join was turned away. "Go home," Tao told him. "You know too much to waste as cannon fodder. The country needs you. We workers will not be missed."

Fifty yards in front of them a man was trying to crawl back to safety, dragging an injured leg. Tao and three others ran out, in a low crouch, onto the no-man's land. They picked up the injured man, and began to run clumsily back to the safety of the crowd. Bullets whistled around them.

Six times they ventured out onto this no-man's land, pulling, dragging, or carrying the wounded to safety. Six times they went to the nearest hospital, the Beijing Children's Hospital, with those they had saved. Each time the hospital was more crowded with the wounded, while the dead lay stretched in long rows in the hospital courtyard.

It was the seventh rescue attempt that went awry. Tao, his friend Dong, and two others were carrying a man who had been gut shot. Tao staggered as his load suddenly got heavier. Dong, a member of the Brigade, had fallen. Tao pulled the wounded man to safety and then, without stopping to catch his breath, ran back to where Dong had fallen. A bullet had struck him in the thigh, gouging away a big chunk of flesh. Blood had already spread out

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in a dark pool on the pavement beneath him.

He wrestled Dong to his feet, supporting him under the shoulders. "Run, Dong, run!" he cried. But Dong, weak from the loss of blood, could scarcely stand, even on his good leg, much less run. Tao had to drag his friend along. After what seemed an eternity they reached the relative safety of the crowd, and willing hands carried Dong to a bicycle cart. Tao tied a tourniquet around his bleeding leg, and then ran alongside the cart to the Children's Hospital, shouting encouragement to his friend. But by the time they arrived at 3:30 A.M., Dong was unconscious.

Tao, unwilling to leave his friend, stayed at the hospital, numbly helping with the dead and wounded as they were brought in. Soon there were no more beds, and the wounded had to be placed on temporary cots in the corridors, and finally on the floor. Many, like Dong, had lost a great deal of blood. The hospital's small supply of blood plasma was soon exhausted; an ambulance was sent for more. Red lights flashing and siren sounding, it roared out of the main gate of the hospital, only to be attacked by troops at the first intersection. It exploded in flames.

The dead kept increasing in number, spilling out of the small morgue and onto the courtyard in front of the hospital. Bodies continued to be carried in from the streets, and now bodies began to be carried out of the hospital to make room for the living. By morning the courtyard was full of corpses, lying in uneven rows upon the cold ground. At 6:30 A.M., Tao laid Dong on the cold ground beside the others. He had died for lack of a blood transfusion.

Fighting Back

The dawn did not bring respite from the nightmare of the night. The reality of what had happened was worse than any nightmare. Not only Dong but hundreds, perhaps thousands were dead. Other thousands had been wounded.

Tao was alive, and he was a survivor. His mother had died when he was a child, and his father, a high-ranking Party member, had been arrested during the Cultural Revolution. He was an "orphan of Mao." He had survived those years of terror by joining a Red Guard group. They had been his family for three years, and then they, too, had been

arrested on Mao's orders and sent to the labor camps. His older brother had also been arrested and sent to the camps, where he had died of liver cancer. Communism had taken from Tao everything he had ever held dear. He had known it was a cheat, a trick, a deceit, from that time forward. All the wonderful talk about the dictatorship of the workers was a fiction. It was just dictatorship, pure and simple.

Tao knew how the workers felt. He had been one himself for nine years. He had worked as a mechanic in a truck factory in the city of Hankow from 1970 to 1979. Later, he had gone back to college and studied law. China needed laws, he had felt strongly, laws before which everyone stood equal. One could not put one's faith in individuals, even reformers like Deng Xiaoping, but only in laws.

When the demonstrations started, Tao had gone back to his roots. He had joined the Independent Alliance of Workers on June 1st. He didn't want to be associated with intellectuals. All intellectuals ever did was talk. Workers were not afraid to act. And they could bring real pressure on the government. They could shut down the factories. They could turn off essential utilities. The thought of the Communist Party trying to run the country without water, electricity, telephones, or trains made Tao smile.

For several days he had taken part in the peaceful, nonviolent protest for democracy in Tiananmen Square. At that time he still thought that the system could be changed gradually. But now the army had opened fire on the people. The first few hours, seeing the slaughter, he was numb, thinking only to save the wounded. But now with the dead in front of him, he thought of what must be done. There could be only one response to such tyranny.

His work here was done. It was six kilometers from the Children's Hospital to the An Dun Qiao district of Beijing where he lived. Tao set off at a trot. As he ran he thought of Beijing's millions of workers. After this night of slaughter, many would be ready to fight. If they could just be organized, this government wouldn't last a day.

There were thousands of people in the streets, talking in angry clusters. Others were ready to act. In Tao's district, rebels had already looted the weapons lockers of factories, and had turned the local gas station into an armaments plant, produc-

ing Molotov cocktails by the thousands. Other groups had built makeshift barricades by overturning carts and cars, buses and trucks, blocking the main roads leading into the district.

Tao joined a group of guerrillas, armed with these homemade firebombs and an odd rifle or two, guarding one of the entry points. So poorly armed, and with the army shooting on sight, they would have been cut down out in the open. Instead they secreted themselves behind the barricades, off in alleyways, and on the tops of buildings, ready to greet any approaching military or police vehicle with a wall of flame.

Tao's company didn't have long to wait. A block away, an armored personnel carrier (APC) turned onto the street they were guarding. It moved quickly up the street, its machine gun firing off short bursts at anything that moved. Children were a frequent target. Their curiosity led them to stand in doorways, or to look out of windows, and often killed them.

From his hiding place, Tao watched the APC as it came nearer. Then he caught a sudden flash of movement. A small boy darted across the street directly in front of the oncoming APC. A burst of automatic weapons fire stitched across his chest. A few seconds later, never swerving, the APC ran over him. Tao Ye thanked God that the boy was already dead.

Tao's head was pounding. When the APC was 40 yards from the barricade he lit the rag in the neck of a bottle. When it was 20 yards away and slowing, he stepped out into the street and let fly. The bottle flew in a flat arc and shattered on the driver's side of the vehicle, bursting into flames. A second, a third, and then a whole flurry of bottles broke against the wheels and gun turret. The vehicle was engulfed in flames. Machine guns fired wildly from its gun ports for about 30 seconds at nothing in particular and then fell silent.

The doors of the APC burst open. The soldiers on board clambered out to safety, threw down their weapons, and ran. They were village youths, and had no stomach for a fight in close quarters against an enemy they couldn't see.

Tao's group gathered up the discarded AK-47s. Someone thought of saving the ammunition on board the burning APC, but the crack and pop as it exploded scattered them. They watched at a distance as the APC burned down into a black, smoldering hulk, regretting only the loss of the ammu-

munition. They now had guns, but precious few firecrackers, Tao thought ruefully.

For three days Tao's group fire-bombed every official vehicle, from army trucks to police cars, that came within range, filling the street for several blocks with a score of burned-out skeletons. For the first three days, the army kept clear of the area.

On June 7th it assaulted in force. The column of troops and armored personnel carriers was repulsed with barrages of automatic weapons fire and sheets of flame. No fewer than six APCs were destroyed by the end of the fighting. But Tao's group and the others that had joined it suffered heavy losses. Worse yet, they used up all of their ammunition and most of their gasoline in the two-hour fire-fight. Had not the people come out in force, some to throw homemade firebombs, others to rain down bricks and rocks on the troops from the rooftops, they would have lost.

As long as Tao heard the sounds of fighting, like distant thunder rolling over the city, he was encouraged. He knew they were not alone, that resistance continued in other parts of Beijing. On the afternoon of the eighth day, however, the thunder began to diminish. By the morning of the ninth the scattered reports of machine guns could be heard from the neighboring quarter. It was the sound, Tao knew, of mopping up. The army would soon be paying them a visit in force.

Further resistance was futile. Tao told his ragtag forces that it was every man for himself. Tao himself returned to his apartment and, for the first time in four days, slept.

Troops Come for Tao

Tao awoke suddenly the next morning. He was on his feet before he realized what had startled him. It was the silence. After five days of near continuous gunfire, calm had descended over the empty streets. The resistance had ended.

He paced around his apartment, grappling with his own problem. The list of labor union members had undoubtedly fallen into the hands of the authorities. His name was on that list. And if they didn't yet know of his participation in the resistance, they soon would. His name was probably high on the list of counterrevolutionaries to be arrested. As a worker, not an intellectual or a student, he could expect no leniency. His life would be forfeit.

The ring of his phone caught him in mid-stride. It was his father. "Son, could you come over? My illness has taken a turn for the worse." Tao's father was bedridden with liver cancer.

Tao instantly put aside the problem of his escape. Avoiding the main streets, he cycled to his father's apartment. Bursts of gunfire punctured the morning stillness. The arrests are beginning, he thought to himself.

He had been visiting with his father for only a few minutes when he heard the front door slam. "Tao Ye is dead! Tao Ye is dead!" he heard someone shouting. His younger brother burst in through the bedroom door, tears streaming down his face. He stopped, dumbstruck, when he saw Tao.

The brother had been on his way to Tao Ye's apartment when a convoy of armored personnel carriers and trucks had pulled up in front of the building. As soon as they were within range of the window of Tao's apartment, they had opened up with machine guns. Squads of soldiers leaped from the trucks, some taking up positions on the street, others running into the building.

When they reached Tao's apartment on the top floor, they fired their weapons wildly into every possible hiding place, destroying lamps and furniture and beds. "They would not have given you a chance to surrender," his younger brother told Tao Ye. "They wanted you dead."

The hunt for "counterrevolutionaries" was under way in earnest. Later that day Tao got word that Chen Jian, another member of the labor union, had been arrested. One by one, they were being hunted down. He had to leave China.

Escape to Hong Kong

Tao sat in the airport lounge, trying to look relaxed—and foreign. He was traveling under the Thai name "Sambat." His forged Thai passport stuck out prominently from his shirt pocket. Even so, he had twice been stopped by soldiers, who were swarming everywhere. They had thumbed through his passport and tried to interrogate him, but he had pretended not to understand. "Thai citizen, Thai citizen," he had repeated in what he hoped was suitably broken Chinese. His passport was good enough to fool ignorant country soldiers, but he knew it wouldn't stand up to close scrutiny.

It had taken only two days to get the passport and the ticket. Even so they had come through just

in time. This morning Tao had seen a picture of his friend Chen Jian on state television. It hadn't looked like him at all. His face was beaten until it was twice as big as normal. Now he is undoubtedly dead, Tao thought. The same fate that will await me if I am caught. He silently thanked his friend. He gave me two days of time, and if I can get out today . . . Otherwise I meet the same fate, and probably betray others in the bargain.

"Are you Sambat?" a man wearing an airport security uniform asked him. He nodded. "Come with me," the man said. He would board the aircraft through the crew entrance, avoiding the immigration check. It had been so arranged.

Tao found himself on a nearly empty plane. He counted only seven other passengers. Yet he knew that everyone would leave if they could. The plane was scheduled to take off at 11 A.M., but they were still sitting on the ground at noon. The control tower hadn't given them clearance to leave. Tao was sure that a squad of soldiers would board at any minute and pull him off the flight.

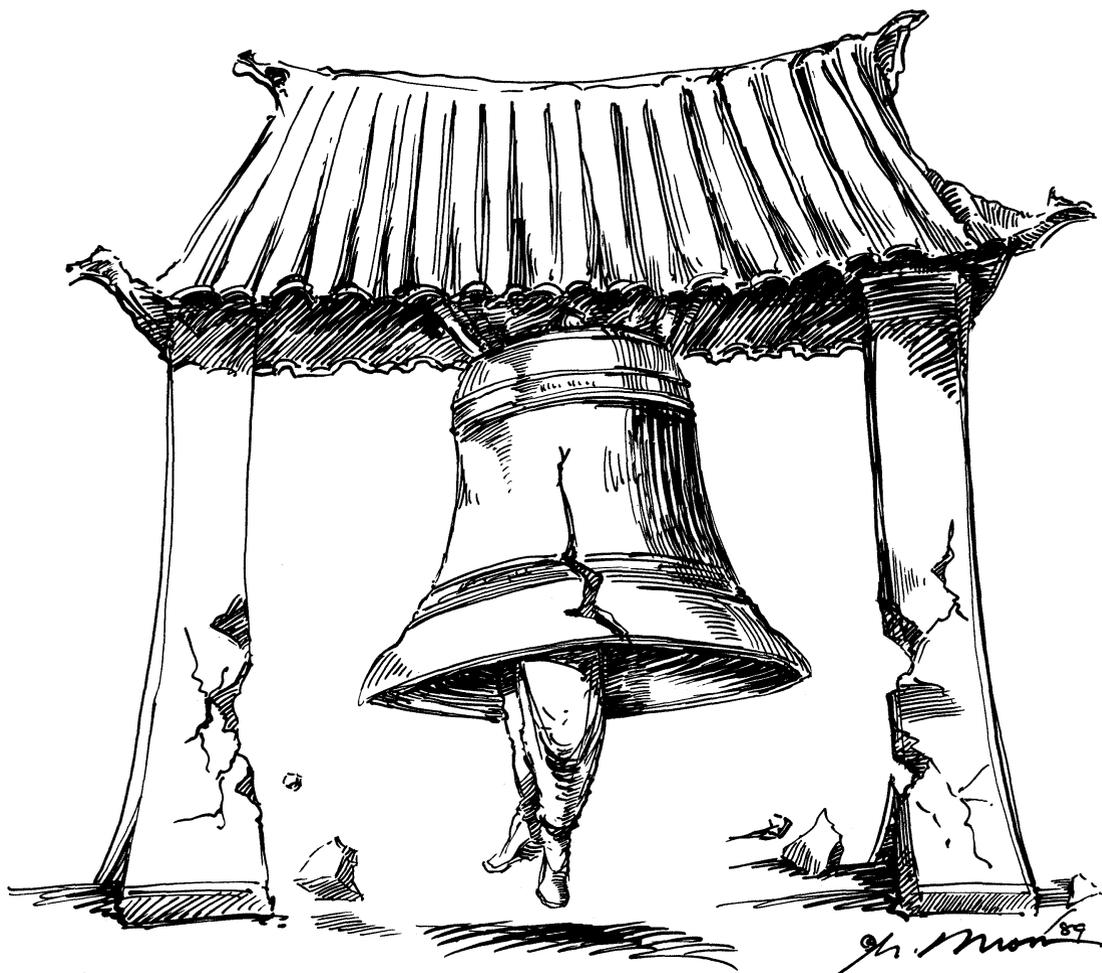
At last the plane rolled down the runway and was airborne. Tao took one last look at Beijing, an occupied city. The Chinese Communists had thought that they could retake Beijing from the people in a day. Instead it had taken nearly a week. If only one division of the army had come over, Tao thought to himself, or if we had had a few more days to organize the workers, the outcome would have been different. Next time it would be, he vowed.

No Asylum

In Hong Kong, Chinese democratic activists had organized themselves into the Committee to Aid the Mainland Democracy Movement. Tao went to see them as soon as he arrived.

"You know it is dangerous for you to remain in Hong Kong," the old Hong Kong Chinese told him after listening to his story. "We can help you make arrangements to go to a third country. France, for instance."

"I'd like to go to America," Tao Ye told them firmly. America. The very sound of it had the ring of freedom about it. He and his friends had been inspired by the ideals of America, the country that believed not in dividing people into classes (like Marxism), but that all men are created equal. "Give me liberty or give me death," they had



sworn to each other, a vow that many had paid for with their lives. He had applauded when the “goddess of democracy,” modeled on the Statue of Liberty, was erected in Tiananmen Square.

The older man’s answer brought him out of his reverie. “I am afraid that will be impossible,” he told Tao Ye flatly.

“But why?” Tao Ye asked. “I thought America supported China’s democracy movement. And after the Tiananmen Massacre, I heard on the Voice of America that . . .”

“We know, we know,” the older man said gently, interrupting him. “We, too, heard on the Voice of America that many countries were willing to accept those who escaped from China.

“We naturally went first to the U.S. Embassy in Hong Kong. We asked them straight, ‘If we save

people, will you help?’ But the Americans played *tai chi* with us, putting us off, day after day. We put our request in many times, but there was no answer, which was answer enough.

“We then went to the French,” he continued. “Immediately, without hesitation, they said yes.”

Today, Tao Ye lives in Paris, where he is active in the democracy movement. His goal is to organize a Chinese Solidarity, modeled after the Polish labor federation that has now won power in that country. “Most of those who died were workers, not students,” Tao says. “If freedom is to come to China, it will be because the workers throw out this hated regime. And they will. This regime cannot last long.” □

A Closer Look at "Dumping"

by S. J. Cicero

One hears frequent complaints that foreigners, particularly the Japanese, "dump" their merchandise (sell it below cost) in American markets, thus making it difficult for U.S. manufacturers to compete. Is there any truth to these charges?

First, we need to bear in mind that there is generally no such thing as a single "cost"; costs can be calculated in several ways. There are average costs over various lengths of time, overhead costs that can be amortized by a number of techniques, quantity-related variations, and so on. When items are being mass produced, the "cost" of a specific finished product depends on operating costs, which are bound to fluctuate. Additionally, what about the cost of failing to sell the item in a timely fashion—the "opportunity cost" of manufacturing one kind of item instead of another?

There are many reasons for selling merchandise at or below "cost." One of the most common is the attempt to secure a greater market share. Furthermore, a foreign market may be much larger than the home market, giving rise to economies of scale for goods shipped abroad which do not apply in the home market, so that even such price differentials as these are not sure signs of predatory intent.

Second, the sole purpose of production is consumption. This means that goods not consumed are wasted, and represent a loss of profit opportunity. In a competitive market, this prompts each manufacturer to concentrate on what he does best,

and to continually improve his production techniques to hold the competition at bay. Profit is the essential link that drives this process. The profit incentive encourages innovation, and reinvested profits enable innovations to be brought on line. To operate deliberately at a loss is a risky strategy that, in the absence of government "assistance," can be kept up only for a short time.

Third, while it is true that a country's government may subsidize a favored industry, enabling that industry to outdo its rivals, this can be done only at the expense of other industries, rendering them less competitive. The net effect is to reduce overall productivity, putting the country as a whole at a competitive disadvantage.

This is so because the taxation required to shift capital to the favored industry tends to reduce incentives in both the favored and the taxed sectors. In addition, the act of collecting and distributing the tax is costly, with no offsetting increase in production. When the state diverts resources to its favored industries, the whole economy is rendered less efficient.

Fourth, the "dumping" of goods into the American market benefits U.S. consumers, who enjoy lower prices and thus increased purchasing power. The particular industry that competes with the cost-cutter does, of course, face a challenge. But rather than calling for tariffs and import quotas, a better strategy would be for the threatened company to cut overhead where possible, shift production to more profitable lines, and emphasize quality and/or promote product differences when

advertising. Given this, an industry which is still uncompetitive will contract in favor of its rival, freeing up workers and capital for more profitable and therefore more productive endeavors.

If U.S. industries can't compete, it is largely due to misguided policies, both within the industries themselves and inflicted upon them by our own government. Before we blame Japan or Germany for our troubles, we would do well to get our own house in order. Taxation and inflation hurt our ability to compete, as do burdensome regulations. Pro-union legislation, pitting labor against management and nonunion workers, drives up costs. Tariffs and import quotas, which enable a company to continue operating in an inefficient manner, hurt overall productivity and thus harm con-

sumers. In the case of Japan, we are foolish to accuse the Japanese government of subsidizing their industries, when we subsidize virtually all of Japan's defense, thus freeing much of their tax revenue for use in subsidies.

Economic principles are always the same, whether we consider trade across national boundaries, state borders—or across the street. People benefit from unrestricted trade. Attempts to restrain trade always reduce overall prosperity, particularly for consumers who would otherwise find the imported goods less expensive. It would be helpful if we could remember that the Japanese people trade with the American people, to the mutual benefit of both. We are partners in trade with the Japanese, not adversaries. □

THE JOHN TEMPLETON HONOR ROLL FOR FREE ENTERPRISE TEACHING

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BOOKS

LORDS OF POVERTY: THE POWER, PRESTIGE, AND CORRUPTION OF THE INTERNATIONAL AID BUSINESS

by Graham Hancock

Atlantic Monthly Press, 19 Union Square West, 11th Floor, New York, NY 10003 • 1989 • 226 pages • \$17.95 cloth

Reviewed by David Osterfeld

Foreign aid has reached immense proportions. If one excludes the billions spent yearly by private voluntary organizations such as the Hunger Project, Oxfam, and World Vision, and looks just at money raised by taxation and distributed by government agencies, the figure hovers around \$60 billion a year. The budgets of most multinational corporations, including Standard Oil, IBM, Phillips, Nestlé, and Volkswagen, pale in comparison. And yet this figure, Graham Hancock, a former aid worker for the British Overseas Development Administration, points out, doesn't even include the billions more in government-to-government loans, unless they are "soft" or concessional loans. The question Hancock asks, and answers, in this explosive book is just whom is this "aid" aiding.

The chief, if not the sole beneficiaries of foreign aid, Hancock shows, are the local elites in the recipient countries, special interest groups in the developed countries, and the aid bureaucracy itself. The chief losers? The First World taxpayers and the poverty-stricken in the Third World.

The aid "industry" is quite lucrative for those who administer its programs. Incomes for employees of international agencies are determined by the "Noblemaire Principle," named after Georges Noblemaire, an employee of the League of Nations in the 1920s. According to this principle, salaries for employees of international organizations should be high enough "to attract as employees citizens of the country with the best-paid national civil service." United Nations pay rates, Hancock notes, must therefore exceed "those of the federal civil service of the richest country on earth—the United States."

As a result, not only does base pay for U.N. officials exceed that for U.S. civil servants by an aver-

age of 25 percent, but the fringe benefits are also far more lucrative. Promotion comes twice as fast for U.N. employees than for U.S. civil servants. It takes a U.S. civil servant 14 years to accumulate as much sick pay as a U.N. staffer is entitled to on his very first day. U.N. pensions exceed those of the U.S. civil servant by 43 percent. And this is only the beginning.

An increasingly large part of aid budgets is for travel (first class, of course). And most of the travel is not to poverty-stricken areas in the less-developed world, but to poverty seminars normally held at posh hotels in exotic and very attractive locations. In just one year, Hancock notes, the Executive Board of the Educational, Scientific and Cultural Organization received \$1,759,584 for travel and lodging. During the same time it spent \$49,000 on education for handicapped children in Africa, and \$1,000 to train teachers in Honduras.

Interestingly, despite the Noblemaire Principle which is supposed to attract experts, U.N. agencies increasingly rely on the expertise of "outside consultants." The *minimum* salary for a consultant is \$100,000. The average salary is probably closer to \$150,000. Since the number of consultants exceeds 150,000, this puts the cost at more than \$22 billion. When the salaries of the regular employees are combined with the costs of consultants, the amount is well over half of all that is spent by governments on aid each year. In fact, "personnel and associated costs," Hancock notes, "today absorb a staggering 80 percent of all U.N. expenditures."

Groups with political clout in the First World are also major recipients. The purpose of food aid was and is to help dispose of farm surpluses in the First World. The tragedy of this is that struggling Third World farmers are often driven out of business by the influx of food aid. Similarly, the real rationale of other aid projects, as Hancock amply demonstrates, is not to help the poor in the Third World but the giant corporations in the First. Thus, between 80 percent and 99 percent of all aid money distributed to the Third World is actually spent in the First World in the form of purchase orders. "Western aid," as Hancock puts it, is used "to create profits for Western companies."

And finally, Hancock shows that it is no accident that some of the world's richest people live in the world's poorest nations. Aid has been regularly siphoned off by Third World leaders. Often this has been done, it should be noted, with the knowl-

edge and thus implicit approval of the aid agencies themselves. The agency term for this larceny is "leakage." The figures reach into the billions of dollars: an estimated \$10 billion for the Marcoses in the Philippines and perhaps \$4 billion for President Mobutu in Zaire, to name just two.

Who pays the cost? The taxpayers in the First World and, more important and tragic, the poor in the Third World. To cite just a single example, the Akosombo Dam on the Volta River in Ghana was built with World Bank and other agency money. Its purpose was to provide inexpensive power to the U.S.-owned VALCO aluminum plant and to the wealthy sections of Accra, Ghana. In the process thousands of villagers were displaced, without compensation, when the dam flooded their lands. And since the dam's completion, well over 100,000 people living in the vicinity have been permanently incapacitated by river blindness. This is far from a unique case.

Aid programs in places such as Indonesia and Brazil have resulted in massive losses of life. Brazil has received \$434.3 million to fund its huge resettlement program. The result was the needless destruction of millions of acres of tropical rainforest (3.6 million acres a year) and the decimation of many of the indigenous Indian tribes. Of the 13,000 settlers arriving in the resettlement areas each month, Hancock writes, "Their prospects for supporting themselves are virtually zero and, in addition, more than 200,000 are estimated to have contracted a particularly virulent strain of malaria . . . to which they have no resistance." Even the World Bank has acknowledged that the program has been "an ecological, human and economic disaster of tremendous dimensions."

Very similar has been the Bank-funded resettlement program in Indonesia: the destruction of millions of acres of rain-forest, bloody and savage fighting between ethnic tribes, and the death of 150,000 indigenous Timorese who opposed having their land used as a resettlement area for Javanese.

Hancock's conclusion is that the aid programs are so corrupt they are "utterly beyond reform" and should be abolished.

If there is any criticism of *Lords of Poverty* it is that, as John Hogan wrote in *Commonweal* (June 15, 1990), Hancock "offers no alternative." And since the problems are so immense, critics contend, it would be inhumane to abolish all aid. The point is well taken. The reader is left with the feeling that

if only the rascals could be thrown out (admittedly a big if) and replaced by good, public-spirited bureaucrats, foreign aid could achieve its noble purpose. What is needed in *Lords of Poverty* is an explanation why foreign aid, *by its very nature*—by politicizing society, by generating large bureaucracies, by encouraging or even requiring recipient governments to pursue highly interventionist policies that scare off private investors and generate inefficiency—retards economic development.

But perhaps one shouldn't criticize an author for not doing what he never intended to do. As the book's subtitle indicates, the *Lords of Poverty* focuses on the "power, prestige, and corruption of the international aid business." Hancock does a remarkable job. His book deserves wide readership. □

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THE MARKET ECONOMY: A READER

edited by James L. Doti and Dwight R. Lee

Roxbury Publishing Company, P. O. Box 491044,
Los Angeles, CA 90049 • 1991 • 375 pages • \$26.95 cloth;
\$17.95 paper

Reviewed by William H. Peterson

This anthology lives up to its title. It outlines the characteristics and philosophical premises of a free society insofar as its political and economic ramifications are concerned. It points up how the world works better under freedom, under a regimen of social cooperation and division of labor; and it does so through the reprinted essays and thoughts of a good number of champions of liberty.

Here, to cite some examples, are Frederic Bastiat and his satirical "Candlemakers' Petition" pleading with the French government to stop the "unfair foreign competition" of the sun; here's David Ricardo on comparative advantage demonstrating the gains for international society stemming from free trade; here's John Stuart Mill setting down the limits of government so the free individual can live and let live.

Of more recent vintage the editors—Professor Doti of Chapman College and Professor Lee of The University of Georgia—serve up "Roofs or Ceilings? The Current Housing Problem" by Milton Friedman and George J. Stigler, a 1946 attack on the rent controls established by the World War

The Market Economy: A Reader edited by James L. Doti and Dwight R. Lee is available from The Foundation for Economic Education in paperback at \$17.95 plus \$2.00 postage and handling. Visa and MasterCard orders are accepted. Please give your card number and its expiration date when ordering. Send or phone your order to The Foundation for Economic Education, 30 South Broadway, Irvington-on-Hudson, NY 10533.

II price-fixing agency, the U.S. Office of Price Administration. The Friedman-Stigler article, originally published by The Foundation for Economic Education, is still timely and relevant as the idea and application of rent controls continue to repress the supply of homes and thereby exacerbate the urban housing problem today from New York City to various cities in California.

Or here is an excerpt from Charles Murray's *Losing Ground* in which Murray observes the difficulties of fighting poverty through "helping the poor." One difficulty is the bureaucratic problem of defining eligibility which almost always includes some who are not truly needy and excludes others who are. Another difficulty seen by Murray is the problem of inadvertently subsidizing poverty—i.e., extending it indefinitely by inducing some welfare recipients to give up the search for independent livelihoods, to become wards of the state as long as they can.

Economists Doti and Lee reach out to non-economists to bolster their case for a market society. They include some of Ayn Rand's thinking in the form of the Hank Rearden statement on the moral meaning of capitalism as it appears in her novel, *Atlas Shrugged*. And they present Henry David Thoreau's case for civil disobedience in which Thoreau defends withholding his taxes so as not to help finance slavery or the Mexican War, an action which led to Thoreau's spending a night in the Concord jail.

In all, the 44 selections here add up to invaluable insights to the classical liberal philosophy of limited government and free markets. □

Dr. Peterson, an adjunct scholar of the Heritage Foundation, holds the Lundy Chair of Business Philosophy at Campbell University, Buies Creek, North Carolina.

CAPITALISM

by Arthur Seldon

Basil Blackwell, 3 Cambridge Center, Cambridge, MA 02142 • 1990 • 419 pages • \$29.95 cloth

Reviewed by Carl O. Helstrom, III

This book outlines the great ideological struggle between individualism and collectivism. Written with originality and vigor, it presents the latest arguments for capitalism and against socialism. The author, a leading libertarian thinker, clearly demonstrates capitalism's superiority over socialism, not only in theory, but in practice as well.

Seldon's education, his experience in private industry, and his pioneering work with the Institute of Economic Affairs (IEA) in Great Britain lend special forcefulness to his exposition. Born in 1916, a year before the Russian Revolution, Seldon grew up around London where the teachings of Fabian socialism inculcated British society.

His secondary school history instructor, an old-style liberal, first emphasized the benefits of capitalism to the young Seldon, whose personal belief in socialism began to wane even as socialistic ideas continued their ascendancy in Great Britain. He entered the London School of Economics in 1934, with a budding interest in classical liberalism and capitalism.

Seldon's growing suspicions about socialism were confirmed during World War II. "The interlude of war," he writes, "provided a practical lesson in socialism as it would be in real life." The wartime command system was continued after the war by socialists enamored with its accomplishments. As Seldon explains, "The intellectuals taught it; the public was led to think it was desirable; therefore the politicians acquiesced in it for electoral expediency even more than from philosophic conviction; and the bureaucracy reveled in its extended powers."

After World War II, Seldon became an economic adviser to British retail and brewing companies. In 1956, he became acquainted with the newly formed IEA, founded by agricultural entrepreneur Antony Fisher. Moved by Friedrich Hayek's *Road to Serfdom*, Fisher started the IEA to promote classical liberal ideas. He hired Arthur Seldon and Ralph Harris to run it, beginning an "intriguing partnership of complementing contrasts . . . [that] led for over 30 years to the most

rewarding work that could have been wished for a life's career."

The history of the IEA is an important and interesting story in itself. A small and isolated voice at first, the IEA utilized a broad-based, educational approach, and eventually flourished thanks to Harris's knack for public relations and Seldon's research and publishing leadership. It has been instrumental in rekindling academic and popular interest in the freedom philosophy and market economics.

"Over the century," writes Seldon, "socialist thinking has prevailed over liberal teaching on the consequences, in all human behaviour, of state coercion, concentration of power, monopoly and producer myopia," mainly because people could see the imperfections of capitalism in the world around them. The socialists promised a perfect world, free from selfishness, struggle, and want, through centrally directed programs.

Socialists, however, built their case on the theory that the breakdown of capitalism and the success of socialism are inevitable. Over time every socialist experiment failed, proving that socialism as a system is not only illogical, but also impractical. According to Seldon, "... the vision of socialism not only remains a vision after a century or more of proselytizing; it is never likely to become reality until it resolves the unending circular reasoning in which it is entrapped: that human nature will not become selfless until scarcity is replaced by superabundance, but superabundance will not replace scarcity until human nature becomes selfless. ..."

The crucial question has become: Which system, based on real historical evidence, can make the best guarantees for the most people? Seldon's answer, of course, is capitalism. He presents a clear, revitalized vision of capitalism by synthesizing new ideas, especially the innovations of Friedrich Hayek and the public choice theorists in the United States, with older classical liberal principles. He also systematically analyzes socialism, emphasizing particularly the empirical and historical proof that socialism has failed.

Despite his predilection for the capitalist system, Seldon tests capitalism as rigorously as socialism. Both systems claim to solve the same inherent human problems—ignorance, scarcity, unfairness, and want. So capitalism must prove itself with more than economic arguments. He finds the

modern theory of capitalism to be imperfect, but concludes that capitalism is better than socialism because it offers relatively more to the world—more goods and services, more freedom, more security, and more opportunity.

Seldon's arguments are comprehensive and significant. He lays the groundwork for further intellectual advancement, and inspires classical liberals to continue the fight for a truly free society. □

Mr. Helstrom is Director of Development at the Atlas Economic Research Foundation in Fairfax, Virginia.

THE POLITICAL ECONOMY OF SOVIET SOCIALISM: THE FORMATIVE YEARS, 1918-1928

by Peter J. Boettke

Kluwer Academic Publishers, 101 Philip Drive, Assinippi Park, Norwell, MA 02061 • 1990 • 246 pages • \$49.95 cloth

Reviewed by Aaron Wildavsky

It has generally been thought that the Communist command economy that Joseph Stalin introduced into the Soviet Union in the early 1930s, with its nationalized industries, multi-year plans, and administered prices, was the epitome of socialism. Not so. The only effort to implement socialism-cum-communism (as it was understood by Karl Marx and the foremost socialist thinkers of the last quarter of the 19th century) was the earlier abolition of monetary exchange for commodities in favor of production for use, i.e., bypassing markets and money in favor of direct exchange of goods. For Marx believed that it was the process of exchange through money and markets that polluted human relationships by alienating workers from the products they produced.

Following the pioneering ideas of Michael Polanyi, Paul Craig Roberts, and Boris Brutzkus, Peter Boettke has written what must now be the major introduction to the ideas animating Communist economies. His first proposition is that Marx and his followers did indeed wish to substitute direct for monetary exchange. His second is that Lenin and his followers, taking Marx seriously, did indeed attempt to abolish resource allocation via market prices in favor of central direction by intellectual calculation via direct exchanges of commodities. His third proposition, the obverse of the second, is that the deliberate introduction of a Communist economic system wasn't forced on

Lenin by the exigencies of civil war, but that he did what he and his followers always intended to do.

Why does this seemingly abstruse historical point matter? If Boettke and the tiny band of his predecessors are right in holding that socialist-cum-communist economics was actually tried, then they can also show that it failed, for all students of this period agree that war communism was a disaster. There is a great difference in claiming that the Stalinist political economy that failed was a deviation from true socialism and acknowledging that the real thing was a disaster. What about the evidence?

“The policies of war communism, I hope to demonstrate,” Boettke writes, “were not born ‘in the crucible of military expediency,’ [as the major Western historians argue] but were born instead in the political economy of Karl Marx and were transformed into praxis [that funny word Marxists use to show they are serious] by Vladimir Ilyich Lenin from 1918 to 1921 in Soviet Russia.”

Among the many pieces of evidence Boettke cites are these: banks were nationalized during the last days of 1917, foreign trade monopolized in April 1918, and large-scale industry nationalized in June. Private trading was forbidden and a monopoly on exchange granted to the Commissariat of Supply in November. The Supreme Economic Council declared in August 1918 that accounting had to be carried out without use of monetary measures. A vast expansion of the money supply cut the purchasing power of the ruble by 99 percent between October 1917 and October 1920, thereby demonstrating the low regard in which money was held. Everything that was then circulating as a form of money, at least among state enterprises, had to be handed over to the Peoples’ Bank in May 1918. In August 1918, according to the Supreme Economic Council, receipts of goods and settlements (one hardly dare say “payments”) for deliveries were to consist of accounting entries.

In this way was made good the common belief of Marx, his followers, and radical socialists that money would no longer be required once producers made goods directly for users. Hence, in the Marxist image, the fall of mankind, the split between private and public selves, would be made

whole by workers not merely metaphorically but physically, by directly giving the work of their hands, minds, and bodies to other workers for the things they needed.

What, by contrast, is the Stalinist command economy? It is an effort to mimic the operation of markets by providing from central direction the same sorts of commands that a market system might were it allowed to operate. Money is there (albeit reduced somewhat in importance but by no means entirely); so is the price system. What is missing are only those things that make capitalism work and worthwhile—private property, the market price system, interest rates to ration capital, and capital markets. The devices of market exchange that simultaneously operate to elucidate preferences, to calculate marginal exchanges, to get rid of the worst products as resources are bid away to more productive uses and users, are abolished. With what result? There emerges an economy of shortages characterized by negative selection in which the least valued products, produced by the most politically powerful factories, get the most resources. Some call this state capitalism. A better way to express what has happened is that Stalin’s misunderstanding of capitalism as a system that exploits workers by decreasing their consumption while coercing them to increase production, thus freeing up investments for economic growth, led him and his allies to use Communist collectivist forms to imitate individualist operations.

The Political Economy of Soviet Socialism is so good that it deserves a new chapter specifying in detail the operations of war communism. It is not enough to know that production decreased by anywhere from two-thirds to four-fifths; it is also important to understand the ways in which this proved unsatisfactory. It is true that Marx never had an opportunity to observe a Communist economy; one of the few benefits of the Bolshevik revolution is that it left behind a historical legacy of what such an economy was like. This fine book whets our appetite for more. □

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Responsible Attitudes

Private business enriches society. You have a greater responsibility and a greater attitude toward the things you own. In socialism, everything "belonged" to everyone, so no one had a responsible attitude toward the equipment and material.

—MILAN STRBA, a commercial painter in Czechoslovakia, quoted in the March 1991 issue of *New Dimensions*

Free to Choose

A central feature of bourgeois philosophy, what I have called "classical individualism," is that human life is not subject to predictions. This is because human individuals have the capacity to choose what they will do. Of course, one can estimate trends, based on well-established habits of mind and action, the constraints of nature and law, and so forth. But just how human beings will cope with the constraints, how they will come to terms with their own habits of mind and action, whether they will change their laws—those questions must not be answered prior to what they will actually do. Perhaps the most grievous fault of contemporary social science is to have built up expectations in us that ignore the above aspects of human life. Social engineering can only go so far—usually as far as the next person's intelligent way of pre-empting the engineers' plans.

—TIBOR R. MACHAN
Auburn University

Free-Wheeling Capitalism

Picture this: a Southern town invaded by hordes of motorcyclists. If it were the plot of a B movie, you all know how the script would go. The people are apprehensive; the motorcyclists are abusive. But this action takes place for real every year in Daytona Beach, Florida, and most residents couldn't be happier.

The event is officially called Bike Week, though that's Harley-Davidsons not 10-speeds, and this year was its 50th anniversary. It takes place in the time period after the Daytona 500 race has ended and before Spring Break begins. It's when the motorcycle engines at the Daytona Beach racetrack

start revving up. It's also when you start noticing folks around town who don't exactly remind you of Ozzie and Harriet.

But before you even notice the folks, you notice the signs. "Welcome Bikers." On the Food Lion Supermarket, there's a big piece of white cloth draped out front saying "Welcome Bikers." The Wal-Mart also welcomes the bikers; so do many of the restaurants and motels. A Western-dress store runs advertisements on television only during Bike Week. Ditto a gun store. The bars welcome the bikers too.

Now these guys look a lot like the guys in those B movies. They are dressed in black. Many of the men sport beards and long hair. In general, both the men and the women have a *je ne sais quoi* ambiance about them, which sets them apart. Perhaps it's all their tattoos. But nonetheless, townspeople understand that underneath it all is a common humanity. If you prick them, do they not bleed? And better than that, do they not share with the rest of us the need to eat and sleep and purchase souvenirs?

Welcome Bikers. Residents enjoy going out on the town just to see hundreds, sometimes thousands, of motorcycles parked in front of local businesses. And there's a parade marking the end of Bike Week that passes by the McDonald's with its "Welcome Bikers" sign out front. Come back next year, bikers. Daytona Beach doesn't have much industry, and it's people like you who keep this town going. So come back and bring your buddies and don't forget your wallets.

See! It's not just Southern hospitality that brings out the best in people. And it's not just laws that overcome prejudices. It's capitalism too.

—A. M. ROGERS
Ormond Beach, Florida

Anyone Can Do It

Of all our social problems, crime is certainly the most inexcusable, and the criminal is deserving of the least compassion. People who suffer from physical and mental disorders or unforeseen economic hardships have had their situation thrust upon them, and they truly suffer from the cards that were dealt to them. This is not true of the criminal, however, and one is hard put to include him on the list of those who drew the short straw from the fates.

The professional criminal is a volunteer. All that society asks of him is that he stop doing what he is doing, and this doesn't seem to be an unreasonable request. It isn't a great exaggeration to say that every man, woman, and child in the United States is capable of *not* stripping a car, *not* selling drugs, *not* vandalizing property, and *not* robbing a store. No one is asking the lawbreaker to run a four-minute mile, to translate the Dead Sea Scrolls, or to play a fugue on the harpsichord. Obeying the law requires no talent and no training. Anyone can do it.

—DONALD G. SMITH
Santa Maria, California

Reaping the Harvest

I had my gall bladder removed last summer by a new surgical procedure that kept me hospitalized for only one night. This is a vast improvement over the standard gall bladder surgery, and the nurses made quite a fuss over my "miraculous" recovery.

Of course, I had almost nothing to do with this "miracle." Someone else thought of it; someone else invested in it; someone else went through a lot of training to make it work.

As we look back, we see that such advances are based upon a seemingly endless procession of similar breakthroughs. The advances of the 1990s are based on the advances of the 1980s, the 1970s, and so on. It takes a long time to perform major surgery in less than an hour.

What type of environment gives rise to such advances? What percentage of them have occurred in an open atmosphere of relative freedom? What percentage of them have relied upon coercive taxation, regulations, and orders from above?

When we examine history, particularly the incredible advances that have been squeezed into the past 200 years, we find that free societies lead the way. A free society is truly a breakthrough society.

Can we, as individuals, contribute to such advances? Most of us, after all, don't work at the cutting edge of science, technology, or medicine. We can, however, contribute to the cause of freedom, for it is freedom of thought and freedom of enterprise that will nurture the great advances that will bless our children.

—BRIAN SUMMERS

America's OPEC: The Public School Cartel

by Thomas J. DiLorenzo

Tennessee, New Jersey, and numerous other states have recently proposed or enacted *state* tax increases with the ostensible purpose of improving *local* public schools. Despite the fact that there is virtually no evidence that simply throwing more money at public schools will improve them, governors, state educational bureaucrats, teachers' unions, superintendents' associations, and politicians strongly support the increased taxes because, they claim, it is in the "public interest" to do so.¹

Anyone who challenges these policies is typically labeled as greedy or grossly uninformed about the educational needs of children. Listening to the public school bureaucracy, one gets the impression that this latter category even includes many parents.

The public school bureaucracy thus portrays itself as comprised essentially of selfless, benevolent public servants, in sharp contrast to stingy, self-interested taxpayers. Accordingly, the state supposedly needs to raise taxes because local communities are unwilling to do so, even for the good of their own children.

I believe a more accurate explanation of various campaigns for greater state funding of local public education is that such campaigns are a manifestation of how local government consists primarily of a collection of cartels—public school

cartels, cable TV cartels, electric power cartels, water supply cartels, hospital cartels, and even parking lot cartels. Not surprisingly, since most municipal "services" are organized as monopolies, they perform as monopolists, gouging consumer/taxpayers with high (tax) prices while offering low-quality services.

Greater reliance on state funding of local public education, I will argue, is simply a way of extracting further payments from the victims of the public school cartel—the taxpayers. If my interpretation is correct, then much of the rhetoric about how the public school monopoly is in the public interest is just that—rhetoric—which only serves as a smoke screen for what is essentially a price-fixing conspiracy against the public.

The Public School Cartel

A well-enforced cartel is one in which each member agrees to cut back on production in order to drive up the price of the product the cartel is selling. Fortunately for consumers, cartel "cheating" is so pervasive and inevitable that they rarely last very long. Historically, there are thousands of examples of private cartels that collapsed because their members cheated.

Unfortunately for consumers, cartelists in many industries have been able to invoke the power of government to enforce their cartel agreements when private enforcement failed. The Civil Aero-

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nautics Board was a government-enforced cartel agreement; the Interstate Commerce Commission enforced a trucking industry cartel; the regulation of hundreds of occupations, from taxi driving to morticians, is a way of enforcing occupational cartels. The list is almost endless. In return for campaign contributions and other forms of political support, politicians use the coercive powers of government to enforce “private” cartel agreements, all to the detriment of consumers.

Local public schools are monopolies since, by law, they enjoy a captive audience of students, are funded by compulsory taxation, and mandatory attendance laws force their “customers” to “consume” their “product,” regardless of how low quality it may be. School districts across the United States would like to enhance their monopoly power (and “profits” in the form of tax revenues) by acting as one giant cartel—at least within each metropolitan area—but are often unable to do so effectively.

The reason for this is opposition by taxpayers, both at the voting booth and by “voting with their feet.” For example, if there are 10 school districts within a metropolitan area, and one of them raises taxes significantly (or, equivalently, reduces the quality of education), it will be at a competitive disadvantage because many parents who believe their children can get just as good an education in lower-tax jurisdictions (or a better education for the same tax burden) will move.

If all 10 jurisdictions conspired to raise taxes, however, then the taxpayers would have to move to a different metropolitan area altogether to escape the tax or the decline of educational quality (or both). This form of taxpayer opposition is more costly to the taxpayers and is therefore more unlikely to occur.

Thus, in order to raise taxes as much as they would like, local governments must enter into a cartel arrangement. But like all cartels, they face the problem of “cheating” by other cartel members. That is, there is no guarantee that every jurisdiction will raise its taxes.

No jurisdiction will increase its taxes if it thinks the others won’t follow suit. Even though they all would like to raise taxes, each hesitates to do so. Moreover, the more members of the cartel there are, the more difficult it becomes to enforce a school district price-fixing cartel.

That’s where the state government comes in.

The state can act as a cartel enforcer for local governments, just as various regulatory agencies and other governmental entities have acted as cartel enforcers for private-sector cartels.

Specifically, raising state taxes and then redistributing some amount to local governments—after the state has taken its cut—is a way for local governments to avoid the cartel cheating problem. State governments are the enforcement mechanism to raise everyone’s taxes; taxpayers must then move to an entirely different state to vote with their feet. Obviously, this makes it much more difficult and unlikely that taxpayers will express their freedom of choice. The local government price-fixing cartel becomes effective, thanks to state government “enforcers.”

The Role of Government Propaganda

State politicians seek tax dollars as much as other politicians, but they are also aware that they run the risk of losing political support by advocating higher taxes. They want the higher tax revenues that they can use to enhance their political careers by claiming credit for “improving” public schools and declaring themselves the “education governor” or senator, or whatever. They must, however, from their perspective, deflect taxpayer opposition to their political plans.

To deflect taxpayer opposition, a formidable coalition of teachers’ unions, school superintendents, state educational bureaucrats, and state and local politicians is often formed to wage a propaganda campaign to confuse or wear down taxpayer opposition. They typically utilize the strategy of repetition: If you say it often enough, they’ll start to believe it.

For example, in Tennessee, per-student public school spending at the primary and secondary levels more than doubled from 1980 to 1990 while student achievement plummeted. This, of course, has been the trend in the U.S. for at least 30 years—spending more and more on public schools for worse and worse results. Yet, in a campaign to raise taxes, the state educational bureaucracy endlessly repeated the argument that the “solution” to declining student performance is more spending.

Such propaganda campaigns can be effective, for most citizens are “rationally ignorant” of many public policy issues; they spend much more

time on their personal affairs than on educating themselves about public policy. Joseph Schumpeter had strong opinions on this matter, writing in his classic book, *Capitalism, Socialism, and Democracy*, that “the typical citizen drops down to a lower level of mental performance as soon as he enters the political field. He argues and analyzes in a way which he would readily recognize as infantile within the sphere of his real interests. He becomes a primitive again. His thinking becomes associative and affective.”²

To make matters worse, much of the information about public policy alternatives that voters do receive is biased and self-serving, having been produced by special interest groups, such as teachers’ unions, or by government itself. Consequently, many citizens make public decisions based on false information.

Despite government and special-interest propaganda, however, many voters are aware—or at least suspect—that throwing money at public schools won’t work. To try to eliminate this skepticism, state governments often promise to “do it better” next time, particularly by “streamlining” the educational bureaucracy. The press secretary to the governor of Tennessee, for example, recently announced that in return for a proposed \$1.3 billion tax increase (approximately \$800 per year for a family of four), the state would make the local schools “run like a business” by requiring elected (as opposed to appointed) school boards that would appoint school superintendents, just as corporate boards of directors appoint chief executive officers.³

Such proposals are, of course, transparent propaganda. There are no real businesses that have a captive audience of “customers” guaranteed by law, are financed completely by compulsory taxes, enjoy the benefits of mandatory attendance laws (or something like them), and are exempt from onerous taxes and regulations that any potential private competitor must comply with. The phrase “business-like government” is truly an oxymoron.

Transparent as the public school bureaucracy’s propaganda is, it is often enough to confuse a sufficient number of voters. It isn’t unusual for voter turnout in state or local elections to be 20 percent or less. Furthermore, public employees vote far more frequently than the average citizen; and since public employees can also bring in two or three other votes from relatives or friends, they

disproportionately influence state and local elections.⁴ Thus, the government needs to persuade only a relatively small number of marginal voters with its propaganda campaigns.

In sum, the purpose of such government propaganda campaigns is to convince voters that even though there is no evidence that public education will be improved, the “solution” is to spend more money. As Richard E. Wagner has explained, the function of government advertising campaigns “would seem to be to promote acquiescence in and to provide assurance about the prevailing public policies. The purpose of public advertising would be to reassure citizens that the fact that their public goods are composed of 60 percent baloney indicates good performance.”⁵

Government For or Against the People?

Imagine that the grocery store industry was organized like American public schools. Each family would be assigned to a single store where they must shop for all their groceries, and no competition would be allowed. Each family would pay an annual grocery tax of several thousand dollars and be required to enter the government-subsidized grocery store at least three times a week—whether they buy anything or not—because of “mandatory attendance” laws. Such laws would have been established through the lobbying efforts of our hypothetical grocery store monopolists who know that Federal and state subsidies depend partly on the average daily attendance in their stores. All cost overruns would be automatically covered by additional taxpayer subsidies, and whenever costs outstripped the ability of local governments to provide the subsidies, a “food crisis” would be declared and the government would wage a propaganda campaign to raise taxes.

Such a grocery industry would be bizarre indeed, but this is exactly the way the public school monopoly is organized. The reason why, for at least the past 30 years, additional spending has led to nothing but lower student achievement was clearly explained by sociologist James Coleman: “To understand how the outputs of education could be unrelated to the school inputs [i.e., spending], it is only necessary to shift the context. In the industries of Eastern Europe and the Soviet

Union, which like American public schools operate under state management without markets subject to the discipline of consumer choice, outputs are also little related to inputs."⁶

The public school monopoly operates like a defunct Eastern European government monopoly: its "product" gets worse and worse, year in and year out, while the beneficiaries of the monopoly—educational bureaucrats and teachers' unions—clamor relentlessly for more and more subsidies. The obvious solution to the collapse of socialism in Eastern Europe and elsewhere is privatization and free enterprise. Only by establishing private property and free markets can the formerly Communist countries hope to develop healthy economies that cater to the preferences of their citizens rather than to the political whims of their rulers, as is the case in all socialistic organizations, including the American public schools.

Politicians, bureaucrats, and teachers' unions show their true colors when they organize powerful political opposition to any attempt to provide parents more freedom of choice in education, whether through vouchers or tax credits or the more genuine reform of privatization of government schools. It is American parents and taxpayers against whom the public school bureaucracy is constantly doing political battle, which calls into question the bureaucracy's self-serving claims of being "public servants."

A case in point of how the public schools have been a cartel designed primarily to benefit the public school bureaucracy, not the public, is the experience of Polly Williams, the Milwaukee state legislator and single mother of four who earned the support of the governor of Wisconsin and the state legislature for an experimental educational voucher plan. Her plan (which was implemented in the fall of 1990 but is subject to a court challenge) gave as many as 1,000 inner-city youths scholarships worth up to \$2,500 annually that could be used at any school in the area, public or private. (The average per-student expenditure in the Milwaukee public schools exceeds \$7,500.)

The plan was enthusiastically embraced by hundreds of minority parents as well as the state legislature and the governor. Parents found that their children could get a far superior education at sig-

nificantly lower costs to Milwaukee taxpayers. This was as much a boon for the parents and students as it was a disaster for the public school bureaucracy. Powerful opposition, including an ongoing court battle, was provided by teachers' unions and school superintendents—the protectorates of monopoly privilege.

Episodes such as this underscore the true essence of the public school cartel. It is a sad example of how government has increasingly become more the master than the servant of the people.

No one can reasonably argue that citizens shouldn't have the right to shop around for the best deals they can get for groceries, automobiles, clothing, appliances, recreation, and virtually every other consumer item. Even Mikhail Gorbachev has been widely quoted as saying, "Freedom of choice is a universal ideal." This is clearly not true, however, for the public school bureaucracy, which makes every attempt to stand in the way of parents who wish to exercise the same kind of freedom in choosing the education their children receive as they do when choosing between Coke and Pepsi.

Needed: A New American History Lesson

The American Revolution was fought partly as a protest over government-sponsored monopolies that King George III tried to impose on the colonists. It would be a fine history lesson indeed for America's school children to witness a second American revolution against monopolistic government, starting with the dismantling and privatization of the public school cartel. □

1. Erick Hanuscheck, "The Economics of Schooling: Production and Efficiency in Public Schools," *Journal of Economic Literature*, September 1988, pp. 1141-77.

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3. *Chattanooga News-Free Press*, March 9, 1991, p. 5.

4. Winston C. Bush and Arthur T. Denzau, "The Voting Behavior of Bureaucrats and Public Sector Growth," in Thomas Borcherding, ed., *Budgets and Bureaucrats* (Durham: Duke University Press, 1977), pp. 90-99.

5. Richard E. Wagner, "Advertising and the Public Economy," in David Tuerck, ed., *The Political Economy of Advertising* (Washington, D.C.: American Enterprise Institute, 1976), pp. 90-110.

6. James Coleman, "A Quiet Threat to Academic Freedom," *National Review*, March 18, 1991, p. 28.

Illiberal Education Can't Be Cured With Illiberalism

by John-Peter A. Pham

I. Crisis in Academia

When Allan Bloom published his 1987 critique of American higher education, *The Closing of the American Mind*, he ignited a fire-storm of indignation from the dons of academia whose seemingly tranquil world he had disturbed. Not uncommon was the response from the American Council of Learned Societies, which solemnly declared that “precisely those things now identified as failings . . . actually indicate enlivened transformations.” Today, however, the record clearly vindicates Professor Bloom: no matter what index is used to gauge the performance of the country’s “best and brightest,” the results are equally dismal.

A 1989 poll of college students from 67 schools conducted for the National Endowment for the Humanities by the Gallup organization revealed that most would not be able to recognize classic literary works, identify the men and women who contributed major philosophical concepts, or even state important historical changes. For example, 58 percent couldn’t identify Shakespeare as the author of *The Tempest*; 42 percent couldn’t date the American Civil War to within a half-century; and 25 percent thought that one of Karl Marx’s favorite dictums—“from each according to his abilities to each according to his needs”—was excerpted from the U.S. Constitution.

Mr. Pham is former editor-in-chief of Campus, America’s largest student newspaper, and co-editor of the forthcoming book, The State of the Campus Report, from the Intercollegiate Studies Institute.

At the University of Chicago, a current-events survey recently conducted by the independent student journal, *The Chicago Crucible*, found that two-thirds of the nearly 300 undergraduates interviewed at the prestigious Midwest institution didn’t know the capital of Canada. Only 8 percent could identify both U.S. senators from Illinois. Equally disheartening statistics were tallied in similar polls conducted by independent student journalists at Dartmouth, Vassar, and other elite schools.

These statistics often are justifiably offered as evidence of some failure in higher education to impart to students a common body of knowledge essential to the continuance of the Western tradition of humanistic studies and the maintenance of a free and informed society. To a great extent, the responsibility for the crisis must be borne by colleges and universities. The administrations of these institutions have certainly allowed standards to decline to the extent that it is now possible to graduate from 78 percent of the nation’s colleges and universities without ever having taken a course on the history of Western civilization, and 33 percent without ever having taken *any* history course. American literature is required reading at fewer than half of American centers of higher education.

What is worse is not that students are no longer being exposed to a common body of cultural knowledge (although this is a major problem), but that the shell of traditional studies has been preserved, yet left devoid of any semblance of mean-

ing, rational moral purpose, or hierarchy of values. Traditional academic departments have had to endure the indignity of having courses such as "Psychology of Dress" (Dartmouth), "Sexual Metaphysics in Gustave Courbet" (Stanford), and "Sodomy and Pederasty Among 19th-Century Seafarers" (Rutgers) inserted into the curriculum next to the works of Plato and Aristotle.

Alongside the debasement of traditional humanistic studies has been the increase in undergraduate specialization and vocational studies to the detriment of liberal education. While there should always be the option of early professional training for students and parents who elect it, the level of vocational overspecialization has approached the absurd. Auburn University, for example, offers a course in "Recreation Interpretive Services," which, according to the course description, teaches "principles and techniques used to communicate natural, historical, and cultural features of outdoor recreation to park visitors."

Arguments have nevertheless been made that some students may need the security of employable skills that vocational studies confer rather than the more abstract utility of, say, classical studies. Granted. However, employers still expect graduates to have a certain set of skills commonly associated with educated people, the abilities to communicate coherently and reason rationally heading the list. The graduates of the traditional curriculum certainly had these qualifications; time will indicate whether students of recreational interpretive services have them as well.

And if it weren't bad enough that the liberal curriculum has been trivialized, the quality of the actual instruction in what remains of the curriculum, particularly for undergraduates, is on the whole rather poor. According to the Carnegie Foundation for the Advancement of Teaching, over half of American college and university instructors spend less than 10 hours a week actually teaching; an additional 15 percent never even darken the doorway to a classroom.

As a full exposition of the crisis in teaching is beyond the scope of this article, it suffices to mention that perhaps the primary factor contributing to the decline is the reduced incentive to teach. While billions of both private and government dollars are available in grants for competent researchers, there are relatively few such rewards

for gifted instructors. This, coupled with its corollary, the cash-starved academic department's dictum of "publish or perish," has pushed many promising teachers into becoming researchers in order to further—or in some cases, simply to continue—their careers.

This crisis in instruction is particularly noticeable in the sciences where a common complaint among undergraduates is that their professors do little more than appear at appointed times to dictate some notes, leaving "discussion sessions" (i.e., teaching and explanation) to graduate-student assistants of varied qualification and, often, marginal English fluency. In this area, government involvement is partially to blame: lucrative government research contracts and grants are a veritable magnet of incentive drawing professors away from the classroom and into the laboratory.

While the overall extent of the crisis may not be fully appreciated outside of academic circles (and indeed the philosophical crisis posed by relativism and deconstructionism in general is far more serious in the long run than the pragmatic crisis of culturally illiterate students or disinterested instructors), the sensational headlines of the past decade have aroused sufficient interest from society at large to bring the government into the scene. Former Education Secretary William J. Bennett, National Endowment for the Humanities Chairman Lynne V. Cheney, and other high-ranking public officials have certainly performed a yeoman's task in refocusing some attention away from short-term policy decisions to the long-term plight of the nation's schools. Nevertheless, some of the solutions they, or educators taking their cue from Washington, propose for the current malaise may be too utilitarian: illiberal education cannot be remedied by illiberal means.

II. Curriculum Centralization and Freedom of Choice

Most education critics would agree that the disintegration of the American academy began and continues to foment at the local level. In fact it can be argued that the leading educational crisis is that deconstructionists, feminists, and other academic special interest groups have become the dominant voices in many departments, forcing cowed administrators at individual institutions to grant concession after concession in the vain hope of avoiding

public confrontation. To cite a particularly notable example, in 1988 a group of radical students occupied administrative offices at Stanford University and kicked off a series of protests that drew such national celebrities as Jesse Jackson to chant “Hey, hey, ho, ho, Western culture’s gotta go!” and “We don’t want to read any more dead white guys!”

What the protesters objected to was a sequence of core courses centered upon some of the great books of the Western tradition, including the Bible, Homer, Thucydides, Plato, St. Augustine, Dante, Thomas More, Machiavelli, Martin Luther, Galileo, and Locke. The faculty quickly capitulated and replaced the sequence with a course called “Culture, Ideas, and Values” that avoids any explicit Western orientation and requires instructors to “confront issues relating to class, ethnicity, race, religion, gender, and sexual orientation, and to include the study of works by women, minorities, and persons of color.” Thus a subtle shift was executed wherein the criterion for inclusion in the course was altered from intrinsic merit (historical, literary, philosophical, etc.) to extrinsic quota-filling.

The Stanford case and others like it, such as the New York State “Curriculum of Inclusion” report, have prompted movements toward a centralization of curriculum. While Dr. Cheney no doubt never intended it to be, some have interpreted her 1989 report, *50 Hours: A Core Curriculum for College Students*, as a call for some sort of national standard or regulation of the educational curriculum of the country’s schools.

Dr. Cheney’s proposal of a required core of 16 semester-long courses—including six courses in “civilization and cultures,” four in languages, and two each in mathematics, natural sciences, and social sciences—is, from the educational point of view, little more than minimalism, hardly amounting to a liberal education. Nevertheless, any sort of government-dictated standardized curriculum, no matter how nobly intended, is dangerously statist. While administrators such as Drs. Cheney and Bennett would hardly pose a challenge to a free, liberal education, there is no telling what might be the eventual ramifications of the precedent of Federally dictated curricula. Certainly few critics of contemporary academia would favor a Soviet-style education system where everything was dictated from an omnipotent Ministry of Higher Education.

A crucial part of the effort to restore the American academy must be choice in colleges and universities. And choice implies diversity. While these institutions face pressure from one side to all become little better than relativist think tanks, they also face tremendous pressure to all become liberal arts colleges. Neither is an acceptable option.

In the relatively free and pluralistic United States, students come from a variety of backgrounds and interests and have an even wider range of goals and plans. Excluding obviously deficient curricula and schools, students should be allowed to choose from a diversity of colleges and universities when they go off to school. There is a need for both philosophers and engineers, Chicago’s and MIT’s, and everything between in a pluralistic society.

In a free society, colleges and universities emerge in response to the various demands of education consumers. It might be, for example, that the economy requires both liberal arts and professional studies. Since education is a commodity in the market, each institution has to resolve for itself its own priorities in the matter. Consumers (parents and students) then have to decide whether they prefer an institution emphasizing one or the other characteristic. In the end, everyone benefits by getting that which gives him or her maximum utility.

III. Freedom of Choice and the End of the University

While many education analysts are willing to grant that there must be a necessary choice and diversity among different types of schools, fewer, it seems, are willing to be as tolerant within a given liberal arts college. Those to the left attempt to expunge from the liberal arts curriculum works they judge to be “insensitive, racist, sexist,” and the like, and seek to replace them with a bewildering host of relativist courses in women’s and minority studies. While those to the right are less guilty of such outright politicization, many of them exercise something short of tolerance toward differing viewpoints: few who describe themselves as conservative are to be found fighting for Karl Marx’s inclusion in the curriculum although the importance of his thought in history is undisputed.

This leads to the question of the end of a col-

lege or university education. Perhaps no more succinct articulation of the mission of collegiate education exists than the one given it by John Henry Newman in *The Idea of a University*. The 19th-century English cardinal acknowledged the pluralism of the modern university when he noted that “a university is a place of concourse whither students come from every quarter for every kind of knowledge.”

Newman emphasized that the aim of higher education was thus to be the cultivation of the intellect for the intellect's sake. The liberal education was intended to open minds to the wealth of man's intellectual and cultural heritage. Through the study of works of literature, philosophy, theology, and polity, students are led to discover for themselves the nature of man and his place within the social and cosmic order. Rather than stifle academic dissent, Newman encouraged it: a university was meant to be a place where “an assemblage of learned men, zealous for their own sciences, and rivals of each other, are brought by familiar intercourse and for the sake of intellectual peace, to adjust together the claims and relations of their respective subjects of investigation.”

Allowing for the freedom of each institution to determine its own philosophical and curricular policy, it would seem that the best recourse in the current academic debate over liberal education would be the liberal approach in the end: let there be free competition in the marketplace of ideas between the conflicting visions of education. If their opponents are as bad as each side claims, then the opposing sides should encourage closer study and discernment of each other, rather than sweeping them aside. Under such scrutiny, the shortcomings will be all the more evident to free minds. Instead of replacing St. Augustine with Kate Millett, radicals should have them read side by side to contrast their validity. Students can decide for themselves whether the *Confessions* or *Sexual Politics* speaks more to them of the realities of the human condition.

Some would claim that such educational freedom is inappropriate for impressionable young minds and that students aren't advanced enough in learning to discern what among the intellectual menu offered is important to internalize. While there is a certain validity to this, the classical liberal faith has always been that, in the end, the most efficient case—the truth—will prevail. While students

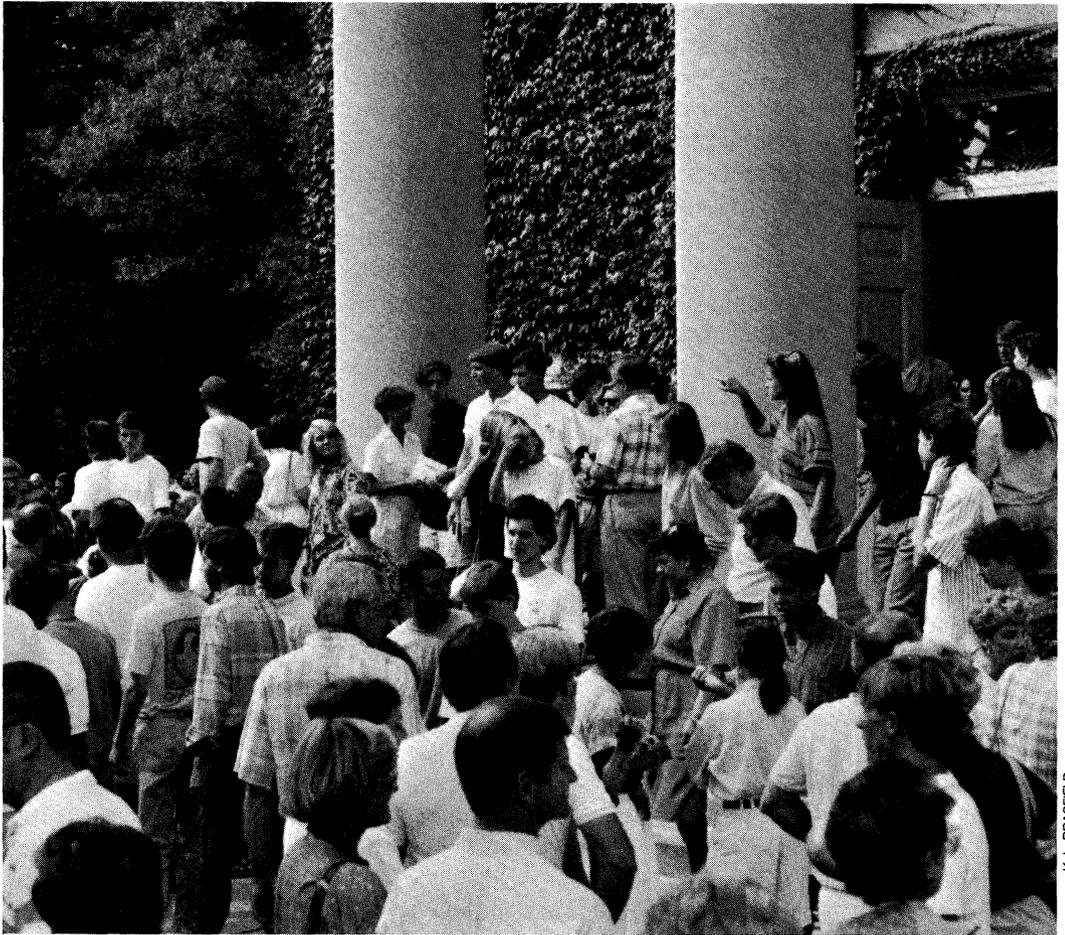
at the University of North Carolina at Greensboro may get academic credit for following the Grateful Dead around, students at Stanford for picketing, and students at Dartmouth for observing the psychology of clothing, once they graduate, they will have to seek employment. And one suspects that a solid course of critical studies will serve the would-be professional much better than Activism 101. In any case, the speed with which students in Eastern Europe, when finally given a free choice, abandoned Karl Marx and Friedrich Engels for free market thinkers like Adam Smith and F. A. Hayek proves once and for all that a small amount of faith deposited in students is not misplaced.

IV. Some Other Liberal Solutions

The myriad crises of contemporary higher education—cultural illiteracy, curriculum devaluation, faculty indifference, and administrative weakness, among others—warrant thoughtful consideration by all who are concerned with the future of society. However, the pressing nature of the challenges facing liberal education in America doesn't justify the use of illiberal, though seemingly expedient, solutions. Force, whether state or ideological, cannot be used to achieve true academic reform, unless one is willing to sacrifice academic freedom of ideas.

The recovery of the academy requires first and foremost a moral commitment to the principles of liberalism. This includes the reaffirmation of the principles of free inquiry of ideas and freedom of choice in education as the only truly humane basis for the search for truth. This, in turn, leads to more concrete action. While some solutions are outlined above, a few more which deserve more extensive study in the coming years should also be considered.

Faculty members who have been vital in the deconstruction of the academy are also vital in its restoration. True scholars are needed to rebut some of the trendy “scholarship” of the tenured radicals in the nation's colleges and universities. These scholars must organize to defend the integrity and validity of the academy. In a free society, the battle for the academy must be fought on the field of ideas. A thought: instead of purging schools of radicals, why not let them continue in their positions, but remunerate them according to their success in attracting pupils? Inevitably, right



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reasoning will triumph, and, without violence, these dons will be forced to fade into other areas of employment.

Students acting as educational consumers have tremendous power to effect educational reform. As more and more students abandon failed radical experiments in search of the truth and wisdom to be found through liberal education, schools will be jolted into positive action. Additionally, as the various independent student publications across the country—*Dartmouth Review*, *Chicago Crucible*, *Vassar Spectator*, *Northwestern Review*, *Carolina Critic*, et al.—have proven, student opinion does carry influence when it is reasonably articulated.

Alumni, parents, philanthropists, and other groups have a great deal of power over higher education, especially since they speak the language most understood by administrators—money. In a free society, one has a choice as to where he disposes his resources. If the financial wells of particularly bad schools begin to dry while those of true cen-

ters of liberal education swell, assuredly the colleges and universities will get the message.

V. Reconsidering Government's Role in Education

The discussion of the crisis in education, as with almost any discussion of problem-resolution in a statist society, must eventually turn to a consideration of government. All too often, reports of problems in the educational system prompt little more than calls for more government funding or increased monitoring of troubled programs, as the case seems to warrant. Implicit in such calls is the assumption that government should be actively involved in higher education. However, if American higher education is ever to be recovered, even such long-held propositions must be reconsidered.

Aside from “tradition” (and it is a relatively young one, dating substantively only to the Morrill Act of 1862), an argument appealing to inertial

tendencies among some, there isn't a very convincing argument for government involvement in the ownership and operation of colleges and universities. On the economic level, these institutions are certainly no more efficient than private institutions. During the academic year 1985-86, for example, the average cost to educate one student at a state college or university was approximately \$6,760, while the same figure for private colleges was \$6,600. Few educators would venture to argue that the education received in most state schools or colleges was equal to—never mind \$160 better than—that in private schools.

While it has been argued that state institutions often teach the technical skills necessary to keep up the country's competitive edge in the world economy (as opposed to usually more liberal arts-inclined private institutions), the statistics have belied such claims: over 60 percent of the professional degrees earned in America are awarded by private institutions, and, since World War II, most of the nation's physicians, scientists, and lawyers have been trained in the private sector.

In addition to its proprietary involvement in higher education, government is involved in a number of educational programs that include private institutions through its assorted funding programs. Many students receive assistance with their education from an alphabet soup of state and Federal aid programs: SEOG, Pell, NDSL, GSL, etc. While there is little doubt that these programs have helped a number of talented young scholars to receive training, there has been, as a consequence of the relatively easy access of these programs, little incentive to explore the possibilities of private sources of aid. And the potential for entanglement with the government leviathan—and the resulting loss of institutional freedom—that comes from the acceptance of public dollars is considerable, as demonstrated by the Grove City College case where participation in Federal assistance programs led, in part, to a government attempt to regulate unassisted athletic programs.

The question of government involvement with instructors, and hence curriculum, also needs

investigation. While no concrete evidence of impropriety has yet been uncovered in the United States, the historical experience of other countries as well as analogous examples here should give some pause for thought. If allegedly independent thinkers, teachers, and researchers are receiving government assistance, then any claim to scholarly independence is forfeit. At best, it represents a market inefficiency: if there is a market demand for the work, the enterprising scholar can receive support for it from the private sector. At worst, it reduces academic freedom of inquiry from an undisputed right of the individual mind to a contractual item to be argued in courts of law.

Witness, for example, the recent limitation of freedom of expression for artists soliciting grants from the National Endowment for the Arts. Once funds are exchanged, the relationship between the state and the individual is altered from the government being an objective protector of rights to being an interested party with patronal rights of its own.

All in all, while the likelihood of anything close to a substantive state withdrawal from the education business any time soon is rather slim, the current malaise may serve to spark the debate in that direction. At least it should be an incentive to explore this question further.

VI. Conclusion

Liberal education is perhaps the most noble work of a free society. It aims not at proselytization or indoctrination, but at exposing the mind to the great wealth of diversity in the human experience, opening it to the full horizon of possibilities. In the end, it gives the freedom to discover and internalize truth, and the tools to do so. Yet never in history has this great work faced the assault it does today from within the academy. Nevertheless, in the battle for the hearts and minds of academia, it must never be forgotten that the end, liberal education, can never justify the means of illiberalism. Freedom of the mind cannot be bought by the slavery of the teacher. □

Keynesian Budgets Threaten Recovery

by Hans F. Sennholz

The 1991 and 1992 Federal budgets alarm and dismay many economists. They are the very models of Keynesian budgets, calling for a sharp rise in Federal spending as an antidote for recession. They propose to boost Federal spending from \$1.25 trillion in fiscal 1990 to \$1.45 trillion in 1992, or 15 percent. If we add the expenditures of Desert Storm, which is merely listed as an \$8 billion "placeholder" item for supplemental budget requests later in the year, total 1992 spending may exceed \$1.5 trillion. As political budgets usually understate the spending totals, actual expenditures may approach \$1.6 trillion.

Government expenditures of such magnitude are simply too big to be ignored or taken lightly. They are felt not only throughout the American economy but also all over the globe. After all, they may affect the value of the U.S. dollar which is the standard money of the world, used widely by governments, corporations, and individuals. U.S. government spending has pocketbook effects on all continents.

Federal legislators and administrators apparently cannot free themselves from the spell of Keynesianism. It has such a compelling attraction because it elevates to good economics the thing they like to do most—spend other people's money. Keynesianism permits administrators to yield to any and all spending pressures by Congress, and encourages them to take the lead in new spending

initiatives. It confers respectability on political profligacy.

Unfortunately, government spending does not sustain, stimulate, or invigorate an economy. On the contrary, it diverts economic resources to many unproductive uses and thereby aggravates a recession. Boosts in spending allocate more resources to the ever-growing bureaucracy and the favorite recipients of Federal largess. This is why the Federal budgets may actually deepen and prolong the present recession.

The budgets propose higher expenditures on preschool education and preparation of low-income Americans for higher education. They seek more funds toward the reduction of illness and death from preventable diseases. They recommend a sizeable increase of Federal spending for research and development, with special emphasis on basic research, high performance computing, and energy research and development. They argue for more Federal spending on highways and bridges, on airports, the air traffic control system, and the exploration and use of space. They propose to spend more for the expansion and improvement of national parks, forests, wildlife refuges, and other public lands. They call for further increases in Federal spending on drug prevention, treatment, and law enforcement. They would substantially raise Federal outlays to help the Federal Bureau of Investigation fight crime, Federal prosecutors prosecute criminals, and the Federal prison system accommodate more convicts.

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To finance the additional spending of \$194 billion, the budgets envision \$133.7 billion in new tax receipts, user fees, and other collections; the \$60.3 billion shortfall is added to the deficits estimated at \$318.1 billion in 1991 and \$280.9 billion in 1992. Altogether, they probably will exceed \$600 billion.

The Seen and the Unseen

Yet despite such massive consumption of economic resources, nowhere do the budget documents reflect on the obvious reduction in economic well-being that Federal taxation and deficit spending inflict on their victims. Nowhere do they mention a \$194 billion reduction in individual income that prevents people from spending money for preschool education and preparation for higher education, for the fight against illness and death from preventable diseases, for research and development, for drug prevention and treatment, and so on. *Government spending always is presented as a benefit without cost, a grand addition to the general welfare, a social achievement of the highest order.*

This popular view of government spending not only springs from the old predilection of politicians for spending other people's money but also draws support from man's natural inclination to prefer the seen over the unseen. Government largess is visible to all in the form of various benefits, lucrative contracts and privileges, and public buildings, many of which look like Greek temples built to the gods. What is not seen are the costs borne by millions of people who were forced to do without preschool and higher education, who no longer can afford medical services or purchase health and life insurance, who must forgo better housing and warmer clothing. The marble temples of politics which may last a thousand years are durable monuments to the supremacy of political power over individual freedom and economic prosperity. To a thoughtful person, they speak of onerous taxation and painful extractions that greatly aggravate the plight of the poor.

The Keynesian call for a sharp rise in Federal spending as an antidote for recession is neither thoughtful nor helpful; it completely misinterprets the causes and consequences of recession and, therefore, prescribes the wrong medicine. A recession is a time of readjustment and recovery when businessmen correct the mistakes made in the past

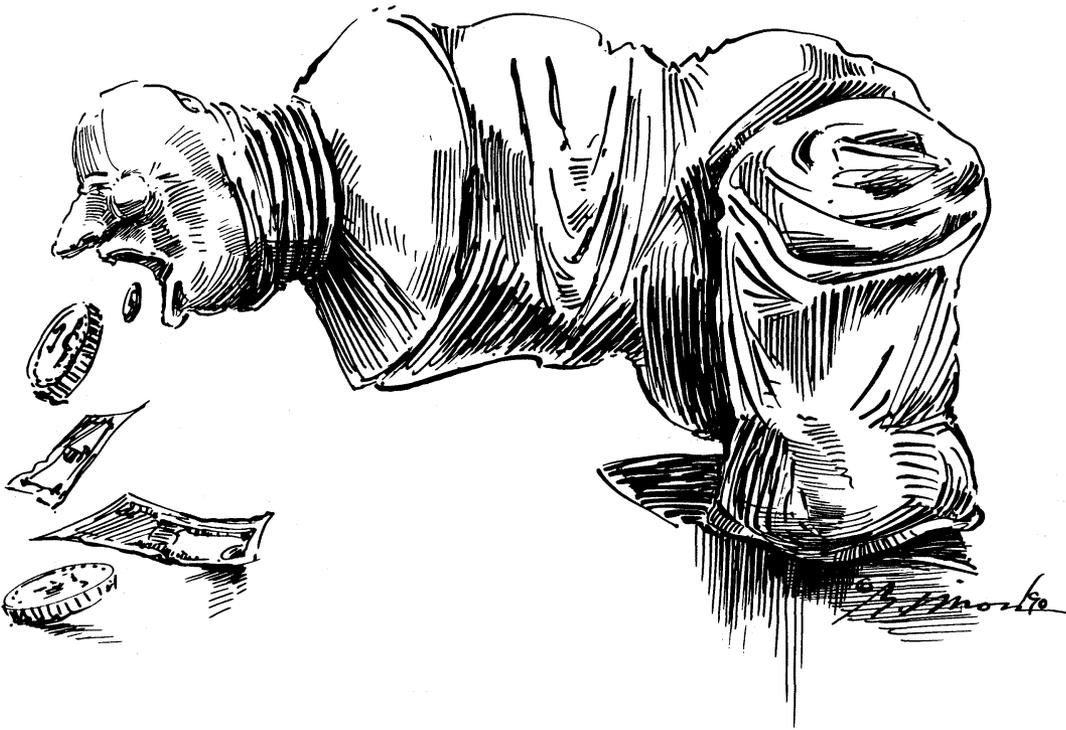
and put their houses back in order. It is an integral part of a business cycle that begins with a boom, leads to a bust, and ends with recovery. If, for any reason, government prevents the readjustment or even promotes more maladjustment, it makes matters worse. In the end, the recession may turn into a deep depression, just like the Great Depression during the 1930s.

The present recession had its beginning during the 1980s when the Federal Reserve System, the monetary arm of the government, ignited a boom with numerous bursts of new money and credit. It helped finance Federal budget deficits of nearly \$2 trillion, permitting the Federal debt to rise to \$3 trillion, plus approximately \$1 trillion in agency debt and off-budget guarantees. It rushed to the rescue of many governments of Third World and former Communist countries which incurred and now labor under \$600 billion of foreign debt. The Fed kept alive hundreds of banks and S&Ls suffering in the vise of regulation and inflation. Helping to build large pyramids of junk-bond debt, it facilitated a great takeover game that enabled promoters and speculators to assume control over giant corporations. Banks amassed \$700 billion in loans for mergers and acquisitions and another \$700 billion in loans on real estate. The Fed even financed the rescue of various corporations and city governments chafing under heavy loads of political debt.

During the 1980s total debt nearly doubled to an estimated \$12 trillion, much of which is of low quality. The growth of debt did not lead to economic growth; instead, it facilitated government handouts and corporate mergers, acquisitions, and leveraged buy-outs. It caused real estate and stock prices to rise dramatically, while economic output, according to the Tax Foundation, stagnated, and median average income after direct Federal taxation and inflation declined by 9.2 percent.

Recovering from Recession

A recession or depression is a cleansing affair that exposes mistakes and manipulations and calls for corrections and remedies. The present recession is the inevitable consequence of the mountains of unproductive debt that financed many ill-advised ventures and now weighs heavily on the debtors. It will end as soon as the debt burden has been reduced to a more bearable level. Debt relief may come through bankruptcy and rescheduling,



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write-offs, and pay-offs. The end may be in sight when falling interest rates signal not only a decline in lending risk, but also the arrival of new savings in the market.

Under the sway of Keynesian thought, many politicians and officials are determined to hasten recovery through deficit spending and money creation, which they call “contra-cyclical.” Actually, their policies are “contra-recovery”; they aggravate and prolong the recession by consuming capital en masse, crowding out business, and depressing business activity. The currency and credit expansion falsely lowers interest rates, which again misleads businessmen in their investment decisions. In short, government deficit spending and money manipulation are the most potent recovery suppressors.

The present recession may prove this point. When Federal deficits are made to swell to unprecedented levels while the recession deepens and lingers on, the Keynesian model obviously fails to demonstrate economic reality. It misinterprets the causes of recession and, therefore, prescribes a wrong medicine, in fact, a very harmful medicine.

There are three types of people in the world. Some learn from their own mistakes—they are experienced and wise. Others learn from deliberation and observation of the experience of others—they are diligent and intelligent. The third type learns neither from their own experience nor the experience of others—it comprises the fools. The severity and length of the present recession will clearly reveal which type of legislator and administrator is holding forth in Washington. □

A Report from the World of Suggestive Looks

by Jack Matthews

Recently I was sadly amused by a front-page story in the student newspaper of the university where I teach. This article featured the report of our Assistant Director of Affirmative Action in which sexual harassment of female faculty and administrators was found to be a serious and continuing problem on campus. Coming from an office whose existence depends upon a generally acknowledged perception of injustice, the findings of this report were not entirely unexpected; but they were nevertheless deserving of attention. And yet I will confess that my own attention wavered for a moment when I came to the following seemingly sober and responsible statement: the “report . . . showed that nearly 50 percent of 310 women . . . reported some form of sexual harassment on the job. Most of the cases involved unwanted sexual teasing and sexually suggestive looks.”

Innocent readers could be easily misled by the statistical format of this assertion, but its premise is as vaporous as Dracula’s blood pressure or the ghost of Bambi. Why? Because nothing can be *suggestive* unless there is someone to whom it is suggested. Therefore, a “sexually suggestive look” is the product of a judgment, and most sensible folks understand that judgments are not always and necessarily valid or well-founded. (“Sexual teasing” is subject to the same distrust; but it is not my concern in this piece, for reasons that will soon be clear.)

I don’t question that sexual harassment exists;

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nor do I question that there is such a thing as a sexually suggestive look. Although if a sexually suggestive look is what I think it is, it is part of what we used to consider the pleurably harmless game of flirtation played with equal enthusiasm by males and females. But that reactionary view has evidently been discredited, and I will confess the possibility that I myself, in my long life as an unrepentant heterosexual male, may have occasionally fallen into weakness and sin by emitting a sexually suggestive look. Even though I’m still not entirely sure of what that is, it sounds like the sort of thing I might have done at one time or another.

If I have upon occasion been guilty, however, I have also been innocently wronged. Let me give an example. Recently I was driving alone in my car on campus—which is really a small city, as are most university campuses today—and I stopped for a traffic light that turned red just in time to catch me. I had my radio tuned to the university station, and I was listening to a politician from Colorado talking about his home state. I can’t remember the context, but for some reason he was explaining how frolicsome, outdoorsy, and danger-loving a great number of the populace of Colorado are. Then he told a story he’d heard to demonstrate this fact.

This story was about a parachutist, a male, who had one day made three successful jumps; and then, on his fourth jump, his chute failed to open. He was experienced, however, and pulled the rip cord of his emergency chute; but it failed, also. By now he was falling at maximum rate and understandably concerned. Suddenly, he was surprised to see another man traveling in the opposite direction. “Do you know anything about parachutes?”

he cried out. "No," the other man answered, "what do you know about camp stoves?"

I thought this was so funny that I laughed out loud, even though I was sitting there all alone in my car waiting for the light to change. Unfortunately, the very instant I laughed, I happened to look up directly into the eyes of a young woman jogging bouncily across the street in front of my car. When her gaze met mine, her expression changed and she positively *glowered* at me. In fact, she kept glaring for two or three strides as she progressed (she had stopped jogging the instant I looked at her), so that her gaze didn't leave my no-doubt fatuously grinning face. As best I could determine, her expression was defiantly indignant and self-righteous, verging upon outrage.

And yet, I am aware that describing her expression in such terms—no matter how unmistakable it seemed to me—is open to question. I am aware that this is only my *impression* of her expression, for it's possible that this young woman had just twisted her ankle the instant she glanced up to see what she interpreted as a sexist smirk on my face. Or maybe, out of the blue, the thought of mid-terms came to her. Or she may have been myopic, and was frowning into the windshield to see if I was her Uncle Phil from Shaker Heights.

But, do you see, this is the point I want to make. I don't think my version of that little episode should enter the world of statistics anywhere. The suggestive aspect of the look she gave me—the look that suggested to me that she thought I was beaming a sexually suggestive look at her—might have existed in my head alone, and not hers. Because of this, I know that my impression has no more place in the world of statistics than it does in next year's Federal budget. My story should be

appreciated only for what it is, an honest report by one sadly limited human being who, through no perceptible fault of his own, happens to be a man . . . and happened upon one occasion to hear an unexpected joke and found it so funny he broke out laughing.

Do you sense the moral in my story? I hope so. But to tell you the truth, I can't be sure anybody will understand what I have just written as I intended it. There are some people, I'm certain, who will find it ineffably offensive. These people seem to me so inflexibly self-righteous, narrow, and bigoted that rational discussion is forever closed to them and a sense of humor is an obscenity they cannot abide. I believe that I could further define and describe these people, and I don't think they are all professionally connected with Affirmative Action issues—some of whose programs are no doubt wisely and judiciously governed and some of whose principles I agree with generally, affirmatively and, yes, when the wind is right, maybe even actively.

Nevertheless, these people are out there in the real world and we have to live with them. All I can do at the moment is hope that the moral of my report will be evident to everyone, and hope that all of us try to clear our heads of cant. Wouldn't it be wonderful if this happened, and we really *did* learn to distinguish between the different sorts of signals emitted by sexually suggestive looks and, say, traffic lights? And wouldn't we be wiser and happier if we were careful to distinguish clearly between judgments and facts? And wouldn't it be wonderful if we could somehow learn to "feel good about ourselves"—as the gummier TV ads keep prompting their viewers—without feeling nasty about others? Even if they're men? Or, indeed, women?

From Samuel Johnson's *Dictionary*:

cant. (1) A corrupt dialect used by beggars and vagabonds.

(2) A particular form of speaking peculiar to some class or body of men.

(3) A whining pretension to goodness, in formal and affected terms.

(4) Barbarous jargon. . . .

(1755)

Tyranny—From the East to the West

by Tibor R. Machan

In the late 1950s I was a boy in Hungary, living in Budapest and experiencing the impact of tyranny on my elementary education. It consisted, mainly, of compulsory uniformity. All schools had to teach the same topics, from the same books, without any leeway for individual students' needs, aptitudes, or interests. The entire experience was a nightmare. Teachers were dismissed for the slightest departure from official strictures.

One experience stands out for me. We were being indoctrinated—for you cannot call it being educated—with the famous line from Karl Marx, “From each according to his abilities, to each according to his needs.” As the teacher explained how important it was to etch this idea in our minds, I raised my hand and asked, “If two people started with the same resources but one drank himself silly while the other produced a useful product, did they have to share the benefits of the latter’s work?” I was summarily dismissed from my class and reassigned to a construction trade school.

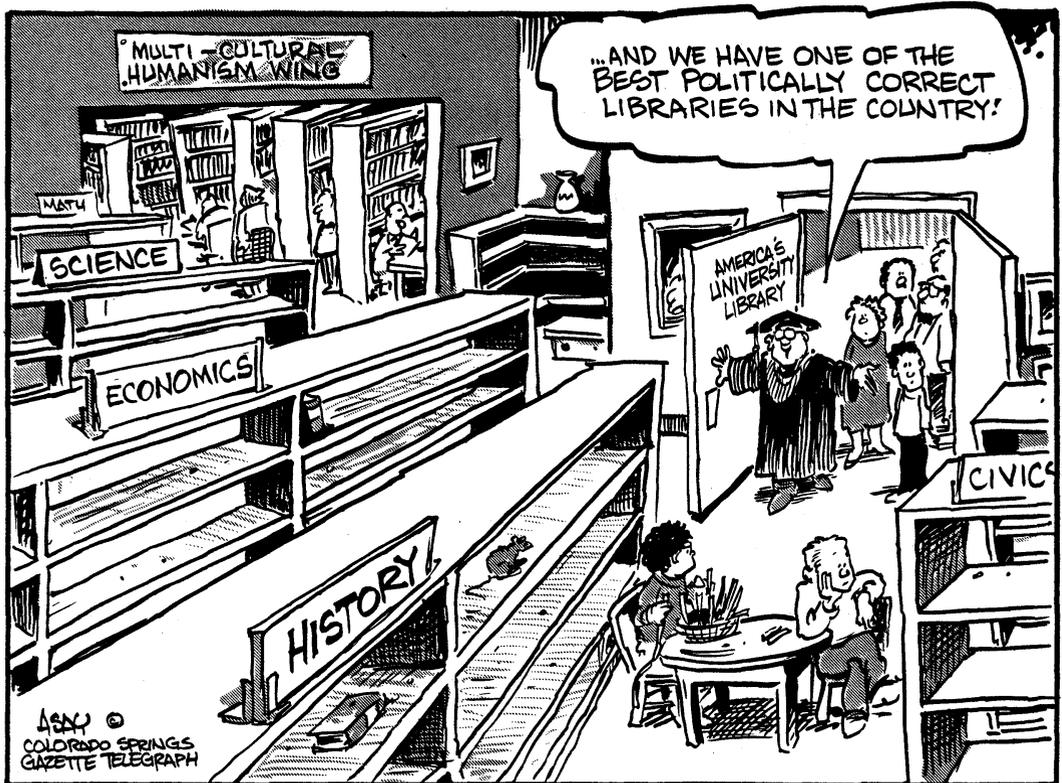
During the last few years, the Eastern bloc has experienced a serious measure of liberation. The uniformity of Communist state indoctrination has gradually given way to a more liberal, pluralistic education for most students. Some Soviet schools are experimenting with Western-style education for even the youngest pupils. They have begun to adopt unique educational methods they have discovered at Montclair State College in New Jersey, which has an experimental program to teach philosophy to children starting at the age of 6. The techniques of critical, independent thinking are

being imparted to youngsters so they can begin to evaluate what others say, to carve their own intellectual paths.

I am not certain how effective such education can be—Aristotle believed that people under 40 can’t engage in philosophical thinking. But at least some introduction to critical reasoning and evaluation may generate independent thought for those exposed to such educational methods. And now some educators from the Soviet Union are experimenting with this.

Ironically, at the same time Eastern Europe is transforming itself toward a more liberal social order, the opposite seems to be happening on some of America’s college campuses. Reports from Tulane, Smith, Harvard, Rutgers, and the University of Northern Colorado, to name just a few, indicate that faculty and students alike are moving closer to demanding a uniform approach to teaching. Even private conversations are monitored on these campuses, and it is demanded that these conform to “politically correct” language. Teachers and students are being told that they may not speak in ways that indicate wrong thinking—in one case at the University of Pennsylvania, a college administrator deemed the word “individual” in an undergraduate’s memo to be inappropriate because he considered it a sign of racism!

What’s happening here? While in Eastern Europe, South Africa, China, and Latin America the winds of pluralism are blowing, in recognition of the fact that individuals have different needs, aspirations, and talents, in the United States, many intellectuals in powerful administrative and political positions are mandating uniformity along lines reminiscent of the crudest forms of Marxism—



Leninism. And if you protest that this is tyranny, your remarks are deemed self-incriminating. Even to question the new demands for mandated uniformity of speech is to invite the accusation that you have subconscious tendencies toward racism, sexism, and all manner of other intolerable social indecencies.

Karl Marx argued that for socialism to arrive, first a society must experience democratic capitalism. The workers will then vote in socialism when the time comes. In Eastern Europe it has been discovered that socialism needs to be imposed by commissars and dictators. Such a political economy just isn't suited to human beings, and the Marxian idea that they—or at least “the workers”—will embrace it voluntarily has turned out to be a myth.

In America also we are discovering that it isn't “the workers” or “the people,” but rather many of the privileged intellectuals who demand that we become fully collectivized, made uniform in conduct and speech. Since such a social life is inherently anti-human, it is no surprise that its

champions have to implement it by the threat of force.

Nor is it much of a surprise that some of those now embarking on such measures used to be advocates of free speech. At one time, when they lacked power, they defended their anti-individualist propaganda as fully protected by the First Amendment. Yet, as many critics remarked at the time, they never defended individual freedom—including freedom of speech—for anything other than strategic purposes. Once they gained some measure of power, they showed their hands by denouncing liberty as a bourgeois bias and proceeded to try to impose their “politically correct” vision of human behavior.

For me it is very sad, not to mention frightening, to see that the country to which I escaped from collectivist tyranny is now experiencing the ominous winds of collectivist uniformitarianism. I only hope that it goes no further than the peculiar and unreal regions of American university life. But I am afraid that such hope may be futile. □

Elephants and Ivory

by Elizabeth Larson

When government officials arrived in Lausanne, Switzerland, for the biannual meeting of the Convention on International Trade in Endangered Species in October 1989, they wanted to save Africa's elephants from extinction. They voted to end the ivory trade. Unfortunately, an ivory trade ban may be as good as a death warrant for Africa's elephants.

The delegates supporting the ivory trade ban argued that it would eliminate the ivory market. Without a market for ivory, they say, poachers would be out of business. But opponents of the ban maintain that banning ivory will simply create a black market for elephant products, encouraging poachers to find new ways to beat the system and profit from elephants.

Zimbabwe is taking a stand against the "made in Switzerland" solution to dwindling elephant populations by promoting trade in ivory. Botswana, Zambia, Malawi, Namibia, and South Africa have joined Zimbabwe's elephant management program, which has a 10-year record of success. Banning ivory is the surest road to extinction for the African elephant, argue leaders in those countries. They believe the villagers can do more to protect the elephants and ensure the longevity of the species than costly centralized government programs can.

If statistics are any indication, the communal management programs in those countries are succeeding—the numbers of elephants in those coun-

tries have increased 40 percent in the last decade.

Much of the elephant debate centers on whether the species is really in danger of extinction. Elephant herds in many sections of Africa have been shrinking drastically. The total number of African elephants has fallen from 1.3 million in 1979 to 750,000 today—a fact no one on either side of the ivory issue denies. Yet African elephants don't live in a single gigantic herd. Hundreds of herds, each numbering several thousand elephants, are scattered across the African continent. While populations of some herds declined during the 1980s, populations of other herds doubled.

"Zimbabwe does not consider the African elephant an endangered species," Thomas Bvuma, an official at the Zimbabwean embassy, said in a July 1990 interview. Individual herds are in trouble, but the species as a whole is not about to disappear, he said. It can hardly be a coincidence that political borders, not natural ones, delineate which areas are experiencing rapidly dwindling elephant populations and which are not, Bvuma pointed out.

Simply totaling the population figures from all countries home to the African elephant can be misleading. In fact, elephant populations in Zimbabwe and surrounding regions are not only growing in numbers, but are doing so at close to the maximum 7-percent-a-year reproduction rate for the species. What are the Zimbabweans doing to eliminate poaching and ensure the survival of their elephants?

Agriculture in Zimbabwe has long been managed by the individual farmer—now the elephants are too. The ranks of Zimbabwe's government are filled with Soviet military advisers, yet the coun-

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try's Marxist leader, Robert Mugabe, recognizes property rights in wildlife as well as in land. When Mugabe transferred the responsibility for elephants from government and wildlife agencies to the farmers and herdsmen on whose land the elephants live, the elephant population in Zimbabwe grew by 5 percent a year, according to Zimbabwe's Department of Wildlife.

Farmers and herdsmen in Zimbabwe own the elephants roaming on their lands. If a big-game hunter wants to shoot an elephant in Zimbabwe, he buys a permit from a nearby village. This costs him some \$25,000. There is no middle man. The permit fee goes directly to the villagers selling him the right to hunt an elephant. The schools, medical clinics, roads, and fences built with the funds benefit everyone in the community. The hunters—by giving the rural Zimbabweans a reason to consider the elephants creatures of value instead of dangerous pests—play a vital role in Zimbabwe's elephant management program.

Today Zimbabwe's problem is too many elephants. At last count there were at least 5,000 more elephants in Zimbabwe than the country's wilderness can sustain. Wildlife Service officials in Zimbabwe are forced to cull about 5,000 to 7,000 elephants every year or the animals will eat themselves out of house and home.

If the Kenyan government weren't averse to applying economic incentives to protect its wildlife, it could buy Zimbabwe's excess elephants to replenish Kenya's disappearing herds. Kenya's President Daniel arap Moi faces a future where elephants will be wiped out in his country by 2005.

A vocal supporter of the ivory ban, Kenya has been a de facto one-party state since independence in 1963. Moi holds fast to the trappings of socialism: despite Kenya's pretensions to democracy (voters must publicly line up behind photos of their candidates during "elections"), the U.S. State Department's *Country Reports on Human Rights Practices* reports political killings and torture and police brutality every year—events unlikely to appear in tourist brochures or pamphlets from wildlife conservation groups advocating Kenya's wildlife management policy. The wildlife in Kenya is as regulated as the citizens, and a no-questions-asked tribunal (poachers are shot on sight) is the rule of the savannah.

"The Kenyan government manages their elephants the way the East Germans tried to manage

their economy: with armed guards, electric fences, and central planning. The result is a sad cycle of blame-passing and demands for greater control. Meanwhile, elephants die," explains Fred Smith, president of the Competitive Enterprise Institute, a free-market advocacy group.

The grasslands of Kenya are a virtual war zone between government game wardens attacking by jeep and poachers with automatic weapons stealing in on foot. Kenyan newspapers report that a Western tourist was shot and injured in the cross fire. Despite Moi's all-out efforts to subdue the poachers, Kenya's elephant population has fallen by 75 percent since 1981, according to statistics published by the World Wildlife Fund, a leader in supporting the ivory trade ban. Tanzania and other central and eastern African countries recorded similar drops in their elephant populations.

"Property of the People"

Moi, who was recently re-elected without opposition for his third five-year term, considers elephants roaming on Kenyan soil the "property of the people." Kenyans "own" the elephants as part of their national and cultural heritage—just as all Americans "own" the bald eagles. Yet symbolic ownership is not the same as legal ownership. Kenyans have no daily incentive to act responsibly toward the elephants because they don't own them in the legal sense the Zimbabweans do. When something is said to be owned by everyone, it is owned by no one. And what no one owns, no one considers his responsibility.

Advocates of the ivory ban don't dispute the statistics indicating that countries supporting trade in ivory are also seeing a rise in their elephant populations.

"We recognize that the status of the elephant is not the same everywhere in Africa," said Michael Sutton of the World Wildlife Fund in an interview last summer. The U.S. government "agrees that the elephants' situation is not identical throughout Africa," but argues that, nonetheless, the only way to solve the problem of the shrinking elephant herds is an "across-the-board ban," according to an official at the Fish and Wildlife Service. "We felt the only responsible thing to do was to say 'no' to all ivory," he said.

Across-the-board bans on trade in rhinoceros and sea turtle products have done nothing to pre-

“Banning trade in ivory does not address the pressing problem of rural communities competing with wildlife for increasingly scarce land and resources.”

vent a flourishing black market in powdered rhino horn and other products. Nor have those trade bans given the people who live in the animals' environment the incentives to protect them. Yet even if the ivory ban did eliminate the world market for ivory, that would solve only half the problem.

At 3 percent, Africa has the highest human population growth rate in the world. Elephants in many sections of the continent are reproducing even more quickly. Today there are 500 million people in Africa, and 80 to 90 percent of them live in rural agrarian communities. The carrying capacity of the African wilderness is already at its limit in many areas, according to a report from the Zimbabwe Department of Wildlife. Life on the savannah is becoming an almost daily struggle between man and beast.

Stampeding elephants are destructive. A farmer's first reaction when he sees an elephant marauding through his newly planted field is to go after it with a gun—unless he knows the elephant might bring him and his neighbors several thousand dollars from a trophy permit. Making elephants valuable gives farmers and rural villagers a reason to figure out how to share their lands with the otherwise troublesome animals. “We are living where elephants are nuisances. Surely as soon as you remove those [economic] benefits and the elephants destroy a village, the peasants are going to kill them. You don't even need poachers to kill the elephants,” Bvuma said. Banning trade in ivory does not address the pressing problem of rural communities competing with wildlife for increasingly scarce land and resources.

Farmers and herdsmen in “southern African countries should not have to suffer because their neighboring governments to the north and east cannot keep their animals alive,” Thabo Yalala,

an official at the Botswana embassy, said in a 1990 interview.

The 36 African countries where elephants roam are among the poorest in the world: the 1988 per capita GNP in 21 of those countries was below \$500, according to the World Wildlife Fund. In poor countries poaching is a tempting alternative to farming the arid soil or protecting animals on game reserves and national parks. The average Kenyan earns \$20 a month; rangers at Tsavo National Park in Kenya earn about \$50 a month. But poachers rake in many times as much from a single day's kill. One elephant tusk brings in hundreds of dollars, and hides from the animals are almost as valuable. Profit far outweighs the poacher's chances of being shot on sight, as is law and common practice in most of Africa.

In Zimbabwe, villagers have a vested interest in the long-term well-being of their elephants. It wouldn't make economic sense for rural Zimbabweans to supplement their incomes by poaching. Today poaching in Zimbabwe is “minimal, almost non-existent,” since the program was put into effect, according to Bvuma. Poaching in his country dropped by over 90 percent when Mugabe gave the villagers stewardship of the elephants. Meanwhile, poachers in Kenya kill 300 elephants a day.

Had Zimbabwe's delegates to the 1989 Convention on International Trade in Endangered Species signed the ivory ban, they would have undermined the rural villagers' incentive to share their land with the elephants. By giving economic incentives to rural farmers and herdsmen, Mugabe created an effective stewardship relationship between nature and man. The “made in Switzerland” solution may have won kudos from armchair conservationists, but the clock is running out for elephants living outside the “made in Zimbabwe” wildlife management programs. □

Government Is Strangling Transit

by John Semmens

Publicly owned and operated transit has been a colossal failure. Billions of taxpayer dollars have been frittered away with little or nothing to show for it.

In 1964, the year the Urban Mass Transportation Administration was created by Congress, eight billion trips were taken on urban transit carriers. Twenty-seven years later, public transit ridership is still eight billion trips. This total lack of progress hasn't been without cost. Since 1964 the federal government has squandered over \$35 billion on public transit. State and local governments have tossed in another \$30 billion.

Despite this sorry record, many urban politicians are eager to build new rail systems, which will typically cost more than \$50 million per mile to construct. The outlays will likely have even less impact on urban mobility than what already has been spent over the last two-and-a-half decades.

Transit policy has failed to adjust to changing urban needs. Most forms of transportation originated over 50 years ago. Fixed-route bus and train transit flourished from the 1920s through the 1940s, but have been in decline ever since. Total ridership and market share peaked in 1945 at 23 billion passengers and 32 percent of urban trips. The current eight billion annual trips amounts to a market share of only 2 percent.

A major factor in the decline of public transit has been the nation's growing prosperity. Rising personal income changes people's living habits. They move away from the high-density neighborhoods served by traditional transit. They buy cars.

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They acquire a taste for convenience. Walking to a bus stop, waiting in a train station, fighting crowds for a seat, and worrying about missing the last departure are all inconveniences that modern urban travelers prefer to avoid.

Yet these inconveniences are the trademark of public transit. Instead of developing ways to reduce such inconveniences, transit policy has entrenched them through regulatory barriers and below-cost subsidized pricing.

Most urban areas prohibit unauthorized transit operations. Certificates of public convenience and necessity are required before a new transit service can be offered. Typically, the would-be provider of new services must prove they are needed and that they cannot be furnished by existing operators. The low-load factors, excess capacity, and deficits exhibited by existing operators usually are enough to secure regulatory rejection of any newly proposed service.

A semi-fixed route, jitney-type service might be able to offer passengers reduced walking and waiting while providing shorter transit times. Unfortunately, this type of service has been suppressed by regulatory policy. A rationale of "preserving the distinctions" among modes of travel relegates the options to cheap-but-slow buses and trains versus fast-but-expensive taxis.

Preserving such distinctions is clearly out of step with the times. For example, with convenience at a premium, "one-stop" shopping centers have proliferated. Merchants seek to provide better service by shedding some distinctions. Many food stores now sell drugs, while many drugstores sell food. The fading distinction

between these stores is a rational response to changing consumer needs. There is no reason why transportation should be exempt from this phenomenon.

Private autos now account for nearly 95 percent of urban trips, while public transit provides only 2 percent. In protecting this 2 percent from new competition, regulatory policy prevents public transit from competing effectively with the automobile.

Transit alternatives and innovations not killed by regulatory means are likely to be undermined by subsidized competition. Government funding permits below-cost, predatory pricing of publicly operated transit. To be price competitive, private sector competitors would have to operate at one-third the cost of public-sector transit.

Rather than continue to waste large sums in an effort to perpetuate inconvenient and unpopular forms of public transit, we should be moving toward a market system of transportation. Instead of jealously guarding the edifice of publicly owned transit, we should be deregulating and privatizing transportation.

Deregulation will open the way for new competitors. Intermediate forms of transportation such as jitneys or shared-ride taxis could offer a more convenient option for many travelers. The legalization of for-profit car pooling could enormously expand the capacity and flexibility of urban transit. With more carriers available, more people might be willing to leave their cars at home.

Locating and structuring transit stops to accom-

modate buses, jitneys, taxis, and car pools could help revitalize the system. In this respect, transit operators can learn from shopping malls, which provide common locations for competing businesses. The availability of many stores attracts more customers than if each merchant tried to go it alone.

The elimination of government subsidies would promote greater efficiency and encourage more entrepreneurs to enter the field. For example, rather than losing a billion dollars a year, the New York City subway system could be turned into a profitable business. A study performed for the Metropolitan Transit Authority a few years ago revealed that the subways could show a profit if fares were doubled. How much more could be accomplished if the excessive wage rates prevailing in public transit were trimmed to reflect market conditions?

The few examples of privately run subscription buses in urban regions indicate that commuter service can be provided at up to 50 percent less than the cost of publicly owned transit. This implies that privatization of municipal bus systems would yield more cost-effective results.

The argument that government ownership is needed because of market failure is nonsense. The market has been suppressed by government regulation and subsidies.

Government doesn't have to own and operate transit in order to promote urban mobility. In fact, the evidence indicates that government ownership retards such mobility. □

The Facts Have Spoken

How little the management of the New York City subways is touched by the spirit of business was proved a short time ago when it triumphantly announced economies made by cutting down services. While all private enterprises in the country compete with one another in improving and expanding services, the municipality of New York is proud of cutting them down!

When economists clearly demonstrated the reasons why socialism cannot work, the statist and interventionists arrogantly proclaimed their contempt for mere theory. "Let the facts speak for themselves; not economics books, only experience counts." Now the facts have spoken.

—LUDWIG VON MISES
writing in 1953

IDEAS
ON
LIBERTY



Hitting the Phantom Curve

by Donald G. Smith

My son developed an interest in sports at an early age. As I recall, he was throwing a ball in the playpen while ignoring his stuffed animals. A born competitor, he grew up seeing me as a batting practice pitcher and punt return man as much as a father, and our blood bond was forged in the fires of competition.

A most important plank in our relationship evolved from the phantom curve, a rather clever bit of chicanery that I sold to him as the “unhittable pitch.” I had used it in my playing days with the Dakota All-Stars, but only sparingly because I was acutely aware that this weapon could ruin the game of baseball. I jealously guarded my awesome secret and refused to teach the pitch to anyone else. As a player I had used it only in crucial situations and threw it no more than three or four times a game. As the story went, no batter ever came close to hitting the phantom curve.

As I said, my son was a competitor, and he was determined to hit the unhittable pitch, but of course he never did. When he hit the ball, he would look hopefully at me and ask if that was the phantom curve. The answer was always negative, but when he swung and missed, we had a different story. *That* was the phantom curve.

He was about eight when he finally saw through the whole charade, realizing that he couldn't win because I was calling the shots. I alone decided what was, and what was not, this remarkable pitch.

The whole thing was rigged, and he was the victim of a bit of deceit from a man with questionable pitching skills and an active imagination.

I recalled the phantom curve recently when I heard yet another speaker castigating the federal government for its “inadequate efforts” in dealing with AIDS and the homeless problem. The simple truth is that efforts to date have been far too ambitious because neither matter is the government's business, but that is another issue. The point to be addressed here is in the area of problem solving. The speaker, and all people of like mind, see the federal government as a problem-solving institution, a place in which bureaus and departments are established to deal with social problems. Then, presumably, the problems go away and humanity takes a giant step forward.

It is another case of the phantom-curve deception because the whole thing is rigged from the outset and no batter will ever make contact. People who are awarded desirable government jobs, with all attendant perks, don't work their jobs out of existence. This is a universal law of human nature and shouldn't be all that difficult to comprehend. These people don't solve; they regulate. Solution is terminal, and regulation is forever.

This is not intended as a put-down of government workers, because they are human and they react as humans react. Not being entirely pure of heart, I would do the same thing if given a plush office with commensurate salary, medical coverage, a fat pension plan, a government car, and all kinds of business to conduct in Paris and the

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SUNRISE/TRINITY PHOTOS

Bahamas. The problem is not the people, but the system—a system that makes problem-solving the kiss of death and problem-perpetuation a one-way ticket to the good life.

This is something that our self-appointed humanitarians don't understand. Government doesn't cure diseases, and it doesn't make the indigent disappear. It doesn't make the deserts bloom, the blind see, nor the lame walk. This is not why we have government.

It is interesting to note that since Lyndon Johnson offered to cure all our social ills with the Great Society, we have spent more than a trillion dollars trying to turn the federal government into the Magic Kingdom, and it hasn't even come close to working. We have added five cabinet-level depart-

ments, all devoted to some kind of social betterment, and this has resulted in nothing more than jobs for people who regulate this massive wheel-spinning operation.

All of this leads us back to the phantom curve, the unhittable pitch. Whenever I hear of a new Federal agency created to solve a social problem, I think of a seven-year-old boy, digging in at the plate and mustering all his skills and determination to do something that couldn't be done, simply because the man who controlled the game wouldn't let it be done. There is, however, one major difference. The little boy figured it out and went on to more constructive things. People who should know better are still up there swinging a bat. □

Biblical Roots of American Liberty

by Edmund A. Opitz

The First Amendment to the Constitution forbids Congress to set up an official church; there was to be no “Church of the United States” as a branch of this country’s government. Such an alliance between Church and State is what “establishment” means. An established church is a politico-ecclesiastical structure that receives support from tax monies, advances its program by political means, and penalizes dissent. Our Constitution renounces such arrangements *in toto*; the Founders wrote the First Amendment into the Constitution to prevent them.

The famed American jurist Joseph Story, who served on the Supreme Court from 1811 till 1845, and is noted for his great *Commentaries on the Constitution of the United States*, had this to say about the First Amendment: “The real object of the Amendment was, not to countenance, much less advance Mahometanism, or Judaism, or infidelity, by prostrating Christianity; but to exclude all rivalry among Christian sects, and to prevent any *national* ecclesiastical establishment, which should give to an hierarchy the exclusive patronage of the national government.”

The various theologies, doctrines, and creeds found in this country can thus be advanced by religious means only—by reason, persuasion, and example. Separation of Church and State means that government maintains a neutral stance toward our three biblically based religions—

Catholicism, Judaism, and Protestantism, as well as toward the various denominations and splinter groups. These several religious bodies, then, have no alternative but to compete for converts in the marketplace of ideas. This is a good arrangement, good for both Church and State; it avoids the twin evils of a politicized religion and a divinized politics.

A Christian Nation

It has often been observed that America is a Christian nation—around which observation several misunderstandings cluster. We are a Christian nation in the sense that our understanding of human nature and destiny, the purpose of individual life, our convictions about right and wrong, our norms, emerged out of the religion of Christendom—not out of Buddhism, Confucianism, or primitive animism. And it is a fact of history that our forebears whose religious convictions brought them to these shores in the 17th and 18th centuries sought to create in this new world a biblically based Christian commonwealth. But it was not to be a theocracy—of which the world had seen too many! It was to be a religious society, but one which incorporated a *secular* political order!

The reasoning ran something like this. The human person is forever; each man and woman lives in the here and now, and also in the hereafter. Here, we are pilgrims for three score years and ten, more or less. Life here is vitally important for it’s a test run for life hereafter. Earth is the training ground for life eternal. Such training is the essence

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of religion, and it's much too important to be entrusted to any secular agency. But there *is* a role for government; government should maintain the peace of society and protect equal rights to life, liberty, and property. This maximizes liberty, and in a free social order men and women have maximum opportunity to order their souls aright.

Separating the sacred and the secular in this fashion is a new idea in world history. Secularize government and you deprive it of the perennial temptation of governments to offer salvation by political contrivances. By the same token, things sacred are privatized as free churches, where the spiritual concerns of men and women are advanced by spiritual means only.

So, when it is said that America is a Christian nation, the implication intended is poles apart from what is meant when it is observed, for example, that Iran is a Shiite nation. The Shiite sect of Islam is a branch of the government of Iran. Other religions are not tolerated. Deviations from doctrinal orthodoxy are forbidden. The government punishes infidels because Shiism is Iran's official, authorized church. From time to time government uses the sword to gain converts. The government of Iran is not neutral with respect to religion.

In the United States, it is mandated that the government maintain a level playing field, so to speak, "a free field and no favor," where freely choosing individuals find their different pathways to God while government merely keeps the peace. This is what is really meant by the phrase, "Separation of Church and State." This oft-quoted phrase is frequently misunderstood as suggesting that religion and politics are incompatible, and that we should keep religion out of politics.

If we think of "politics" as several candidates wheeling, dealing, and slugging it out in an election campaign, it's clear that religion doesn't have a significant role in such a situation. And if we think of "religion" in terms of a contemplative meditating and praying in his cell, it's obvious that politics is absent. But there is no coherent political philosophy apart from a foundation of religious axioms and premises.

Religion and the Social Order

Religion, at its fundamental level, offers a set of postulates about the universe and man's place therein, including a theory of human nature, its

origin, its potentials, and its destination. Religion deals with the meaning and purpose of life, with man's chief good, and the meaning of right and wrong. Thus, religious axioms and premises provide the basic materials political philosophy works with. The political theorist must assume that men and women are thus and so, before he can figure out what sort of social and legal arrangements provide the fittest habitat for such creatures as we humans are. So, some religion lies at the base of every social order.

It is the religion of dialectical materialism that is the take-off point for the Marxian theory and practice of the total state. Hinduism is basic to the structures of Indian society. Western society, Christendom, was shaped and molded by Christianity. Incorporated into Western civilization were elements from the Bible, as well as ingredients from Greece and Rome. This composite was lived, worked over, and thought out for nearly 1,800 years by the peoples of Europe. And then something new emerged and began to take root in the New World; it was the recovery of that part of the Christian story needed to ransom society from despotism and erect the structures of a free society wherein men and women might enjoy their birthright of economic and political liberty.

A vision emerged of a society where men and women would be free to pursue their personal goals, unimpeded by the fetters of rank, privilege, caste, or estate that had hitherto consigned people to roles determined by custom and command, not by their own choice.

The people who settled these shores during the 17th and 18th centuries were children of the Reformation driven by their need to worship God as it pleased them, according to their own wisdom and conscience. Believing that God had entered into a covenant with His people, they freely covenanted together to form churches. This was later called "the gathered church idea," seemingly endorsed by Jesus Himself in Matthew 18:20: "Where two or three are gathered together in my name, there am I in the midst of them."

The local New England church in the Puritan period had full ecclesiastical authority to ordain its minister and appoint deacons and elders. Its minister could celebrate communion, perform christenings, baptisms, and marriages, and conduct funerals—all on the authority of the local church. Each church was in voluntary fellowship with oth-

er churches, but in authority over none. The covenant pattern of the early New England churches was the paradigm for the federalist political structure erected two centuries ago. The West was moving from status to contract, as Sir Henry Maine would observe in 1861.

This concern for individual liberty in society was not limited to theologians. Tom Paine generally took a critical stance when dealing with religion and the church, but in 1775 in an essay entitled "Thoughts on Defensive War" he wrote as follows: "In the barbarous ages of the world, men in general had no liberty. The strong governed the weak at will; 'till the coming of Christ there was no such thing as political freedom in any part of the world. . . . The Romans held the world in slavery and were themselves slaves of their emperors. . . . Wherefore political as well as spiritual freedom is the gift of God through Christ." And Edward Gibbon, so critical of the Church in his history of Rome, nevertheless pays tribute to ". . . those benevolent principles of Christianity, which inculcate the natural freedom of mankind."

Our forebears of a couple of centuries ago regarded human freedom as a religious imperative. They loved to quote such biblical texts as: "Where the Spirit of the Lord is, there is liberty," (2 Cor. 3:17) and "Proclaim liberty throughout all the land to all the inhabitants thereof." (Lev. 25:10) They struggled for freedom of worship; they fought for the right to speak their minds, and for a free press to put their convictions into written form. They also had firm convictions about private property. The popular slogan of the time was "Life, Liberty, and Property!" Property meant the right of private ownership. Adam Smith and his *Wealth of Nations* came along at just the right time—with what Smith called his "liberal plan of liberty, equality and justice"—to become the economic counterpart of the political ideas of the Declaration of Independence.

The Importance of the Individual

The central doctrine of the American political system is our belief in the inviolability of the individual man or woman. This is one of the self-evident truths enunciated in the Declaration of Independence: "We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalien-

able Rights, that among these are Life, Liberty, and the Pursuit of Happiness." The "equality" which is the key idea of the Declaration means "equal justice," the Rule of Law, the same rules for everybody because we are one in our essential humanity.

The reflections of H. L. Mencken on this point are intriguing as coming from a man usually critical of religion. In 1926 Mencken wrote an essay entitled "Equality Before the Law." "Of all the ideas associated with the general concept of democratic government," he wrote, "the oldest and perhaps the soundest is that of equality before the law. Its relation to the scheme of Christian ethics is too obvious to need statement. It goes back, through the political and theological theorizing of the middle ages, to the early Christian notion of equality before God. . . . The debt of democracy to Christianity has always been underestimated. . . . Long before Rousseau was ever heard of, or Locke or Hobbes, the fundamental principles of democracy were plainly stated in the New Testament, and elaborately expounded by the early fathers, including St. Augustine.

"Today, in all Christian countries, equality before the law is almost as axiomatic as equality before God. A statute providing one punishment for A and another for B, both being guilty of the same act, would be held unconstitutional everywhere, and not only unconstitutional, but also in plain contempt of common decency and the inalienable rights of man. The chief aim of most of our elaborate legal machinery is to give effect to that idea. It seeks to diminish and conceal the inequities that divide men in the general struggle for existence, and to bring them before the bar of justice as exact equals."

The freedom quest of Western man, as it has exhibited itself periodically over the past 20 centuries, is not a characteristic of man as such. It is a cultural trait, philosophically and religiously inspired. The basic religious vision of the West regards the planet earth as the creation of a good God who gives a man a soul and makes him responsible for its proper ordering; puts him on earth as a sort of junior partner with dominion over the earth; admonishes him to be fruitful and multiply; commands him to work; makes him a steward of the earth's scarce resources; holds him accountable for their economic use; and makes theft wrong because property is right. When this

outlook comes to prevail, the groundwork is laid for a free and prosperous commonwealth such as we aspired to on this continent.

A Created Being in a Created World

We gaze out upon the world around us and are struck by the preponderance of order, harmony, beauty, balance, intelligence, and economy in the way it works. The thought strikes us that the explanation of the world is not contained within the world itself, but is to be sought in a Source outside the world. The Bible simply declares that God created the world, and when He had finished He looked out upon the world He had created and called it good. The biblical world is not *Maya*—as Hinduism calls its world; it is not a mirage or an illusion. Nor is the world of nature holy; only God is holy. The created world, including the realm of nature, is “the school of hard knocks.” The earth challenges us to understand its workings so that we might learn to use it responsibly to serve our purposes. Economics and the free enterprise system teach us how to use the planet’s scarce resources providently, efficiently, and non-wastefully—in order to produce more of the things we need.

Man comes onto the world scene as a created being. As a created being, man is a work of divine art and not a mere happening; he possesses free will and the ability to order his own actions. As such, he is a responsible being. He’s no mere chance excrescence tossed up haphazardly by physical and chemical forces, shaped by accidental variations in his environment. To the contrary, man is endowed with a portion of the divine creativity, giving him the power to dynamically transform himself, and his environment as well, according to his needs and his vision of what ought to be.

The other orders of creation—animals, birds, bees, fish, and so on—live by the dictates of their instincts. But our species has no such infallible inner guidelines as our fellow creatures possess; our guidelines are formulated in the moral code, as summed up in the Ten Commandments.

Ethical relativism is a popular attitude today; it is a wrong answer to questions such as: Is there a moral code? Are there moral laws? Let me summarize briefly the argument that our universe has a built-in moral order by showing that there is a

striking parallel between the laws of physical nature and moral laws.

The laws of science transcribe into words the observed causal regularities in the world of physical nature, i.e., the realm of things which can be measured, weighed, and counted. This is one sector of reality. Reality also exhibits a moral dimension, where things are valued or disdained on a scale of ethics ranging from good to evil. Biological survival depends on conforming our actions to the laws of nature; ignorance is no excuse. Social survival, the enhancement of individual life in society, depends on willing obedience to the moral code that condemns murder, theft, false witness, and the rest. Transgressors lead us toward social decay and cultural disorder.

Your individual *physical* survival depends on several factors. If you want to go on living you need so many cubic feet of air per hour, or you suffocate. You need a minimum number of calories per day, or you starve. If you lack certain vitamins and minerals specific diseases will appear. There is a temperature range within which human life is possible: too low and you freeze, too high and you roast. These are some of the requirements you must meet for individual bodily survival. They are not statutory requirements, nor are they mere custom. They are laws of this physical universe, which one can deny only at his peril.

Establishing a Moral Order

It is just as obvious that our survival as a community of men, women, and children depends on meeting certain *moral* requirements: a set of rules built into the nature of things which must be obeyed if we are to survive as a society—especially as a social order characterized by personal freedom, private property, and social cooperation under the division of labor.

Moses did not invent the Ten Commandments. Moses intuited certain features of this created world that tell us what we must do to survive as a human community, and he wrote out the code: Don’t murder, don’t steal, don’t assault, don’t bear false witness, don’t covet. Similar codes may be found in every high culture.

It would be impossible to have *any* kind of a society where most people are constantly on the prowl for opportunities to murder, assault, lie, and steal. A good society is possible only if most people

most of the time do *not* engage in criminal actions. A good society is one where most people most of the time tell the truth, keep their word, fulfill their contracts, don't covet their neighbor's goods, and occasionally lend a helping hand. No society will ever eliminate crime, but any society where more than a tiny fraction of the people exercises criminal tendencies is on the skids. To affirm a moral order is to say, in effect, that this universe has a deep prejudice against murder, a strong bias in favor of private property, and hates a lie.

The history of humankind in Western civilization was shaped and tempered by biblical ideas and values, and the attitudes inspired by these teachings. There was much backsliding, of course; but in the fullness of time scriptural ideas about freedom, private property, and the work ethic found expression in Western custom, law, government, and the economy—especially in our own nation. We prospered to the degree that we practiced the freedom we professed; we became ever more productive of goods and services. The general level of economic well-being rose to the point where many became rich enough so that biblical statements about the wealthy began to haunt the collective conscience.

The Bible does warn against the false gods of wealth and power, but it legitimizes the normal human desire for a modicum of economic well-being—which is not at all the same as *idolizing* wealth and/or power. As a matter of fact, the Bible gives anyone who seeks it out a general recipe for a free and prosperous commonwealth. It tells us that we are created with the capacity to choose; we are put on an earth which is the Lord's and given stewardship responsibilities over its resources. We are ordered to work, charged with rendering equal justice to all, and to love mercy. A people which puts these ideas into practice is bound to become better off than a people which ignores them. These commands laid the foundation for the economic well-being of Western society.

Western civilization, which used to be called "Christendom," did not prosper at the expense of the relatively poor Third World. This unhappy sector of the globe is poor because it is unproductive; and it is unproductive because its nations lack the institutions of freedom that enabled *us* to achieve prosperity.

During recent years a small library of books and study guides has poured off the presses of Ameri-

can church organizations (and from secular publishers as well) with titles something like "Rich Christians (or Americans) in a Hungry World." The allegation is that *our* prosperity is the cause of *their* poverty; in other words, the Third World has been made poor by the very same economic procedures—"capitalism"—that have made Western nations prosperous! Therefore—the argument runs—our earnings should be taxed away from us and our goods should be handed over to Third World countries—as a matter of social justice! The false premise is that the wealth *we* have labored to produce has been gained at *their* expense. Sending them our goods, then, is but to restore to the Third World what rightfully belongs to it! What perverse ignorance of the way the world works!

Nations of the West were founded on biblical principles of justice, freedom, and a work ethic, which led naturally to a rise in the general level of prosperity. Our wealth could not have come from the impoverished Third World where there was a scarcity of goods. We prospered because of our productivity; we became productive because we were freer than any other nation. Freedom in a society enables people to produce more, consume more, enjoy more; and also to give away more—as we have done—to the needy in this land and in lands all over the world. The world has never before witnessed international philanthropy on such a scale.

No one has denied Third World nations access to the philosophical and religious credo which has inspired the American practices that make for economic and social well-being. Few nations have done more to make the literature of liberty available to all who wish it than American missionaries, educators, philanthropists, and technicians. But there is something in the creeds of Third World countries that hinders acceptance. However, when non-Christian parts of the world decide to emulate Western ideas of economic freedom they prosper. Look what happened to the economies of Taiwan, South Korea, Hong Kong, and Singapore when they turned the market economy loose!

Regarding the Poor

Ecclesiastical pronouncements on the economy are fond of the phrase "a preferential option for the poor." It is invoked as the rationale for governmental redistribution of wealth, that is, for a program of

taxing earnings away from those who produce in order to subsidize selected groups and individuals. But it is a fact that reshuffling wealth by programs of tax and subsidy merely enriches some at the expense of others; the nation as a whole becomes poorer. Private enterprise capitalism is, in fact, the answer for anyone who really does have a preferential option for the poor. The free market economy, wherever it has been allowed to function, has elevated more poor people further out of poverty faster than any other system.

Another phrase, repeated like a mantra, is “the poor and oppressed.” There is, of course, a connection between these two words; a person who is oppressed is poorer than he would be otherwise. Oppression is always political; oppression is the result of unjust laws. Correct the injustice by repealing unjust laws; establish political liberty and economic freedom. But even in the resulting free society, where people are *not* oppressed, there will still be some people who are relatively poor because of the limited demand for their services. Teachers and preachers are poor compared to rock musicians because the masses spend millions to have their ears assaulted by amplified sound, in preference to the good advice often available for free!

Ecclesiastical documents announce their concern for “the poor and oppressed,” but the authors of these documents are completely blind to the forms oppression may take in our day. If there are unjust political interventions that deny people employment, this would seem to be a flagrant case of oppression. There are many such interventions. Minimum wage laws, for instance, deny certain people access to employment, and these people are poorer than they would be otherwise; the entire nation is less well off because some people are not permitted to take a job. The same might be said of the laws that grant monopoly status to certain groups of people gathered as “unions”—U.A.W., Teamsters, and the like. The above-market wage rate they gain for union members results in unemployment for others both union and nonunion. It is not difficult to figure out why this is so. The general principle is that when things begin to cost more we tend to use less of them. So, when labor begins to cost more, fewer workers will be hired.

It would take several pages to list all of the alphabet agencies that regulate, control, and

hinder productivity, making the entire nation less prosperous than it need be. Our country suffers under these oppressions, economically and otherwise, but not so severely as the oppressed people of other nations, especially Communist and Third World nations. Churchmen recommend, as a cure for Third World poverty, that we deprive the already over-taxed and hampered productive segment of our people of an even larger portion of their earnings, so as to turn more of our money over to Third World governments. This will further empower the very Third World politicians who are even now oppressing their people, enabling those autocrats to oppress them more efficiently!

The New Testament and the Rich

It is not difficult to rebut the manifestoes issued by various religious organizations. But then we turn to certain New Testament writings and are confronted by what seem to be condemnations of the rich. How, for example, shall we understand Jesus’ remark, found in Luke 18:25 and Matthew 19:24: “It is easier for a camel to go through a needle’s eye, than for a rich man to enter into the kingdom of God”?

Jesus’ listeners were astonished when they heard these words. Worldly prosperity, many of them assumed, was a mark of God’s favor. It seemed to follow that the man whom God favored with riches in this life was thereby guaranteed a spot in heaven in the next.

There is a grain of truth in this distorted popular mentality. Biblical religion holds that man is a created being, with the signature of his Creator written on each person’s soul. This inner sacredness implies the ideal of liberty and justice in the relations between person and person. These free people are given dominion over the earth in order to subdue it, working “for the glory of the Creator and the relief of man’s estate,” as Francis Bacon put it. This is but another way of saying that those who follow the natural order of things—God’s order—in ethics and economics will do better for themselves than those who violate this order. The faithful, we read in Job 36:11, “. . . if they obey and serve Him . . . shall spend their days in prosperity and their years in pleasures.”

Perhaps Jesus had something else in mind as well. Palestine had been conquered by Rome.

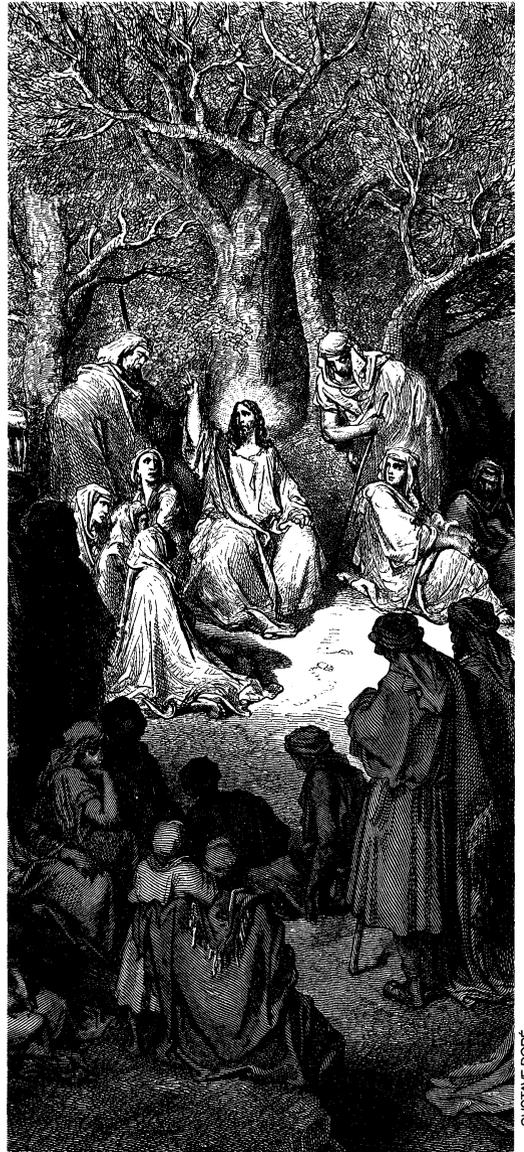
Roman overlords, wielding power and enriching themselves at the expense of the local population, would certainly supply many examples of “a rich man.” Furthermore, there were those among the subject people who hired themselves out as publicans to serve the Romans by extorting taxes from their fellow Jews. “Publicans and sinners” is virtually one word in the Gospels!

In nearly every nation known to history, rulers have used their political power to seize the wealth produced by others for the gratification of themselves and their friends. Kings and courtiers in the days of slavery and serfdom consumed much of the wealth produced by farmers, artisans, and craftsmen. Today, politicians in Communist, socialist, and welfarist nations, democratically elected by “the people,” share their power with a congeries of special interests, factions, and pressure groups who systematically prey on the economy, depriving people who do the world’s work of over 40 percent of everything they earn.

Many a “rich man” lives on legal plunder, today as well as in times past. Frederic Bastiat’s little book, *The Law*, familiarizes us with the procedure. The law is an instrument of justice, intended to secure each individual in his right to his life, his liberty, and his rightful property. Ownership is rightfully claimed as the fruit of honest toil and/or as the result of voluntary exchanges of goods and services. But the law, as Bastiat points out, is perverted from an instrument of justice into a device of plunder when it takes goods from lawful owners by legislative fiat and transfers them to groups of the politically powerful. “Robbery is the first labor saving device,” wrote Lewis Mumford, and political plunder is a species of theft. The fact that it is legally sanctioned does not make it morally right; it is a violation of the commandment against theft.

The Israelites had fond memories of King Solomon. “All through his reign,” we read in 1 Kings 4:25, “Judah and Israel continued at peace, every man under his own vine and fig tree, from Dan to Beersheba.” A nice tribute to individual ownership and economic well-being! The Bible has high praise for honestly earned wealth, and it is exceedingly unlikely that Jesus, in the passage we have been considering, intended anything like a general condemnation of wealth, as such.

At this point someone might raise a legitimate question: “Did not Jesus say, in the Sermon on the Mount, ‘Blessed are the poor?’” Well, yes and no.



GUSTAVE DOFÉ

The Sermon on the Mount

The Sermon on the Mount appears in two of the four Gospels, in Matthew and in Luke. In Luke 6:20 the Beatitude reads: “Blessed are the poor”; but in Matthew 5:3 it is: “Blessed are the poor *in spirit*.” There’s a discrepancy here; how shall we interpret it?

The Beatitudes were spoken somewhere between 25 and 30 A.D. The Gospels of Matthew and Luke appeared some 50 or 60 years later. Both authors had access to the Gospel of Mark, to fragments of other writings now lost, and to an oral tradition extending over the generations. We do not have the original manuscripts of the Gospels; what

we have are copies of copies, and eventually translations of copies into various languages.

Scholars tell us that the Aramaic original of those two words, “the poor,” is *am ha-aretz*—“people of the land.” The *am ha-aretz*—at this stage in Israel’s history—were outside the tribal system of Jewish society; they did not have the time or inclination to observe the niceties of priestly law, let alone its scribal elaborations. The work of the *am ha-aretz* brought them into contact with Gentiles and Gentile ways of life, which in the eyes of the orthodox was defiling. Their status is like that of the people on the bottom rung of the Hindu caste system—the *Sudras*. Jesus is reminding His hearers that these outcasts are equal in God’s sight to anyone else in Israel, and because of their lowly station in the eyes of society, they may be more open to man’s need of God than the proud people in the ranks above them. The New English Bible provides an interesting slant on this text; it translates “poor in spirit” as “those who know their need of God.”

In short, Jesus is saying that all are equally precious in God’s sight, including the lowly *am ha-aretz*; He is not praising indigence, as such.

Biblical Interpretation

The Bible is full of metaphor and symbolism and allegory. Literal interpretation usually falls short; proper interpretation demands a bit of finesse . . . as in the case of St. Paul’s remark about money.

St. Paul declared that “The love of money is the root of all evil.” (1 Tim. 6:10) The word “money” in this context—scholars tell us—does not mean coins, or bonds, or a bank account. Paul uses the word “money” to symbolize the secular world’s pursuit of wealth and power. We tend to become infatuated with “the world.” It’s the infatuation which is evil, for God’s kingdom is not wholly of this world. We are the kind of creatures whose ultimate destiny is achieved only in another order of reality: “Here we have no continuing city.” (Heb. 13:14) Accept this world with all its joys and delights; live it to the full; but remember—we are pilgrims, not settlers. In today’s vernacular, Paul might be telling us: “Have a love affair with this world, but don’t marry it!”

We know that there are numerous unlawful ways to get rich, and these deserve condemnation. But prosperity also comes to a man or woman as

the fairly earned reward of honest effort and service. The Bible has nothing but praise for wealth thus gained. “Seest thou a man diligent in his business?” said the author of Proverbs (Pr. 22:29). “He shall stand before kings.” Economic well-being is everyone’s birthright, provided it is the result of honest effort. But we are warned against a false philosophy of material possessions.

This, I think, is the point of Jesus’ parable of the rich man whose crops were so good that he had to build bigger barns. (Luke 12:17 ff.) This good fortune was the man’s excuse for saying, “Soul, thou hast much goods laid up for many years; take thine ease, eat, drink, be merry.”

There is a twofold point to this parable. The first is that nothing in life justifies us in resigning from life; we must never stop growing. It has been well said that we don’t *grow* old, we *become* old by not growing. The second point is that a material windfall—like falling heir to a million dollars—may tempt a man into the error of quitting the struggle for the real goals in life. Jesus condemned the man who put his *trust* in riches, who “layeth up treasure for himself and is not rich toward God.” He did not condemn material possessions as such; He taught stewardship, which is the responsible ownership and use of rightfully acquired material goods.

Life here is probative; our three score years and ten are a sort of test run. As St. Augustine put it, “We are here schooled for life eternal.” And one of the important examination questions concerns our economic use of the planet’s scarce resources and the proper management of our material possessions. These are the twin facets of Christian stewardship, and poor performance here will result in dire consequences. Jesus put it very strongly: “If, therefore, you have not been faithful in the use of worldly wealth, who will entrust to you the true riches?” (Luke 16:12)

What does it mean to be “faithful in the use of worldly wealth?” What else can it mean except the intelligent and responsible use of the planet’s scarce resources to transform them by human effort and ingenuity into the consumable goods we humans require not only for survival, but also as a means for the finer things in life? In practice, this means free market capitalism—the free enterprise system—in the production, exchange, and utilization of our material wealth in the service of our chosen goals. □

Leftism Revisited

by John Chamberlain

If you want to know the worst about Karl Marx (and there is very little good to be said for him), it's all here in Erik von Kuehnelt-Leddihn's *Leftism Revisited: From de Sade and Marx to Hitler and Pol Pot* (Regnery Gateway, 520 pages, \$29.95 cloth).

The *Communist Manifesto*, written by Marx jointly with Engels, with its ominous words about a "specter" haunting Europe in 1848, was originally published in London. With turmoil in the mid-century air, the authors felt justified in saying that all history was the history of class struggles. But in what they called "pre-history" there had been no classes, and property had been held in common. "In other words," says Kuehnelt-Leddihn, "they adopt the Rousseauistic notion of a paradisiacal past, a Golden Age, a secular version of the biblical story."

This about ended Marx's connection with Adam and Eve and the Garden. Says Kuehnelt-Leddihn, "A violent critique of bourgeois civilization follows, a passage that highlights the dominant characteristic of Marx: self-hatred. Marx, the typical product of bourgeois culture, is antibourgeois; Marx, of Jewish origin, is anti-Jewish; Marx, a permanent resident of capitalist Britain, is anti-capitalist; Marx, married to an aristocrat, is antiaristocratic."

In Paris the self-hating Marx "wrote his first bitterly hostile essay on the Jews. Marx nurtured a real hatred for the Jews, in whom he saw the very embodiment of bourgeois capitalism. But his prejudice had a racist as well as a sociological character."

Marx had to have access to big libraries. (The "idiocy of rural life" did not provide access to books.) So Marx found a library and working space in the British Museum, which he "used to his dying day." His financial support came from Engels, and from the *New York Tribune*.

With Engels, Marx agreed that the bourgeoisie had played a role in history in building up the middle classes. They killed feudalism. But the bourgeoisie, as Marx and Engels saw it, had done too well. They had exhausted their internal markets. Now, with foreign markets drying up, hadn't the time come for a new ruling class, the proletariat? Hence the call: "Proletarians of all countries, unite. You have nothing to lose but your chains."

With their doctrine of inevitability, Marx and Engels might have allowed things to rest there. But to hurry the process of change along, they advocated 10 measures. One was for confiscation of real estate to pay the costs of government. Another was for highly progressive taxation. A third was abolition of the right to inherit.

The trouble with the *Manifesto* is that history refused to support it. Most of the 10 points advocated by Marx and Engels have become commonplace. But the wealthy remain wealthy, and the poor have been catching up to them. Eduard Bernstein first pointed this out in Germany. It was in Russia that the "revolution" occurred, without historical prediction or warrant.

Bill Buckley has published Kuehnelt-Leddihn's columns in *National Review* for the past 35 years, and writes the preface to this book. Buckley does not find it remarkable that Kuehnelt-Leddihn

believes in minority rule. Nor do I. Majorities should be contained—there should be whole areas left beyond their reach. The Bill of Rights does what it can to give minorities their scope. It may not be enough, but it helps.

We have escaped the worst features of the French Revolution, which could not provide for a legal succession and fell victim to Bonapartism. The checks and balances provided by Madison and the other Founders work, even though they were established by 55 men who misapplied the thinking of Montesquieu, who didn't see that Parliament in England was all-powerful.

There's an appendix entitled "What Is Left?" listing 41 succinct earmarks of modern collectivism—socialism, Communism, welfarism, and the like. For example, Left is "Messianism assigned to one group: a nation, a race, a class." Again, Left is "Totalitarianism: pervasion of all spheres of life by one doctrine." Left is the "Provider (Welfare) State: from the cradle to the grave."

The sub-appendix headed "What Is Right?" has only one item: "The opposite of all the above or its absence."

It should be obvious after reading *Leftism Revisited* that no party or system is ever 100 percent Left or Right. It's a question of what predominates, and where we are headed.

Kuehnelt-Leddihn is surely one of the more remarkable personages of our time; a few minutes in his company convinces one of that, as will time spent with any of his books. He is fluent in nine languages and can get by in as many more—a skill which serves him well in his constant travels which take him into all parts of the globe. He's a prodigious reader, as the 150 pages of notes in this book attest; there are keen comments on books and shrewd profiles of authors. This man does not write to soothe; some will be infuriated by this or that opinion expressed in these pages, but every reader will grow a little. □



CHILD LABOR AND THE INDUSTRIAL REVOLUTION

by Clark Nardinelli

Indiana University Press, Tenth and Morton Streets, Bloomington, IN 47405 • 1990 • 194 pages • \$25.00 cloth

Reviewed by David M. Brown

While there are many reasons for the "anti-capitalist mentality" so prevalent among intellectuals (and, in somewhat less virulent form, among the general public), distortions of our economic past must surely rank prominently among them.

As F. A. Hayek put it in *Capitalism and the Historians*, "Few men will deny that our views about the goodness or badness of different institutions are largely determined by what we believe to have been their effects in the past. . . . Yet the historical beliefs which guide us in the present are not always in accord with the facts; sometimes they are even the effects rather than the cause of political beliefs. Historical myths have perhaps played nearly as great a role in shaping opinion as historical facts. Yet we can hardly hope to profit from past experience unless the facts from which we draw our conclusions are correct."

More reliable accounts of the past must supplant these false historical beliefs if our endangered heritage of economic and political freedom is to be revived. This is so even in an age in which the opposite of economic freedom—socialism—seems to be almost universally discredited. Without a real appreciation of capitalism's virtues and achievements, the only substitutes offered for presumably defunct socialism will be obnoxious "new" versions of the "mixed economy," unnecessarily burdening denizens of both the East and the West for numberless years to come. So by all means, let's get the history right.

In this slim but fact-packed volume, economist Clark Nardinelli observes that many historians regard child labor as symbolic of the ravages of the Industrial Revolution. Following the lead of contemporary factory-system critics like Richard Oastler, they often begin with an arbitrary moral assumption—that child labor is immoral or exploitative on its face—and squeeze the facts to fit that assumption.

"The study of child labor and the industrial revolution has, I believe, paid too little attention to the

economic reality of that labor," Nardinelli writes. "Child labor can easily be the outcome of family decisions to improve the well-being of children. The important decision with respect to child labor, moreover, may not be between working and not working but between working at home and working away from home. . . . Under the conditions of the early industrial revolution, child labor may well have made children (and the family) better off."

This possibility was never even considered by many of the earliest critics of child labor in the factories. With proto-Marxian outrage, Richard Oastler compared the situation of working minors to that of slaves: ". . . Ye are compelled to work as long as the necessity of your needy parents may require, or the cold blooded avarice of your worse than barbarian masters *may demand!* . . . Ye are doomed to labour from morning to night for one who cares not how soon your weak and tender frames are stretching to breaking." Oastler's lurid charges have had a sweeping influence on the perceptions of later writers.

But support for these claims comes mainly from the 1832 *Report of the Select Committee on the Bill for the Regulation of Factories*, recounting testimony that we now recognize to be skewed in favor of the prosecution. The Committee, led by M. T. Sadler, a pal of Oastler's, was originally supposed to hear evidence from both critics and supporters of the British factory system. But instead, only antagonistic witnesses—carefully coached by Oastler—were allowed to be heard, and their horror stories remain "the basic indictment of child labor in early industrial Britain."

In a later inquiry, held in May 1833, factory overseer John Redmen offered more favorable testimony. He recognized instances of mistreatment, but contended that "generally they are as well treated in mills as anywhere else. Those parents who look after their children now, and place them now with masters who treat them well, will manage them well when they are turned out of the mills at six o'clock: those parents who now place their children, for the sake of higher wages, with spinners who ill treat them, rather than with neighbors or friends, will, I suppose, treat them in the same way as they do now, that is, neglect them." This kind of testimony has exerted considerably less influence among historians, perhaps because, as Hayek argues, political beliefs have indeed shaped historical ones.

There is no evidence that parents typically sent their children to work out of arbitrary greed or negligence; rather it was a matter of survival. In this connection Nardinelli cites the work of David Vincent, whose study of working-class autobiographies concluded that their authors "believed that their parents made them labor because they could not afford to do otherwise, and that as children they were simply trapped in the poverty of the family and the class into which they had been born." There *is* evidence that the increased productivity and opportunities of the factory system made it possible for more children and parents to survive than would have in a more primitive economy. Furthermore, despite long hours by today's standards, children working in the factories were usually assigned peripheral and relatively easy tasks. It could be a much tougher slog out in the country, where the hours were certainly no shorter.

Although he is sound and scholarly on most points, the author plunges into muddy waters when he tries to prove something about exploitation with statistics. He notes that for many critics, if a child has to work at all he is being exploited, whether or not his earnings mean the difference between life and death. Their assertion implies that how children were actually treated in particular cases is irrelevant.

But his own "neoclassical" definition is no improvement: "According to the neoclassical definition, economic exploitation exists when the value of the worker's marginal product (that is, what the worker adds to the revenues of the firm) exceeds the wage rate." Nardinelli himself concedes that measuring the marginal productivity of child labor is a dubious chore, but his premise is wrong in any case. Wage rates on the market are determined competitively. Of course they are *related* to the marginal product of the labor; that's why a CEO tends to be paid more than a clerk. But whether "exploitation" exists has to do with behavior, not with meeting the requirements of some academic formula that presupposes the evil of "excessive" capitalist profit. (Especially since the values can be plugged into the equation only *after* wages have been paid and profits have been earned—with the profits coming *later*, if at all.) When the text strays from common-sense economics it can be annoying and wrongheaded, but there are only 10 or 12 pages here that are completely useless.

The only other problem, for the general reader, is the sheer inclusiveness of the argument. Because Nardinelli has apparently absorbed all the extant literature on the subject of child labor in the Industrial Revolution, he sometimes deals with arcana that could be of interest only to fellow academics. But, on the other hand, he covers many areas about which solid information is urgently needed. He shows that anecdotes by themselves reveal little without an understanding of which direction the trends are going, and what the historical context is; and he unveils that context. Despite its rather dry tone, *Child Labor and the Industrial Revolution* is a clear and important contribution to setting capitalism's historical record straight. □

David M. Brown, a free-lance writer, is also the managing editor of the Laissez Faire Books catalog, and the publisher of a monthly newsletter on culture and current affairs.

THE CRISIS IN DRUG PROHIBITION

edited by David Boaz

Cato Institute, 224 Second Street, SE, Washington, DC 20003 • 1990 • 148 pages • \$8.00 paper

Reviewed by William H. Peterson

Prohibition is an awful flop.

We like it.

It can't stop what it's meant to stop.

We like it.

It's left a trail of graft and slime,

It don't prohibit worth a dime,

It's filled our land with vice and crime.

Nevertheless, we're for it.

So wrote Franklin P. Adams (as recalled by contributor James Ostrowski in this volume) kidding the 1931 report of the Wickersham Commission, a blue-ribbon panel of eminent Americans appointed by President Hoover. Hoover and the nation were perplexed by the wholesale defiance of law, the mushrooming of speakeasies, the rise of the Mafia, the wave of organized crime that swept over America in the 1920s.

Amazingly, the Wickersham Commission concluded that, although "there is as yet no adequate observance or enforcement" of Prohibition or the 18th Amendment, the Government should "substantially" increase appropriations and crack down harder on the law-breakers. Nonetheless, proponents of legalization won the struggle: in

1933, just two years later, the 18th Amendment was repealed and Prohibition was dead.

Ostrowski, the head of Citizens Against [Drug] Prohibition, is right to review the story of [alcohol] Prohibition and point up the wisdom of Santayana that those who don't know history are condemned to repeat it. For today President Bush, like the Wickersham Commission of yesteryear, escalates the War on Drugs, seeking appropriations of \$11.7 billion in Federal anti-drug funding for fiscal 1992, an increase of 11 percent over 1991.

James Ostrowski is one of 28 leading critics of drug prohibition gathered in this timely and most important Cato study. They cover the opinion spectrum from left to right, from Anthony Lewis, Richard Cohen, and Hodding Carter III to Charles Murray, Milton Friedman, and William F. Buckley Jr. They include the editors of *The Economist*, Baltimore Mayor Kurt Schmoke, New York State Senator Joseph Galiber, Hoover Institution economist Thomas Sowell, and Princeton University Professor Ethan Nadelmann.

The critics see the government's intervention of prohibiting drugs bringing on the Law of Unintended Consequences with a vengeance: a sharp increase in street crime, the spread of AIDS (through exchanging contaminated needles), the swelling of our prisons with drug offenders, children lured into drug dealing, destruction of inner-city communities, a further decline in respect for the law, the corruption of law enforcement officials from Latin America to the ghettos of Harlem and Watts, Chicago and Washington, D.C.

To be sure, legalization wouldn't solve the drug problem entirely. But, notes editor and Cato's executive vice president David Boaz in his introduction, legal drugs are getting weaker—low-tar cigarettes, nonalcoholic beer, wine coolers. He points out that 41 million Americans have quit smoking, and sales of spirits are off. Too, as Americans become more health conscious, they are turning away from drugs. Boaz feels drug education would do more to encourage the trend if it were separated from drug enforcement.

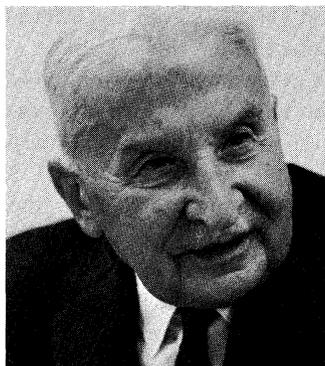
Professor Nadelmann argues there would be no dramatic increases in drug use after legalization. He cites evidence from the Netherlands, the American states that have already decriminalized marijuana, Asian countries when drugs were legal, and 19th-century America—where all drugs were legal.

How would legalization be implemented? Back to editor Boaz. He suggests the nation might apply "the alcohol model." Thus marijuana, cocaine, and heroin would be sold only in specially licensed stores, perhaps in liquor stores, perhaps in a new kind of drugstore. Warning labels would be posted in the stores and on the packages. It would be illegal to sell drugs to minors. It would be illegal to advertise drugs on television "and possibly even in print." It would be illegal to drive under the influence of drugs,

and there would be added penalties for committing other crimes under their influence, as is the case with alcohol.

Such concessions from well-known libertarian Boaz indicate how much the War on Drugs has backfired, how much America needs to debate here and now the question: "Does Prohibition Create More Problems Than It Solves?"

Dr. Peterson, an adjunct scholar with The Heritage Foundation, holds the Lundy Chair of Business Philosophy at Campbell University, Buies Creek, North Carolina.



Ludwig von Mises

LIBERALISM: IN THE CLASSICAL TRADITION

LIBERALISM: In The Classical Tradition by Ludwig von Mises is a book-length essay that sums up the ideas and principles of classical liberalism as they apply to the twentieth century. First published in Germany in 1927, it was published in the United States under the title *The Free and Prosperous Commonwealth* in 1962 and reissued in the mid-seventies by The Institute for Humane Studies. It was republished by The Foundation for Economic Education in association with the Cobden Press in 1985, and has recently been reprinted.

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THE FREEMAN

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Legacy

What kind of world will we leave to our children?

Will they be burdened with our debts? With interest on the national debt becoming the major part of Federal spending, with unfunded Social Security obligations soaring into the trillions of dollars, with "off-budget" Federally insured loans piling on trillions of dollars in more debt, one wonders how they ever will pay it off.

Will their environment be spoiled by our pollution? Will their air be fit to breathe and their water fit to drink? Will their land be poisoned by toxic wastes?

And what about the problems children face right now? How will crime and drugs in our public schools affect them in future years?

These are, indeed, serious concerns. Yet our greatest failure—and our greatest hope—may be in the values we teach our children.

Are we teaching them thrift and honesty when we incur debts we have no hope of repaying? Are we wise to excuse criminal behavior as merely a "sickness"? Are we helping our children to control their own behavior when we say that a drug addict "can't help it"? Are we showing them how to become responsible adults when time and again we turn to the government to "solve" personal, family, and community problems, with little concern for the rights or property of others?

Our personal and family values may seem inconsequential compared with the problems the world will face. Yet they hold the solution.

—BRIAN SUMMERS

Statecraft and Soulcraft

The true problem with humanity is that far too many of us suffer from inadequate moral enlightenment. Many people simply don't sufficiently cultivate the gardens of their souls—not necessarily because they are evil; they may simply be engrossed in other things, or not realize the importance of soulcraft. Consequently, religion and morality are often not the governors of conduct that they should be. Indeed freedom is always at risk precisely because the moral worthiness of

freedom and free enterprise are inadequately grasped by too many.

Characteristically standing this truth on its head, statist often maintain that people are too selfish, depraved, and morally unenlightened to be trusted with freedom. *But the state itself is operated by those selfsame flawed and unenlightened people.* When we start with benighted people and add an activist state, all we get is an actively intervening state staffed with benighted people—hardly an improvement. And because morally ignorant and backsliding people now have the state's power at their disposal, and deploy it to gain their ends, it stands to reason that we will be worse off; government action will be inadequate in its conception, clumsy or tyrannical in its execution, and harmful in its effects. If anarchy is not safe for imperfect, corruptible, unenlightened people, neither is any form of government beyond the minimal state envisioned by the Founding Fathers.

And if people were not flawed and unenlightened? Then, proponents of statism might argue, there would be no need for a welfare state. But neither, friends of freedom would rebut, would they *want* one. The desire to coerce, or enlist the government to coerce, your neighbors, competitors, or other fellow citizens on your behalf is *itself* morally flawed, indeed one of the best proofs of insufficient moral awareness.

—JOHN ATTARIAN
Ann Arbor, Michigan

Promoting Inefficiency

Increased government intervention in the economy can change the efficiency of private business—and universities and hospitals, and other nonprofit institutions as well—by changing the kinds of people who survive the Darwinian struggle to reach the top. The executive who knows how to get the most bang for the buck may not be the one who ends up in charge, if what is really needed is someone who can keep Congress from taxing those bucks away or from draining them off by imposing new regulatory restrictions or ancillary obligations for environmental or other purposes.

In short, not only does government itself often operate inefficiently; it can also make businesses less efficient by creating an environment that dis-

advantages those businessmen whose primary—or sole—talents are in promoting efficiency.

—THOMAS SOWELL, writing in the
May 27, 1991, issue of *Forbes*

Church and State

When the church becomes so closely identified with the state, how will the church be viewed when the state in turn becomes oppressive? Ask the people in Romania or the Soviet Union. A close proximity of church to state compromises the church's ability to critique the state. . . .

The nature of any state is coercive. For the church to avoid repeating past mistakes she will have to resist the age-old temptation of becoming closely identified with the means of coercion.

—ROBERT A. SIRICO, CSP,
writing in the January/February 1991
issue of *Religion and Liberty*

Choices and Consequences

Every choice we make has consequences for us. We must bear the burdens of our choices. If our choices are irresponsible we suffer the consequences and learn from them. We change our choices by reforming. We reform ourselves each day in small ways that in most people eliminates the need for drastic change. Governmental institutions, on the other hand, freeze decisions and make incremental reforms almost impossible. This creates the demand for drastic results. Removing more decisions from governmental institutions will make it possible to achieve necessary reforms in an easy rather than difficult manner. The natural relationship between freedom and morality, then, can be restored to its appropriate harmony.

—LEONARD P. LIGGIO, writing in the
October 1990 issue of *Chronicles*

Human Nature

It's in people's nature that if something is theirs, it's theirs, and a person works with a totally different mindset if he has property.

—NATALIYA YEROMEVA, a private shopkeeper
in Leningrad, quoted in the April 23, 1991,
Wall Street Journal

Beating the System: Soviet Entrepreneurs Work on the Wild Side

by Sheila Melvin

Boris Yeltsin, president of the Russian Republic, discussed the problem of entrepreneurship in the Soviet Union in a recent televised interview with Barbara Walters. "Entrepreneurs," he said, "are few and far between in this country, but we have adopted laws on entrepreneurship." He went on to disclose that the Soviet government intends to send 50 managers to the United States, Great Britain, and Japan to be "trained" in entrepreneurial skills. The specially selected trainees are "people of 30 to 35 years of age, talented people, with university diplomas. They don't know what business is, what entrepreneurship is, what a market is, but they are prepared to learn."

Entrepreneurs in the U.S.S.R. aren't so few and far between as Mr. Yeltsin believes. Quite the contrary, Mr. Yeltsin's own republic is teeming with people who know exactly "what business is, what entrepreneurship is, what a market is." As I discovered last autumn, from the U.S.S.R.'s borders with Mongolia to the streets outside the Kremlin, Soviet entrepreneurs are carving niches for themselves in the wreckage of their nation's economy.

Young, English-speaking, risk-taking, persuasive, amiable, and tireless, these entrepreneurs possess all the skills necessary to be successful. But because they live in a nation in which free enter-

prise is called "speculation" and the simplest of capitalistic ventures is illegal, they must channel their abilities into the black market, the only viable market the Soviet Union has, and bear the label "black marketeer."

The Trans-Siberian Bazaar

"Soviet Army watches—you buy?" inquired the young Russian who appeared at the door of my compartment on the Trans-Siberian Express as it passed through Siberia on its weekly run from Beijing to Moscow. Invited in, he sat down, pulled out his watches, and began his sales pitch. After selling three army watches (all with Yuri Gagarin watch bands), one Soviet-American Friendship, and two Russian Independence timepieces, he moved on to the next compartment \$40 dollars richer.

The young man was just the first in a stream of entrepreneurs who tramped from car to car over the next three days with the persistence and cheer of "Avon ladies." Women with wicker baskets slung over their arms did a brisk business in vodka, despite the fact that it is officially banned on all trains. Money changers exchanged rubles for dollars at three to four times the official tourist rate. Caviar vendors sold tins of beluga for \$8. Smiling teenagers sold Lenin badges for a dollar apiece.

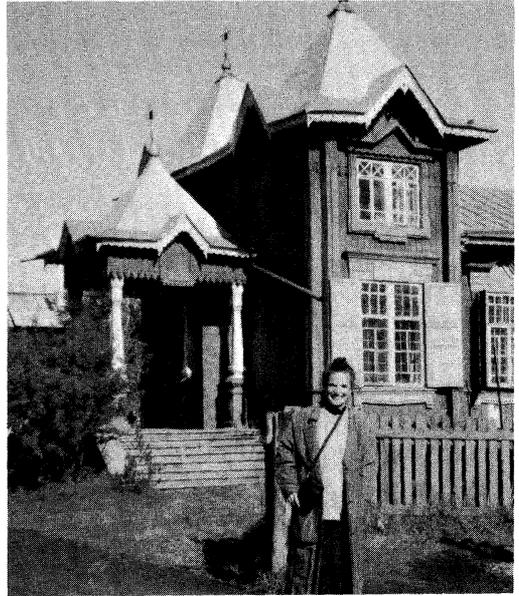
Outnumbering entrepreneurs with things to sell were those with empty canvas bags and pocketfuls

of rubles who walked the train looking for things to buy. While the vendors concentrated on the smattering of Western tourists aboard the train, the buyers saved their energies for the Chinese passengers, who had come forearmed with the knowledge that the Soviet Union was a seller's market. And when the Chinese and the Soviets, citizens of the two biggest Communist countries on earth, got down to business, the result was a capitalist free-for-all.

Selling everything from sorghum liquor to candy to clothing, the Chinese raked in rubles and racked up profits. An elderly scientist on his way to a conference in Berlin literally sold the shoes off his feet. A young teacher sold cartons of instant noodle soup and chewing gum at a 1,000 percent profit. Business was transacted openly, and whenever there was a lull, the Chinese passengers compared profits. "How much have you earned so far?" a famous pianist on her way to perform in Budapest asked me over breakfast. When I confessed to earning nothing, she laughed and said that she had made nearly 150 rubles. (The Chinese didn't always have the last laugh. One Beijing economist sold a jacket at what he thought was a great profit only to discover, too late, that he had been paid in Yugoslavian dinars, rather than rubles.)

On-train entrepreneurs, particularly those who purchased goods, faced stiff competition at station stops when scores of ordinary Soviet citizens with rubles to spend, but nothing in their cities to buy, came to meet the Trans-Siberian. Capitalists not by profession, but out of desperation, these people thronged around Chinese and Western passengers alike, waving rubles and echoing the sad refrain, "Cigarettes? American dollars? Vodka?"

At Sverdlovsk, the heart of the U.S.S.R.'s military-industrial complex, our train was held up for 20 minutes while hundreds of passengers from a Soviet train crawled underneath it to get to the platform. Reaching the platform, they flocked to the windows of the Trans-Siberian, pleading with all of us on board to sell our clothes, our jewelry, our food. Spotting a good business opportunity, several of the Chinese leaned out the windows and began auctioning off their food and liquor supplies. A Western woman, misinterpreting the situation, threw a box of cookies to the crowd and then indicated that she didn't want money. The Russian woman who caught the box thrust it back angrily; she wasn't asking for charity, only for the opportu-



The author outside a church in a tiny Siberian town during one of the Trans-Siberian's 15-minute stops.

nity to spend her rubles. (Ironically, it was the hostile reception given Mikhail Gorbachev on a visit to Sverdlovsk last year that convinced him an immediate, Polish-style conversion to a market economy would be untenable in the U.S.S.R.)

Somewhere in the Ural Mountains, the food service staff, the only Soviet workers on the Chinese-owned train, locked up the dining car and began to moonlight. "I am interested in buying shirts," the waiter told me. "Not new, but in good condition. I also have caviar for sale." The waitress sold army watches and, at one stop, the Russian cooks jumped off the train clutching empty potato sacks, ran into the platform shop and bought out its entire stock of matches for resale in Moscow, where there was said to be a shortage.

Looking on, the Chinese conductor in my car smiled ruefully. He didn't engage in this type of business, he told me, but it wasn't easy to avoid. At one stop, a Soviet conductor from another train had asked to buy his flashlight. When he declined to sell it, the Soviet conductor had tried to convince him to sell his socks.

Ivan, Inc.

I got off the train at Moscow's Yaroslavsky Station, along with a dozen other Westerners, to find a young, red-haired Russian wearing Levi's and a leather jacket waiting for me, as it were. Taking a

drag on his Marlboro, he addressed us, "Hey guys—my name's Ivan. I've gotta place for you to stay. Wanna hear about it?"

I most definitely did. Like the others, I didn't speak a word of Russian, I had no place to stay and, since the visa clipped into my passport was for transit only, I wasn't supposed to do anything in Moscow except change trains, which meant that no hotel would accept me.

Ivan made his offer in a fluent hodgepodge of British and American slang. "O.K.—it's your own flat in downtown Moscow just three Metro stops from Red Square. You'll each have a bed, there's a shower, a loo [toilet], and a kitchen, and I'll help you get tickets outta here. Ten U.S. dollars each." Sensing our collective hesitation, he added, "I think this is the best deal you're gonna get. This country's [expletive] socialist, you know."

Not even the wheeling and dealing aboard the Trans-Siberian had prepared me for this welcome to the capital of the Soviet Union. Joining the others, I bargained Ivan down to \$7 a night and then followed him, on foot, to the flat.

The apartment Ivan led us to was a three-room flat in a government-subsidized compound inhabited by diplomats from socialist countries. Cuban children played in the dingy entrance, and the smell of Oriental cooking wafted through the trash-cluttered stairwell. Ivan had arranged to rent the flat from a Vietnamese diplomat home on leave; it was just one of five downtown apartments he used to accommodate foreign visitors.

Andrei and Konstantin, Ivan's business partners and friends, were waiting to greet us and to offer any assistance we might need. With Ivan, they made it a point to emphasize that they weren't just renting us an apartment—they were providing us with a service from which all concerned would benefit. Those who wished to leave for Europe at once would be taken to Intourist, the monopolistic Soviet travel agency, that afternoon; for those who wished to stay, there would be assistance in getting visa extensions, opportunities to see the ballet and the circus, shopping trips, and guided tours of Moscow. I decided to stay.

Lenin's Legacy

Just prior to embarking on a tour of Ivan's Moscow, I took in the sights at Red Square, including Lenin's Mausoleum and the deserted Lenin

Museum, with some Europeans from the train. At the museum, the guide, an ardent and vocal Communist, led us past the remnants of Lenin's life, pausing longest at a copy of his work, *Imperialism: The Highest Stage of Capitalism*.

"Excellent book," he said, pointing at the copy in the glass case. "Have you read it?"

None of us had.

"No? Really? None of you?" he asked with genuine surprise. "You really ought to read it—it will give you great insight into why capitalism is bound to failure and socialism certain to succeed."

My jaw dropped visibly as images of my first 24 hours in Moscow collided with the guide's words: the college students in Alexander Park covertly selling hand-painted "I Am a K.G.B. Agent" tee shirts in exchange for hard currency; the policeman who tried to fine me five dollars, rather than rubles, when he caught me jaywalking to get to Pizza Hut; the dissidents living in cardboard boxes outside the Hotel Rossiya who had given up their homes and jobs in order to embarrass the Kremlin into addressing their grievances; the speculators who lingered outside the Army Department Store offering to sell Westerners a complete Red Army officer's uniform, including leather dress boots and vintage gas mask, in exchange for dollars or Levi's; the endless rows of empty shelves in GUM, the U.S.S.R.'s largest department store, and the equally endless lines of consumers queued up to buy soap, which had been unavailable for weeks; the clerk at GUM who had required me to show my passport in order to buy a cheap wool scarf because goods were so scarce in the Soviet capital that only Muscovites and foreigners were allowed to purchase many items.

"Capitalism bound to failure," I repeated. "What about now? There is nothing on the shelves of your stores, and your government and your people are struggling to adopt capitalist methods as fast as possible."

"Now? Now? Now we must not be dogmatic. Strict dogmatism is a great evil."

"The Dungeon"

The first stop on Ivan's tour was "the dirtiest bar in Moscow." Called "The Dungeon," the bar was located in the basement of a building several blocks from the Hotel Metropole. At 3:00 on a rainy Tuesday afternoon, more than 50 people



COURTESY OF SHEILA MELVIN

GUM, the fabulous—and fabulously empty—department store on Red Square.

were waiting to get inside. Appearing from nowhere, Konstantin and Andrei walked to the front of the line and bribed the bouncer. A moment later, we were all ushered inside.

Aptly named, “The Dungeon” was dim and dank. Beneath a vaulted ceiling, painted with flowers, the working class, mostly male clientele stood at high tables drinking beer, eating caviar and chicken, and smoking incessantly. Ivan, Konstantin, and Andrei bought plates of food for everyone and, as with anything that could be purchased with rubles, paid for it out of their own pockets; to them, the ruble was so worthless it was almost a form of play money. Having arranged for us to share a table with an inebriated man who looked like a professional wrestler, Ivan gathered up empty beer mugs, washed them in the men’s room, and led us to the self-serve beer machines that lined one wall. Forty kopecks bought a mug of the scarce commodity.

Sipping the warm, flat beer, I stared at a legless man passed out under the next table. Ivan explained that the man was a veteran of the Afghan War, and then proceeded to tell the story of how his own best friend was killed at the age of 18 while driving a truck over a mountain pass in

Afghanistan. “Afghanistan was our Vietnam,” he concluded with tears in his eyes. “It was [expletive] pointless.” We left “The Dungeon” when two drunk men began pounding an even drunker man’s head into the beer machines.

Ivan’s next point of interest was a record store where albums cost the ruble equivalent of 11 cents and compact discs cost a dollar. Cassette tapes weren’t sold in the store and could only be purchased on the black market from speculators. Like most of his peers, Ivan, a heavy-metal fan, owned a cassette player.

On the Arbat, Moscow’s beautiful shopping esplanade, we saw artists who sold cartoons depicting perestroika as a toilet floating out to sea and speakers who drew large crowds by openly decrying Gorbachev. Craft vendors peddled post-glasnost versions of Matryoshka dolls in which the biggest doll was painted to look like Gorbachev. Inside the Gorbachev doll were Brezhnev, Khrushchev, Stalin, Lenin, and, finally, a tiny doll representing “the Communist idea.” But, because it is illegal to show disrespect for the President, the vendors kept the outer doll depicting Gorbachev hidden away, bringing it out only when approached by potential customers.

Our tour was to conclude with a traditional Russian banquet at the Hotel Rossiya. After we had met up with the 10 other Westerners who were his guests, Ivan made several phone calls to his connections in the Rossiya, the world's biggest hotel, and then led us around to the back of the building. There an employee with a bunch of keys was waiting to escort us through the locked doors, meandering corridors, and dark staircases that led into a medieval-style banquet hall.

Entering the hall, we sat down at a groaning board lit by candles in pewter holders and laden with caviar, smoked salmon, cold meats, champagne, vodka, and Pepsi. Every time a plate or a bottle was emptied, it was whisked away and replaced. Gypsy dancers whirled across the floor strumming guitars and singing folk songs. Even paying guests at the Rossiya have been known to have trouble getting a meal—Ivan's connections, and five dollars each, had purchased us a feast fit for a czar.

Beating the System

Ivan, Konstantin, and Andrei were at first reluctant to explain how they built and maintained their highly profitable, extremely visible, but completely illegal business. But over the course of the week, they let me in on some of their secrets.

The founder of the business was a fourth friend, Andrew, already semi-retired, who had hit on the idea of meeting travelers from China at the train station and inviting them to stay in his dorm room for a few dollars. As demand for rooms increased, so did competition, and by the time Ivan got involved, more than a dozen other Muscovites were meeting the trains from China and offering travelers places to stay. "But," Ivan explained, "we were the best. The foreigners all began to stay with us because they heard of us from their friends, and now we are the only ones in this business."

Once assured of a steady customer base, Ivan and his partners began to expand the services they offered and to raise the price they charged each traveler. As with capitalist ventures anywhere, the continued success of the business depended on its founders' competence and ambition, ability to make and keep good business connections, and willingness to take risks; the fact that Ivan, Konstantin, and Andrei were running a capitalist enterprise in a Communist country only magnified

the importance of each of these qualities.

Ivan, Konstantin, and Andrei whose ages ranged between 19 and 24, had the competence and the confidence of people much older. Each had his specialty—Andrei specialized in visa extensions, Konstantin in getting tickets, and Ivan in gaining entrance to restaurants—but was also quite capable of handling any aspect of the business, should the need arise. Their ambitions were simple and strong: to supply themselves, their parents, and their siblings with everyday necessities and luxuries such as food, clothing, make-up, and music, and to save enough money to travel together to West Germany for a working vacation.

Support of their business undertakings wasn't always forthcoming at home. Ivan's mother, an economist, knew what he did for a living and tacitly approved, but he didn't dare tell his father. Konstantin's parents were "traditional" and feared that he would get into serious trouble. His mother often cried and yelled, Konstantin confessed, and he didn't like to go home. Andrei didn't tell his parents about his role in the business so "they wouldn't worry too much"; they thought he spent all his spare time studying.

Connections are the cornerstone of the ordinary Soviet consumer's life and the foundation of a Soviet entrepreneur's business. The apartments used by Ivan and his partners came from low-level socialist diplomats, old friends, and university students. Eight-dollar tickets for us to see the sold-out Kirov Ballet performance at the Bolshoi Theater on half an hour's notice came from scalper friends outside the theater. Five bunches of Chiquita bananas which we came home to one night—an unheard-of luxury in Moscow—were courtesy of Cuban diplomat friends. Ten-dollar train tickets from Moscow to London, paid for in rubles, were obtained by slipping a pair of Chinese pantyhose and some rice wine to a friend of Ivan's mother who worked at Intourist. Cases of champagne and cognac were purchased from speculators. Entry to restaurants whose doors were locked to the general public was gained by knowing the secret knock and having the right Mafia friends. (Ivan swore that organized crime—what he called the Russian Mafia—controlled almost every restaurant in Moscow.) McDonald's hamburgers were bought not by standing in the five-hour line, but by placing a take-out order in advance with friends who worked there.

Waiting at a bus stop one day, Andrei unintentionally demonstrated how spinning an extensive web of connections had become second nature to him when a woman vending fruit asked for help putting up her umbrella. The umbrella, which covered her entire stand, was heavy and in need of oiling, and it took Andrei several minutes to get it up. When he had finished, the woman thanked him peremptorily and Andrei returned to the bus stop and lit a cigarette. Seeing the cigarette (Muscovites are limited by rationing to five packs of cigarettes per month), the woman called out to him again, asking first for a cigarette and then for a light, both of which he gave her. Laughing, I asked Andrei if he didn't consider the woman's behavior to be somewhat rude. He shrugged and replied, "Good connection. She will remember me and she will sell me fruit someday when there is nothing in the stores to buy."

All entrepreneurs run risks, but by taking in foreigners without permission and dealing in dollars, both illegal activities, Ivan, Andrei, and Konstantin ran particularly great ones. Exactly how great became evident one night when they took a newly arrived group of Europeans to the banquet at the Hotel Rossiya. Dinner over, they exited through the main lobby where they were confronted by police who insisted on searching them. All three balked, the police roughed them up, and they were taken away. The next day, they all had black eyes and swollen faces. The police had found over \$200 on them and kept it all. When I asked why they had been treated thus, Ivan responded, "Because we took foreigners to a restaurant." Andrei's explanation was, "Because the police knew we were working and that we have more money than they do."

Even the Weather Is Worse

Ivan, Andrei, and Konstantin picked their way expertly around the rubble of the Soviet economy and prospered in the process. But each bitterly resented the economic shambles to which Russia had been reduced.

Ivan blamed the Communist system in general

and Gorbachev in particular for the destruction of the economy. No string of expletives was long enough to express his disdain for the Soviet leader. It rained every day I was in Moscow, and when I asked Ivan if the weather was always so bad, he replied, "Only for the past five years," a direct reference to Gorbachev's term in office.

Andrei offered a more sophisticated explanation of the U.S.S.R.'s economic woes, but he, too, blamed Gorbachev. "Five years ago there were goods on the shelves," he said. "Even if they were expensive, they were there. Now there are no goods, there isn't even enough bread! Gorbachev has done nothing." Andrei believed that the root of the problem lay in profiteering. "The problem," he explained with controlled rage in his voice, "is officials. Not high officials, but middle officials, all around the country. They control where the bread, the products, will go, and they keep them and don't let the people buy them. They keep them until the people are ready to jump up and riot and then they release them, but for more money which they put in their pockets. It is all the fault of the officials. So we must go to speculators—everything we must buy from speculators. Or else we stand in line—always stand in line."

The happiest I saw Ivan was one afternoon when he returned from a shop with a set of table tennis paddles. "Look!" he exclaimed, "Ping-Pong paddles! They're from Vietnam—the best you can buy—and I didn't even get them from a speculator. I got them in a regular store, on a shelf!"

Their Own Backyard

Mr. Yeltsin is aware that the salvaging of the Soviet economy is going to require people who "know what business is, what entrepreneurship is, what a market is." But if he would look in his own backyard and see the self-made entrepreneurs already operating in it, he might realize that entrepreneurship isn't so alien to Soviet soil as he thinks it is. And if he would like to meet three home-grown Russian entrepreneurs, I'd be more than happy to put him in touch with Ivan, Konstantin, and Andrei. □

Cuba: Misery and Hope

by Jorge Amador

It arrived in January as the Gulf War opened, and it read like a dispatch from Baghdad or Kuwait: "The situation here is desperate. There is no food, or water, or electricity." But it wasn't a press account from a place ravaged by bombing or military occupation. It was a letter from an ordinary citizen, writing about Cuba into its fourth decade of socialism.

Cuba's economic plight is hardly news. A cursory glance at United Nations historical statistics shows how a once up-and-coming developing nation has slowly sunk into the bottom half of Third World economies. But somehow the parade of grim statistics never really hit home until a series of letters and personal interviews with relatives in recent months added a human dimension to the cold numbers. These are not the rantings of embittered exiles, but the firsthand accounts of men and women who grew up in Fidel Castro's Cuba.

I met my aunt Josefina in November, when she came to the United States with my grandmother for a three-week visit. She last saw me when I was still a toddler in 1961. She belongs to the generation of idealistic youth who helped put Castro in power in 1959.

What do you talk about with a relative you've never met before? As a nephew and a journalist, I was bound to ask, "What are things like over there?"

"We're going back to the 19th century," was her short reply. Josefina confirms press reports that horse-drawn carriages are replacing delivery

trucks in Havana. The government recently issued bicycles for urban workers to get to work, and put in an order for thousands of oxcarts to replace tractors in the countryside.

Electricity is strictly rationed in Cuba, she says, enforced by scheduled and unscheduled power outages. Those who spend more than their monthly electricity allowance get their power shut off for three days a month. Twenty-five-watt bulbs are the rage in Havana. Depending on their location, homes in the city have running water for a few hours every second, third, or fourth day. Josefina should know: she's employed in the waterworks.

For years the Cuban economy was kept barely afloat by Soviet subsidies, but recently it has foundered as formerly Communist countries in Eastern Europe have started demanding hard currency, not worthless rubles or Cuban pesos, in exchange for their goods. The sharp rise in crude oil prices following the Iraqi invasion of Kuwait made things suddenly much worse. Cuban dictator Fidel Castro was quick to blame everything on the price of oil, but the economy continued to deteriorate even after Desert Storm started and oil prices returned to pre-invasion levels.

Consumer Hell

In response to the growing crisis, Castro has decreed a "special period of austerity" reminiscent of wartime economies. Rationing has been in place for most consumer goods since the 1960s, but now everything is strictly rationed, and buying one rationed item forfeits the right to obtain something else until the next ration book arrives.

Jorge Amador is editor of The Pragmatist, a current-affairs commentary. The names of private individuals in Cuba have been changed for their protection.



REUTERS/BETTMANN

Empty store shelves: Cubans have plenty of money but little opportunity to buy.

“Things are very difficult here,” writes another aunt, Rosa. “To give you an idea, it was my turn to shop on Friday. If I bought a refill for my pen, I would lose the right to buy perfume. . . . Absolutely everything is [bought] by the ration book.”

“I am a *Fidelista*, but not a *comunista*,” declares my grandmother defensively over this kind of dinner talk. She admires Castro’s carefully cultivated image as the dynamic Maximum Leader.

“That’s because you stay home all the time, and I’m the one who has to stand in line for hours to do the shopping,” retorts my aunt Josefina. “You just see what they put on television. If you went out more often, you’d realize how bad things really are.”

As in other centrally planned economies, Cubans have plenty of money, but little to buy with it. Socialist labor bosses can boast that the system has given workers unprecedented levels of income, but shoppers begin lining up in the wee hours of the morning before the stores open to make sure they get in before the goods run out.

Predictably, the preponderance of buyers over sellers has resulted in minimal levels of quality and service. “Let me explain to you how it is here so you understand,” writes my cousin Lidia. “You

take a roll of film to be developed. Three or four months later—if you’re lucky—you get back maybe half the pictures you took. You go through the negatives and find undeveloped photos, but there’s nothing you can do about it; you can’t go and complain. And forget about getting extra copies of your prettiest pictures: it’s impossible.”

Unlike a “seller’s market” in a free economy, however, entrepreneurs cannot enter the market to provide the relief of competition. Nobody else is allowed to fill the people’s needs, and the sellers themselves derive no profit from their endeavors, so they lack the incentive to increase their own production. The result is not a seller’s paradise, but sheer hell for consumers.

“Stone Age Man” in Manhattan

My cousin Domingo, 38, left Cuba for good with his two sons late in January. He was eager to tell me about Cuba, and to offer his first impressions of the United States. “Coming to the United States from Cuba is like putting a man from the Stone Age smack in the middle of New York City,” he said to me. “The differences are that great. Here you have everything; over there, we had nothing.”



WASHINGTON POST WRITERS GROUP

Unlike Josefina, Domingo lived in the countryside. I probed him for information about rural Cuba. Whatever became of the farmers' free markets that Castro allowed for a few years in the mid-1980s? Didn't they help to ease the shortages of food staples?

"They were relatively expensive," replied my cousin, "but you could get things you couldn't find in the state stores. Fidel closed down the farmers' free markets because, as he put it, they were 'exploiting the people,' selling rice at 1.30 pesos a pound. So then he set up these state-run, so-called 'parallel markets'—and they sold the same rice at 1.50 pesos a pound." Now even the parallel markets are closed, since there's nothing to sell.

Whatever the economy's material failings, apologists for Cuban socialism are quick to point out that Cubans now possess "dignity," an intangible commodity we are said to have lacked before Castro. Whether or not Cubans had dignity before, Domingo would disagree that they have it today. "What hurts the most," he says about conditions in Cuba, "is the discrimination against Cubans by the government itself."

The Cuban government, he explains, runs stores where only people with hard currency (e.g., U.S. dollars) are allowed to shop. Since Cubans aren't allowed to possess foreign currency, only foreigners are admitted into the stores. The hard-currency

shops offer a wide variety of goods not available to the average Cuban, who has to ask visitors to go in and buy things for him.

"There are restaurants where anybody can sit down to eat, but there are two sets of menus—one for foreigners and another one for Cubans," says Domingo. "You can sit at the same table and not be allowed to order the same things, unless the customer with the hard currency offers to pay for your meal."

Cracks in the Monolith

Because the regime quickly swoops down on displays of public dissent, Cuba presents an outward image of undisturbed harmony. But clearly there is widespread private disenchantment with the socialist system. One relative reports the results of an informal poll she took at her office in Havana: 75 percent said they are against the government, 10 percent are in favor, and the rest declined to say. The fact that she felt safe enough in her surroundings to undertake such a project is itself revealing.

During my interview with Domingo I turned to his sons and asked what young people think of Castro. Aren't they indoctrinated in socialism from Day One?

"Yes, but nobody believes it," said Andrés, age

19. "Whenever Fidel goes on TV we say, 'The heck with him,' and go out and party." After 32 years, the state's efforts to imbue youth with socialist ideology can't compete with the hard evidence of its failure all around them.

His brother Ián, 8, played with a remote-controlled toy fire truck. But misery had made him wise beyond his years. Ián took me on a tour of his grandfather's home in Connecticut, which the family was leaving for sunnier skies in Florida. Strewn all over the house was the debris of moving preparations.

Ián led me to the garage. He walked me around a pile of items to be discarded before the move: a wooden wine-bottle box, a rack full of dusty cups and glasses, some old tools, dirty clothes. "Here [in the United States] you consider all of this trash, junk to be thrown out." He picked up the wooden box by the handle. "But in Cuba we would save all these things. When you're poor you have to make do with what you have."

In the face of crushing poverty and stifled formal speech, Cubans have turned to humor for relief. Cuban jokes about features of daily life, from rationing to Castro's personality cult, serve to express popular feelings about the socialist "revolution" and its Maximum Leader.

In a recent compilation of Cuban political humor (*Chistes: Political Humor in Cuba* [Washington: The Cuban American National Foundation, 1989]), Luis Aguilar, a professor of history at Georgetown University, includes one about Sherlock Holmes, the master of logical deduction. Walking the streets of Havana with Dr. Watson, Holmes stops to watch a man wiping his brow with a handkerchief and walking briskly past them.

"Watson, do you see that man who has just passed us? Well, he doesn't have any underwear."

Watson couldn't believe his ears about Holmes's statement and asked the man in question if it was true. Upon hearing his affirmative reply, Watson inquired from Holmes how he had reached such a conclusion.

"Elementary, Watson, elementary. In this country, he who spends his ration coupon on a handkerchief forfeits his right to underwear!"

The cracks in the Cuban monolith are slowly growing. Listening to Radio Martí or TV Martí, the U.S.-sponsored services broadcasting into Cuba, is a punishable offense. Nevertheless, Radio Martí is the most popular station in Cuba. "When

Radio Martí comes on, the streets are emptied," says Domingo. "Everybody plays it real low so nobody can hear you listening to it from the other side of the wall."

TV Martí has been jammed by the Cuban government since it first came on the air, but that may change soon. "The jamming signal is transmitted from a helicopter," claims Josefina, half seriously. "We're all waiting for the helicopter's fuel to run out so we can watch TV Martí uninterrupted."

But what about those great rallies we see on television, where everyone cheers Fidel's every word? "People go because they get off from work that day," explains Domingo. "It's like a holiday. But if you don't show up for the rally or don't cheer, you're suspect."

And what of those infamous "Committees for the Defense of the Revolution," the busybody block committees that are supposed to keep tabs on the people's political correctness? Josefina is the vice chair of her block committee. Participating in the CDRs is a matter of survival, not ideological commitment.

So how soon can we hope for change in Cuba? Domingo was pessimistic. "The problem is that everybody complains in private, but nobody is brave enough to be the first to go out on the street and start a revolution. They'll shoot you."

Politically, Cuba today appears to be in what we might describe as a pre-revolutionary high simmer: it could boil over at any time. There is general discontent, but as yet no widespread opposition movement to give it direction. Crackdowns on formal dissent have made it more difficult to organize the opposition, but as the example of Romania suggests, organized opposition may not be necessary.

"You know," I told Domingo, "in Romania they had a big rally for the Communist dictator Ceausescu, and the crowd started booing when they were supposed to cheer. It was quite a shock. The people then poured onto the streets, and the regime collapsed in a matter of days." Even a massive state security apparatus, personally loyal to the dictator, could not stop the people when enough of them decided they couldn't take it anymore.

Not surprisingly, my cousin had not heard of this. Couldn't the same happen in Cuba, I asked, when things get so bad that somebody might decide they've got nothing to lose? It only takes one small spark to set off a tinderbox.

My cousin's eyes lit up. "It just might." □

California's Man-Made Drought

by Dirk Yandell and Michael C. Paganelli

Californians and other Westerners are feeling the effects of a fifth year of drought. Reservoirs are at record lows, river levels have dropped significantly, and the Sierra Nevada snow-pack has been well below normal. Water has become an everyday topic, and emotions are strong.

The shortage has led to a number of proposals to promote conservation and regulate water use. Mandatory cutbacks and master plans for conservation have been implemented or are being considered by water districts throughout California.

Water-use controls include bans on the operation of large fountains and decorative water displays, restrictions on serving water in restaurants unless requested by the customer, and bans on hosing down driveways and sidewalks. Limits on using sprinkler systems to water lawns and shrubs have been imposed, and washing cars at home and filling swimming pools and spas have been forbidden. The most severe proposals call for an outright ban on all outdoor residential water use.

Households have been warned of impending mandatory cutbacks of 30 to 50 percent from average water usage in prior years. The imposition of this severe rationing was postponed in many districts after heavy rains fell in March, but planning for such rationing continues. In San Francisco, private homes and businesses have been budgeted only 75 percent of their usual consumption. Santa Barbara households and businesses were ordered to cut water usage by 45 percent.

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Many cities are using "water-waste compliant investigators" to root out water-wasting customers. People found wasting water are first issued a series of warnings, but ultimately face fines. Unrepentant "water hogs" have flow restricters put in place to reduce water pressure and limit usage.

The problem is that all rationing plans ignore the natural forces of the marketplace. All users do not place the same value on water, but all are asked to curtail usage by the same percentage.

A Market for Water

The efficient solution is to allow a water market to develop so that allocations can be made in a competitive environment. The way to get consumers voluntarily to use less water is to allow the market price to rise to reflect its decreased availability. At higher prices, consumers will have an incentive to conserve. Water will be demanded only for its most highly valued uses. An efficient allocation results, and no regulatory intervention or costly policing is needed.

Consumers complained when the price of gasoline rose during the U.S. buildup in the Persian Gulf, but most understood that the price increase reflected the expectation of reduced availability and the uncertainty of future supplies. Shoppers understand that cold weather has a direct influence on the prices of many fruits and vegetables. Consumers regularly see prices adjust in response to changes in market forces, and yet the idea of allowing water to be allocated by the same market forces is ignored in the current debate.

The focus on residential rationing is curious

when one considers that only about 15 percent of the water used in California goes to household and industrial sectors. The remaining 85 percent is used by agriculture. In fact, 40 percent of the state's water is used to grow rice, alfalfa, and cotton, and to irrigate pasture land for grazing by cattle and sheep. These uses combined produce only about 0.2 percent of total state income.

Water for agricultural uses often is sold at prices well below the price to residential customers. Prices charged to some agricultural users are as low as \$8 per acre-foot (one acre-foot of water is the amount needed to cover one acre to a depth of one foot), compared with those to some urban users who are charged well over \$200 per acre-foot. The focus of the water debate shouldn't be on the regulation of water use, but on means for efficiently allocating existing supplies.

The current allocation of water is determined by historical water rights. Such rights follow the legal concept of "first in time, first in right." This means that those who first claimed the right to a source of water may use it as long as they and their descendants live. Unfortunately, the right is simply to use the water, not to sell it.

To discourage hoarding, most Western states require that the water be applied to some "beneficial use." If not, water rights can be lost. Because of this requirement, water is used in such historically defined "beneficial uses" as irrigating acres of alfalfa or other grasses for grazing cattle or sheep, or for growing cotton or flooding rice paddies in semi-arid regions.

Farmers and ranchers with water rights have no incentive to save water. Excess water cannot be sold to eager urban consumers, and conservation techniques are many times more costly than the cost of the water saved. Farmers often get the blame for urban water shortages, but they are simply responding to incentives that government policies place before them.

Current policies have kept the price of water from reflecting its true value. One acre-foot of water contains about 326,000 gallons. A price of \$200 per acre-foot is equivalent to about 6.1 cents per 100 gallons. A few cents per day to keep thou-

sands of dollars of landscaping alive is an expense that most homeowners are happy to pay. The pleasure that a pool or spa provides is well above the cost of the water needed to fill it. Water for cooling or lubrication in a manufacturing process may be much more valuable than as an agricultural input. Mutually beneficial exchanges, made in a functioning water market, would allow farmers to sell excess water to the users who most highly value the scarce resource.

It is impossible for a central planning body to calculate all the efficient uses of a particular resource. As F. A. Hayek put it, central planners cannot compute "the infinite variety of different needs of different people which compete for the available resources. . . ."

The rational approach is to design policies that allow the marketplace to efficiently allocate water to the uses that provide the best economic return. Water markets need to be developed to allow water transfers. This doesn't mean that those with rights need lose them, but only that they face the full market costs of using water. As the price rises, some farmers may find it most profitable to leave their fields fallow and sell their water to others.

A water market will allow those with the most highly valued uses to obtain the water they need. Prices will adjust to reflect the relative scarcity of water. In periods of drought, the price will rise, which will discourage residential water use. Consumers will find it desirable to switch to brooms and low-flush toilets, just as higher beef prices encourage consumers to eat more chicken and fish. The advantage is that consumers will be free to choose how they use water, and no rationing policy need be put in place.

We all watch the disaster of economic planning in the Soviet Union and Eastern Europe and applaud their movement to a more market-oriented economy. We recognize that their chronic shortages of products from apples to automobiles are a direct result of the failure of a command economy. Somehow most policy makers don't realize that the current water shortage is the result of the same anti-market philosophy. □

Teaching Business Ethics in an Environment of Mistrust

by Tibor R. Machan

Newsweek recently ran a “My Turn” column by Professor Amitai Etzioni. Etzioni, a professor from George Washington University, and author of *The Moral Dimension* (The Free Press, 1988), a book highly critical of market economics, taught a term of business ethics at the Harvard Business School. In his *Newsweek* piece he criticized his business school students, complaining, for example, of their meager interest in ethics.

Etzioni’s main complaint was that he “clearly had not found a way to help classes full of MBAs see that there is more to life than money, power, fame and self-interest.” The MBA students were disappointingly fond of business, including advertising, as far as Etzioni was concerned. Some even endorsed the idea of “consumer sovereignty,” meaning that consumers pretty much have the opportunity to make up their own minds as to what they will purchase, even in the face of persuasive advertising. In response Etzioni cried out: “But what about John Kenneth Galbraith’s view [which] argues that corporations actually produce the demand for their products, together with whatever they wish to sell—say male deodorants.” He thus implied that consumer sovereignty is a myth—people are coerced by advertisements to buy things they “really” don’t want.

We could dwell here on Etzioni’s substantive

criticisms of business students and professionals, and we would find that they aren’t very telling. For example, there is a famous response to Galbraith’s debunking of the consumer sovereignty doctrine that Etzioni fails to mention. In a piece only rarely used in business ethics texts, “The Non Sequitur of the ‘Dependence Effect,’” F. A. Hayek has argued that although desires are indeed created, in a sense this is just what occurs with all innovations—artistic, scientific, religious, or whatnot. When a new symphony is written, it may “produce” a demand; people may take note of it and find it preferable to other music. So, whenever a new service or product is introduced, it obviously is hoped that someone will desire it once he or she sees its point and judges it as having merit.

No doubt there are consumers who will buy things on a whim and even waste their money on what is clearly bad for them. As against some neo-classical economists’ protest that “the free exchange process benefits all participants on the market,” it needs to be granted to Galbraith and Etzioni that there are market failures, that is, wrongs that can occur within the system of free exchange. Indeed, it is quite possible that in some cases one or even both parties, after the fact, will find that they have failed to benefit from trade. Yet that isn’t crucial—human fallibility is certainly not confined to market behavior and has a much wider impact when government planners are given broad powers. What is doubtful is that Galbraith

or anyone else is more competent than we are at deciding what is the right thing for us to buy.

Thus, judging by how Etzioni tells us he went about teaching his business ethics course, it is no wonder that his students responded without much enthusiasm. What our professor apparently did was not teach business ethics but engage in the familiar academic pastime of business bashing.

Anti-Capitalism in Academia

It is no surprise that Harvard MBA students found the standard approach to business ethics teaching objectionable. The message in such courses is that what people in business are doing is from the ground up morally suspect, perhaps even contemptible. It is an activity that we must, perhaps (at least for the time being), engage in but if we could only get away from it we could go out and live a decent, respectful, human life. This notion—that capitalism is just some unavoidable but nasty period of humanity's existence that will, fortunately, soon be overcome, with the capitalist class promptly liquidated when the time is ripe—has overtaken our universities because, sadly, a large portion of Western intellectual history plays right into its hands.

It is especially important to counter these views when millions of people around the world have discovered the hopelessness of socialist and Communist systems that prohibit business and denounce commerce as evil. If these views prevail, soon after economic recovery the moral conscience of these people will once again guide them toward such anti-capitalist social arrangements.

Perhaps I ought to state some of my own credentials for discussing this topic. I have taught business ethics at the College of Business and the Department of Philosophy at Auburn University in Alabama. Formerly I taught the same course at the Department of Economics at the University of California, Santa Barbara, as well as Franklin College in Lugano, Switzerland, and the University of San Diego. In these courses I treat the profession of business as every bit as capable of being honorable as any other profession. It is with this assumption that I discuss with my students various problems of ethics that might arise within business, such as unjustified dishonesty in advertising, unjust discrimination in employment and promotion, the problems of nepotism, or the complica-

tions involved in trading with foreign colleagues who adhere to standards that seem to be morally insidious. Business ethics students find none of this objectionable—even when it is suggested that often in life the so-called bottom line of profit isn't the bottom line at all.

Similarly, in teaching medical, educational, legal, or engineering ethics, the objective is to take general and mostly familiar ethical theories and show how they might be made applicable to the problems that have to be tackled within special disciplines. What would utilitarianism say about surrogate motherhood or the problem of honest communication in the case of fatal diseases? How do we apply the tenets of Christian ethics or those of ethical egoism to the problems of risk aversion in the building of high-rise apartments or automobiles?

These are the problems of some branches of applied ethics. Any such field presupposes that people want to be decent human beings in the conduct of their professions. They want to be good persons in the different roles they play in their lives, and all they really need is some enlightenment about special problems in these areas. This means taking the general ethical precepts or principles they should live by and probably have already assimilated into their lives, and showing their implications for these special areas.

That is how to teach professional ethics properly. The professor doesn't simply take a side and try to badger students into agreeing with him. Rather the tenets of the major ethical systems are aired, and the different implications they may have for the special areas of human conduct are explored.

In a book I recently edited and contributed to, *Commerce and Morality*, Douglas J. Den Uyl and I wrote an epilogue entitled "Recent Work in Business Ethics: A Survey and Critique." It appeared earlier in the *American Philosophical Quarterly*. The piece makes it clear that what the various major business ethics books and business ethics writers have been saying and what they teach have nothing in common with the way I teach business ethics. Nor, in fact, does it parallel the content of applied ethics courses for other professions.

In fact, I found that the accepted approach to teaching business ethics is seriously biased. It doesn't even cover the topic that names the course. Such courses are ironically—considering that

“truth in labeling” is one of those public policy matters urged in them—misabeled as “business ethics.” What is going on here is not the teaching of business ethics but the maligning and attempted taming of business. We meet up with it throughout the country’s universities. Most of these courses are concerned not so much with the subject matter of ethical conduct within the profession of business as with the denigration of the profession and the advocacy of public policy to reform it.

Denigrating the Pursuit of Prosperity

Most business ethics courses and textbooks tend to involve going to the students and essentially demonstrating to them that the very objective of commerce is morally shady. For these teachers and writers, the pursuit of prosperity is, if not immoral, at least amoral—without any moral significance in human life. This is despite the long tradition of ethical teaching in which the pursuit of profit could well be construed as an aspect of prudence, a trait of character that has, after all, been regarded as the first of the cardinal virtues.

Instead of seeing business as the institutional expression of prudence, business as a profession is mostly distrusted and denigrated. Accordingly, the only way to be ethical in business is to abdicate. Short of that, one is at least required to wash one’s hands after leaving the executive suite.

As business ethics is conceived in much of academe, decent or moral persons in this profession must demonstrate to others that they are not seriously committed to business after all. The only reason business exists is that it turns out to be a precondition for doing some really good things in life. But a decent person in business is one who pays attention not to making money or earning a good return on investment but to rectifying social ills, what is now called being “socially responsible.”

Most teachers and authors in the field of business ethics view corporate commerce in the tradition of mercantilism—corporations are entities created by the government to serve some public purpose. Professor Richard DeGeorge, who has authored numerous texts and articles in business ethics, adheres to this view, as does Ralph Nader. Both see people in the business world as entrusted with a public purpose; they shouldn’t aim at economic success. They also ignore the point, made in

reply by Robert Hessen, in his *In Defense of the Corporation* (Hoover Institution Press, 1979), that the idea of business corporations as entities created by the state harks back to a conception of society within the feudal and mercantilist tradition. In that view citizens are subjects and thus lack personal sovereignty. Once this theory is understood as unjustifiably elevating some persons, namely, those exercising state power, to a superior status reigning over others, the implication is clear: The government-created-entity view of business corporations takes citizens to be essentially servile, especially in their economic endeavors.

Instead, as Hessen explains, business corporations should be seen as voluntary associations whereby people hire professionals to perform tasks so as to reap profits from them—i.e., as a means for gaining some prosperity.

Searching for Moral Substance

When business ethicists look to economists as the moral defenders of the institution of business, they will find, apart from a few cases, very little that is of moral substance. Yet that shouldn’t be surprising—as students of commerce, economists seek a technical understanding of the workings of business. They don’t dwell on moral issues, just as other social scientists don’t. But moral philosophers shouldn’t take advantage of that—and they usually don’t when it comes to other social sciences.

Instead of looking to economists to explain why business might be an honorable activity, business-bashing ethicists should look to fellow ethicists. There are some who see in business activity a perfectly legitimate form of prudential behavior, aiming at the prosperity of the agents and their clients. And they should then try to come to terms with the arguments of these people from their field, ones that try to establish the moral propriety of such prudential conduct.

Instead business ethicists tend in the main to argue with people who aren’t prepared to debate the fine points of moral philosophy. Thus, these business ethics teachers find little resistance from most business students to their attempt to discredit the moral foundations of bona fide business. This way they make it appear that the field is nothing but an arena of naked greed, amounting to little more than sheer vice. As even the founders of modern economics used to say, with commerce

what we see is private vice—greed—linked with public benefit—the nation's increase of wealth.

Because of disdain toward business, business ethics courses tend not to focus on ethics proper—on how to be ethical in the performance of the tasks of the profession. Instead, they discuss what public policies we need to get business on the right track. They worry about how to force business to be socially responsible and less concerned with this morally low objective of making a profit.

Most business ethics courses and textbooks are preoccupied with politics, not ethics. Their question is, “What is it we need to do to tame business by government intervention, by regulation, by litigation?”

The answer is, “Invent a host of new rights that consumers and workers are supposed to have, rights that in our political system, based on protecting human rights, are owed government protection.” These rights include workers' rights to decent wages, or women's wages based on comparable worth, the right to fairness in the marketplace, to job security, to safety and health protection on the job, and so forth. Never mind that the market may not enable employers to pay and to comply with all this, never mind what workers agree to of their own free will. Business ethicists are busily advocating a deluge of regulatory measures that require commercial agents to comply or go under.

This implies that what people in business are after—profit, which is to say, prosperity—is really not an honorable objective. We simply shouldn't let people run free when they want to acquire wealth by peaceful means. If we allow commerce at all, they say, it needs to be kept under stringent controls. This is accomplished through innumerable government regulatory bodies at the Federal, state, county, and municipal levels.

It makes little impact on business ethics teachers that often such public policies stifle what little real chance people have for economic solvency. It certainly doesn't faze them that they limit the freedom of commercial agents. After all, since no real moral merit can be found in the pursuit of profit, therefore even in case of the slightest moral demand upon those in the field, their professional objectives must be sacrificed. Solvency is of some concern, but certainly let's not be serious about it.

I'm painting a bleak picture, I know. Others who teach business ethics might be more optimistic.

They may know teachers who are somewhat balanced in their approach. But the literature in the field—including major scholarly books and articles, as well as textbooks—follows the lines that I have described.

Prevailing Views of Employment

In discussions of the employment relationship, most business ethics authors and professors argue that there shouldn't be employment at will. That is, employers ought to be constrained forcibly—by government regulation or litigation, not by freely entered-into contracts—in their judgment as to whom they hire, fire, demote, or promote. This is defended on the grounds that employees are powerless, compared with employers, and they are entitled to a property interest in their jobs.

Most business ethicists also argue that employees should be forbidden from making certain kinds of decisions—choosing to work at higher risks than what is reasonable (as figured by risk analysts in academe or in the federal government). OSHA will then proceed to regiment the workplace accordingly. If employees wish to take “unreasonable” risks for higher pay, they are forbidden to do so. Government imposes a given set of standards on every business—never mind how new and how much in need of some initial cost-cutting the business might be and never mind individual differences in employee priorities.

Answers to these arguments are rarely supplied in business ethics texts and courses—except for citing some ideas from neo-classical economists who almost uniformly deny the existence of objective morality in the first place and have no direct ethical response to such complaints about the market.

Take another area. Here the objective of most business ethics professors is to show that most employees shouldn't be subordinated to managers. They argue for so-called employee rights that should diminish if not annihilate the position of management. The employer is viewed as a tyrant, oppressor, and exploiter, and this needs to be countered with some effective legislation and court decisions.

It doesn't matter that some employees prefer working for employers who take bigger risks and thus are expected to reap greater returns. Different business establishments might also require different types of organization—in some there won't

be room for shared management roles if they are to be run efficiently. None of this matters and will be subordinated to the will of the state, with the fervent approval of many who teach our college students the ethics of business.

So we have in academe a sustained attack on the profession of business. Where students seek guidance in their preparation for the profession through the study of ethical theories and the special problems of commerce, they receive a message that their chosen profession is dishonorable and would best be totally uprooted. It is no wonder, then, that they avoid business ethics if they can, or look upon it with suspicion and fear.

Into the Moral Underground

There is yet another result: it is very difficult to induce people in business to behave themselves properly, given how utterly confused they must be by now concerning moral issues associated with their profession. It's as if we were trying to teach ethics to people we also label professional criminals. Once we have declared an activity to be categorically wrong, it is nearly impossible to upgrade it. We have driven the profession of business into the moral underground; it's no wonder that business people find themselves confused as to how to lead an upstanding professional life.

And those in business, as many of them will admit—usually to their children who then report it in the classroom—are virtually schizophrenic about their profession. They can't be proud of what they do when they discuss it at home; they are unable to tell their children, as a doctor or an educator is able to tell his or hers, that they are engaged in something honorable outside the home and that the culture respects them for it.

No, business or commerce is a kind of shady thing always under attack, and of course people in academe—as well as too many artists, politicians, movie producers, and, oddly enough, members of the business community itself—tend to sanction this reputation. After all, programs such as “Dallas” are being sponsored by corporations, as are all the sitcoms in which, for example, someone might be making a decision as to whether to become an elementary school teacher or a business executive, and the entire half hour is devoted to a humorous but biting exploration of how rotten a decision it would be if it turned

out to favor joining the profession of business.

All this, of course, is quite tragic. It is probably debilitating in many more ways than I have suggested—psychologically, morally, and culturally. We are a society in which pages and pages of each newspaper are devoted to business. It is deemed a most important aspect of our lives on the one hand. On the other, however, the very people who play key roles in the drama cannot take full human pride in their activity in the way other professionals can.

Why Berate Business?

But why is this all going on in university departments of philosophy, and even in business schools? Why is it that business has such a bad press?

Many answers have been given. Some say it has to do with envy. That's probably the most prevalent analysis produced by those, such as Ludwig von Mises and Helmut Schoeck, who observe and want to understand the anti-capitalist mentality. Others discuss the fact that many people dislike and distrust economic power, which they believe can be used to exploit innocent and helpless folks. Doesn't government get “bought” by business? Thus, doesn't the blame for governmental misconduct lie with this profession? And there is also the claim that members of the business profession actually brought all this upon themselves when they wouldn't rely on the rules of the free market to play the game of commerce but urged the state to help them out in times of hardship, as did Lee Iacocca when Chrysler was in trouble.

Such explanations are unconvincing. The reason the envy premise doesn't explain very much is that there are lots of areas of life in which people are excellent or outstanding and aren't so righteously envied and denigrated as they are in the business world. Business isn't just envied, it is resented.

People win the Nobel Prize, become star singers or actors, and while there may be some shameful envy associated with this, most people recognize theirs as legitimate accomplishments and tend to honor them, flock to their movies, go to their concerts, and so forth, rather than attack them with hateful indignation and try to drag them down.

As to economic power, here the problem is that power has many sources, some more or less popular, and when we lament economic power we are

confessing our distrust of economics. If power comes from being a celebrity or very beautiful or a great prose writer or a brilliant artist or a magnificent television commentator, we don't seem to have much trouble with that.

And concerning business's willingness to turn to the state, consider that these days practically everyone runs to government with his or her pet project. If government advances ecological interests, this is deemed to be an honorable project. If artists are given support, ethicists seem not to mind very much—nor are they disdainful about taking a few thousand tax dollars in support of their next ethics book (e.g., from the National Endowment for the Humanities).

There is a more fundamental reason why business has gotten such a bad rap. At the level of ideas this is a very ancient reason, one that comes from some very honored philosophers—Plato in particular, and to some extent Aristotle. Indeed, most major philosophical and theological figures in Western history must take the blame.

The Intellectual Roots of Hostility

The basic intellectual underpinning of the hostility to business is the idea of dualism or, more particularly, idealism. Idealism in philosophy means, roughly, that the most important reality is ideas and not nature. Put differently, it is the spiritual realm, not the natural that is of primary significance. Dualism is the view that two major elements of reality exist, the natural or material element and the spiritual or intellectual element. Dualists commonly choose the intellectual or spiritual as the one with higher substance, as the more important one.

Not surprisingly, to the extent they believe that human beings are composed of these two elements, those who hold these views usually select for special treatment and honor the intellectual element of human life. Indeed, in Aristotle's ethics the truly happy or contemplative life is the one lived entirely at the level of thought or intellect. In Plato's ethics as well as in his politics, at least at first reading, those people who specialize in mental labors—who flourish intellectually—are the most worthwhile. These then are the people who ought to be accorded the role of leadership and guidance in society. The rest—especially those occupied with the mundane tasks of

trade—must be subordinated to their will.

Following this philosophical viewpoint, subsequent Western thinking fell in line. Many popular religious readings tended toward a denigration of prosperity and wealth-seeking. The institution of usury, one that characterizes the tasks of most banking and lending establishments, was condemned for centuries and found to be unnatural for human beings. And we still are told by many moralists that earning interest on money is close to the lowest form of money-making.

The only time in Western philosophy that we escaped this kind of thinking was during a very radical swing toward the other extreme. This came with Thomas Hobbes's turn to radical materialism. Hobbes, in the 17th century—following his enthusiasm for Galilean physics and science in general (which was itself given sanction through the reintroduction of Aristotle's work in Western culture by St. Thomas Aquinas)—completely denied the spiritual or intellectual realm. For him and his followers everything is matter-in-motion, and the whole world can pretty much be understood in terms of physics.

Due largely to Hobbes's influence and to that of his followers, such as Bernard Mandeville and Adam Smith, business in modern times has made some gains, at least on the practical front. Commerce has at least become legitimized—some of the more severe disdain toward it, which had once resulted in outright bans of much of what now passes for business, is no longer institutionalized in our legal system.

Instead, what remains is a moral or ethical suspicion toward business that, however, feeds into the legal mechanism via extensive restrictions against commerce. Consider that even the First Amendment is abandoned when judges rule on commercial speech! Yet the value-free nature of the brief respite given business hasn't saved the institution from descending nearly to its earlier disreputable status.

Suppose now that we still find reality as well as human beings divided into two spheres. And suppose we designate the spiritual or intellectual sphere a higher level of reality. Then it is not surprising that those who work at supplying our material needs and wants will not be highly honored and may even be held in moral suspicion. They are threatening to divert our attention from what is truly important.

In any case, this is what I take to be one serious way to understand why business is treated so shabbily in our culture. There are probably other reasons involved, although arguably they are not so fundamental as those I have been discussing.

Marxist Materialism

There are some apparent difficulties with the position I have advanced. One might be tempted to argue that Marxism is an exception to my analysis. After all, isn't Marxism a materialistic philosophy, and doesn't it at the same time denounce business?

First of all, Marxist materialism is a peculiar kind, dialectical materialism. It still abides by the notion of a firm hierarchy of nature. And the top of the hierarchy in human social life tends to be the intellectuals, especially in Marxism-Leninism. Those engaged in intellectual labor are regarded as of a higher caliber than those who merely do menial work. And actually one of the functions of capitalism in Marxist philosophy is to eventually do away with menial labor and thus make us ready for pure intellectual labor in Communist society.

Furthermore, according to Marxism, until in the future when humanity will be rewarded for its labors, most of us are supposed to wait around and act pretty servile. And when that future has arrived, one of the rewards to humanity will be that most of our generalized work will be intellectual, while the tedious and harsh work will be done by machines created in the capitalist phase of human history.

Marxism, in addition, holds that capitalists, who are producing for the masses what the masses ignorantly want, engender market anarchy rather than a rational economic order. But a rational order would produce what is right—that is, aside from basic necessities, goods and services arising from our intellectual talent such as musical composition and philosophical criticism.

At this juncture I am not going to criticize at great length the basic thesis underlying the denigration of business. My aim has been to pinpoint the intellectual source of this attitude and why business ethics is treated as it is at our universities and colleges. Some of my criticism is already implicit in what I've said.

Yet let me put myself on record by saying that I think the fundamental mistake is to divide human

beings into separate selves and not to recognize that what they are is of one cloth, and that if they are important, they are important in all respects, in the whole of their nature as human beings. A human being is an integrated entity, and the entirety of this entity needs to be cared for and honored, not just some special part of it.

Certainly from an ethical point of view to be prudent or conscientious about one's life involves, also, taking good care of one's material well-being: clearly this is acknowledged to some extent when we are prepared to care—and gain credit for caring—about our health. But at the same time as one grants the health profession an honorable standing—probably because it is a kind of derivative theoretical science—the very same reasoning should apply in granting the business professions an honorable standing.

Worthy of Respect

Professionals in business are clearly attending to some of the legitimate purposes of human life, namely, the securing of prosperity—of a pleasant, happy, spirited, and in the final analysis robust human life. And while they may not be the main contributors to a full life, they are surely very important to it and as such their work ought to be respected. Their profession deserves all the honors given to educators, doctors, scientists, lawyers, and politicians.

And when we teach business ethics to students who will probably enter that profession, we ought to teach them not to abandon their task, feel ashamed about it, set out merely to tame it, denigrate it, consider themselves freaks. Rather they should be guided in how to do this entirely honorable task in a way fully compatible with living up to all the basic moral requirements of a human life. And it should be made clear to them that when some moral point of view appears to denounce their profession, this is not necessarily the end of the story—the moral point of view might be in error. Let them figure out how to handle it, rather than trying to indoctrinate them to believe that business must be at fault.

Business people may be told that while they are business professionals, they probably also have the responsibility, in most cases, to be concerned about how to be good fathers or mothers or citizens. That doesn't denigrate business. But it is

another thing to tell them, "Well, you may carry on with the profession of business only because it's something we need, but it is too bad you have to. And if you can do anything else, please don't hesitate but do it." Yet this is precisely the message communicated to us all the way from TV sitcoms to the classrooms of the Harvard Business School.

Now perhaps it will be noted that other professions are often ridiculed or scorned, so why make special note of business's bad press? Yet while doctors, lawyers, politicians, and others do receive some friendly drubbing—at the hands of comics, Hollywood, and others—the business community is outright smeared and maligned. The frequency with which it turns out to be a business person who holds the smoking gun in anything from a cheap detective novel to the most expensive PBS mystery is staggering. Although Samuel Johnson may have believed that "There are few ways in which a man can be more innocently employed than in getting money," this is not at all the viewpoint of those like Arthur Miller in *Death of a Salesman* or the screen writers of *Wall Street* who all seem to agree that

people in commerce are "money-grubbers."

Here in the United States, in turn, there is a new statism in the air, associated this time with the concerns we have about the environment. Despite the fact that socialist systems have coped far worse with this problem than the quasi-capitalist ones, many environmentalists continue to look to the government for managing the environment. And if it is suggested that privatization be tried, this will be resisted so long as people believe that making a profit is somehow a shady thing, especially when we face emergencies. Unless business and prosperity gain a better moral reputation, the main solution to our environmental problems will escape us, and we will continue to be plagued by ill-conceived and hopeless governmental approaches, the very ones that often created these problems in the first place.

Both justice and practicality favor re-conceiving commerce and the profession of business as morally respectable. And while the prospects of countering centuries of contrary opinion are dim, the effort to change our course seems to be well worth making. □

Business and Ethics

The latter part of the 18th century marks a watershed in human history. Walter Lippmann, writing about the capitalistic era which opened two hundred years ago, utters an incandescent truth about this startlingly novel way of conducting our economic affairs: "For the first time in human history men had come upon a way of producing wealth in which the good fortune of others multiplied their own." Read that one again, for it is the basic axiom of the free market economy, so fundamental that it is overlooked by friend and foe alike. Lippmann continues: "For the first time men could conceive a social order in which the ancient moral aspiration for liberty, equality, and fraternity was consistent with the abolition of poverty and the increase of wealth." (*The Good Society*, pp. 193-4)

This was the social order originally known as Classical Liberalism, built around the conviction that there is an inviolable essence in each person, which it is the function of the Law to protect. When the Law is limited to the administration of justice by securing the life, liberty and property of all persons alike, then people are free to peacefully pursue their personal goals, each respecting the right of every other to do the same. This is the good society operating under the moral law, the only kind of society in which a complex division of labor economy can flourish. . . .

Free market rules of business fall well within the moral law; and individual businessmen, large as well as small—so long as they stick to their last—measure up at least as well as members of other trades and professions.

—EDMUND A. OPITZ

IDEAS
ON
LIBERTY



Child Labor and the British Industrial Revolution

by Lawrence W. Reed

Everyone agrees that in the 100 years between 1750 and 1850 there took place in Great Britain profound economic changes. This was the age of the Industrial Revolution, complete with a cascade of technical innovations, a vast increase in industrial production, a renaissance of world trade, and rapid growth of urban populations.

Where historians and other observers clash is in the interpretation of these great changes. Were they “good” or “bad”? Did they represent improvement to the citizens, or did these events set them back? Perhaps no other issue within this realm has generated more intellectual heat than the one concerning the labor of children. The enemies of freedom—of capitalism—have successfully cast this matter as an irrefutable indictment of the capitalist system as it was emerging in 19th-century Britain.

The many reports of poor working conditions and long hours of difficult toil make harrowing reading, to be sure. William Cooke Taylor wrote at the time about contemporary reformers who, witnessing children at work in factories, thought to themselves, “How much more delightful would have been the gambol of the free limbs on the hillside; the sight of the green mead with its spangles of buttercups and daisies; the song of the bird and the humming of the bee.”¹

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Of those historians who have interpreted child labor in industrial Britain as a crime of capitalism, none have been more prominent than J. L. and Barbara Hammond. Their many works, including *Lord Shaftesbury* (1923), *The Village Labourer* (1911), *The Town Labourer* (1917), and *The Skilled Labourer* (1919) have been widely promoted as “authoritative” on the issue.

The Hammonds divided the factory children into two classes: “apprentice children” and “free-labour children.” It is a distinction of enormous significance, though one the authors themselves failed utterly to appreciate. Once having made the distinction, the Hammonds proceeded to treat the two classes as though no distinction between them existed at all. A deluge of false and misleading conclusions about capitalism and child labor has poured forth for years as a consequence.

Opportunity or Oppression?

“Free-labour” children were those who lived at home but worked during the days in factories at the insistence of their parents or guardians. British historian E. P. Thompson, though generally critical of the factory system, nonetheless quite properly conceded that “it is perfectly true that the parents not only needed their children’s earnings, but expected them to work.”²

Professor Ludwig von Mises, the great Austrian economist, put it well when he noted that the generally deplorable conditions extant for centuries before the Industrial Revolution, and the low lev-

els of productivity which created them, *caused* families to embrace the new opportunities the factories represented: "It is a distortion of facts to say that the factories carried off the housewives from the nurseries and the kitchens and the children from their play. These women had nothing to cook with and to feed their children. These children were destitute and starving. Their only refuge was the factory. It saved them, in the strict sense of the term, from death by starvation."³

Private factory owners could not forcibly subjugate "free-labour" children; they could not compel them to work in conditions their parents found unacceptable. The mass exodus from the socialist Continent to increasingly capitalist, industrial Britain in the first half of the 19th century strongly suggests that people did indeed find the industrial order an attractive alternative. And no credible evidence exists which argues that parents in these early capitalist days were any less caring of their offspring than those of pre-capitalist times.

The situation, however, was much different for "apprentice" children, and close examination reveals that it was *these* children on whom the critics were focusing when they spoke of the "evils" of capitalism's Industrial Revolution. These youngsters, it turns out, were under the direct authority and supervision *not* of their parents in a free labor market, but of *government* officials. Many were orphans; a few were victims of negligent parents or parents whose health or lack of skills kept them from earning sufficient income to care for a family. All were in the custody of "parish authorities." As the Hammonds wrote, ". . . the first mills were placed on streams, and the necessary labour was provided by the importation of cartloads of pauper children from the workhouses in the big towns. London was an important source, for since the passing of Hanway's Act in 1767 the child population in the workhouses had enormously increased, and the parish authorities were anxious to find relief from the burden of their maintenance. . . . To the parish authorities, encumbered with great masses of unwanted children, the new cotton mills in Lancashire, Derby, and Notts were a godsend."⁴

The Hammonds proceed to report the horrors of these mills with descriptions like these: "crowded with overworked children," "hotbeds of putrid fever," "monotonous toil in a hell of human cruelty," and so forth. Page after page of the Hammonds' writings—as well as those of many other

anti-capitalist historians—deal in this manner with the condition of these parish apprentices. Though consigned to the control of a government authority, these children are routinely held up as victims of the "capitalist order."

Historian Robert Hessen is one observer who has taken note of this historiographical mischief and has urged others to acknowledge the error. The parish apprentice children, he writes, were "sent into virtual slavery by the parish authorities, a *government body*: they were deserted or orphaned pauper children who were legally under the custody of the poor-law officials in the parish, and who were bound by these officials into long terms of unpaid apprenticeship in return for a bare subsistence."⁵ Indeed, Hessen points out, the first Act in Britain that applied to factory children was passed to protect these very parish apprentices, not "free-labour" children.

The Role of the State

It has not been uncommon for historians, including many who lived and wrote in the 19th century, to report the travails of the apprentice children without ever realizing they were effectively indicting *government*, not the economic arrangement of free exchange we call capitalism. In 1857, Alfred Kydd published a two-volume work entitled *The History of the Factory Movement*. He speaks of "living bodies caught in the iron grip of machinery in rapid motion, and whirled in the air, bones crushed, and blood cast copiously on the floor, because of physical exhaustion." Then, in a most revealing statement, in which he refers to the children's "owners," Kydd declares that "The factory apprentices have been *sold* [emphasis mine] by auction as 'bankrupt's effects.'"⁶

A surgeon by the name of Philip Gaskell made extensive observations of the physical condition of the manufacturing population in the 1830s. He published his findings in a book in 1836 entitled *Artisans and Machinery*. The casual reader would miss the fact that, in his revelations of ghastly conditions for children, he was referring to the parish apprentices: "That glaring mismanagement existed in numberless instances there can be no doubt; and that these unprotected creatures, thus thrown entirely into the power of the manufacturer, were overworked, often badly-fed, and worse treated.

No wonder can be felt that these glaring mischiefs attracted observation, and finally, led to the passing of the Apprentice Bill, a bill intended to regulate these matters."⁷

The Apprentice Bill that Gaskell mentioned was passed in 1802, the first of the much-heralded factory legislation, the very one Hessen stresses was aimed at the abuse by the parish officials. It remains that capitalism is not a system of compulsion. The lack of physical force, in fact, is what distinguishes it from pre-capitalist, feudal times. When feudalism reigned, men, women, and children were indeed "sold" at auction, forced to work long hours at arduous manual labor, and compelled to toil under whatever conditions and for whatever compensation pleased their masters. This was the system of serfdom, and the deplorable system of parish apprenticeship was a remnant of Britain's feudal past.

The emergence of capitalism was sparked by a desire of Englishmen to rid themselves of coercive economic arrangements. The free laborer increasingly supplanted the serf as capitalism blossomed. It is a gross and most unfortunate distortion of history for anyone to contend that capitalism or its industrialization was to blame for the agony of the apprentice children.

Though it is inaccurate to judge capitalism guilty of the sins of parish apprenticeship, it would also be inaccurate to assume that free-labor children worked under ideal conditions in the early days of the Industrial Revolution. By today's standards, their situation was clearly bad. Such capitalist achievements as air conditioning and high levels of productivity would, in time, substantially ameliorate it, however. The evidence in favor of capitalism is thus compellingly suggestive: From 1750 to 1850, when the population of Great Britain nearly tripled, *the exclusive choice* of those flocking to the country for jobs was to work for private capitalists.

The Sadler Report

A discussion of child labor in Britain would be incomplete without some reference to the famous Sadler Report. Written by a Member of Parliament in 1832 and filled with stories of brutality, degradation, and oppression against factory workers of all ages and status, it became the bible for indignant reformers well into the 20th century.

The Hammonds described it as "one of the main sources of our knowledge of the conditions of factory life at the time. Its pages bring before the reader in the vivid form of dialogue the kind of life that was led by the victims of the new system."⁸ Two other historians, B. L. Hutchins and A. Harrison, describe it as "one of the most valuable collections of evidence on industrial conditions that we possess."⁹

W. H. Hutt, in his essay, "The Factory System of the Early Nineteenth Century," reveals that bad as things were, they were never nearly so bad as the Sadler Report would have one believe. Sadler, it turns out, had been agitating for passage of the Ten Hours' Bill, and in doing so he employed every cheap political trick in the book, including the falsification of evidence.¹⁰ The report was part of those tactics.

Hutt quotes R. H. Greg (author of *The Factory Question*, 1837), who accused Sadler of giving to the world "such a mass of *ex-parte* statements, and of gross falsehoods and calumnies . . . as probably never before found their way into any public document."¹¹

This view is shared by no less an anti-capitalist than Friedrich Engels, partner of Karl Marx. In his book, *The Condition of the Working Classes in England*, Engels says this of the Sadler Report: "This is a very partisan document, which was drawn up entirely by enemies of the factory system for purely political purposes. Sadler was led astray by his passionate sympathies into making assertions of a most misleading and erroneous kind. He asked witnesses questions in such a way as to elicit answers which, although correct, nevertheless were stated in such a form as to give a wholly false impression."¹²

As already explained, the first of the factory legislation was an act of mercy for the enslaved apprentice children. Successive acts between 1819 and 1846, however, placed greater and greater restrictions on the employment of free-labor children. Were they necessary to correct alleged "evils of industrialization"?

The evidence strongly suggests that whatever benefits the legislation may have produced by preventing children from going to work (or raising the cost of employing them) were marginal, and probably were outweighed by the harm the laws actually caused. Gaskell admitted a short time after one of them had passed that it "caused multitudes

of children to be dismissed, but it has only increased the evils it was intended to remedy, and must of necessity be repealed."¹³

Hutt believes that "in the case of children's labor the effects [of restrictive laws] went further than the mere loss of their work; they lost their training and, consequently, their skill as adults."¹⁴

Conditions of employment and sanitation were best, as the Factory Commission of 1833 documented, in the larger and newer factories. The owners of these larger establishments, which were more easily and frequently subject to visitation and scrutiny by inspectors, increasingly chose to dismiss children from employment rather than be subjected to elaborate, arbitrary, and ever-changing rules on how they might run a factory employing youths. The result of legislative intervention was that these dismissed children, most of whom needed to work in order to survive, were forced to seek jobs in smaller, older, and more out-of-the-way places where sanitation, lighting, and safety were markedly inferior.¹⁵ Those who could not find new jobs were reduced to the status of their counterparts a hundred years before, that is, to irregular and grueling agricultural labor, or worse—in the words of Mises—"infested the country as vagabonds, beggars, tramps, robbers, and prostitutes."¹⁶

So it is that child labor was relieved of its worst attributes not by legislative fiat, but by the progressive march of an ever more productive, capitalist system. Child labor was virtually eliminated when, for the first time in history, the productivity of parents in free labor markets rose to the point that it was no longer economically necessary for children to work in order to survive. The emancipators and benefactors of children were not legislators or factory inspectors, but factory owners and financiers. Their efforts and investments in

machinery led to a rise in real wages, to a growing abundance of goods at lower prices, and to an incomparable improvement in the general standard of living.

Of all the interpretations of industrial history, it would be difficult to find one more perverse than that which ascribes the suffering of children to capitalism and its Industrial Revolution. The popular critique of child labor in industrial Britain is unwarranted, misdirected propaganda. The Hammonds and others should have focused on the activities of *government*, not capitalists, as the source of the children's plight. It is a confusion which has unnecessarily taken a heavy toll on the case for freedom and free markets. On this issue, it is long overdue for the friends of capitalism to take the ideological and historiographical offensive. □

1. William Cooke Taylor, *The Factory System* (London, 1844), pp. 23-24.

2. E. P. Thompson, *The Making of the English Working Class* (New York: Random House, 1964), p. 339.

3. Ludwig von Mises, *Human Action* (New Haven, Connecticut: Yale University Press, 1949), p. 615.

4. J. L. and Barbara Hammond, *The Town Labourer* (London: Longmans, Green, and Co., 1917), pp. 144-45.

5. Robert Hessen, "The Effects of the Industrial Revolution on Women and Children," in Ayn Rand, *Capitalism: The Unknown Ideal* (New York: New American Library, 1967), p. 106.

6. Alfred Kydd, *The History of the Factory Movement* (New York: Burt Franklin, n.d.), pp. 21-22.

7. Philip Gaskell, *Artisans and Machinery* (New York: Augustus M. Kelley, 1968), p. 141.

8. J. L. and Barbara Hammond, *Lord Shaftesbury* (London: Constable, 1923), p. 16.

9. B. L. Hutchins and A. Harrison, *A History of Factory Legislation* (New York: Augustus M. Kelley, 1966), p. 34.

10. W. H. Hutt, "The Factory System of the Early Nineteenth Century," in F. A. Hayek, ed., *Capitalism and the Historians* (Chicago: University of Chicago Press, 1954), pp. 156-84.

11. *Ibid.*, p. 158.

12. Friedrich Engels, *The Condition of the Working Classes in England* (New York: Macmillan, 1958), p. 192.

13. Gaskell, p. 67.

14. Hutt, p. 182.

15. Hessen, p. 106.

16. Mises, p. 614.

Why Work More?

by Roger M. Clites

Practically all governments have enacted a tax on incomes that is generally termed the “progressive income tax.” I prefer to call it the “stair-step tax.” The tax is structured so that each additional increment of income is taxed at a higher percentage than were the previous ones.

Usually opponents of such a tax discuss the harm it does in terms of how it reduces capital investment and thus retards economic growth. When I was a young university instructor in the 1950s, however, I came across what may be a more easily understandable example of the damage done by this stair-step tax.

A man I knew was by far the best salesman at his company. By hard work and his ability to educate potential customers about how his firm’s products met their needs, he sold more than three times as much as any other salesman. In fact, while he worked he sold enough to keep 30 production employees busy.

Note the phrase, “while he worked.” In the 1950s our stair-step income tax reached a far higher percentage than it does today. The top rate was over 90 percent. That’s right, if your income was already high enough and you earned another dime, you didn’t get to keep a whole cent!

The salesman was paid on commission, and he decided that it wasn’t worth his while to continue working when the additional dollars he earned were taxed at a rate of 50 percent or more. He would rather take an extended vacation.

Therefore, about two-thirds of the way through each year, generally in late August or early September, he would ask his supervisor for a leave

of absence until the following January. The company didn’t like to do without its best salesman for the last third of the year, but felt that giving him a leave of absence was better than taking the chance of losing him.

The consequences of the salesman’s reaction to the “soak the rich” tax structure are interesting. The salesman himself wasn’t seriously hurt. He would, as he put it, spend much of the remainder of the year at Miami Beach “watching the scenery walk by.”

Those most hurt were the 10 people who weren’t employed by the company because of his decision to not work during the last third of the year. Since he sold enough products to provide work for 30 production workers but restricted his selling time to about two-thirds of the year, he brought in only enough orders to keep 20 production workers busy. Consequently, 10 fewer people were employed.

Thus, the tax collector’s greed backfired in several ways. Since the salesman didn’t work for a third of the year, he probably paid less in total taxes than he would have had he been taxed at a lower rate but on an income that would have been about 50 percent higher.

The 10 people who weren’t employed may have wound up with little or no income to tax. In fact, they may have become a drain on the tax revenues that other people paid.

Thus, the tax collector’s greed caused a loss of revenues from two sources, and it likely added a drain on the public treasury. But, remember, those *most* hurt by the “soak the rich” policy were not “the rich.” They were the 10 people who weren’t employed. □

Fire-Fighting for Profit

by Nancy W. Poole

Fire-fighting services don't need to be provided by government. For-profit is better, and Scottsdale, Arizona, industry leader Rural/Metro Corporation proves the point. Mayor Herbert R. Drinkwater doesn't need prodding to lavish praise on Scottsdale's second largest nationally headquartered company. "I'm a great believer that the private sector can normally do things a little better than the public sector—and for less money," says Drinkwater. "Our fire service does a superb job," he continues matter-of-factly. "The citizens of Scottsdale love it. I get compliments all the time on Rural/Metro's performance."

Statistics back the mayor's enthusiasm. A recent poll by Arizona Opinion and Political Research found that by a margin of six-to-one, Scottsdale voters prefer Rural/Metro to the option of a municipally owned fire department.

Moreover, the price is right. Drinkwater says that because of Rural/Metro, Scottsdale citizens benefit from a superior level of fire service at a considerably lower cost than if the city had a municipal fire department.

Drinkwater, however, doesn't want to focus exclusively on economics. "Even more important," he stresses, "the kind of service Rural/Metro provides is based on incentive and innovation. So our citizens aren't subject to the constraints experienced with traditional municipal fire departments."

For example? "The traditional emphasis is on fire response," Drinkwater answers. "We think Rural/Metro's emphasis on prevention is a more effective way to deal with fire protection service.

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The company's core philosophy is prevention. As a result, Scottsdale citizens are offered a much better balance between response and prevention than is available in most communities."

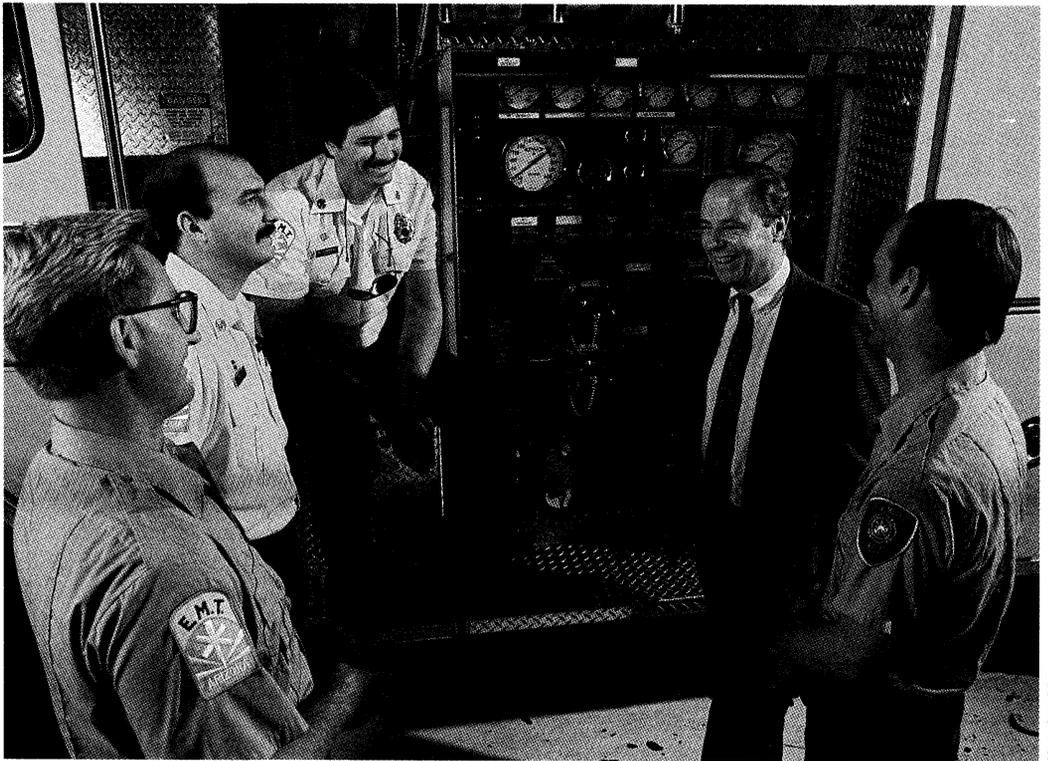
Rural/Metro's unique mix of part-time fire-fighters working alongside career professionals makes Scottsdale's fire protection service one of the most economical in the nation, and one of the most effective.

There are literally hundreds of small private fire companies along with seven industry leaders in 14 states, according to Private Sector Fire Association statistics. Rural/Metro is not only the largest such company in the country, it is an industry model for customer service, excellence, cost containment, and innovation.

For example, an increasing number of established departments are emulating Rural/Metro's subscription services in remote areas. Rural/Metro created the concept of providing fire protection to areas that might otherwise have difficulty obtaining any fire or emergency medical service at all—communities without the tax base to subsidize fire departments. Rural/Metro currently services communities in Arizona, Tennessee, and Oregon on a subscription basis.

The subscription process is voluntary. Rural/Metro contracts with home and property owners in subscription areas, who pay annual fees for fire protection and emergency medical service. Level of service is based on population density and geography.

Rural/Metro is the first-responder agency in these locales. A non-subscriber must pay a fairly high hourly rate per fire-fighting unit if it is necessary for Rural/Metro to respond to a fire at that



Robert Manschot and crew.

person's residence or property. (The adequate protection of members' properties requires response to all fires and medical emergencies in a subscription area.)

Service Tailored to Needs

Another company tenet is the tailoring of services to each area's needs. For instance, poisonous desert reptiles are removed from members' homes or properties, at no extra charge. Or how about bursting water pipes? Rural/Metro subscription customers know the company will shut off utilities and remove excess water from their homes as a matter of routine, at no additional cost. The list goes on and on.

Typically, the difference between public and private fire-fighting services isn't a matter of available resources, but in the management of those resources. The private sector depends on management skills for its results. In the case of Rural/Metro, the average per capita cost to subscription customers in Arizona is 25 to 50 percent lower than for similar services nationally.

"We are *forced* to be more economical but at the

same time provide excellent service, since the private citizen has other options," says Robert Manschot, Rural/Metro's president and CEO. "Otherwise, we will not survive. Communities can and do have specific cost and performance requirements; if we don't produce, our customers can release us. This is a task not easily accomplished when a community has a municipal department! Because we pioneered the concept of matching manpower and equipment to each service area's needs, we can do a better job for less money."

Rural/Metro's vice president of fire operations Robert T. Edwards puts it another way, half-jokingly: "Our fire-fighters must bleed green." His statement refers to a company slogan about loyalty. Rural/Metro began painting its fire apparatus lime green in 1972 for safety purposes, after a national study showed this to be the most visible color in evening and all weather conditions.

Edwards continues more seriously. "Can you imagine what our liability risk would be if our fire-fighters weren't extremely well trained and state-of-the-art in performance?" With a sharp rap of knuckles on the wood conference table, he points out that, so far, no Rural/Metro fire-fighters have

lost their lives on the job. "Naturally, this shows we're doing something right; but what it really shows is that the guys we train are trained to think. They see a hazard and don't wait to be told what to do."

The Growth of Rural/Metro

When newspaperman Louis Witzeman founded Rural/Metro Corporation in 1948, it was probably the last thing in the world he'd planned on doing. There was no fire protection for his home, and he simply wanted to get it. Neighbors promised to pay him \$10 a year for fire protection, and the 21-year-old Witzeman invested his last \$900 in a fire truck. So much for promises. Stuck with the truck when his neighbors didn't follow through, Witzeman had to go into business. So it was that one truck, four men, and a modest budget started a fire protection subscription-based business that grossed \$30,000 in its first year.

What is now the city of Scottsdale was incorporated in 1951, and Rural/Metro has continued to provide fire and medical emergency services. Since that time, the community has grown from a town of 2,000 people to a thriving metropolitan area of 126,000.

Today, more than 50 communities in five states take advantage of Rural/Metro's innovative private-sector approach to emergency services. Over 1,800 highly trained specialists provide fire, ambulance, and other services to five million people, responding to over 300,000 calls for assistance each year. Rural/Metro operates the equivalent of over 20 fire departments nationwide.

In addition, Rural/Metro has a wild-land fire division, and offers fire and safety services to the Potlatch Paper Company and other private companies—plus providing training programs in handling hazardous materials and manning industrial fire brigades.

When Witzeman left the company in 1978, he sold it to his employees, making Rural/Metro unique in this respect among private sector emergency services. "We believe that employee-owners make better employees," Edwards stresses. "For example, a fire-fighter who finds a bulb out on his truck could open a package with two bulbs in it, use the one he needs, and throw the other one away. An employee-owner will put the extra bulb back on the shelf. He is cost-conscious."

"Furthermore," says Manschot, "since the owners of Rural/Metro respond to our customers' emergencies, they respond faster, better, and with genuine caring."

Accordingly, a recent study by The University City Science Center of Herndon, Virginia, praises Rural/Metro as "one of the best departments we have had an opportunity to review." The report cites the company's "model prevention and inspection program . . . [which] provides citizens with a higher degree of safety than available in most communities." Beyond that, because of Rural/Metro's strong prevention ethic, Scottsdale enjoys one of the lowest fire incident and loss records in the nation, for a city its size. This helps keep the costs of Rural/Metro's services low compared with other communities.

New Management Sparks Innovations

Robert Manschot became Rural/Metro President/CEO in 1988. After 14 years of running hotels internationally for Sheraton and Intercontinental, he had joined The Hay Group, a human resources-oriented consulting firm—the largest of its kind in the world—becoming a worldwide partner. Rural/Metro hired Manschot as a consultant in 1987, and then offered him the position of chief operating officer, which he accepted.

Why Rural/Metro? Manschot answers quickly. "After working with hundreds of companies, I had the urge to practice what I preached. Rural/Metro is one of the most unique companies I'd ever worked with, and it attracted me because of characteristics I felt were related to my strengths. Expertise in fire, ambulance, and various other lines of business were already in place, but Rural/Metro had expanded so rapidly it lacked established infrastructures."

"No other privatized emergency services company can boast our kind of diversity," Manschot points out, referring to Rural/Metro's multi-state and international operations. "Falck, located in Denmark, is the largest privatized emergency services company in the world. However, last year we entered the international arena in a joint venture with the Holland-based Smit Fire & Loss Prevention Company to provide off-shore and petrochemical fire-fighting expertise internationally."

As a result of this agreement, Rural/Metro fire-



RURAL/METRO

Rural/Metro firefighters were three of six specialists called to battle a fire on the Norwegian tanker Mega Borg.

fighters were three of six specialists called from around the world last summer to successfully battle a fire on the Norwegian tanker *Mega Borg* in the Gulf of Mexico.

Since joining the company, Manschot has streamlined operations to bring about maximum communication, efficiency, and cost-effectiveness. The energetic Dutchman leans forward for emphasis. "I believe that your strongest asset is your people—not your capital, not your equipment, but your people—the empowerment of the employees, which has nothing to do with unions."

"What we like to do," he continues, "is push the entrepreneur role down to our general managers; then these managers push it down ever further to our employees, stretching them to be innovative."

Every month, Rural/Metro's "Idea Program" offers innovative employees who contribute ideas that are implemented a percentage of whatever dollar amount the company makes or saves as a result. Rural/Metro also rewards "Conscientious and Responsible Effort" (CARE) on a regular basis. Don Niesen, an employee in Yuma, Arizona, received a CARE award last October, in recognition of the many extra hours of time he had donated for equipment repairs and maintenance. The

CARE award is a \$50 gift certificate for dinner at a restaurant of choice.

Manschot and other Rural/Metro managers spend one-third of their time visiting employees on-site. "We want our employees' ideas," Manschot stresses. "However, I also believe that employees must be *taught* how to be more autonomous and participate in decision-making. Empowerment goes hand-in-hand with accountability," he continues. "Managers and employees must be accountable for their own success. The strategy must be pervasive and ongoing. That is why we have task forces and 'shadow' boards to deal with strategic issues. Since we almost *are* the industry, we must train our own managers."

Paramedic Bob Videan gives an example. His immediate supervisor, Clint Vardeman, returned to home base recently from the Florida operation. "Clint has put together two weekend-long 'camps' held at his home," explains Videan. "I saw enough value in the first one that I volunteered to be faculty for the latest session. The presentations are well organized, and we have time at the end for open discussion—which is *very active*."

"For one thing," he continues, "these 'camps' have helped us know Clint, and certainly have cre-

ated an esprit de corps. Employees from all over the country were at both 'camps.'"

According to Vardeman, employees receive special invitations to these weekend sessions, which are structured and informational with ample time for brainstorming during the day. After dinner, all present break for games and socializing. Eventually, every ambulance company employee will be invited to a "camp."

"At the end, we summarize our ideas, and all employees receive a copy of the summary," Vardeman comments. "We follow up by letting them know when ideas from these sessions are being implemented."

Manschot indicates that a Rural/Metro fire-fighter or paramedic can be a senior manager within eight or nine years. "If we want to continue at our present rate of expansion," he emphasizes, "we will need 50 new managers five years from now. This is the reason we have a very strong training and development program."

In 1987, Rural/Metro acquired Arizona Medical Transport (AMT), a private ambulance company, and AMT paramedic Videan became a Rural/Metro employee. "Within three months," he says, "we were better equipped than we'd been at any time during the previous 10 years since I started with AMT. Mr. Manschot has brought about extensive communication between top-level management and field crews. The difference is like night and day."

Fighting Fire with Prevention

Rural/Metro has a strong prevention ethic. "The best way to fight fires is to prevent them," comments Edwards. "For example, we have a much higher number of inspectors per capita than is the norm." Rural/Metro fire inspectors are also asked to serve as fire-fighters, so that their awareness of hazards in buildings throughout the community often aids in the suppression of fires. "For us," Edwards explains, "it's not prevention *and* suppression; instead, it's prevention/suppression—the two components interact."

As a national leader in the development of fire prevention programs, Rural/Metro abundantly communicates prevention to its customers

through many training and education programs. These include home fire-safety inspections, CPR classes, emergency first aid, water and mountain rescue courses, and hazardous materials services, as well as fire safety education classes in the schools.

With top performance records and dramatically lower costs than publicly owned counterparts, Rural/Metro is a hard-to-beat sell. Nevertheless, since public sector turf is often just across the street, the company's nonunion, privatized operation is frequently a target for intra-city politics and media misconceptions. (Rural/Metro's employees recently voted down union membership.) Fire-fighter Wes Kemp elaborates. "Our position as a privatized emergency services company is a challenge because we are continually up against the municipalities to prove ourselves."

Historically, a rivalry has existed between Rural/Metro and unionized municipal departments. "We position the company not in a directly competitive mode with these departments, but as a fire service alternative," says Suzanne Brossart, Rural/Metro's corporate communications manager. Brossart adds that Rural/Metro does not approach communities that have established municipal fire departments. "Instead," she explains, "we prefer to target small but growing communities that don't have fire departments or that want to expand volunteer departments into full-time services. With this approach, we can build our strong fire prevention and operational philosophies directly into a community's development."

President/CEO Manschot adds, "We must continue building relations with other agencies, and reinforcing an atmosphere of mutual cooperation and respect."

Rural/Metro's philosophy translates into financial success. Corporate revenues have grown over the past 10 years from \$6 million to almost \$65 million annually, increasing in the past three years alone by over \$24 million. Revenues for the current fiscal year are estimated at nearly \$68 million.

Rural/Metro Corporation has shown that fire-fighting and other emergency services can be privatized, with outstanding results. As municipal budget crises plague many communities, privatization is an option that merits careful study. □

Public Interest Is Usually Special Interest

by Dwight R. Lee and Robert L. Sexton

Special interest groups have been quick to tap the public till. Of course, they usually aren't so blunt as to demand tax money for their personal benefit. They have found a more effective strategy: obtain government subsidies for their pet project by arguing that it will benefit everyone in the community. Their project, in fact, is something we all "need." It's amazing what a person will "need" when someone else is picking up the tab.

A natural response is: "If your project is so desirable, why do you have to come to the government to get it funded? If everyone needs a good or service so much, why aren't they willing to pay for it?" (In which case some enterprising entrepreneur will gladly supply it.)

Most special-interest advocates have a couple of answers. They argue that most people aren't aware of all the benefits they will receive from the project, or that the project is a public good and deserves support on that basis.

The first answer should persuade very few. If you don't benefit from a private good, it's because you don't care enough to purchase and consume it. Of course, there are always people who feel that you aren't very bright if you don't like the same things they do. But how you spend your money is your concern, not theirs.

If the lobbyist claims public-good status for his or her proposal, at least two questions need to be asked. Does the project convey important benefits to the community at large? Is it impossible to deny

these benefits to anyone once the project is completed? Few projects meet these standards. But you would be amazed at the number of projects that are funded at public expense because they are supposedly public goods.

For example, many big cities have built large sports arenas at taxpayer expense. Supporters claim that a sports arena, with the major-league teams that usually go with it, brings recognition and fame and revenue to the city. Furthermore, supporters assert, this will benefit everyone in the city, whether they are sports fans or not, because they will be living in a more prestigious community. And this justifies coercing everyone to pay for it.

Clearly, this is a weak argument. The people who benefit the most from a sports arena are the fans who use it. But it's easy to prevent someone from receiving this benefit if he doesn't buy a ticket. And it isn't true that everyone will benefit. For example, sports arenas create traffic congestion that many find objectionable.

It's probably true that some people who never attend a sporting event may feel a little better just knowing that they can, or knowing that their city makes national news occasionally for something other than a rising crime rate. But does this justify commandeering funds from everyone in the city to build a sports arena? What about fine restaurants? Certainly fine restaurants enhance the reputation of a city. Many people are happy to know that one is nearby, waiting to serve them, whether they visit it or not. But most people would find a proposal to build publicly financed restaurants a little far-

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fetches. If desirable side effects justified government subsidies, then well-kept yards, hair styling, pretty dresses, face lifts, car washes, toothpaste, deodorants, smiles, ice cream parlors, and athlete's-foot medication would all qualify for a handout.

We need to recognize that special interest groups expend a lot of effort to get subsidies for things that they enjoy. The sports arena is only one example. The more "cultured," and usually wealthier, denizens of many cities have managed to obtain government support for symphonies, operas, ballet, and the performing arts in general.

The justification they give is similar to that for subsidizing sports arenas. Supposedly, everyone in a community will benefit, even those who prefer to sit home with a can of beer and watch all-star wrestling on television.

There are many other examples of special interest groups seeking public funds for goods and services that primarily benefit them. Just follow the proposals and requests that come before meetings of locally elected officials. You probably will be surprised at the number of "socially concerned" people who have identified some urgent public "need." □

Karl Marx: An Irrelevant Man

by Donald G. Smith

I remember reading Karl Marx in college. The assignment was, to understate the case, a tedious experience. There is a quality about this ponderously dull man that makes the eyelids heavy, and his work is not recommended for a pleasant afternoon at the beach. In defense of Marx, however, the writing that we see is a translation, and the passage of thought from one language to another often has the effect of squeezing out the pithy phrases and the clever shades of meaning. I doubt that this happened to any significant degree with Marx, but it is still possible that he is more of a thundering bore in English than in the original German. Let's give him the benefit of a doubt on this one.

Mr. Smith is a writer living in Santa Maria, California. He has been a frequent contributor to The Wall Street Journal.

Over the years I have also remembered Marx as a man who was simply wrong in the conclusions that he reached, but here was another judgment that couldn't be put to rest that easily. I have always had some trouble with the word *wrong* in regard to Karl Marx because he wasn't one for hitting nails squarely on heads, and his oblique phraseology didn't lend itself to the simplicity of right and wrong. Adolf Hitler was wrong throughout *Mein Kampf*, but not in the sense that the word would apply to Marx. There is a certain specificity to being wrong that applies to a Hitler but not to a Marx.

It is *wrong*, for example, to say that Altoona is the capital of Pennsylvania, but the word cannot be so easily applied to the proposition that Altoona is, or is not, a nice place to live. Hitler would have gone with the first statement and gasped his last mortal breath insisting that it was

correct. Marx would have preferred the other proposition, making fuzzy and ill-conceived statements that have no basis in fact but are hard to support or refute.

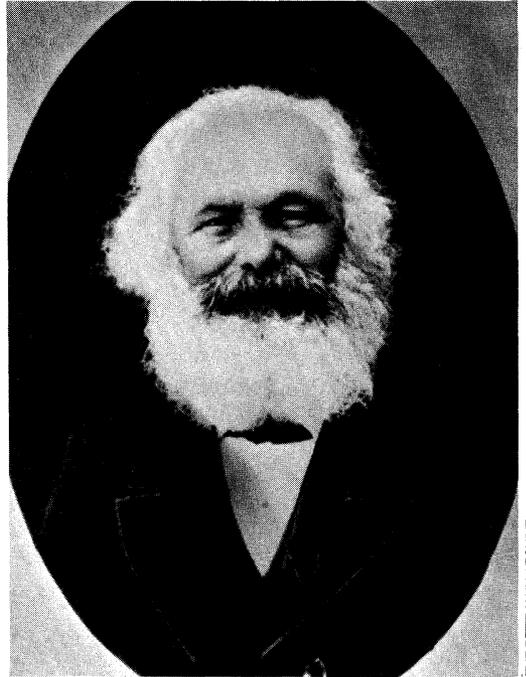
I have been rereading Marx in recent weeks, and I am turned off to the same extent that I was in my undergraduate days. I now believe, however, that I can pinpoint the reason that Karl and I just don't get along. The word that I had sought for so many years was not *dull* and it was not *wrong*. The word for Karl Marx is *irrelevant*.

One will note that Marx prattled incessantly about the great class struggle. This might have had some meaning for 19th-century Europeans, but it means absolutely nothing to Americans of any century. We are a nation of individuals with very little concept of social or economic class. Our group affiliations are temporal: an afternoon cheering for the home team, a lodge meeting, or a get-together with the property owners' association, but it ends when we step outside and become individuals again. I suppose that a contemporary American could hold his or her income up to some economic scale and find a place in a pre-selected bracket, but it really doesn't mean much to anyone. Certainly there is no class struggle, and I don't think that I know anyone who could define the term, or who cares enough to find out.

The Irrelevance of Labels

Marx uses the words *bourgeoisie* and *proletarian* repeatedly, and both are about as relevant to our lives as hoop skirts and butter churns. I know what the words mean, or what they meant to Karl Marx, but there are too many people who fit into both categories, or neither, for the words to have any applicability. I would be hard put to label anyone I know as one or the other. If a man repairs shoes, for example, he is probably a proletarian, but what if he owns the shop and he is the only employee? This makes him the boss and also the one who does all the work. In the great revolution, Marx would probably have him destroy himself.

Marx was obsessed with the idea of class, but to most Americans this is a vague, if meaningless,



Karl Marx (1818-1883) This portrait, taken in 1882 in Algiers, is the last known photo of Marx.

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concept. We see the world as individuals, a group of divergent entities, each with a unique value and making up a collective body that is less important than its parts.

If one would ask the proverbial man-on-the-street American to pinpoint himself on a class scale, he would probably come up with an answer of sorts, but it would be offered with a shrug of the shoulders and a "Who cares?" tone of voice. Class loyalty is about one step below loyalty to a bowling team or an alumni association in human intensity. Certainly no American is going to take to the streets for the honor of the citizens in his salary bracket.

This, I believe, is the reason that Karl Marx has made so little impact on American thought processes. No one is quite sure what the man was talking about, and if they ever found out, they wouldn't care anyway. He wasn't evil, he wasn't insane, and he certainly wasn't stupid. On our side of the Atlantic, he is merely irrelevant. To put it succinctly, Karl Marx is a man with nothing to say to the American people. □

A Child of Fortune

by John Chamberlain

We almost lost our Constitution before we had one. Jeffrey St. John, a journalist of talents who decided to put himself into a reporter's position at the secretive meetings of 38 delegates who framed the Constitution in the hot Philadelphia summer of 1787, opens the second book of a trilogy with the story of a narrow escape.

The date was the third week of September in 1787. General George Washington was returning to his farm at Mount Vernon on the Potomac with the new Constitution in his keeping. Crossing the Elk River in northeast Maryland, his carriage fell through the rotten planks of a makeshift bridge. His horses hung suspended 15 feet above the Elk flood. As a reporter who gives us this information, St. John has an uncharacteristic lapse—he doesn't furnish the details of how local citizens brought the animals to safe ground.

Otherwise St. John plays his clever game of reporting the struggles which gave us our Constitution and our first President. He makes you see what a crushing blow it would have been if Washington had not made it safely to Mount Vernon.

The first volume of St. John's projected trilogy was called *Constitutional Journal*. It appeared in the bicentennial year of 1987 after running as a daily newspaper series in the *Christian Science Monitor*.

In a foreword to the second printing of *Constitutional Journal*, retired Chief Justice Warren Burger wrote that "St. John . . . takes the reader through the debate, day by day, in an entertaining

style that succeeds in conveying both the historical facts and the emotion and drama of the debates." Justice Burger has continued his support of St. John by offering a foreword to volume two, published as *A Child of Fortune* (Jameson Books, 392 pages, \$24.95 cloth). The title comes from a letter written by Washington to the Marquis de Lafayette: "It is now a Child of Fortune, to be fostered by some and buffeted by others. . . . I suppose it will work its way if good; if bad, it will recoil on the Framers."

Recoil there was to some degree: the provision that extended the slave trade for 20 years wasn't liked in the Northeast, but it had to be accepted as a compromise to keep the Southern states in line. The anti-federalists (and there were many) would have liked to sustain some connection with the Articles of Confederation, but they were objective men. They were primarily students of geography. The Spanish empire to the south of the 13 colonies and the British to the north in Canada controlled access to two great river systems, the Mississippi and the St. Lawrence. To deal with empires controlling river systems, something stronger than 13 independent colonies was needed. This was the thought that guided the Philadelphia delegates in their Constitution-making. They were happy to have the French, then headed for their own revolution, on their side, but Quebec might become an enemy if the French Revolution went askew. There had once been a French and Indian War. Spaniards were inciting Indians in Georgia even as the Constitution was being debated.

For *A Child of Fortune*, St. John pretends he is a reporter at ratification debates in 11 states. He makes the progress of ratification exciting even though the reader knows that the stipulated number of nine ratifying states will be reached. Delaware, with more Senators than Representatives, was the first to ratify, followed by Pennsylvania and New Jersey. There were riots in Pennsylvania. New Jersey, a “barrel tapped at both ends,” was easy, for its traders stood to benefit from being a corridor from New York to Philadelphia. Georgia came into line in late December of 1787 on a unanimous vote, with vows to keep the Creek Indians at bay. But there was more to it than that. St. John quotes Georgia’s chief justice as saying his state “suffers from wounded credit.” Paper money was indeed a curse in all the colonies, and the Founders were agreed with Oliver Ellsworth of Connecticut that the wisest thing done at Philadelphia was to forbid its printing by the states.

Connecticut became the fifth ratifying state, and the first in New England, for economic reasons specified by Ellsworth. Massachusetts became number six. Shays’s Rebellion against debt foreclosures in the western part of the state was still a vivid warning in Boston. Governor Hancock covered himself with glory—and promoted his own case for the Vice Presidency—as the great conciliator of the Massachusetts convention. But John Adams got the Vice Presidency.

The Lees of Virginia had started talking about a Bill of Rights. Thomas Jefferson, then absent in Paris as ambassador, was in agreement. Patrick Henry in Virginia, the orator of the Revolution, let it be known that he favored acceptance of a Bill of Rights as a “condition” for ratification. There followed the epic struggle between the distrustful patriots Henry and James Madison, with Madison (and General Washington) holding for voluntary amendments to the Constitution. The voluntarists won in Maryland, seventh state to ratify, and in South Carolina (the eighth). New Hampshire became the ninth, giving “legal life” to the Constitution.

Legal life, however, would not have meant real life if Virginia and New York hadn’t been satisfied with promises of a Bill of Rights.

Jeffrey St. John is currently busy with his third volume, which will follow events leading to Congressional adoption of the Bill of Rights. □

THE MYTH OF SCIENTIFIC PUBLIC POLICY

by Robert Formaini

Transaction Publishers, Rutgers University, New Brunswick, NJ 08903 • 1990 • 129 pages • \$24.95 cloth; \$14.95 paper

Reviewed by John Semmens

The thesis of this book—that an objective, scientifically determined public policy is impossible—stands in stark contrast to the proliferation of public planning agencies that has occurred over the last generation. The goal of a scientific public policy would appear meritorious. Using research and experimentation to gather evidence with which to guide public policy decisions would seem superior to reliance on unresearched and untested opinions. Nevertheless, the author contends that all the research in support of government intervention adds up to essentially nothing.

Public policy decisions are inherently entangled with value judgments. The aim of policy is to do “good,” however that may be defined. Since definitions of the “good” will differ, demonstrating that one policy is superior to another must quickly run into subjective inputs. For example, no public policy has uniformly beneficial effects on everyone. Some will be helped, others may be hurt. Balancing the help and the hurt is the ostensible goal of a scientific approach to policy-making.

The tools of scientific policy-making include “risk assessment,” “cost/benefit analysis,” and “environmental impact analysis.” However, researchers don’t agree on just how these tools should be used. Yet, the way in which a tool is used can affect the result.

Consider, for example, the 1987 speed-limit increase on rural interstate highways. Since the limit was raised to 65 miles per hour, studies have been done to show that accidents and fatalities have increased. Focus on the affected routes reveals, unsurprisingly, higher incidences of accidents. However, other researchers question the scope of the analysis and point to lower overall accident and fatality rates. Scientists come down on both sides of the policy issue of whether the increase in speed limit was a “good” or “bad” policy change from the perspective of safety. The policy question becomes even more complicated when we consider other travel dimensions such as time and convenience.

The end result of policy decisions is frequently a law or a regulation compelling people to modify behavior or to finance government programs. Even if we were convinced that the majority of people would benefit, there is still the uncomfortable aspect that the law compels some to take actions from which they will not benefit, or perhaps even be harmed. In the absence of the compulsion of law or regulation, people are making the choices that they perceive as optimal. Initiating the compulsion will shift people into behaviors that they did not freely choose. The inevitable consequence is that there will be less satisfactory results despite the noblest of intentions.

As an alternative to relying on the choices people make in the free market, many advocates of government intervention imagine that we can rely on information obtained from polls or surveys. Unfortunately, such data are less reliable than many might hope. The wording of survey questions can easily force the desired result. In the eagerness to discover a wellspring of popular support for a government project, researchers can lapse into faulty survey design and achieve misleading answers. Even if the questions are designed with utmost care, respondents may misperceive or misrepresent their own preferences.

A case in point is the survey carried out on the "Sardine Express" train during the 1980 Phoenix flood. For a period, all but two highway bridges over a river that splits the metropolitan region were closed or washed away. Commuters packed the trains set up to offer an alternative service during the emergency. A survey of riders showed that the average rider evinced a willingness to pay more than twice the existing fare and to ride the train regularly once the emergency had passed. Yet, the day a third bridge over the river was restored to service (by no means eliminating the crushing traffic jams) train ridership dropped by 75 percent.

The severed link between the costs and benefits of public projects aggravates the problem of determining the relative worth of each project. This is probably what lies behind the phenomenon of a voter population that wants more services from government, but doesn't want to pay more taxes. If we ask people whether they want more roads, parks, police, or whatever and no price tag is attached, large majorities will respond in the affirmative. If we ask them if they want to pay higher

taxes, they will naturally say no. Hence, we have persistent crises in government budgets.

The private sector resolves this dilemma by putting the price tags right on the merchandise. Then those who truly value the product at more than the cost will buy. Those with an opposite opinion won't buy. This linkage between costs and benefits simplifies the problem for private sector firms. Tax-funded projects are denied this crucial measure of true value.

Robert Formaini is not an opponent of science per se. He does assert, though, that more skepticism should be applied to the claims made on behalf of government intervention. The scientific studies purporting to show gains from displacing the market with government edicts are fatally flawed. The benefits are typically inflated. The costs are repeatedly underestimated. The risks are always far greater than admitted.

The alternative to a pseudo-scientific backing of more interference with freedom of choice is a greater appreciation of the irreplaceable role played by voluntary transactions in the marketplace. When people are free to choose, they are in the best position to maximize both individual and social well-being. Recognition of this fact would be the most scientific approach to public policy-making. □

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IF YOU'RE SO SMART: THE NARRATIVE OF ECONOMIC EXPERTISE

by Donald N. McCloskey

The University of Chicago Press, 11030 S. Langley Avenue, Chicago, IL 60628 • 180 pages • 1990 • \$17.95 cloth

Reviewed by Russell Shannon

One can almost predict it. It usually happens whenever I give a talk to a civic club or some other group. It's almost sure to occur at a social gathering when people discover that I teach economics. Sooner or later, someone is bound to ask: "What do you think is going to happen to interest rates?"

Years ago, I was not only surprised by the question but also somewhat annoyed, since I'm not greatly interested in what is largely a financial matter. But as the question persisted, I began to ask

myself, "What would I do if I really *knew* where interest rates are headed?" I finally realized that the best response to the question was quite simple albeit a bit rude: "If I did know what was going to happen to interest rates, would I waste my time talking to you?"

Now Donald N. McCloskey, an economist at the University of Iowa, has written a book that addresses this very issue. Broadly speaking, his book is about the rhetoric economists use. It is directed mainly at non-economists, but it has much to recommend it to economists as well.

The book's title derives from what Professor McCloskey calls "the great American question." That is, "If you're so smart, why ain't you rich?" Speaking directly to the issue I have raised, he points out that if economists really did know the future of interest rates, they would be too busy phoning instructions to their stockbrokers to be attending cocktail parties.

But, of course, economists are no more knowledgeable about how to turn a quick buck than ordinary people are; in fact, they obviously know a good bit less than such active entrepreneurs as the John D. Rockefellers and Donald Trumps in our society. In that regard, McCloskey indicates that economists play roles akin to those of art, theater, and music critics. If these people could actually paint the *Mona Lisa*, write *Hamlet*, or compose *Swan Lake*, then surely they would be doing that instead of writing columns for newspapers and magazines.

Then why do people turn so often to economists for financial advice—not just at luncheons and cocktail parties, but professionally, and at a steep fee, for guidance on managing trust funds and other investments? (In fact, some firms such as Otto Eckstein's Data Resources have used complex economic models to rake in enormous sums of money from clients.)

McCloskey offers an enlightening explanation. He tells us that "James Burk, a sociologist and former stockbroker . . . found that the advice-giving industry sprang from legal decisions early in the century. . . . The courts began to decide that the trustee of a pension fund or of a child's inheritance could be held liable for bad investing if he did not take advice. The effect would have been the same had the courts decided that prudent men should consult Ouija boards or the flights of birds." The result was a

burgeoning business for economic forecasters.

By casting doubt on the ability of economists to prophesy the future, McCloskey is similarly throwing a blanket over the efforts of social planners to make dramatic improvements in our well-being through the power of centralized government control. If planners were so smart, then why haven't they made countries rich? Of course, the current collapse of Communism in Eastern Europe and the Soviet Union confirms the validity of McCloskey's disdain for such schemes.

Indeed, therein lies what McCloskey sees as the true nature of the benefits to be gained from economic expertise—not predicting future events but illuminating the past. As he puts it, "The point is to know history, not to change it." In McCloskey's view, economic rhetoric can perform a valuable social function by providing stories, such as those about the adverse impact of governmental regulation and the beneficial effects of entrepreneurial endeavors, that may guide us to make valuable improvements.

At times, such as in the recent efforts at deregulating transportation as well as privatization, these stories have been successful. Paraphrasing John Maynard Keynes, McCloskey notes that, at least occasionally, ideas do triumph over vested interests.

Not incidentally, McCloskey notes that the "story" of scarcity and the need for choice appeared first not in the writings of economists but in literature. In Daniel Defoe's novel, *Robinson Crusoe* is compelled to select the items he can transport ashore on his small raft. In modern economics classes, Crusoe's dilemma has been converted into the choice between "guns and butter."

But McCloskey warns that our choices are *individual*, not collective. American well-being, he notes, does not depend on crushing Japan. Just as it isn't of great importance to predict the future, so too, in McCloskey's view, "The idea is not to 'compete,' whatever that might mean in thrillingly collective policies, but to become skilled and hard-working and therefore rich."

All in all, one ends McCloskey's book by feeling that it is a tale well told. It deserves a wide audience. But please don't ask me to speculate on how wide that audience may be! □

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On Moving the World

Every so often, an event occurs that stands as a monument to the continuing struggle for human freedom and serves as a reminder to all who work for liberty that even when success seems farthest from reach, they can make a difference. Whether it is the Boston Tea Party, the storming of the Bastille, the Warsaw Ghetto uprising, or the assault on the Berlin Wall, such events are a vivid reminder that man has an undying desire to be free.

Of all these, however, there is one event that will stand alone as the simplest and yet most profound reminder not only of the universal desire for liberty but also of the power of a single individual. This event occurred on June 5, 1989, one day after the Chinese government massacred thousands of its own citizens in Tiananmen Square. As a column of tanks rolled down the ironically named Boulevard of Heavenly Peace, a lone man ran into the middle of the street and stood in front of the lead tank, preventing the entire column from moving. For one brief moment, the age-old historical struggle between the individual and the state was crystallized into the image of this one man standing perfectly erect, staring straight ahead, with the gun turret of a tank pointed at him. It is said that the quest for freedom is the struggle between the armed state with its ultimate resort to the power of a gun and the individual with often nothing more than his principles to defend him. Never before has one event so perfectly represented this struggle before the world, and never before has the power of principle and the impotence of force been more perfectly communicated.

To those who fight the daily battle for liberty on even the smallest, most inconspicuous, and sometimes apparently the most meaningless level, the actions of this man in Beijing should serve as an inspiration and a reminder that, though a single individual may seem powerless to change anything, the greatest success must always begin with someone who is willing to stand up and fight for what he believes. Where, after all, would the world be today were it not for the first American patriot who resisted British rule, the first Frenchman who stood up against the ancien régime, the

first person who refused to comply with the Nazis' plan to murder every Jew in Europe, or the first East European who demanded his freedom in the worst days of Communist tyranny?

At the time, it may have seemed to all of these people that they were engaged in a hopeless exercise, that the resistance of one man is nothing compared with the military and political power of a state. They acted not because they knew that they would win, for victory was far from certain, and not as part of a mass struggle against tyranny, for they were, at least initially, quite alone. They acted because they knew they were right, because they wanted to be free, and because they hoped that by taking a stand they would inspire others to do the same. History, of course, proved them correct in the long run—acting alone they not only inspired others but eventually proved victorious. The undeniable lesson of history is this: One person, backed only by the strength of his convictions, can make a difference; one man can change the world.

—DOUGLAS MATACONIS
George Mason University School of Law

Balance of Trade

Imagine applying mercantilism to our everyday economic affairs. When our employer gave us our weekly paycheck, we would have to say that this was a favorable balance of trade since it ended up with us having more money at our disposal. On the other hand, we would have to speak of being victimized by an unfavorable balance of trade when we shopped at the supermarket. This is because money left our hands and went to the grocer. But anyone who has ever shopped realizes that gains are made by such activities. Who would patronize the local supermarket unless what they get is worth more to them than what they pay for it?

It is the same with nations. If we buy more this month from Japan than we sell to them, this doesn't mean we are exploited by them any more than grocery stores victimize us when we shop there. More to the point, the purpose of trade is to import—just as the purpose of working is to be able to afford to buy or import the groceries. So the next time you hear that we have a negative balance in merchan-

dise trade, remember that means we are consuming more goods and services provided by foreigners than they are getting from us.

—WALTER BLOCK, writing for
The Fraser Institute
Vancouver, Canada

“No Problem”

“You want to go para-sailing?” the pilot of the snorkeling boat asked as we pulled ashore near Montego Bay. “No problem.”

And there was no problem. He hailed a cab, the driver took us a few miles down the sandy Jamaican beach, we paid cash, signed a one-paragraph release, and we were up in the air. It was as simple as that.

It's about the same if you want to take your first scuba dive in Aruba. You sign a release, they sit you down to explain the basics, you practice in a pool, and an hour later you are diving off the side of a boat. Again, “No problem.”

Unfortunately, it isn't so easy if you want to take some risks in the United States. If you can even find someone to take you scuba diving, para-sailing, mountain climbing, or whatever, the release forms are a lot longer than a paragraph or two, and the basic message is: “Don't sue me.”

Americans have always been risk-takers. But if we have to go overseas to take our chances, that says a lot about our future as a people and as a nation.

—BRIAN SUMMERS

Mises' Last Word

Whatever reversals lie ahead, the day when professors of Marxism could make the case for their man over the market is over. The Austrian economist Ludwig von Mises had the last word back in 1947, when the Red Army was imposing central planning from the Baltic to the Mediterranean and socialists everywhere were dreaming that they had the key to a better world: “A socialist management of production . . . will squander the scarce factors of production, both material and human. Chaos and poverty for all will unavoidably result.”

—ROB NORTON, writing in
the January 14, 1991, issue of *Fortune*

Rethinking the Free Rider Problem

by James L. Payne

On the Bottle Bay Road, in North Idaho's Bonner County, they've confounded the professors. In the academic world, voluntarism is generally considered a hopeless way of approaching public problems. The reason is "free riders": in a voluntary system of donating to a worthy project, people can get the benefit of the project without having to pay for it. Therefore—the theory goes—everyone will be selfish and wait for others to give, and nothing will get done. No, say the academics, the only way to accomplish public projects is to use government and its tax system to force everyone to contribute.

Fortunately, Marla Wentner, Bill Bowman, and their neighbors on the Bottle Bay Road didn't believe this theory. The 5.2-mile stretch of road by their property was unpaved, and likely to remain so for many years. Its washboards were a safety hazard, and its dust polluted the air and nearby Lake Pend Oreille. "We finally just got fed up," said Bill.

Marla and Bill formed a committee to raise money on a voluntary basis to pay for paving this stretch. From county records, Marla hunted up the names of 408 property owners affected by the road. Through extensive telephoning and mailings (they sent out over 1,000 pieces of

mail), the committee persuaded some 120 property owners to contribute. The basic contribution was set at \$300. Some people were willing to give more. Some could afford only \$50. The small contributors impressed Marla: "You knew they were doing their best." After months of campaigning, the committee reached its goal of \$50,000, the amount the gravel/chip seal coat will cost (the county will handle preparation of the road bed).

Who were the noncontributors? Some were opposed in principle to paving the road, because that would lead to more traffic and development. In other cases, people really couldn't afford anything. And then there were absentee owners who couldn't be reached. But there were free riders too, and that did bother the volunteers. "It's a little disturbing when there are people who want the paving, and can pay, but don't," said Marla. "But you just have to get past that."

So the theory is wrong. Yes, there are free riders in a voluntary situation, but what the academics overlook is that there are also public-spirited people, and their generosity can more than make up for the selfishness of free riders. That's why voluntarism can work. And, of course, it does work on this basis, all around the nation. Tens of thousands of voluntary groups, from churches to Boy Scouts, operate in circumstances where free-riding can take place, but this doesn't prevent them from operating successfully.

James L. Payne is a political scientist who lives in Sandpoint, Idaho. This article is adapted from his column "The Volunteer Beat," which appears in the Bonner County Daily Bee.



COURTESY OF JAMES L. PAYNE

Marla Wentner on the Bottle Bay Road.

Encouraging Voluntary Action

The Bottle Bay project illustrates another point: voluntary problem-solving is stronger when government is weaker. The Bottle Bay group first went to the county government, but were told there were no funds available for their road. At first glance, a tax-weak county government may seem unfortunate, but look at the benefit: it encourages voluntary action.

Voluntary assistance with roads is not uncommon in Bonner County. The Bottle Bay project has involved the largest number of property owners, but similar deals have been worked out for a number of other roads. The county's lack of cash

has impelled people to come forth with voluntary self-help arrangements. What is true for roads applies to everything else, from soup kitchens to youth organizations: if you want voluntarism, starve government.

It's time academia recognized that there are two systems for handling our public problems. One is government, which relies on the coercion of the tax system. The other is voluntarism, the method that renounces force and relies on persuasion and generosity. Instead of inventing misleading theories for why voluntarism can't work and why we must turn to government, scholars should be figuring out how to make voluntarism, which obviously does work, work better. □

Decorating the Wilderness

by John T. Wenders

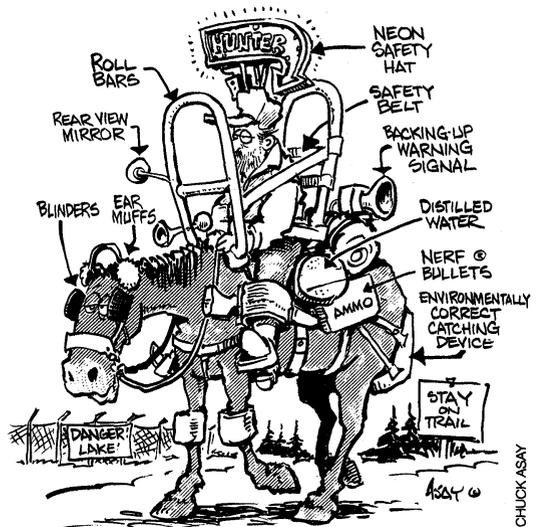
A few years ago, on the last weekend of elk season, Ashley Lyman and I were trailering our horses up a snow-covered Forest Service road out of Elk City, Idaho. As we climbed across a steep clear-cut, the truck spun to a halt on a sheet of ice. Then slowly the whole rig began to jackknife backward toward a precipice. Ashley raced all four wheels. I jumped out of the truck, opened the rear of the trailer, and began unloading frightened horses. By the time the trailer emptied I had been kicked once, stepped on twice, knocked down, and squeezed against the side of the trailer as Brutus turned and bolted out. But getting the horses out of the trailer kept us from sliding over the edge.

On other occasions I have fallen in icy streams in below-zero weather, had nightfall overtake me far from camp in a snowstorm, been left stranded far from camp when my horse escaped, and been dumped by a grizzly-frightened horse.

I do not plan these little adventures, still they do occur, and will probably occur again. But these are some of the risks I accept when hunting. Compared to these, the risk of getting shot is the least of my worries.

Now come various game and fish departments, hunter education associations, and legislators. They say that I should not be allowed to accept some hunting risks. To protect me from myself, I must be required to sally forth in glowing orange, probably with a neon propeller on my hat, so that irresponsible hunters won't shoot me.

When not hunting, John T. Wenders is Professor of Economics at the University of Idaho.



I can see it now: road checks to make sure I don't pull my horse trailer up any snowy roads; all water posted in several languages and fenced in the winter so I won't fall in; a required siren at camp that goes off at sundown to guide me back; government-regulated strength standards for all lead ropes, halters, and knots. And all grizzlies belled. Think of how safe the wilderness will be!

No thank you. I know what's best for me. One of the reasons I hunt is to get away from the trappings of civilization, and I will accept all the risks. Further, I'll do others the favor of presuming that they know what's best for them: as much as I hate to see the wilderness decorated, I will support their right to wear macho hunter orange. I only ask in return that they support my right to accept the risks of not doing so. □

The Individual and the Community

by Tibor R. Machan

There always has been something of a puzzle in social and political philosophy as to how much a political system should prize individuals and how much it should stress the prominence of the community. The question is about as ancient a theme in this discipline as are questions of the one and the many in metaphysics and stability versus change in our ideas in epistemology.

And no wonder. Human beings are, in a very straightforward sense, unique individuals as well as members of a distinct species, a community. How much emphasis should be placed on each aspect of their nature when we consider the constitution of a society?

Throughout history we have seen grand schemes that have favored the community as against the individual, in line with the idea Karl Marx put before us, that “the human essence is the true collectivity of man.” But Marx didn’t originate collectivist trends. In the West, Plato was perhaps most responsible for emphasizing the collective nature of human life. He first imagined that there are two worlds. One, where we live our particular, individual lives, is imperfect, unstable, changing, and easily corrupted. The other is the perfect, timeless, and unchanging realm that is home to the true nature of everything—including human nature or humanity!

Here we see the beginning of the idea that humankind is more important than individual human beings, if only because it can be conceived of as perfect, unchanging, and incorruptible. Plato may have advanced this picture simply to stress the

need to define things clearly and precisely, analogous to what we do in geometry. But his views did leave many with the understanding that in fact there exists a humanity *apart from the individuals who comprise it*. And it also left the clear impression that humanity is more important—perfect—than individuals.

Indeed, as Professor Stephen Tonsor has argued, collectivism has more of a conservative than a radical pedigree in intellectual history.¹ This is easy enough to appreciate. After all, conservatives stress the importance of the tried and true opinions of the past, backed by millions of people who have gone before us. It is their collective thinking that must be deferred to instead of our individual reflections.

Failed Collectivist “Experiments”

There have been philosophical objections to all this, and, of course, in our own time we have seen the demise of many collectivist political “experiments.” Fascism, Nazism, socialism, and Communism are now largely discredited. And one of the central faults in all of them is their belittling of the human individual.

The most recent case that points this up is the demise of socialism in Eastern Europe. First there is the economic mess in its wake: when collective needs rather than individual choices are used as guidelines for economic public policy, productivity sags, distribution is inefficient, people go hungry, and eventually the entire region suffers impoverishment. Second, though not necessarily in importance, is the demoralizing effect of collectivism: people aren’t encouraged to see themselves as

Professor Machan teaches philosophy at Auburn University, Alabama.

individually responsible for their conduct, so a kind of moral tragedy of the commons—that is, confusion about who is responsible for what—ensues. What one person does is really everyone's doing—no achievement or any failure can individually be assigned because the big "we" does it all.² Third, it is evident that wars are far more likely when collectivist ideologies reign than when individualism is prevalent. "War is the health of the state," it has been said.

Now we have solid historical evidence for what previously was understood by quite a few unheeded people—that massive coercive collectivist efforts are anti-human. So do we now notice that great numbers of the intellectual community are beginning to pay closer attention to individualism? Not if by this one would expect efforts to clarify it, improve its various arguments and analyses, fine-tune its tenets.

Instead, a new collectivist movement has begun to make its way into Western culture. It is called "communitarianism." Its major tenets are not all that different from the other collectivist systems, despite a more moderate tone and some lip service to individual rights. Here, in brief, is what one organization trying to promulgate communitarianism is saying: "To the ACLU, libertarians, and other radical individualists, we say that the rights of individuals must be balanced with responsibilities to the community. Individuals are members of a community; neither their existence nor their liberty can be sustained without community."

The claim advanced, in short, is that the individualist political ideal that stresses basic human rights to life, liberty, and property needs to be balanced with the competing ideal stressing the higher value of the community at large. What is the point?

We all know we have responsibilities toward our community—to wit, our parents, children, cousins, neighbors, colleagues, and people around us who may need our support, encouragement, and direct help in a pinch. Individualism by no means implies neglecting other people who comprise one's community. There are very definite moral responsibilities each of us has toward such other persons.

Our human nature makes us not only unique individuals but also social beings. Aristotle, who severely criticized Plato's limited communism, did not deny that human beings are essentially social—he made a point of stressing it. Our ratio-

nality enables us to communicate and cooperate with, as well as to learn from, understand, and love others. And our goal of leading a happy life, one that realizes our human potentialities, requires us to fulfill these abilities.

All in all, the point of the communitarian movement is not to remind us to be morally responsible to other people—to respect them, cooperate with them, love them when that is warranted, and so forth. Nothing in individualism rejects these ideas and ideals. Communitarianism would be benign enough if it meant no more than to remind us of our moral ties to others.

Forcing Service

In fact it means something different. We are being urged to support the enactment of laws that *force* people to serve their communities—to participate in programs that some people have designated as community purposes or in the public interest. Otherwise there wouldn't be all this concern with individualism expressed by advocates of communitarianism. Communitarians are interested in diminishing the decision-making power of people as individuals. Yet, it is just such power that is required for a morally responsible life, including one that does full justice to our moral responsibilities to others.

Although communitarianism seems benign, consider one of its hidden problems. We know who can speak for the individual, at least when he or she reaches adulthood. This is the individual himself or herself, no one else. We know well enough who is responsible for the individual—once again, the person who is that individual, no one else.

But who speaks for the community? Is it going to be Ralph Nader? Or will it be George Bush, or some committee such as Congress? The trouble with talking about "the community" in a literal fashion as communitarianism does is that a community isn't some concrete thing whose welfare we can determine and promote. Rather communities are collections of individual human beings with innumerable projects—legitimate needs, wants, objectives—of their own and with only a few shared among themselves.

That is one practical reason why collectivism is unworkable and why communitarians would spend their time more fruitfully in thinking about

“No one is morally improved by being forced to be responsible. Indeed, such force simply robs a person of his or her moral nature.”

individualism and its nuances than in resurrecting collectivism in yet another form.

Another way communitarianism misleads is by claiming that Western, and especially American, culture is truly individualistic. Although American culture is more so than many others, in fact it is by no means radically so.

First, the West is infused with collectivism, and the revolution that changed this has been by no means fully embraced by all segments of society. Second, even the individualistic elements of the West aren't of the extreme or radical type a few thinkers, such as Thomas Hobbes and Max Stirner, have put forward. That rare version implies that each person be treated as an entirely unique being, with no traits or concerns he or she shares with others.

Rather, America's individualist tradition tends to acknowledge from the very start that we are all *human* individuals. The Declaration of Independence refers to us all when it notes that we take it as self-evident that each has the rights to life, liberty, and the pursuit of happiness. We do share in our humanity, and that is why we need to treat one another with respect for these rights. We are human individuals with human rights that, if respected, will enable us to live a human life of moral choice and responsibility.

Communitarians wish to place community and individual on a collision course, saying there is some kind of balance that is needed between the rights of individuals and the rights of the community. But if we consider that “community” means simply a lot of other people than oneself, this makes for majority rule. And if we consider that such other people usually leave it to a few who will

speak out in their behalf, we will have a few community representatives dictating to the rest of us what we must do and what our “responsibilities” are.

Moreover, our moral responsibilities are distorted the moment they are made the object of law. A legally enforced moral responsibility isn't freely carried out by a person but amounts to regimented personal conduct. No moral credit can be gained in that fashion. No one is morally improved by being forced to be responsible. Indeed, such force simply robs a person of his or her moral nature.

Our communities are highly varied, depending on who we are and many other factors. Our community responsibilities are equally varied—I have some you don't and vice versa. They cannot be codified—and heaven help us if some group elects itself as the codifier of them.

We should be concerned about efforts to foist communitarianism upon us. Of course, we can use occasional reminders of what we owe our family, friends, colleagues, neighbors, and others. But the unified, organic community is a myth. Instead of fashioning a new collectivism, let us preserve and restore the system of individualism in which we all have to go our own way to seek support for our objectives and cannot conscript others to work with us against their will. □

1. Stephen J. Tonsor, “The Conservative Origins of Collectivism,” in Robert L. Cunningham, editor, *Liberty and the Rule of Law* (College Station, Texas: Texas A&M University Press, 1979), pp. 224-41.

2. Ayn Rand highlighted this about collectivism in her wonderful novelette *Anthem*, in which a collectivist world is bleak, morose, unimaginative, and stagnant. It is interesting that George Orwell's similar novel, *1984*, contains a major misunderstanding when it permits technology to flourish in the midst of collectivism. Rand had it right—the creative human spirit having been suppressed, nothing flourishes that depends on it, including technology.

The Trouble with Education

by William J. McNicoll

The Clear Creek Independent School District (CCISD) is a public school system in Texas encompassing all or part of a dozen cities and towns, including a portion of southeast Houston. The quality of its programs places it in the upper tier of school systems in Texas. In fact, CCISD was cited in 1988 as the best public school district in Texas.

Each January, CCISD conducts an election to fill two or three seats on its seven-member board of trustees. This year's election attracted much more attention than usual because of a simultaneous effort by a local taxpayer group to roll back the district's tax rate, which the board had recently increased by 20 percent. The rollback issue, in fact, dominated the campaign. It prompted virtually every one of the nine candidates for the board to promise, in one way or another, to "maximize the efficient use of tax dollars." None of the candidates was very specific about how to achieve this. Given the way public schools operate, a discussion of whether tax dollars can be used efficiently is appropriate.

The concept of maximizing the efficient use of resources puts us in the realm of economics. To decide whether the promise can be kept we need only go back to Economics 101. The fundamental

Mr. McNicoll is an aerospace engineer in Houston.

and simple ideas we studied there are more than adequate to reach a conclusion.

Scarce Resources, Opportunity Cost

On the first day of class we learned that resources are scarce. That seems very simple, but it has important implications.

Resources must be consumed to produce the goods and services we all want. Resources are obviously finite. The earth has only so much mineral resource. There is only so much time and human labor available. Individuals have only a finite amount of money to spend to satisfy their needs, wants, and desires. The fundamental problem of economics is that while resources are scarce, human wants, needs, and desires have no limits. We can't have everything we want; we have to choose. We must forgo some desires in favor of others.

That leads directly to the next basic concept in economics: opportunity cost. Opportunity cost is the cost of choosing one alternative over another. It is the benefit forgone when we make a choice.

For example, if you have \$50 to spend and want either to go to a baseball game or out to a fancy

restaurant, you must make a choice. You can't do both. If you choose to go to dinner, your opportunity cost is whatever benefit you might have gained by going to the ball game.

This idea of opportunity cost helps to explain how we make choices. We act to minimize our opportunity costs, or to maximize our benefits by the choices we make. In this way we strive to achieve the greatest benefits from consuming scarce resources.

Economic Demand, Efficiency

Another important concept is economic demand. Each of us wants to derive as much personal benefit as possible from our scarce resources. But we can't satisfy all our wants and desires. Economic demand is our expression of what we have chosen to do with our scarce resources. Economic demand is not just wants and desires, but also the ability and willingness to pay for what we have chosen. I may want a new Mercedes, but I'm not willing to expend the required portion of my scarce resources to obtain one. I am expressing no economic demand for a Mercedes.

It's important to remember that people express their economic demand only when they are actually faced with the decision of how to make use of their resources. Economic demand cannot be accurately measured by taking surveys or talking to people. Almost invariably, people will respond to questions with wants and desires, not economic demand.

The concept of efficiency bears directly on the school board candidates' promise. We usually think of efficiency as some process that maximizes output of a finished product with a minimum of inputs or costs. That is perfectly valid, but there is another aspect of efficiency that concerns the value of the finished product, which is determined by the level of economic demand for it. If there is no economic demand for a product, then it lacks value, and the efforts to minimize the resources consumed in producing it are irrelevant. The resources are wasted when the decision is made to enter them into this process.

An example might be a solar-powered flashlight. (Guaranteed to meet all your daytime flashlight needs!) The product has no value because no consumer expresses an economic demand for it at any price. The production process is immaterial;

the resources that went into this product were wasted.

Producers and Consumers

We cooperate with each other to derive maximum benefit from the resources we consume. A business is an organization that produces goods and services for other organizations or individuals.

Businesses are run by people who want to benefit just like the rest of us. They do that by providing products to consumers, but they concentrate on providing only those products for which there is a genuine economic demand. Of course they can confirm what is in demand only by observing consumers and the decisions they make. Consumers make their decisions based on quality, price, and opportunity cost. This is how consumers reveal their economic demand for goods and services and maximize their benefits.

Those who are successful at supplying whatever is in economic demand in an efficient manner will be rewarded with profits. That's all profit is, a reward for meeting the economic demands of consumers. A large profit suggests that you are doing a very good job of meeting consumer demand without wasting resources.

On the other hand, a business that loses money is doing so because it isn't doing a good job of meeting consumer demand. It is producing a product for which there is little demand, or it is producing it so inefficiently that the cost exceeds the market price. In either case, the losses it suffers encourage the business to stop producing that product and stop wasting resources.

But even a profitable business situation can come to a swift end if somebody else comes along and provides an equivalent product at a lower price, or a better product at the same price, thereby allowing customers to satisfy their demand while consuming fewer resources.

This interchange between consumers and producers (and we all are both) is a communication system. In it, information is carried by prices. Prices are determined by the economic demand for goods and their relative supply. Profits and losses show whether resources are being used efficiently. This communication system leads to the satisfaction of economic demand in the most efficient way possible, meaning that the fewest resources will be consumed.

Public Schools

Now consider the particular case of public schools and whether we can maximize the efficient use of taxpayer dollars.

Public schools are fundamentally different from businesses. The biggest difference is that the communication system just described doesn't exist! It doesn't exist because it isn't allowed to exist. Instead, public schools are financed by taxation. Money is simply taken from people without regard to economic demand or opportunity cost.

There is, however, a non-economic communication system between the education consumer and the provider. Unfortunately it's not a very good system. Information on the best use of resources is incomplete and garbled as if by static. Some needed information doesn't get through at all. Since it doesn't operate by consumers making choices, this communication system cannot carry information on economic demand or quality or on how resources should be allocated to maximize benefits. It can carry only wants and desires.

Furthermore, it doesn't carry information from all customers for the product, as the communication system for private businesses does. For this is a political system. A businessman needs to listen to all his customers if he wants to be rewarded with profits. The people in charge of the public school system (politicians, not businessmen) can survive quite nicely by listening only to those people they choose to hear. Some people, no matter how hard they try, won't be able to communicate over this system. Complaints that special interests are met while the general interest suffers are valid. It is in the nature of the system.

To stay in office, school board members have to be re-elected periodically. They make promises to achieve their re-election, and making good on these promises costs money. Those people with influence over the board members can get their wants and desires (but not their economic demand) granted this way. The result is a parade of new programs and services that are of du-

bious value, but carry a very real cost.

Another difference between public schools and private businesses is competition. Because public schools deliver their product at no direct cost to the consumer, any competition is at a severe disadvantage. Few consumers are willing to pay both school taxes and private school tuition. The kinds of improvements in quality that arise through business competition are almost nonexistent in public schools.

The result in our system of public schools should be easily predictable. Since no information on economic demand is available, it is inevitable that services will be provided for which there is little or no economic demand. This is a major cause of waste in the public school system. Costs continue to rise at alarming rates because of the effort to satisfy a wide array of wants and desires, without any process to reduce those wants and desires to genuine economic demand. They're making solar-powered flashlights, but get no market signals to stop.

Can the candidates' promise be kept? Clearly not. Under the present system, it isn't possible to "maximize the efficient use of tax dollars." In fact, no system can maximize efficient use of tax dollars. Consumer dollars come with an indication of their most efficient use. Tax dollars do not.

To solve a problem, we must first understand its cause. We have recognized a serious problem in education throughout this country, yet no significant progress has been made toward solving it. I believe this is because so few people understand the source of the problem. (Some don't even want to understand.) The greatest part of that problem is explained by this simple economic assessment. From a sound understanding of these difficulties, it should be a simple matter to proceed to a solution. Achieving that understanding is the hard part.

As for the CCISD election, the available seats were won by two gentlemen who opposed the tax rollback effort and believed that the education problem is caused by inadequate funding. Two months later, the tax rollback succeeded. □

The Case for Being Insensitive

by William B. Irvine

At the university where I teach there recently was an uproar when a white dean allegedly said that a black faculty member is paid as much as he is because he is black. Although the dean ultimately was cleared of the charge of racism by a university committee, there were those who nevertheless held him to be guilty of the lesser crime of “insensitivity.”

This charge of insensitivity has been thrown around quite a bit in the last few years. Indeed, it is one of the main tools used by those who seek to impose “Politically Correct” thinking on America’s college campuses and elsewhere.

It is curious that Americans, who with each passing year become less concerned about good manners and etiquette, become ever more concerned with sensitivity in speech. It is okay to be a slob at the dinner table. It is okay to go out in public half dressed. It is even okay—some would have us believe—to use four-letter words in mixed company. But never, never say something political that will hurt the feelings of another human being.

Racist and sexist remarks certainly are morally offensive. But what about remarks that are merely insensitive? Should the members of a free society attempt to suppress these remarks or condemn those who make them? Before we can answer these questions, we must first inquire into exactly what sorts of remarks, in today’s political climate, count as insensitive.

To be guilty of insensitivity, you must first say something that hurts someone’s feelings. If people don’t mind what you say, you are a sensitive individual; and if what you say makes people feel good

about themselves, you will count as a wonderfully sensitive individual.

But hurting someone’s feelings alone won’t make you guilty of insensitivity, for it matters whose feelings you hurt. If, for example, the above-described dean had announced that *his* feelings had been hurt by being accused of racism, no one would have rushed to charge his accusers of insensitivity.

As it turns out, for a remark to count as insensitive, the person whose feelings get hurt must belong to a “protected” group. Some of these groups are defined by their minority status. For example, it is insensitive to hurt the feelings of a black or a female. (On the other hand, people with Scottish-sounding surnames are in a minority group, but not a protected minority group; it is therefore not, in today’s political climate, considered insensitive to say things that hurt their feelings.) Other protected groups are defined by lifestyle. For instance, it is insensitive—as Andy Rooney of *60 Minutes* fame found out—to hurt the feelings of homosexuals, since homosexuality is a protected lifestyle. No one will charge you with insensitivity, however, if you attack the heterosexual proclivities of bachelors; their lifestyle isn’t protected.

One other thing to realize about the charge of insensitivity is that remarks need not be false to count as insensitive. Indeed, most of the remarks that get labeled insensitive are arguably true. (The dean’s remark, for example, that the black faculty member gets paid as much as he does because he is black might well be true. Indeed, given the chaotic state of affirmative action in America, it is possible that the black faculty member wouldn’t even have been interviewed for his job if he hadn’t

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been black.) Generally, people accuse someone of being insensitive only when they are unable to convict him of the more serious charge of being wrong.

Thus, it would appear that when someone accuses someone else of making an insensitive remark, what he is really doing is accusing someone of making an arguably true remark that members of a certain protected group don't care to hear.

Why do people accuse others of insensitivity? No doubt because they have found that it is an effective way to intimidate their critics into silence—much the same way that in the 1950s Senator Joseph McCarthy intimidated many of his critics into silence by labeling them Communists. Notice, too, that it is far easier to prove that someone is insensitive than to prove that he is mistaken; for to prove insensitivity, all you have to do (if you are in a protected group) is announce that your feelings have been hurt.

Is it, then, wrong to make insensitive remarks? Not if we value the truth.

The charge of insensitivity, if Americans take

it seriously, threatens to undermine our freedom of speech. For if we concern ourselves with the sensitivity of what we say, we bring into existence a multitude of censors—namely, ourselves. Before we open our mouths, our concern will not be, “Is what I am about to say true?” but instead, “Do people want to hear what I am about to say?” Of course, what makes freedom of speech valuable is that it protects our right to say things that people don't want to hear. Our right to say things that people *do* want to hear will never be in danger.

When discussing the issues of the day, we should not worry about being “insensitive.” Conversely, when someone says something political that hurts *our* feelings, we should stop and ask ourselves whether his criticism is valid. If it is, he probably has done us a favor in speaking. And if it is not, we shouldn't sit there whimpering about the critic's insensitivity; instead we should defend ourselves by vigorously demonstrating to him why he is wrong. We will both be better for the experience. □

Government's Assault on Freedom to Work

by Thomas J. DiLorenzo

This essay suggests ways of thinking about one of the most important economic freedoms—the freedom to earn a living. Economic freedom may be defined generally as the freedom to trade or to engage in any consensual economic activity.¹ In the context of the labor market, economic freedom means the freedom of an employee or a group of employees to “trade” labor services in return for remuneration.

Since free trade in the labor market is mutually advantageous, it benefits both parties. Moreover, labor market freedom entails many other freedoms, such as freedom of contract, of choice, and of association. To maximize their own well-being, workers and employers must be free to contract with whomever they want, to associate with whomever they want, and to have as wide a choice of labor market options as possible, so long as they don't interfere with the equal rights of others. Thus, an unregulated labor market is most conducive to individual workers' (and employers') pursuit of happiness and economic well-being as they subjectively value it.

Government can play two different roles regarding the labor market. One role is to serve as a “referee” by enforcing voluntary contracts, protecting private property rights, and generally maintaining the rule of law. Government, in other words, can enforce the rules of the game without directly determining the outcome.

The second role of government is to make rules that determine the outcome by passing legislation

and issuing regulations that affect wages, working conditions, and other aspects of labor markets. This second role is the predominant objective of governmental labor policy in democratic countries, and it conflicts with the objective of economic freedom. Rather than protecting private contracts and private property, government all too often attenuates the rights of both individual workers and employers.

The reason governments do a poor job of protecting these rights is the basic asymmetry in political decision-making in democratic countries. Generally speaking, governments pass legislation to benefit relatively small, well-organized, and well-financed interest groups. The costs of the legislation are usually hidden and widely dispersed among the general public. To promise voters well-defined and exaggerated benefits, and to hide the costs, is the route to a successful political career.

Thus, labor legislation is typically (but not always) intended to improve the economic well-being of one group by diminishing another's. Such laws infringe on the economic liberties of individuals and groups that are less politically effective.² Most labor legislation, in other words, amounts to protectionism—it tries to protect the jobs and incomes of one group of employees by restricting the opportunities of others. Like protectionist trade policies, such laws tend to impoverish an entire nation while providing benefits to a relatively small, politically active minority.

The types of legislation (and their economic effects) to be discussed are: 1) union legislation, 2) domestic labor legislation, and 3) immigration

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legislation. Given that there are literally thousands of labor laws and regulations, the following analysis is at best a preliminary assessment of economic freedom in the labor market. Only the most severe labor market interventions are considered.

Although preliminary, such an analysis is important because labor market freedom is arguably the most important economic freedom of all. Without the freedom to earn a living, citizens are bound to become ever more subservient to the state.

I. Union Legislation

Much labor legislation deals with the relationships between unions and employers. From the perspective of economic freedom—especially freedom of association—there is nothing particularly objectionable about “combinations of labor” any more than there is about any other combination of individuals for whatever purpose, so long as the group does not interfere with the equal rights of others. A government that respects economic freedom will not restrict the rights of individuals to associate freely with one another, nor will it restrict the rights of individuals who choose *not* to be associated with any such groups.

Labor law in democratic countries contains much rhetoric about protecting freedom of association, but in reality it does a poor job of it. Governments interfere or meddle with private contractual relationships between workers (or their unions) and employers on a massive scale. Most union legislation attempts to replace private, voluntary labor contracts and agreements with governmental edicts. In essence, it socializes labor relations. Furthermore, much legislation confers special privileges on labor *unions* often to the detriment of individual workers and employers.

Compulsory Unionism. One example of such legislation is laws that encourage or even mandate unionization. In the United States, for example, labor legislation discusses the importance of freedom of association, but then it talks of such freedom in terms of freedoms “to form, join, or assist labor *organizations*”³ for the purpose of *collective* bargaining. Many of the employee “rights” protected by U.S. labor law are ones that can be advanced only through unionization.

Thus, an important measure of labor market freedom is the degree to which labor law protects

individual workers rather than unions as organizations. Since the interests of individual workers are quite often in conflict with the interests of union officials, a legal framework that encourages or mandates unionization diminishes individual economic freedom. Laws that mandate collective bargaining, for example, are a restriction of workers’ (and employers’) freedom. A worker may prefer to bargain individually, and an employer may prefer to ignore a union.

The benefits of individual, rather than collective, bargaining are clear. Research in labor economics has shown that collective bargaining tends to reduce the dispersion of wages. More specifically, more productive workers are usually paid less than they could have earned had they bargained individually, whereas less productive workers often earn more, as union wages are set at something close to the median wage within a bargaining unit. Thus, if collective bargaining *imposes* an outcome on all employees, it is bound to make some of them—usually the most productive ones—worse off.

Despite the fact that some workers are made worse off, it is illegal for workers in a unionized industry in the United States and many other countries to bargain individually. Such bargaining is deemed an “unfair labor practice” and is a punishable offense.

Yellow-Dog Contracts. With regard to employers’ rights, it is illegal in many countries for an employer to refuse to bargain with a union. In the United States it is a *per se* violation of the National Labor Relations Act to refuse to bargain with a union, but it is not illegal for a union to refuse to bargain with an employer. So-called “yellow-dog” contracts—agreements between employers and employees not to have a union—have been illegal in the United States and many other countries for decades.

Labor historians have found that one of the reasons for such contracts (which, it is worth stressing, were voluntary) was the desire by *workers* to avoid the work disruptions and loss of wages during strikes that characterize unionized industries.⁴ Moreover, since such agreements were voluntary, they must have benefited employers *and* employees, just as all voluntary free market agreements do. Either party was free to end the employment relationship “at will” if dissatisfied.

The only way that such agreements could persist in a free marketplace is if they were "efficient" in the sense that they enhanced the welfare of both parties—the anti-union employees and employers who must have believed that unionization would not be in their best interest. Thus, legislation that outlaws such contracts must necessarily make some workers and employers worse off.

Exclusivity. Another aspect of labor legislation that grants special privileges to unions at the expense of economic freedom for workers is so-called exclusive representation. Exclusivity gives a union, once it has been certified, the legal right to be the *exclusive* bargaining agent for all workers in a bargaining unit, whether they wish to be represented or not. Any attempt by employers or workers to bargain individually—even over the most mundane things—is illegal.

Exclusivity gives unions a legal monopoly in the employee representation business. It not only is illegal for workers to bargain individually with their employers; exclusive representation legislation also prohibits bargaining through another, competing union, or any other agent.⁵

Protected from competition by exclusive representation laws, unions act like all other monopolists: they restrict their "output" and raise their prices. Because unions face no competition in the employee representation business, they are less constrained than they otherwise would be from charging excessive dues and also are likely to provide fewer services to their members.

Evidence of the latter type of behavior abounds. In the United States, unions are major participants in all sorts of political causes that are unrelated to labor relations or to the economic welfare of their members. Unions have been active in the pro-abortion movement; they have spent considerable resources in support of left-wing authoritarian governments in Central America, Africa, and elsewhere; they are part of the anti-nuclear power movement; they have lobbied for sanctions against the South African government; and they actively lobby for socialistic economic policies (i.e., price controls and nationalization of some industries) that, by hampering economic growth, are not in the best interests of the workers they represent.⁶

Exclusivity allows unions to shirk some of their basic responsibilities, such as contract administration, bargaining, and grievance handling, in order

to pursue political causes that are irrelevant or even harmful to the economic welfare of workers. An indication of how far afield American unions have strayed from their basic responsibilities is a 1989 Supreme Court decision that it is unconstitutional to compel workers to pay union dues to finance activities that are not directly related to bargaining, contract administration, and grievance procedures. In the case of *Beck v. Communication Workers of America*, the Court found that the union spent less than 20 percent of its dues revenues on appropriate expenses. The other 80 percent was spent on politics. Other cases have found that as little as 10 percent of dues revenues are spent on legitimate purposes. The Supreme Court ruling will likely weaken the monopolistic grip that unions have over their members, but exclusivity continues to entrench much of their monopoly power.

Because of the monopoly powers granted to them by exclusivity legislation, unions may also be unresponsive to their members' demands for changes in collective bargaining strategies. There have been many cases in the United States, for example, where workers were convinced that they would have to make concessions if they wanted to remain employed. Union officials, however, often have refused to heed the preferences of their members, sometimes causing the members to lose their jobs. Unions would be more likely to cater to their members' preferences if there were competitors in the employee representation business, but such freedom of choice is precluded by law.

Agency Shop. A further infringement on the economic liberties of workers is the so-called agency shop, whereby workers who do not belong to a union must nevertheless pay union dues. The rationale for the agency shop is derived from exclusivity. Since unions are required to bargain for all workers (union and nonunion) in a bargaining unit, it is supposedly necessary to compel all workers to pay for bargaining services.

In the terminology of economics, collective bargaining is said to provide workers with "public goods," and compulsory union dues supposedly are necessary to prohibit free riding. But since government created the situation where all workers are forced to submit to a single monopoly bargaining agent, a better phrase than "free riders" would be "forced riders." Workers are forced to accept

the results of union bargaining and, where an agency shop exists, also are forced to support the union financially. To workers who are worse off because of this arrangement, exclusivity creates a “public bad,” not a public good: workers are forced to pay dues for the “privilege” of being made worse off. An agency shop literally constitutes taxation without representation and is a serious encroachment on economic freedom.

Union Violence. The long history of union violence can be readily explained by economic theory. In order to push wages above competitive levels, unions must restrict the supply of labor services on the market. They strike or threaten to strike in order to do this, and strikes are often more effective if workers who choose not to strike can be intimidated by violence. Employers also can be subjected to violence, threats of violence, and the destruction of property unless they acquiesce to union demands.

II. Domestic Labor Legislation

Governments also deprive workers of economic freedom through laws and regulations that affect wages and working conditions. Although these restrictions vary greatly, they all share the common element that they substitute governmental for individual (or market) decision-making. They all are carried out under the pretense that government somehow has better knowledge of the “best” wages, hours of work, types of jobs, and so on, than individual workers and employers have. This type of thinking is what F. A. Hayek calls “the fatal conceit” because of the dire economic consequences to which it lends intellectual support.

Minimum Wage Legislation. Most democratic countries have a minimum wage law that raises wages of low-skilled workers above going market rates. Virtually any economics text explains that mandating above-market rates causes unemployment by pricing low-skilled workers out of jobs. There is no better example of a law that hurts those whom it purports to help or that constitutes a clearer infringement on economic liberties. As Adam Smith said in *The Wealth of Nations*, “The patrimony of a poor man lies in the strength and dexterity of his hands,” and to deprive him of this through restrictive labor legislation “is a manifest

encroachment upon the just liberty both of the workman, and of those who might be disposed to employ him.”

The minimum wage law even harms workers who are not priced out of the market by it. If employers are forced to pay higher wages, they either will lay off some workers or cut back on other fringe benefits so that the total compensation package doesn’t exceed each worker’s marginal productivity. Thus, freedom of choice is diminished for workers who may prefer a different mix of wages and fringe benefits.

The minimum wage law is inefficient and inequitable, but it persists for several political reasons. First, it lends itself to demagoguery better than most government policies. It is natural for politicians to claim to be able to solve social problems by simply passing a law, and what nicer law than one mandating higher wages for the poor?

A second reason is that unions want to price unskilled nonunion labor, which competes with more skilled, union labor, out of the market. In the name of compassion for the poor, unions lobby for legislation that makes the poor even poorer. The minimum wage is a device through which the poor are used as political pawns to the benefit of demagogic politicians and politically active unions seeking protectionist legislation.

Maximum-Hour Legislation. Another infringement on economic liberties is maximum-hour legislation which, in general, limits the number of hours that workers can work and/or mandates that higher wages must be paid for any work hours over a specified amount. Since overtime pay provisions increase labor costs, the effect is to reduce the level of production and, consequently, the number of hours worked. Individuals who prefer to work more hours or to vary their work hours over the course of a week may be precluded from doing so.

Davis-Bacon Laws. Another related measure of labor market intervention is the existence of laws, such as the Davis-Bacon Act in the United States, which mandate that government-specified wages be paid. In the case of Davis-Bacon, the government-specified “prevailing wage” in an area must be paid on all Federally supported construction projects, even if the Federal support is less than 1 percent of the cost of the project. The “prevailing” wage is almost always the union wage, and the

effect of the Act is to drive lower-wage, nonunion labor from the market. Making wages artificially high restricts competition from lower-wage firms, depriving their owners, managers, and employees of economic opportunities.

Restrictions on Child and Female Labor. For over a century various countries have prohibited or limited child and female labor. The rationale behind the restrictions is that they supposedly are needed to protect women and children from being exploited by employers.

Even though this rationale for regulation is widely accepted by the general public, the regulations are not likely to protect the intended beneficiaries. It is difficult to perceive that regulations prohibiting such work would benefit those individuals who *voluntarily* chose to work. If they felt they were being made worse off by their employment situation, they would simply quit.

There is evidence, moreover, that when such regulation originally was being proposed in England there was fierce opposition to it *by the women whom the regulation was supposed to help*. It is likely, therefore, that such regulation may always have been designed to protect incumbent workers from competition.

Occupational Licensing Laws. Occupational licensing laws have been shown to create barriers to entry in literally hundreds of professions in the United States and many other countries.⁷ The restrictions come in many forms, such as license fees, educational requirements, and regional or national examinations.

Licensing has been defended on the grounds that it assures professional competence and protects consumers from lower-quality products and services. These arguments may or may not have merit, and they will not be discussed in detail here. But regardless of the motivation for the laws, their effect is to make it more difficult to enter regulated professions. Consequently, many individuals are deprived of employment opportunities.

This licensing-induced reduction of employment opportunities likely imposes a greater burden on lower-income individuals rather than on higher-income people since it often deprives the former group of valuable opportunities to accumulate human capital—opportunities they may not otherwise be able to obtain.

Again, there is much evidence that occupational licensing is often a *political* response to pressures from incumbent practitioners who want protection from competition. An anecdote will illustrate what I believe to be typical of the politics of occupational licensure.

Economist Walter Williams recently appeared on a televised debate with Congressman Charles Rangel. Williams, who is black, made the point that the licensing of hairdressers in Rangel's home state of New York discriminates against blacks. It does so, said Williams, because to become certified as a hairdresser one must pass a practical exam as well as a more academic one that includes math problems. (The relationship between the ability to coil hair and the ability to do mathematics is, to say the least, dubious.) Williams pointed out that an equivalent percentage of blacks passed the practical exam as whites, but the failure rate of blacks on the academic exam was several times higher than the whites. Williams blamed the discrepancy on inferior government schools that so many black New Yorkers are compelled to attend.

Congressman Rangel, who also is black, did not dispute the test results and did not deny that the system kept many of his constituents unemployed. But he nevertheless supported the licensing system. His preferred "remedy" for urban unemployment was not to eliminate the sources of unemployment, such as occupational licensing laws, but to increase welfare spending.

This type of behavior is readily explained by elementary public-choice logic. On the "demand side," the unionized practitioners are well organized and well financed politically, and are able to use the political process to protect themselves from competition with occupational licensing regulations. Those who are harmed by the regulations are not well organized and, hence, are less politically effective.

From a "supply side" perspective, politicians can win votes from the incumbents by supporting licensing, and they can also win votes from those who are denied employment opportunities because of licensing by offering them welfare payments or government patronage jobs.

In this instance the citizens whose liberties are abridged are made effective wards of the state either as welfare recipients or by relying on another form of handout—a government job—for their livelihood. Thus, occupational licensing is yet

another way in which the poor are used as mere political pawns by cynical political opportunists.

Equal Pay for Equal Work Laws. These laws are intended to protect certain groups, particularly women, from wage discrimination by mandating that employers pay equal wages for the “same” work performed by workers of different sex and race. The irony is that these laws result in reduced employment opportunities for those who are supposedly helped.

If an employer pays females less than males, for example, it is because he subjectively values female labor less highly. He may genuinely believe that his female employees are less productive and less capable, or he may simply be discriminating against them because they are women. In either case, equal pay for equal work laws will induce the employer to hire fewer female workers. If forced to pay equal wages, the employer will prefer male workers. Thus, women who are willing to work at least temporarily for lower wages in order to prove that they can do the job are denied the opportunity.

In other words, women can provide employers with *economic* incentives to hire them, despite discrimination, but are not permitted to do so because of “equal pay” laws. Thus, equal pay for equal work rules, which are supposed to reduce discrimination, actually increase it.

That these laws harm the groups they are supposed to help is made clear by the fact that in some countries, such as South Africa, there is no pretense that the laws are supposed to protect people who are discriminated against. In South Africa, white racist labor unions lobbied for “equal pay” laws for black workers because they knew the laws would protect white employees from competition by relatively less skilled black workers. Since most blacks were less experienced, forcing employers to pay them wages that exceeded their marginal productivity would price them out of jobs.⁸ In other countries the motivation behind the laws may be well-intentioned, but the effects are the same.

Equal pay for equal work laws reduce economic freedom, but “equal pay for work of comparable value” legislation would be even worse. This is a proposed system of governmental wage determination whereby government bureaucrats, rather than the marketplace, would set wages. I will not

say anything more about this other than it’s already been tried—in the Soviet Union, China, and Eastern Europe—and it doesn’t work. History shows that such governmental control over wages is grossly inefficient and inequitable.

Employment Quotas. Most democratic governments have policies that require employers to make some of their hiring and promotional decisions solely on the basis of non-economic factors, such as race or sex. Obviously, this denies individuals the freedom to seek employment or career advancement based on merit.

In the United States, employment quotas originally were enacted with the promise that they would *not* be used to force employers to make decisions based solely on race. The late Senator Hubert Humphrey promised that the Civil Rights Act of 1964 “does not require an employer to achieve any kind of racial balance in his work force by giving preferential treatment to any individual or group.” The phrase “affirmative action” was coined by President Kennedy in his executive order that “affirmative action” should be taken to assure that Federal contractors *do not* make employment decisions based on race, creed, color, or national origin.⁹

In practice, so-called affirmative action policies do exactly the opposite of what their proponents claimed they would. They *require* that employment decisions be made specifically according to employees’ race, creed, color, or national origin. Consequently, “non-preferred” individuals who may be more qualified are passed over by employers who must satisfy the *government’s* preferences for discrimination in the workplace. There is mounting evidence, moreover, that even many of the “protected” minorities are denied economic opportunities because of affirmative action policies.

Economist Thomas Sowell has found that the relative economic position of “protected” minority groups in the United States actually *fell* after employment quotas were instituted. “In 1969, *before* the federal imposition of numerical ‘goals and timetables,’ Puerto Rican family income was 63 percent of the national average. By 1977, it was down to 50 percent. In 1969, Mexican American family income was 76 percent of the national average. By 1977 it was down to 73 percent. Black family income fell from 62 per-

cent of the national average to 60 percent over the same span."¹⁰

Sowell also found that blacks with less education and job experience have fallen farther behind, while blacks with more education and experience have been advancing even faster than their white counterparts. He offers a clear explanation of this phenomenon:

Affirmative action hiring pressures make it costly to have no minority employees, but continuing affirmative action pressures at the promotion and discharge phases also make it costly to have minority employees who do not work out well. The net effect is to increase the demand for highly qualified minority employees while decreasing the demand for less qualified minority employees or for those without a sufficient track record to reassure employers.

Those who are most vocal about the need for affirmative action are of course the more articulate minority members—the advantaged who speak in the name of the disadvantaged. Their position on the issue may accord with their own personal experience, as well as their own self-interest.¹¹

Thus, like the minimum wage and occupational licensing laws, employment quotas deny employment opportunities to those who need them the most—relatively unskilled and uneducated minorities who are “targeted” for help by the government.

Government “Jobs” Programs. All democratic governments have long been involved in employment or job training programs. Despite their popularity, however, they *reduce* economic liberties and employment opportunities.

It is impossible for government to “create” jobs because of the law of opportunity cost. Government may “create” some jobs with such programs, but it necessarily destroys other private-sector jobs by diverting financial resources from the private sector (through taxes, government borrowing, or inflationary money creation) to pay for the government jobs. At best, government “jobs” programs alter the *composition* of employment, but not the aggregate level.

Furthermore, many government jobs are wasteful because they don’t meet legitimate consumer demands. The history of government jobs pro-

grams is filled with examples of “make work” jobs that seem to emphasize political patronage more than employment opportunity.¹²

The reason government jobs programs remain popular despite their failure to stimulate employment (or training, for that matter) is that the benefits are well defined—job recipients know where the jobs came from and whom to thank (or vote for)—whereas the costs are hidden. Those unemployed because of the crowding-out effect of these programs have no idea of the cause of their unemployment.

This is one way—generating unemployment—that government jobs programs diminish economic freedom. They also impair economic freedom and opportunity because the *kinds* of jobs and training determined by government bureaucrats are not necessarily those that people would freely choose in the private sector. This allows government bureaucrats to exert a degree of control over what types of jobs will exist and what types of skills people will possess.

Giving government such powers opens the door for ever-expanding governmental control of the allocation of labor. In totalitarian regimes such as the Soviet Union there is a nearly complete domination of the labor market by government. Its “jobs programs” are so extensive that everyone works for the state. The only “real” jobs in the Soviet Union are ones held by black marketeers.

In Nazi Germany, government officials were allowed to monitor and control every proposed job change, thereby directing workers into those endeavors the bureaucrats thought served “national interests” regardless of the interests of individuals who comprised the nation.

Of course, modern democratic governments don’t possess anything like the powers over labor markets that the Soviet Union does or Nazi Germany did. But the differences are only a matter of degree (albeit a large degree). Along with extensive employment programs, all democratic countries keep extremely detailed personal information on workers and labor markets, and they use that information to shape government policy.

Government employment programs threaten economic freedom in a very general sense in that consumer sovereignty is replaced by bureaucratic sovereignty. In a free market the types of jobs created are those that serve the desires of consumers. Government jobs, on the other hand, usually are

designed to serve the whims of political authorities, which often are in conflict with consumers. After all, if there is a legitimate consumer demand, there is an incentive for a private entrepreneur to meet it and to hire workers to assist him in doing so. Thus, to a large extent, government jobs are created to provide goods or services that consumers either have not expressed a preference for or, if they have expressed a preference, it was a negative one.

Mandatory Government Arbitration. All the labor market interventions discussed thus far involve government's attempt to intervene in private contractual relations between workers (or their unions) and employers by setting wages, establishing bargaining procedures, and so forth. In addition, governments also intervene in the *arbitration* of labor disputes. The U.S. government, for example, has a "Federal Mediation and Conciliation Service" that cajoles negotiating parties into "voluntarily" cooperating in order to end a labor dispute. The federal government has only limited power to mandate a settlement for most workers (with the exception of those covered by the Railway Labor Act), but it can apply significant political pressures to achieve that end in virtually any industry. The effect of this intervention is that disagreements between workers (or their unions) and employers often are settled according to criteria established by the Federal Mediation and Conciliation Service, not by the negotiating parties.

Although there is no formal power to force such agreements on most industries, the federal government's ability to "induce" an agreement should not be underestimated. American industry is so heavily regulated, and so many businesses accept government subsidies, that government has a tremendous amount of leverage over the private sector. Government has a long list of "carrots and sticks" it can use to affect private bargaining outcomes. It can threaten regulation and the withdrawal of subsidies, or it can bribe the bargaining firms and unions with promises of subsidies and other governmental favors.

Occupational Safety and Health Regulation. Modern democracies also heavily regulate "occupational safety and health." This intervention gives government enormous powers over private

labor relations because an argument can be made that almost any aspect of a business operation is at least tangentially related to safety and health. Governments have taken advantage of these broad powers to regulate everything from the construction of ladders to the shape of toilet seats.

Research has shown, however, that occupational safety and health regulation is not likely to improve workplace safety, despite massive expenditures.¹³ Furthermore, the regulation has interfered with market forces, which "address" the problem through compensating wage differentials. That is, in a free market, employees in more dangerous jobs will be paid higher wages, all other things equal. Employers must pay higher wages to attract workers to more dangerous jobs. This won't necessarily eliminate or even reduce the incidence of workplace accidents but, then, neither does regulation. Furthermore, reliance on compensating wage differentials, rather than regulation, would avoid the loss of jobs associated with the heavy costs of occupational safety and health regulation. It also would give workers and employers more freedom in determining how to improve workplace safety, rather than relying on bureaucratic edicts.

There is much to commend this market approach, for no one has stronger incentives to assure a safe workplace than employees themselves. Regardless of how well-intentioned the safety regulators may be, they just don't have the incentive or the detailed knowledge required.

It should be kept in mind that there are economic (and common-sense) incentives to reduce workplace accidents, for accidents are costly to employers and especially to workers. And it should be remembered that governmental "safety" regulation can provide a false sense of security. Job safety depends ultimately on how careful and responsible individual workers are. If they are told by governmental safety inspectors that their workplace is "safe," they may be less inclined to take their own precautions. The end result may be a *less* safe workplace.

Employer Payroll Taxes. All democratic countries have mandatory employer payroll taxes, the most significant of which are taxes for unemployment insurance and old-age pensions, or social security. A detailed examination of the economic effects of such programs is beyond the scope of this

essay, but several aspects of them are particularly relevant to economic freedom.

First, these programs constitute what might be called "mandated benefits," whereby governments compel employers to finance certain benefits on behalf of their employees. One implication of this is that employees consequently have less freedom of choice to determine their own mix of wage and non-wage remuneration. Furthermore, even though the taxes are at least partly paid by employers, they are passed on to employees in the form of lower wages or other benefits, thereby constituting a hidden tax on workers. Because the tax is hidden, workers are less able to make well-informed choices regarding their own compensation mix.

Government-operated unemployment insurance and social security programs often allow governments to become monopolists in the provision of those services. There are many actual and potential substitutes for these government-controlled programs but it is difficult, if not impossible, for them to compete with government. For example, individual retirement accounts (IRAs) compete with the Social Security system in the United States, but since the system drains so much income from workers through mandatory payments, there is much less available for private retirement plans.

It also would be possible for individual workers to contribute to an IRA-type account to be used as unemployment insurance, but governments usually prohibit such options. This is especially unfortunate in light of the many failures of governmental unemployment insurance, which essentially pays people not to work by offering unemployed workers "replacement income" as a percentage—sometimes close to 100 percent—of their prior wages.

By reducing the cost to workers of being unemployed, unemployment insurance lengthens the duration of unemployment. It also increases unemployment by indirectly subsidizing industries that experience seasonal or cyclical variations in employment.

For example, without unemployment insurance a firm with an unstable employment pattern would have to pay higher wages to attract workers. The higher wage would be necessary to compensate workers for the risk of becoming unemployed. But with unemployment insurance the *government* compensates workers for becoming unemployed.

This in turn makes unstable employment more attractive to workers than it otherwise would be. The increased supply of labor in those industries will reduce wage rates, which in turn diminish the incentive for firms to do anything about unstable employment patterns. Thus, unemployment insurance encourages unstable sectors of the economy to expand, resulting in higher overall unemployment.

Both unemployment insurance and social security taxes are major infringements on the economic liberties of workers and employers, because they place severe limitations on freedom of choice, freedom of exchange, freedom of contract, and freedom of association. Because government controls a significant portion of workers' income through these programs, and because the programs crowd out private-sector alternatives—if the law permits alternatives at all—individuals are denied all these freedoms.

Peter Ferrara describes how the Social Security system infringes upon individual economic liberties. Government-controlled social security, he writes,

... forces individuals to enter into contracts, exchanges, and associations with the government that they should have the right to refuse. It prohibits individuals from entering into alternative contracts, exchanges, and associations with others concerning the portion of their incomes that social security consumes. It prevents individuals from choosing courses of action other than participation in social security, although these courses of action will hurt no one. It prevents individuals from enjoying the fruits of their own labor by taking control of a major portion of each individual's income. The program prevents individuals from arranging their own affairs and controlling their own lives. It operates by the use of force and coercion against individuals rather than through voluntary consent. The social security program thus restricts individual liberty in major and significant ways, violating rights that are worthy of great respect.¹⁴

The same can be said for any government-mandated benefit program.

Taxes on Labor Income. Perhaps the most important interference with an individual worker's

economic freedom is the income tax. The income tax denies a worker the ability to keep the fruits of his or her own labor, and is truly a way in which workers are exploited—by government.

Karl Marx's labor exploitation thesis was half right. He complained that labor was unfairly exploited because it supposedly produced *all* value—an incredibly naive and simplistic assumption—yet it received only a small part of it in the form of wages. Marx was correct about labor being exploited, but he was wrong about who the exploiters were. By blaming capitalists, he ignored the productive contributions of capital and entrepreneurs. He also ignored the fact that government is the major source of worker exploitation by expropriating income to which government itself has no legitimate claim. Ironically, Marx was a strong proponent of progressive income taxation, which exploits workers even more than proportional taxation.

Income taxation is, in effect, a form of slavery or forced labor. It forces individuals to pay taxes so that part of their income is given away to someone else—farmers, corporations, welfare recipients, defense contractors, unions, and thousands of other well-organized special interest groups—who did nothing to earn or deserve it. H. L. Mencken's dictum that an election is an advance auction in stolen property is as true as it is trite.

Of course, not all income that is taxed is necessarily used for government-mandated income transfers. To the extent that some of it is used to finance a criminal justice system, national defense, and in generally maintaining the rule of law, it enhances rather than diminishes economic freedoms. However, these functions are a relatively minor aspect of the modern welfare state. The modern state is a vast income redistribution machine that shuffles wealth around *within* the middle class.

Mandating Job Security. Many countries have various laws and regulations that supposedly guarantee "job security" by restricting the flow of capital. Laws that make it more costly or prohibitive to close down a plant are examples. Such laws may be well-intentioned, but they deprive workers and business owners of economic freedom and are undeniably harmful to a nation's economy. By hampering economic growth, they ultimately impoverish the workers in whose name the laws

are enacted. Job security laws, in other words, reduce job security.

Advocates of such legislation usually ignore the fact that workers and employers often negotiate various types of "job security" provisions in their contracts. It must be realized that if, for example, a union wants a contract that includes severance pay if the plant closes down, that provision will be "paid" for by a negotiated reduction in wages or other fringe benefits. There is no free lunch; acquiring such benefits requires trade-offs. That's why laws that mandate job security provisions reduce economic freedom. They deprive workers of freedom of choice by forcing them to accept one particular benefit—a benefit they may not want if they know how much it costs them in terms of foregone wages. So-called job security legislation also deprives employers and business owners (shareholders) of economic freedom. It prohibits them from making the best use of their resources, which can only be impoverishing.

III. Immigration

Freedom of migration is a basic human right that is essential if individuals are to be free from governmental oppression. The ability to change employment or to seek employment elsewhere—even in another country—is a hallmark of economic freedom. Thus, free immigration and emigration is most conducive to economic freedom and opportunity.

No country in the world has perfectly free immigration. The United States is generally regarded as among the most free—there are about twice as many immigrants entering the U.S. each year as there are in all the rest of the world combined. Yet America does place restrictions on immigration.

Since all countries place some limits on immigration, one method of comparing them is by calculating the allowable number of immigrants as a percentage of the nation's population.

Taxes on Immigration. Some countries charge immigrants fees or taxes. In such cases large statutory numbers of allowable immigrants may not be very meaningful if the charges are so high as to exclude large numbers of people. Therefore, the existence of "entrance fees" into a country is another criterion that may be used. The amount of the fee may be standardized as a percentage of

average annual income in the country receiving the immigrants.

Enforcement. Many countries are concerned about illegal immigrants. From the perspective of labor market freedom, however, the more illegals the better. The fact that the United States finds that its enforcement of illegal immigration is weak, and that its borders are "out of control," is a plus. Consequently, another measure of labor market freedom is the budget of the appropriate immigration enforcement agency as a percentage of the nation's total governmental budget. The higher the budget allocation, the stronger the enforcement and the lesser the degree of economic freedom.

Labor Market Tests and Lists of "Undesirables." In some countries, laws specifically outlaw immigration if the immigration enhances a free market in labor. In the United States, immigrants are required to prove that their employment won't displace an American worker *and* that their presence won't reduce wages. This is clearly a protectionist law instigated by organized labor.

Some countries limit immigration according to racial or ethnic criteria. America has a long history of discriminating against Chinese and Japanese immigrants in this way, although such discrimination was outlawed in 1965.

Amnesty. Granting amnesty to illegal immigrants who over a period of years have established "roots" in a country dilutes immigration restrictions and, consequently, enhances economic freedom.

Temporary Workers. Since a half a loaf is better than none, countries that allow temporary "guest workers" exhibit a higher degree of economic freedom, all other things equal, than those that don't.

Concluding Thought

Government at all levels spends hundreds of billions of dollars each year ostensibly to help the

unemployed and others living in or near poverty. Despite these massive expenditures, however, the welfare state is a failure. Paying people not to work only fosters perpetual dependency.

Rather than continuing to fund a counterproductive welfare system, a more direct means of reducing poverty would be the deregulation of labor markets. As this essay has shown, the major forms of government intervention in labor markets serve only to "protect" certain groups of workers from competition by denying job opportunities to others. More often than not, those workers who are denied job opportunities because of government intervention are those most in need: the least skilled, least educated, and least affluent. □

1. Economic freedom requires a set of customs, moral constraints, or laws that prevent individuals or groups from committing violent or coercive acts against others. Thus, mutual consent between two burglars plotting a robbery, for example, is not an example of economic freedom in the sense we are discussing.

2. See Bernard Siegan, *Economic Liberties and the Constitution* (Chicago: University of Chicago Press, 1980); Richard Epstein, *Takings* (Cambridge, Mass.: Harvard University Press, 1985); and Terry L. Anderson and Peter J. Hill, *The Birth of a Transfer Society* (Stanford, Calif.: Hoover Institution Press, 1980).

3. National Labor Relations Act, Section 7 (emphasis added). Quoted in James T. Bennett, Dan C. Heldman, and Manuel H. Johnson, *Deregulating Labor Relations* (Dallas: Fisher Institute, 1981), p. 50.

4. Morgan O. Reynolds, *Power and Privilege: Labor Unions in America* (New York: Universe Books, 1984), p. 98.

5. Thomas J. DiLorenzo, "Exclusive Representation in Public Employment: A Public Choice Perspective," *Journal of Labor Research*, Fall 1984, pp. 371-90.

6. For a detailed discussion of the political agenda of organized labor in the United States see James T. Bennett and Thomas J. DiLorenzo, *Destroying Democracy: How Government Funds Partisan Politics* (Washington, D.C.: Cato Institute, 1985), chapter 13.

7. A thorough discussion of the economics of occupational licensing is found in S. David Young, *The Rule of Experts: Occupational Licensing in America* (Washington, D.C.: Cato Institute, 1987). See also R. D. Blair and S. Rubin, *Regulating the Professions* (Lexington, Mass.: Lexington Books, 1980); and Timothy R. Muzondo and Bohumir Pazderka, "Occupational Licensing and Professional Incomes in Canada," *Canadian Journal of Economics*, November 1980, pp. 659-67.

8. Walter E. Williams, *South Africa's War Against Capitalism* (New York: Praeger, 1989).

9. Thomas Sowell, *Civil Rights: Rhetoric or Reality?* (New York: William Morrow & Co., 1984), p. 39.

10. *Ibid.*, p. 51.

11. *Ibid.*, p. 53.

12. Thomas J. DiLorenzo, "The Myth of Government Job Creation," Cato Institute *Policy Analysis*, February 1984.

13. W. Kip Viscusi, "The Impact of Occupational Safety and Health Regulation," *Bell Journal of Economics*, Spring 1979.

14. Peter J. Ferrara, *Social Security: The Inherent Contradiction* (Washington, D.C.: Cato Institute, 1980), pp. 275-76.

When Folk Sayings Are Ignored

by Daniel F. McInnis

You can't make a silk purse out of a sow's ear" was one of my grandmother's favorite sayings. Grandma, however, had never seen the likes of modern chemistry. Increasingly, entrepreneurs are able to transform anything into something else. Out of oil, we make nylons and perfume, plastic dishes and fertilizers. Our trees become buildings or methyl alcohol or newspapers. Even garbage can take on new life, as paper, glass, and metals are reused.

Nonetheless, Grandma had a point. If you want to make silk purses, it's a lot easier if you start with silk.

Proponents of government-mandated recycling have forgotten this simple insight. Recycling has become a battle cry for the environmental movement, a call to arms that can often make little economic or environmental sense.

Your daily newspaper is a perfect example. According to the Environmental Protection Agency (EPA), newsprint makes up almost 20 percent of all garbage, paper as a whole, 40 percent. Currently, only one-third of all newspapers are reused, leaving nine million tons of waste paper a year. A mountain of garbage, scream the environmentalists. Needless destruction of trees, they quickly add. Legislators are listening. California will require a 25 percent recycled-fiber content in newspapers by next year and Connecticut 20 percent by 1993. Some 16 other

states are considering similar legislation. New York is supposed to be able to recycle a quarter of all its trash by mid-1994.

But what happens when states mandate recycling? The New York City Sanitation Department says it is meeting the collection goals mandated by law, but may have to end up dumping the sorted waste into the Fresh Kills landfill. Moreover, the city now pays paper collectors \$25 a ton to haul away newsprint. The market simply collapsed when the supply of waste paper far exceeded the limited demand for more expensive and often lower quality recycled paper.

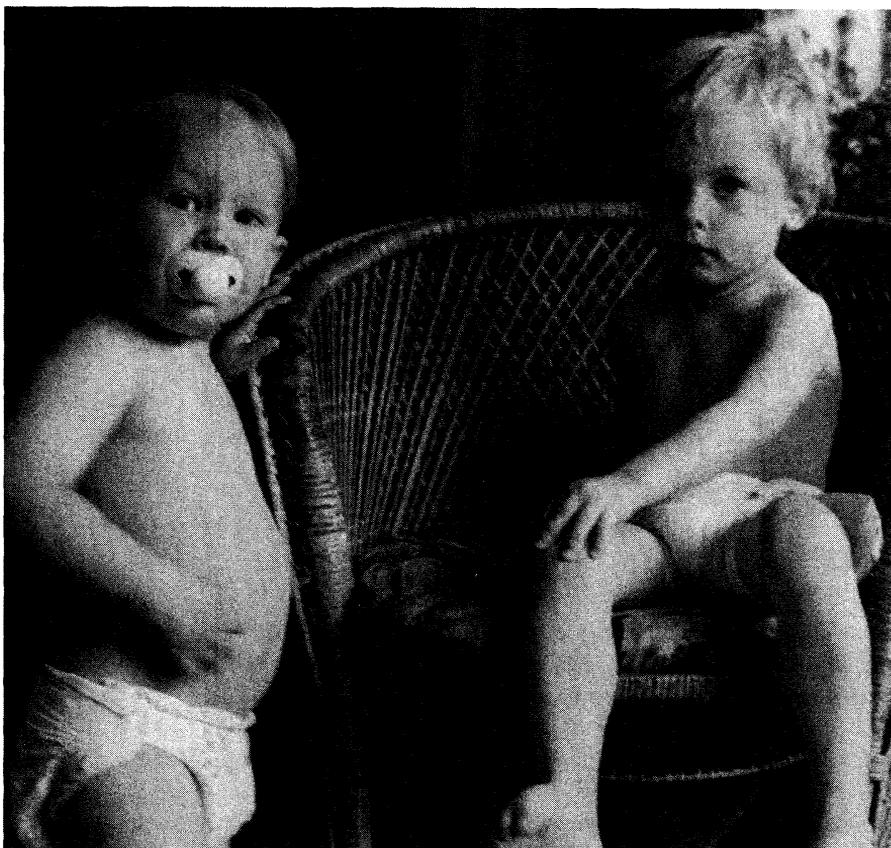
Washington, D.C., faced a similar problem when it began mandating paper recycling. The solution: instead of dumping paper into a landfill as it had in the past, the waste is now stored in a warehouse.

In both cases, government intervention had an unintended result. Less paper was recycled because markets were glutted, and it became unprofitable for anyone to collect and recycle trash.

The Diaper Debate

The environmentalists' recycle-at-all-costs campaign not only is driving people out of the recycling business, but it often has dubious benefits for the environment as well. This is best seen in the disposable versus cloth diaper debate. When finally discarded, cloth diapers in sum take up consider-

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BILL BONGIORNO, FAR-FLUNG ENTERPRISES

To choose between disposable and cloth diapers is to pick between less space in landfills and greater air and water pollution. There is no clear winner or loser.

ably less space in landfills than disposables, but along the way they use twice as much energy, cause four times the water pollution, and create twice the amount of air pollution according to a “cradle-to-grave” analysis by Franklin Associates, a leading supplier of data to the EPA. These environmental costs are largely hidden since they don’t end up in the form of a pile of soiled diapers. Instead they are transformed into the emissions of trucks delivering and picking up diapers, the sewage from washing machines, and the depleted soil from the intensively cultivated cotton crop.

Moreover, new mothers have been made to feel needlessly guilty when they use disposable diapers for their children. Some environmentalists seem less than sympathetic. “Parents who simply prefer the convenience of disposables *should* feel guilty,” says Allen Hershkowitz of the Natural Resources Defense Council.

While crusading against convenience may seem noble, the actual environmental costs don’t bear the critics out. To choose between disposable and

cloth diapers is to pick between less space in landfills and greater air and water pollution. There is no clear winner or loser.

One hundred percent recycling almost never makes economic sense—or environmental for that matter—when the extremely high energy needs are factored in. Unfortunately, many environmental activists won’t settle for less.

Some recycling, of course, does make sense. After all, it’s cheaper to wash your clothes than throw them away and buy new ones. This simple economic test should be applied to anything that we may consider recycling, especially since the price tag is a strong indicator of environmental effects. Products that use fewer resources throughout their existence generally have less impact on the environment. Absent cost-distorting government subsidies and regulations, prices tell consumers which product is environmentally superior. Now that’s a bargain even my grandmother would love. After all, another of her favorite sayings was that a penny saved is a penny earned. □

Corporate Social Responsibility: A Dialogue

by T. Franklin Harris, Jr.

Imagine if you will that ancient Greece's two greatest philosophers, Plato and Aristotle, are alive today and debating philosophical subjects much as they did in Plato's Academy. The subject at hand is the moral responsibility of corporations to the whole of society.

Plato: The debate over the social responsibilities of corporations is perhaps the most crucial, and certainly one of the hottest in the field of business ethics. Corporations, as the largest and most visible members of the business community, stand at the center of any discussion of the role of business in society. Of course, as in any debate, there are different views; thus, there is some contention as to what that social responsibility actually is.

Aristotle: What are the most prominent of these views?

Plato: Well, there are three major schools of thought, each with its own proponents. The first, and probably the most prominent, is the corporate accountability theory. Its major proponent is the "consumer advocate" Ralph Nader.

The second major theory is the profit motive theory. Its most prominent advocate is Milton Friedman. Dr. Friedman was a professor of economics at the University of Chicago for many years, and has received the Nobel Prize for his work in that field.

The third and most recent theory is the corporate natural rights theory. Although it has no

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defenders of the public stature of Mr. Nader and Dr. Friedman, it does have competent proponents. The specific argument that we shall discuss in favor of this theory is advanced by Douglas J. Den Uyl, a professor of philosophy at Bellarmine College in Louisville, Kentucky.

Aristotle: What are the main thrusts of these arguments?

Plato: The corporate accountability theory, in brief, holds that corporations are responsible to and subject to the will of the people, that is to say, society. The profit motive theory holds that, in the words of Dr. Friedman, "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. . . ."

The corporate natural rights theory basically states that Dr. Friedman is right about profit being the major goal of corporate business, but that there are other moral responsibilities that must be met so long as they don't directly conflict with the profit-making goal.

Aristotle: It seems these arguments merit a more in-depth discussion.

The Corporate Accountability Theory

Plato: The corporate accountability theory rests upon two major assumptions. The first is that corporations are "creatures of the state." This

assumption means that corporations are created by, and indeed could not exist without, government charters. The second assumption is that corporations, because of their size and economic power, are on the same level as governments. They possess as much “public power” as do states; therefore they, like governments, must be Constitutionally limited. As Nader has written, “It makes no public sense to apply the Constitution to Wyoming and West Tisbury, Massachusetts, but not to General Motors and Standard Oil, New Jersey.”

Aristotle: This all seems silly to me. What is the basis for these assumptions?

Plato: The argument is basically historical. The first corporations were chartered in England during the 1500s. “The Crown vested governmental authority in certain commercial groups to trade in its name.” (Nader 1973) Corporations originated, not as groups of individuals deciding voluntarily to pool their resources, but rather as government agents, contributing to the economic power of the country.

Nader regards the idea of corporations as private property as a relatively new and fraudulent concept. It was only over time, and largely as the result of “corruption and favoritism” that the concept of corporations as private property developed: “In the early 1800s most lawyers and judges still viewed corporations as performing public functions in the public interest. But by 1870 . . . this notion had all but vanished. Corporations now considered themselves private property owned and controlled by their shareholders.”

Aristotle: So, if corporations are government creations, then the government has the right to tell them what to do.

Plato: Correct. Corporations are public rather than private property. From this point Nader turns to the American system of government.

Corporations gain their authority from the government, which in turn gains its authority from the people . . .

Aristotle: Thus, indirectly the corporations are responsible to the public. The corporation’s responsibility is to serve whatever is deemed to be in the public’s interest.

Plato: Exactly!

Aristotle: Also, Nader has stated that the Constitution should prohibit certain corporate behavior just as it prohibits certain governmental behavior. Corporations would also be morally

obligated to uphold those parts of the Constitution that are commonly thought to apply only to government.

Plato: Remember, Nader believes corporations to be on the same level as government. By necessity they must be limited: “Corporations are effectively like states, private governments with vast economic, political, and social impact. A democratic society, even if it encourages such groupings for private economic purposes, should not suffer such public power without public accountability.”

Corporate accountability would require corporations to respect the Fourteenth Amendment, thus requiring due process for an employee before firing, and the Fourth Amendment, which would require a warrant before a company could search the property an employee might have on the job.

Aristotle: I’m afraid these arguments just aren’t convincing.

First of all, just because corporations were originally created by the government doesn’t mean that they are still “creatures of the state.” The English mercantilist system prohibited any private corporate endeavors. The economy was heavily regulated, and government intruded into almost every aspect of citizens’ lives. Without government interference, corporations would have sprung up in the marketplace as an efficient means of doing business. In modern times corporations are voluntary associations. Governmental chartering exists only as a holdover from the old system. These charters are unnecessary. Whereas under mercantilism corporations needed charters in order to exist, now, under the American system that largely respects property rights, corporations have the protection of being private property. Contrary to Nader, corporations are owned by their shareholders. They are the ones who paid for their shares as surely as people pay for copies of Nader’s books.

Second, since corporations aren’t really created by government, the state has no authority to tell them what to do. Morally it doesn’t matter how powerful corporations are. They aren’t subject to public control. Anyway, Nader’s assessment of corporate power is overblown. Corporations don’t have military or police power, therefore they cannot force anyone to do anything. Governments are constitutionally limited because they do have the power of force.

Plato: Then, if corporations aren't creatures of the state and are not legitimately subject to public rule, then corporations have no moral responsibility to be "accountable."

Aristotle: Correct.

Plato: Then let's move on to the second argument.

The Profit Motive Theory

Plato: Milton Friedman accepts your argument concerning the fraudulence of "corporate accountability." Therefore, he believes businesses should be allowed to function freely in an unregulated environment. This does not, however, mean that businesses have no responsibilities.

Aristotle: Yes, but Friedman acknowledges the validity of only one responsibility: to make a profit within the bounds of the "rules of the game." But what are those rules?

Plato: To operate within the rules of the game means to "engage in open and free competition without deception or fraud." (Friedman 1990) But Friedman's argument goes further than simply to require that corporations seek to earn a profit. The profit motive theory expressly forbids corporate involvement in social activity even if it is done freely, without government coercion.

Aristotle: Why is that?

Plato: The basis for this claim rests on the necessity to play by the rules of the game, which means honoring contracts. The managers and executives of corporations are the employees of the business's shareholders. As such, they have a contractual—and thus, moral—responsibility to their employers: "That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom." (Friedman 1990)

Thus, it is the moral duty of corporate executives to carry out the wishes of the shareholders, who, in the main, invest in order to make a profit. Managers cannot morally engage in any activity that reduces the corporation's profitability.

Aristotle: You say, "in the main." What about people who start businesses for reasons other than profit?

Plato: In that case social responsiveness is acceptable. "The manager of such a corporation

will not have money profit as his objective but the rendering of certain services." The key point, however remains "that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation . . . and his primary responsibility is to them." (Friedman 1990)

Aristotle: I see, but corporations are made up of individuals. Is Friedman saying that people have no responsibilities other than to make money?

Plato: Not at all. In fact he states otherwise: "Of course, the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognizes or assumes voluntarily—to his family, his conscience, his feelings of charity. . . . But . . . he is spending his own money or time or energy, not the money of his employers or the time or energy he has contracted to devote to their purposes."

There is another point to Friedman's argument. When a manager diverts profits into social causes, he is guilty of taxation without representation.

Aristotle: I'm afraid this argument eludes me.

Plato: If an executive spends funds for social causes, ". . . he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other." Friedman goes on to say: "He is to decide whom to tax by how much and for what purpose, and he is to spend the proceeds—all this guided only by general exhortations from on high to restrain inflation, improve the environment, fight poverty and so on and on."

In short, the stockholder is taxed by diminished returns on his investments, and the consumer is taxed by higher prices for the company's goods or services that might result from decreased profitability.

Aristotle: The "taxation without representation" argument is indeed weak. Stockholders are able to vote for company executives, therefore there is accountability. Also, anyone who is displeased with how a company is run is free to sell his or her shares. It isn't the same as government taxation, where a person can hardly move to another country where he will, incidentally, also be taxed. People don't have to own stock.

As for consumers, if prices for the goods and services of one corporation go up, they are, to use a favorite phrase of Dr. Friedman, "free to choose" the goods and services of a competitor. This is, after all, the whole idea behind a free market economy.

Now, concerning the argument about contractu-

al responsibilities, it seems that although Dr. Friedman is correct in insisting that attention be focused on profit, he is neglecting other moral obligations. True, he says people can do what they want on their own time and with their own money, but executives cannot simply leave their humanity at the door when they come to work every morning. Furthermore, charitable contributions can and do often have effects that are, in the long run, beneficial to business.

Plato: You have indeed hit upon something, young Aristotle. In fact, it was the very same sentiments that led to the birth of the third school of thought.

The Corporate Natural Rights Theory

Plato: The corporate natural rights theory means exactly what it says—the primary social responsibility of corporations is to respect individual, or “natural,” rights. This means corporations must respect the rights or “moral space” of individuals: “The boundaries [of this moral space] themselves are set by the principle of the non-initiation of physical force. Thus, one is entitled to pursue whatever goals one desires provided one does not cross another’s moral boundaries by the initiation of force.” (Den Uyl 1984)

Aristotle: Isn’t the natural rights theory the same as the “rules of the game” principle?

Plato: In some ways, yes. But the natural rights theory provides a moral reason why one ought to obey the rules of the game.

Aristotle: How does this allow for corporate charitable acts? Presumably contractual obligations are still valid. Any social responsiveness would still violate the contractual agreement between the owners and the management.

Plato: So it would seem at first glance. But Den Uyl’s definition of contractual obligations is more lenient than Friedman’s. Den Uyl argues that some acts of corporate “charity” are actually wise business decisions. Therefore, a blanket prohibition against corporate charity is unwarranted.

Aristotle: What examples are cited of corporate charity turning out to be beneficial to the function of business?

Plato: Den Uyl cites the case of the Ford Motor Company: “. . . in 1914 Ford Motor Company increased its wages to \$5 a day and reduced the

work day from 9 to 8 hours. This policy was not viewed at the time as good business, but as virtually an act of charity.” As history shows, Ford went on to prosper as a direct result of this so-called “act of charity.”

It follows that certain charitable acts could prove beneficial today. A corporation could locate a plant in a low income area as an act of “charity.” The low income area might not be the most profitable place to locate, but a profit could be earned, thus not forsaking the profit responsibility. Also, if the area could be built up economically, it would make customers out of people who had previously been left out of the marketplace. These new consumers would then be able to patronize the business community as a whole, thus also potentially benefiting the original business.

Aristotle: This seems to be a tenuous position. A company could very likely not get enough return from its “charitable investment” in order to justify it in the first place.

Plato: Den Uyl argues that it isn’t necessary for corporations to maximize profits: “It could be suggested that the owners do not seek to maximize, but rather wish only a certain rate of return. Provided one is not required to interpret ‘maximize’ to mean what would be received if all parties had perfect information, this question need not detain us either.”

Aristotle: And interpreting “maximize” to mean “perfect information” would be a difficult task. It would make it nearly impossible for any manager to adequately fulfill his responsibilities to the corporation’s owners. No matter what action he took, it would be morally deficient. It is impossible for all parties to receive perfect information.

Plato: Also, a bad charitable contribution could be treated the same as any bad business decision. It would be a technical failing, possibly resulting in dismissal for the parties involved, but not a moral failing.

Aristotle: So managers are able to live up to their contractual responsibilities while still showing some consideration for other people. Kindness, compassion, and thoughtfulness still have their place.

Money and Morality

Plato: Now, what conclusions have you drawn?

Aristotle: In brief, the corporate accountability

argument is invalid because it fails to justify government regulation and, therefore, the moral responsibility of corporations to submit to regulation. There is no reason to believe corporations are “creatures of the state.”

While the profit motive argument is better, it fails to take into account the moral responsibilities of the individuals who run the corporation. There is more to life than profit, and people don't abandon their other responsibilities in the workplace.

The corporate natural rights argument is the

only one that reconciles both the primary goal of business (profit) and the other goals of humanity. It reconciles money and morality.

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The Study of Human Action

Political economy is as easy or, perhaps, as difficult to understand and practice as the Golden Rule or the Ten Commandments. Economics is no more than a study of how scarcity is best overcome, and the first thing we need to realize is that this is accomplished by the continued application of human action to natural resources.

Natural resources are what they are, no more, no less—the ultimate given! The variable is human action.

Political economy, then, resolves itself into the study of what is and what is not intelligent human action. It should attempt to answer such questions as:

Is creative energy more efficiently released among free or coerced men?

Is freedom to choose as much a right of one as another?

Who has the rights to the fruits of labor—the producer or nonproducer?

How is value determined—by political authority, cost of production, or by what others will give in willing exchange?

What actions of men should be restrained—creative actions or only destructive actions?

How dependent is overcoming scarcity on honesty, respect of each for the rights of others, the entrepreneurial spirit, intelligent interpretation of self-interest?

Viewed in this manner, political economy is . . . a division of moral philosophy—a study of what is right and what is wrong in overcoming scarcity and maximizing prosperity—the problem to which it addresses itself.

Once we drop the “scientific” jargon and begin to study political economy for what it really is, then its mastery becomes no more difficult than understanding that one should never do to others that which he would not have them do unto him.

—LEONARD E. READ (1898-1983)

IDEAS
ON
LIBERTY



How to Be an Individual

by Donald G. Smith

One of the distinguishing characteristics of the capitalistic system is the emphasis placed on individual worth. Socialism herds people into classes, a practice which is repugnant to anyone who thinks of himself as a person. One might go so far as to say that it is repugnant to anyone who puts a high value on human dignity.

Once the principle is established, however, we run into another problem: application. Most people agree that they treasure their individuality, but a surprisingly large number haven't the foggiest notion of what to do with it. The truth is that individuality is as much in the doing as in the being.

A lot of people see individuality as a surface thing and try to establish a unique identity by buying a personality at the store. They wear garish clothes, dye their hair strange colors, wear headlamp jewelry, and decorate their skins with tattoos to make some kind of social statement. It is a case of "Hey, look at me!" and is attempted in a way that just doesn't get the job done. An ordinary person who has dyed his hair purple or orange is nothing more than the same nonentity with a funny-looking head. The belief is that mediocrity will somehow gain new credentials from exterior cosmetics. It is much like trying to make one's car go faster by painting it red.

The whole purpose of individuality is excel-

lence—being better at something than other people. Those who had the pleasure of seeing Benny Goodman at his work saw a rather ordinary looking man in rimless glasses and a conservative business suit, but they also saw a human being who could play the clarinet like no one before or since. This made Benny Goodman a unique individual.

Among other Americans who stood out from the flock, we can look at such varied examples as Joe DiMaggio, Clarence Darrow, Beverly Sills, Ernest Hemingway, and Jonas Salk. Each did something extremely well and thus became outstanding. Yet none of them felt the need to dress like a clown to be noticed. They were all recognized, and honored, for no other reason than excellence.

It is the people who comprehend this simple principle of being unique through performance who make our entire political-economic system work. Those who invent, who improvise, who know more about a subject than other people, and who take something that doesn't work and make it work—these people are the very soul of capitalism.

Charles Kettering didn't like the idea of cranking a car to make it start, so he invented the electric starter, making it possible to start the car from the driver's seat. This meant that mobility was no longer the silent partner of brute strength, and as such it did more for the cause of women's liberation than the entire feminist movement.

Henry Ford figured out the assembly-line tech-

Mr. Smith is a writer living in Santa Maria, California. He has been a frequent contributor to The Wall Street Journal.



UPI-BETTMANN NEWSPHOTO

Benny Goodman at the Waldorf-Astoria Hotel, 1938.

nique and made it possible to mass produce an automobile. Lewis Waterman saw no need to go on dipping a pen into an inkwell, so he put the ink into the pen. George Westinghouse told the world how to stop a train, and Elisha Otis indirectly invented the city skyline. These people, and thousands like them, have made the system work. They understood that individualism, to have any impact at all, meant working at the top of one's capacity. It is only a concept, a good idea, until someone does something with it.

Fortunately, enough Americans have been inspired to do something with their uniqueness that we have developed in less than three centuries from a frontier outpost to become not only the citadel of freedom but a country strong

enough to protect that freedom. These have been the people who prized the individuality-excellence pairing above all things and thus kept the great machine functioning. The ones with the purple hair and the funky jewelry are just along for the ride, trying to be "different" and not knowing how to go about it.

The student who earns A's on his report card has grasped the idea and has found the real meaning of individuality. So has the youngster who has designed his own space ship, who gives piano recitals, who paints pictures of the world around him, or who can name all the states and their capitals. Benny Goodman understood it too. This is why he was at his best in a blue suit and black shoes. □

The State of the Union

by John Chamberlain

In the Thirties, reviewing a book by Albert Jay Nock for *The New York Times*, I twitted Nock for referring to Thomas Jefferson reverentially as “Mr. Jefferson” where, often in the same paragraph, it was plain “Mencken” or even plain “Lincoln.” A couple of days later I received a one-line letter from Nock. It read “Young man, know your betters.”

I never could quite puzzle out Nock’s reproof, for I considered Mencken, with his *American Mercury*, and Lincoln, with his Emancipation Proclamation, just as worthy of special salute as Jefferson. Incidentally, I loved every line of Nock’s little biography of Jefferson, so there was no prejudice involved in anything I had said.

Nock had a genius for seeing things as they are, and Charles Hamilton, in a Nock anthology just published by the Liberty Fund of Indianapolis, has given us a fine selection of far-sighted excerpts from Nock’s books and essays. The title is *The State of the Union: Essays in Social Criticism* (340 pages, \$20 cloth, \$7.50 paper). The state of the Union in Nock’s estimation was never very good, for there was always too much reliance on the coercion in statism.

Nock believed in broad principles. Following the German sociologist Franz Oppenheimer, he insisted that there were only two means by which human beings could satisfy their needs and desires. One was by the economic means. This involved work, sometimes heavy digging in the ground. Naturally people tended to avoid this. It was easier to invoke the political means of letting the State do it by taxing all and subsidizing a few.

The British, looking back on their own Glorious Revolution of 1688, often theorized that a pact

accounted for the origin of the State. Nock said no. Tracing back in every instance he could find, he could discover no pact. In all cases the State had come into being when a stronger group appropriated the production of a weaker for their own transfer purposes. Nock is no evangelist; he doesn’t talk about rackets. But the best to be hoped for in his thinking is to hold government to a limited racket somewhere this side of Communism and Fascism.

Until he encountered the opinions of Ralph Adams Cram, who thought that perhaps one in 40 individuals was actually human, Nock considered that as long as there was available free land individual progress was possible. He himself would settle for amenities—good food, good theater and opera, and so on. Asked when and where he would have preferred to live, he said France between 1810 and 1885. Brussels and Belgium seemed in the Twenties and Thirties to be the closest approximation of the historic France he favored. So he was always gravitating back to Brussels.

How, in a period of collectivist drift, had he formed his opinions? There is a clear line of progression in his autobiographical *Memoirs of a Superfluous Man*. He had studied Greek and Latin with his father. I find it hard to believe he picked up the Greek alphabet so easily. But there it was.

Jefferson had a well-founded theory that where the State could do something for you, it could also do something to you. It was with this in mind that Nock and the Neilsons of the Swift meat-packing fortune started the *Freeman* as the proclaimed conservator of the idea of voluntarism. The *Nation* and the *New Republic* held

the field for liberal compromise. The *Freeman* would not be liberal; it would be radical.

It lasted four years. Nock's idea was to hire good people and let them make their own assignments. A young editor (it must have been Suzanne LaFollete, though Nock doesn't name her) took hold, passing along some of Nock's hints and suggestions. Nock's main test of an article's acceptability was that it should be coherent and written in impeccable, 24-carat prose. Lewis Mumford and Van Wyck Brooks, both socialists, were welcomed on esthetic grounds.

Nock was like a doctor who knows that nature can be counted on every time to do most of the healing. Russian General Kutusov who made such good use of space and time had the same idea. "Snoring as a Fine Art" is the title essay in a posthumously published book that takes off from the publication of Caulaincourt's memoirs of Napoleon's 1812 campaign in Russia. Kutusov knew that Napoleon could win on any battlefield by his superior tactical knowledge. So he calculatedly snored and slept whenever there was any suggestion of a direct confrontation with the French army. When Napoleon could do nothing with his occupation of Moscow because nobody remained in town to speak to him, he could only think of going home. This was no surprise to Kutusov, nor to Nock in retrospect.

Nock approved of any economy of means. He happened to be visiting in Pennsylvania among the Amish in the early New Deal period. Rex Tugwell and Henry Wallace were agitated by the supposed need to give state support to agriculture. But the Amish knew nothing about agricultural depression. The aim of the Amish farmer was to work his own land with the help of his children to raise enough food to feed his own family. If there was any surplus it could be sold for cash. Nock noticed that the whole Amish community was rich where other farming areas were poor.

There were things that Nock could barely stomach. He tells about a community that permitted a man to be burned alive. The killing was a frightful crime. It could only have happened in wretched steel-making country where there was, to quote Nock, "an upper class materialized, a

middle class vulgarized, a lower class brutalized."

Nock can't stay with vulgarity or with brutality very long. He had been well brought up, living at first in Brooklyn on heights that overlooked lower New York, and later moving with his family to lumber country in Michigan. Here Nock's theory about what should be vouchsafed to the reader by way of biography breaks down. We don't know what Nock's father did in lower Manhattan or why he went to lumber country. We miss the connections that took Nock to a school in Illinois that gave him some insight into the difference between educating the "educable" in the "grand old fortifying curriculum" of the classics and shunting the run-of-the-mill students into training for special tasks. All we know about connections is that Nock found Thomas Jefferson's idea of picking one out of 20 or more for special educable attention to be a good thing.

Amenity became the key concept of Nock in his post-*Freeman* days. One of the most fascinating sections in *The State of the Union* is about Nock's trip through "a little-visited European country" which, with tongue in cheek, he calls "Amenia." Amenia is "a very beautiful land," with inhabitants who are "uncommonly amiable and gracious to strangers." There is a good deal of illiteracy in Amenia, but plenty of bookstores. The Ameniens, says Nock, have only the vaguest notion of "creating a market" for anything, including literature. They have not even learned the art of "sophisticating" their products. The staples, nonetheless, are fine. The railroads are cheap and safe. Amenia is well off for natural resources, and there is enough gold to go around, "so why not let it lie awhile" in the ground?

Does Amenia lack enterprise? Nock noticed that it was short on "economism," by which he means the insistence that if you make a thing well, you must go on making it whether the demand is there or not. If it is not there, advertising pressure will create it.

Nock expressed the hope that the "civilized Amenia" of 10 years hence "will be as charming and captivating" as the Amenia "which I have had the good fortune to visit." We have been privileged to follow Nock in a grand spoof. But it is the key to his amenity-loving character. □

BIONOMICS: THE INEVITABILITY OF CAPITALISM

by Michael Rothschild

Henry Holt and Company, 115 W. 18th Street, New York, NY 10011 • 1990 • 423 pages • \$24.95 cloth

Reviewed by Raymond J. Keating

It is quite rare to discover a book that sheds new light on the workings of the economy. To actually explain the dynamics of any economic system is no easy task. In fact, most professional economists fail miserably at this endeavor. Michael Rothschild, however, has registered some success with *Bionomics*. In a tome-long analogy with biology and the ecosystem, he explores the processes of economic change and growth.

Rothschild argues that capitalism, much like an ecosystem, is a naturally occurring phenomenon. The capitalist system is the "way in which economic activity spontaneously organizes itself." Market-based economics didn't spring forth from the minds of bureaucrats and lawmakers. But socialistic systems, being conceived and guided by bureaucrats, inevitably stagnate, wither, and die. As evidenced by the ongoing changes in Eastern Europe, survival requires that the natural process of capitalism prevail in the end. Rothschild observes, "The immutable, natural forces of economic evolution are too powerful to be stifled permanently."

In both the ecosystem and the economic system, information and innovation are critical. Rothschild declares at the very outset: "In the biologic environment, genetic information, recorded in the DNA molecule, is the basis of all life. In the economic environment, technological information, captured in books, blueprints, scientific journals, databases, and the know-how of millions of individuals, is the ultimate source of all economic life." This theme is carried forward throughout the book.

The incentives and opportunities presented by the capitalist system are impetuses to innovation and entrepreneurship, i.e., to "using new knowledge to create value." Rothschild's emphasis on such creativity is well-placed, and he issues caveats against such incentive-destroying policies as high taxes on income and profits. Innovation and entrepreneurship are, after all, the true driving forces in any economy. As Rothschild explains, "Innovative ideas become the new methods and

new equipment that push back the limits of productivity. A firm's efficiency is constrained only by its technology, and its technology is limited only by its members' ability to work together as an intelligent, creative organization."

Both production and innovation have clear parallels in the biological environment. Rothschild explains the analogous production processes: "The entire global economy is comprised of work cells and organizations engaged in the interdependent production and exchange of products. . . . Encoded information is developed or preserved in DNA or blueprints. Copies are shipped to ribosomes or assembly sites. After raw materials are prepared, components are reassembled in new configurations. In a series of finishing steps, these objects are packaged into desirable products. From protein to microprocessor, the essentials of organic and economic production are the same."

As for innovation and change, the analogy continues: "Rapid change happens at the edge, when a group of organisms becomes isolated from its main population. And it happens when a frustrated inventor grows tired of being told no, goes off by himself or with a few associates, and mutates the existing technology into something absolutely astonishing." How many times has one read about such occurrences in high-tech industries for example? Rothschild gives us several examples of the innovative process that at first glance might seem mundane but turn out to be quite intriguing, including the development of the grocery store, the efficiency gains made on egg farms, as well as the death of a stultifying "corpocracy" at Walt Disney.

Bionomics also illustrates why central planners and mathematical economists continually fail to understand and communicate how an economy works. Rothschild points out that "[t]he punctuated equilibrium of unexpected, erratic change across an immense variety of technologies is terribly frustrating for those who want to plan and control the economy. The intrinsic unpredictability of technological evolution makes a mockery of every effort to plan the future. Just as random events reshape the natural environment and cause genetic mutations that set off bursts of speciation, serendipitous discoveries launch new industries." The central planner's efforts are forever destined to be barren of any success due to the natural and inherent dynamism of the economic world.

The same can be said of efforts made by the mathematical economist. Rothschild observes that the mathematical models of the economy are constrained by "a given quantity of resources, a stable population, and a fixed state of technology." Solutions are only derived if input and output factors remain unrealistically constant. Rothschild aptly describes the current state of the economics profession: "Unable to explain the awesome complexities of real economic life as experienced by workers and business people, where history matters and change is constant but largely unpredictable, Western economists have barricaded themselves inside their obtuse mathematical models."

Until economists throw off the shackles of mathematics and econometrics, as Rothschild makes clear, their ability to describe the workings of an economy will continue to deteriorate. This will become increasingly apparent as economic change and innovation accelerate. If they wish to remain pertinent, economists must eventually recognize that they cannot account for a dynamic, natural economy with static analysis. The economics profession can no longer ignore human action and the processes of innovation.

In closing, Rothschild's thoughts on the dramatic nature of today's economic changes are well worth noting: "Because we lack the benefit of hindsight, we cannot fully appreciate the magnitude of the economic restructuring we are now experiencing. But our descendants will almost certainly judge the 'computer-on-a-chip' to be the most economically significant technical achievement of the previous 500 years. The microprocessor will rank at the very pinnacle of human invention because—like the printing press—it slashed the cost of encoding, copying, and communicating information. And by doing so, it has brought vast areas of previously unattainable knowledge within human grasp and has made possible a staggering array of new products. Today these products are profoundly altering the capabilities of millions of work cells in every niche of the global economy." This was all born of the natural process known as capitalism.

Michael Rothschild's analogies to biology, evolution (which in this reviewer's mind serves economics better than it serves human biology), and the ecosystem are vehicles, but by no means the only vehicles, that transport economic analysis

into a more intriguing and realistic realm. In the traditions of the supply-side and Austrian schools, and unlike Keynesians and socialists, *Bionomics* emphasizes the natural human potential to create and innovate. Such a book is required reading for those who wish to gain a better understanding of how the economy works. □

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

BUREAUCRACY: WHAT GOVERNMENT AGENCIES DO AND WHY THEY DO IT

by James Q. Wilson

Basic Books, 10 E. 53rd Street, New York, NY 10022 • 1990
433 pages • \$24.95 cloth

Reviewed by Lawrence Person

All bureaucracies are not created equal. If nothing else, James Q. Wilson's massive book teaches that the ways of constructing and running a bureaucracy are almost as numerous as bureaucrats themselves. To that end, Wilson goes into a great amount of detail about how such agencies work or, more often, fail to work, and the wealth of concrete examples he has gleaned from other sources make up the most interesting portions of the book.

To show how various bureaucracies function, Wilson divides the book into six large sections (Organizations, Operators, Managers, Executives, Context, and Change) that are subdivided into chapters ("Culture," "Turf," etc.). Thus arranged, Wilson starts at the bottom of the structure (the people working in a bureaucracy, their beliefs, whose interests the agency serves, the circumstances they work under, and so on) and works his way to the top (Congress, the courts, and the President). At each level he deals with the problems such agencies face in pursuing their goals.

One thing Wilson stresses is that, unlike private enterprises, government agencies are not driven by goals but by constraints. Because bureaucracies aren't rewarded with profits when they do something right, avoiding doing something wrong (by "following the rules") becomes far more important than achieving results.

Thus, government agencies often work inefficiently at moving toward what we perceive to be their objective because the constraints of public policy almost invariably give them not one but sev-

eral statutory objectives to pursue at the same time. We may see an Army procurement official's duty as to obtain the best weapons for our troops, but that same official is also required by law to "support small [and minority-owned] businesses . . . buy American-made products . . . rehabilitate prisoners, provide employment for the handicapped, protect the environment, and maintain 'prevailing' wage rates."

Still another problem most bureaucrats face is that they serve many masters. Congress may desire one course of action, the President another, and the courts may decree still a third. In such an atmosphere, it is no surprise that agency executives must not only try to sort out conflicting orders and goals, but also fight to maintain the funding, power, and autonomy of their agency. As Wilson notes, "the real work of the government executive is to curry favor and placate critics."

All these problems and constraints lead to organizations that are manifestly inefficient compared with their private-sector counterparts. Absent any signs from the marketplace that its methods aren't working, a government agency might persist in pursuing an unsuccessful strategy for years. As Wilson notes, "the Ford Motor Company should not have made the Edsel, but if the government had owned Ford it would still be making Edsels."

In such an atmosphere, it isn't surprising that scandal and waste are common. Indeed, given the many constraints on their behavior, it's a wonder that bureaucracies get anything done at all. Yet Wilson cites again and again how effective leadership and strong motivation have made certain agencies (the Forest Service, the Army Corps of Engineers, the FBI) far more effective than others. Still, innovation in this arena is rare, and Wilson observes that, for good or ill, it would be almost impossible to create such elite agencies today given the current set of political restraints.

As for solutions to the bureaucratic morass, Wilson has two: privatize as much of the work as possible, and "deregulate the bureaucracy." The first proposal won't be new to advocates of the free market. Study after study has shown that private firms are far more efficient and cost effective at supplying goods and services than government agencies, and Wilson suggests several areas where privatization might be carried forward.

However, when it comes to those agencies that largely can't be privatized because of their very

nature (armies, police forces, and so on), Wilson's suggestion that we deregulate the bureaucracy might be somewhat surprising. Yet his arguments make a great deal of sense. If we look upon these remaining government agencies as a necessary evil, then in most cases the taxpayer would be better off if the agencies ran efficiently, and Wilson makes a strong case for eliminating the many rules that threaten to drown government employees in a sea of paperwork. He provides several general guidelines (eliminate all but essential restraints, judge an organization by its results, and so on) that could help make remaining government agencies more effective.

Bureaucracy, as befits its subject matter, is a deep and detailed book, and one probably not suited for the reader with only a casual interest in the subject. However, those who want to know the details of how bureaucracy actually works will find it informative and rewarding; as a practical manual on making the system work from the inside it is second only to Rector and Sanera's *Steering the Elephant*. □

Lawrence Person is a writer and editor in Vienna, Virginia.

THE IDEA BROKERS: THINK TANKS AND THE RISE OF THE NEW POLICY ELITE

by James A. Smith

The Free Press, Front & Brown Streets, Riverside, NJ 08375
1991 • 334 pages • \$24.95 cloth

Reviewed by William H. Peterson

William F. Buckley Jr. said he'd rather be governed by the first thousand names in the Boston telephone directory than by the Harvard faculty. Buckley thus echoed the thought of Woodrow Wilson, himself a former professor and president of Princeton University. Said New Jersey Governor Wilson on the campaign trail for the U.S. Presidency in 1912: "What I fear is a government of experts."

Government of, by, and seemingly for experts is what we apparently have today. In spades. In all shades of opinion, and frequently at cross-purposes. Franklin D. Roosevelt had his "Brain Trust," John F. Kennedy his "Best and Brightest," and Ronald Reagan his ideological warriors from the Hoover Institution on the West Coast to the Heritage Foundation on the East Coast.

Indeed, in this reportorial and rather ideology-free write-up of think tanks, James A. Smith comes up with the first history of expert advisers in American politics, tracing the rise of what has become a semi-autonomous class of influential officials and scholar-analysts.

Take the late Arthur Burns as a case in point: Rutgers and Columbia professor of economics, president of the National Bureau of Economic Research (an early think tank still going strong), president of the American Economic Association, chairman of Eisenhower's Council of Economic Advisers, Nixon's Domestic Policy Adviser, chairman of the Federal Reserve Board, Reagan's ambassador to West Germany, and amid these various Republican assignments, i.e., during the Kennedy, Johnson, and Carter Administrations, a distinguished senior scholar at the Washington-based American Enterprise Institute—a sort of safe haven for dispossessed Republican thinker-officeholders—just as the Washington-based Brookings Institution has been a safe haven for dispossessed Democratic thinker-officeholders such as Alice Rivlin and Charles Schultze. Today, notes author Smith, former program officer at the Twentieth Century Fund and history professor at Smith College, and now an adjunct faculty member of the New School for Social Research, there are more than 1,200 think tanks in the United States, including around 100 in Washington, D.C., alone. In addition, there are literally thousands of university- and college-based research institutes.

These organizations aim to focus much of this brain-power on national, state, and local issues. For instance, the conservative New York-based Manhattan Institute tackles, among other things, local New York City and New York State issues. The conservative Raleigh-based John Locke

Foundation mainly tackles North Carolina issues. And the liberal Washington-based Institute for Policy Studies proffers government solutions to national problems such as poverty, pollution, and the homeless, adding to the war of ideas.

When all these think-tank warriors are not teaching university courses or serving on expert commissions, they function as witnesses before Congressional and state legislature committees, drafters of legislation, writers of newspaper columns, commentators on national and local television, ghost-writers for political figures, and political gurus and pontificators in general.

Which brings us back to Wilson's fear of a government of experts. For with all this brain-power, how come America is so mired in a wide range of long-term problems such as pyramiding national debt, rising teenage pregnancy, and skyrocketing crime rates? Think-tank erudition is impressive, but does it add up to wisdom and vision?

For, in the final analysis, aren't premises pivotal? James A. Smith recalls, for example, the erudition of Richard T. Ely, an economist at Johns Hopkins University and a founder of the American Economic Association. In a draft prospectus for the AEA, Dr. Ely wrote circa 1884: "We report the State as an educational and ethical agency whose positive aid is an indispensable condition of human progress." Laissez faire is, he continued, "an inadequate explanation of the relation between the State and its citizens."

Once again, we find, ideas have consequences. □

Dr. Peterson, former speech-writer for Richard Nixon and senior economic adviser to the U.S. Commerce Department, is an adjunct scholar at the Heritage Foundation and the Lundy Professor of Business Philosophy at Campbell University in Buies Creek, North Carolina.

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A Pollyanna World

The collapse of Eastern Europe has highlighted the serious flaws of socialism as a system that vests all power in a small, political elite, and in the name of equality turns a people into an unthinking, uncreative, faceless mass.

It is a system without checks and balances, a system that takes away a people's voice and turns them into drudges. There is no incentive to succeed, because whether people do their best or their worst, the best and the worst end up with the same reward.

Their job is protected, no one can fire them, so they can show up for work, or they can sit in the back room and play cards—the system will take care of them. Why should the man of ability break his back when he is not appreciated? And so, instead of working, he joins those in the back room in the card game. Nothing gets done. The spectacle of hungry people and the collapse of Russia today is the result of this attitude played out on a national scale.

Socialism is a system that does not accept the reality of man—the fact that man needs incentives and competition to move forward. Yes, man is greedy, he blooms on praise, he does his best in the competitive arena. Just a sniff of reward brings a glint to his eye. Socialism does not recognize the vanity of man, his weaknesses, his sin. Socialists live in a Pollyanna world of do-gooders, and in trying to transform man into an angel, they have turned him into a shuffling dullard.

All through Europe the world has seen the ugliness of inertia, of a malaise that killed a people's spirit, destroyed nations, and turned beauty into dross.

—from an editorial in the December 13, 1990, issue of *The Tribune*, a daily newspaper published in the Bahamas

Canadian Health Care

There is a queue of heart patients in Vancouver, British Columbia, who are unable to receive medical care. According to B.C. Cardiac Society spokesman Dr. Lawrence Burr, over a dozen candidates for open heart surgery have already died because of the long waiting list. And this is only the

tip of the iceberg. Burr estimates that 720 people in British Columbia have been accepted as cardiovascular patients, and that 400 of them are in urgent need of surgery within one month. This is a tragedy, and an obvious failure for Canadian socialized medicine.

Because of this medical emergency, British Columbia officials are trying to place 200 of their heart patients in Seattle hospitals. According to Dr. Jim Nell, president of the Seattle Area Hospital Council, "We'll have no trouble meeting the need."

Even if the 200 patients are moved across the border to Seattle, this won't end the long lines in B.C. hospital wards. Stated Dr. Burr, "Reducing the waiting list by 200 . . . would drop the waiting time for the remaining patients to about 11 weeks." This is an improvement, but in his view six weeks is ideal.

All in all, this isn't a pretty story for the much vaunted Canadian socialized medical system.

—WALTER BLOCK, writing for
The Fraser Institute
Vancouver, Canada

Social Responsibility

In a free society, there is no more responsible way to work for the benefit and improvement of all than to produce the goods and services others value highly enough to buy in free and open competition. Meeting the market test is the ultimate proof of service to others. The values instilled through voluntary contracts and exchanges in free markets represent the highest order of true social responsibility.

—M. BRUCE JOHNSON, writing in the June 1991 issue of *Alternatives in Philanthropy*

The Nature of Planning

Economic planning or industrial planning is nothing more than the forcible superseding of somebody else's plan by the powerful elite. For example, I may plan to buy a Honda motorcycle, but the powerful supersede those plans through tariffs and quotas because they have decided a Harley-Davidson is preferable. My daughter might plan to work for the hardware store for \$2 an hour; I agree

with it as her father; her mother agrees with it; she agrees with it; and the hardware store owner agrees with it. But the powerful elite directs that the plan be cancelled unless she gets \$3.80 an hour. That's economic planning. It is the forcible superseding of somebody else's plan by the powerful elite.

—WALTER WILLIAMS,
speaking at Saint Vincent College,
February 5, 1991

Affirmative Action

Affirmative action reinforces and places a premium on racial consciousness and prejudice. It encourages an attitude of victimization among blacks and other protected groups whom it regards as dependent and—if not inferior—then at least incapable of competing on their own. Moreover, it requires that anti-bias and civil rights progress be denied in the face of clear evidence to the contrary. A deeply dialectical intelligence is required to conclude that affirmative action has not had a corrupting effect on the American political tradition.

—HERMAN BELZ
Equality Transformed

East and West

For a permanent social rejuvenation, the East needs to learn what the West has forgotten—that it isn't enough to install capitalism as a utilitarian economic stopgap measure. What is needed is for the entire legal agenda of classical liberalism to be enshrined within a culture. The classical liberal concern for the fundamental rights of the individual to life, liberty, and property cannot be treated as a mere expedient; it should not be expected to bail out a society from its past mistakes, only to be sacrificed, once the economy begins to recover, on the altar of the welfare state, with all its wasteful policies in behalf of aspects of society that will not be upgraded without self-discipline, without the discipline imposed by the free market economy and a criminal law system that upholds the principles of individual rights.

—TIBOR R. MACHAN
Auburn University

Welfare State on the Street Where You Live

by Tibor R. Machan

Like many fathers, I take my children to city-run recreation facilities. My 7-year-old daughter takes gymnastic lessons, and my 11-year-old son plays baseball. All three of my children have attended summer day camps provided by the city parks and recreation department.

But I'm not happy about this, at least about the way it fits into the large picture of our society. While, of course, the kids have fun and get something out of it, there is a definite downside to counting on the city to provide such facilities.

Already at this point people are learning to depend on government to do a great deal for them that it shouldn't be doing at all. In short, a city government should have no parks and recreation department. It isn't what government is supposed to be about. It has nothing to do with justice, with protecting, maintaining, and preserving the rights of individuals at the city's level of jurisdiction. Rather it is the sort of activity that people should organize for themselves, via their social clubs, churches, the extracurricular activities of their firms, and so on.

City-run recreation facilities instill the belief, at a very early age, that if you want something, it is only natural that the government should provide it. And from this belief, of course, has sprung the gradual but certain bureaucratization of nearly all of human life.

Tibor R. Machan teaches philosophy at Auburn University, Alabama.

As I was waiting for my daughter to finish her gymnastics lesson one night, I overheard a brief conversation between members of the board of our city's parks and recreation department. They were walking out of a room in which they had just held a meeting. One was noisily complaining that the city never has enough money to do this business right, and there isn't going to be any relief soon, so they might as well learn to live without.

Of course. Whenever government tries to provide for people what they should provide for themselves, it never will be able to do well enough—indeed, it's most unlikely that there ever will be a well enough! One can always think of some additional support, yet another basketball or tennis court, more lifeguards at the city's swimming pool, still another baseball umpire to hire, and so forth. It never ends, does it?

“The Moral Tragedy of the Commons”

This is what I have come to call “the moral tragedy of the commons.” When there is a supposedly common pool of resources, people always have their own idea of how to make the best use of it. And the most use of it. So no matter how much one resolves to tighten the belt, there always will be a good reason to want to do more and better—after all, it's for the children, for the future of the community, or for some other noble cause.



BILL BONGIORNO

People have learned to depend on government to do a great deal for them that it shouldn't be doing at all.

What few people stop to think about is that government programs are costly—they require people's labor, ingenuity, skills, and innumerable resources. And the taxpayer pays the bill. But since he or she is being forced to put money into a common pool, no one worries about how much a particular taxpayer has contributed so that there can be some idea of how much each family might take from the pool. Instead, everyone just wants more money and resources for their favorite projects.

Why are cities, counties, states, and national governments going broke all over the world? Because we all want to improve things with more funds, but no one has any idea what the limit is. Private property solves this problem, but was abandoned a long time ago when taxes reached the point where we can steal our way to being provided with all sorts of things we desire, never mind thinking about paying for them or long-range budgeting.

If you want to understand why we have deficit spending at the Federal level, think about it in connection with your own parks and recreation department. Ask how one can control costs when the funding source is an impersonal common pool of resources belonging to no one. The answer is

that without a reasonably precise relationship to a person's own limit of expendable income, there is no hope of putting a lid on government spending.

It doesn't begin with S&L scandals. It doesn't have to do with Pentagon extravagance. These are but symptoms. It has to do with the gradual expansion of the public sector and corresponding contraction of the private sector. As Aristotle said:

That all persons call the same thing mine in the sense in which each does so may be a fine thing, but it is impracticable; or if the words are taken in the other sense, such a unity in no way conduces to harmony. And there is another objection to the proposal. For that which is common to the greatest number has the least care bestowed upon it. Every one thinks chiefly of his own, hardly at all of the common interest; and only when he is himself concerned as an individual. For besides other considerations, everybody is more inclined to neglect the duty which he expects another to fulfill; as in families many attendants are often less useful than a few. □

Individual Rights: The Crumbling Foundation of American Government

by Robert Higgs

Almost everyone recognizes that government can perpetrate great evils. One has only to think of the regimes of Stalin, Hitler, and Pol Pot, three of the most hideous examples. But government is also widely regarded as a potential source of great good. Even Ludwig von Mises, an archenemy of statism, declared that government is “the most necessary and beneficial institution, as without it no lasting social cooperation and no civilization could be developed and preserved.”¹ How can people enjoy the benefits of government while avoiding the dangers? Upon what principles must a tolerable government be built?

The Nature of Government

When we say the word “government,” we may mean various things. Sometimes we refer to certain institutions, the established rules and proceedings by which the body politic is ordered and incorporated into the making and maintaining of collective arrangements for social life. At other times we refer to the particular persons who wield established authority over the citizenry. The two meanings are connected. Government as rulers operates according to government as institutions, which people often call “the system.” This connection holds whether the type of gov-

ernment be dictatorship, oligarchy, monarchy, or representative democracy.

Governments have existed for thousands of years. Philosophers have argued that they are either natural—it would be inconceivable that humankind not have them—or that people without a government would be, in Thomas Hobbes’s words, so “few, fierce, short-lived, poor, nasty, and deprived of all that pleasure and beauty of life, which peace and society are wont to bring with them,” that no one would want to be without a government.² In Hobbes’ estimation, it would be a good bargain for individuals to surrender all their freedom of action to a ruler in exchange for a modicum of peace and social order.

A government, by definition, claims a monopoly of legitimate coercion within its jurisdiction. Every government, ultimately if not immediately, relies on physical violence to enforce its rule. If it cannot do so effectively, it probably will be replaced by another government that can. Hence it is entirely natural that governments maintain police, prisons, and armed forces, whereas General Motors, Exxon, and IBM do not. People sometimes talk about “economic power” as if it were comparable with governmental power. It isn’t.

Every government recognizes that people will obey orders more readily if they believe the orders are proper and, in some sense, in the best interests of the ruled as well as the rulers. Historically, a close linkage of the warrior class and the priesthood has characterized most societies. The bless-

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ing of religion has given many governments a more effective claim to obedience. Whether by appeal to religion or by appeal to secular principles of right or virtue, governments always try to legitimate their actions. This striving after legitimation is the principal difference between governments and mere criminal gangs.

Whether government really is necessary (and a few of us still consider the question open to debate), once a society has a government, the potential exists for rulers to abuse their power by pursuing their own ends rather than those cherished by the people they rule. Unchecked government can give rise to tyranny. Accordingly, many lovers of liberty have called government a necessary evil: necessary because they see no alternative institution to maintain peace and domestic order, and evil because the rulers, by virtue of their exclusive control of legitimate coercion, may over-extend their powers at the expense of the well-being and liberties of the ruled.

Revolutionary Ideals

The men who founded the United States were, in the eyes of the established British government, outlaws—traitors, thieves, and murderers. Americans nowadays so venerate the memory of Jefferson, Madison, Washington, Hamilton, Adams, Franklin, and the other Founding Fathers that we easily forget the raw reality of what they undertook to do between 1775 and 1783. They armed themselves, laid claim to authority denied them by established law, and set out to overthrow the established government by killing the men who defended it.

They were not murderers by profession. Indeed, they probably were the most thoughtful, best educated, and most articulate band of outlaws in history. When they decided to take up arms to overthrow the government, they debated their cause at length, and they wrote down in various places their reasons for resorting to killing other human beings, their justification for actions they ordinarily would have strongly condemned. How did they justify their actions?

They claimed that they, in common with all men, had rights, and that in the existing circumstances they could effectively defend their rights only by violence. In 1774 the First Continental Congress made a declaration of what its members

called “their indubitable rights and liberties; which cannot be legally taken from them, altered or abridged by any power whatever, without their own consent. . . .” They claimed that they were “entitled to life, liberty, and property. . . .”

Where did the asserted rights come from? They said that they held the rights “by the immutable laws of nature, the principles of the English constitution, and the several charters or compacts” establishing the British colonies in North America.³ Again and again the rebels justified their cause by claiming a right to liberty. They insisted that the legitimacy of government required the consent of the governed.

The Continental Congress’s “Declaration of the Causes and Necessity of Taking Up Arms,” issued July 6, 1775, declared that “a reverence for our great Creator, principles of humanity, and the dictates of common sense, must convince all those who reflect upon the subject, that government was instituted to promote the welfare of mankind, and ought to be administered for the attainment of that end. . . . Honour, justice, and humanity, forbid us tamely to surrender that freedom which we received from our gallant ancestors. . . . The arms we have been compelled by our enemies to assume, we will . . . employ for the preservation of our liberties; being with one mind resolved to die freemen rather than to live slaves. [And finally] in defence of the freedom that is our birth-right, and . . . for the protection of our property, . . . we have taken up arms.”⁴

Then, in 1776, the Continental Congress issued a Declaration of Independence. Here is the justification the rebels gave for their actions:

We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness. That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed, That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness.

The Declaration continued by explaining that



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Howard Pyle drew this illustration of the members of Congress leaving Independence Hall on the occasion of the first public reading of the Declaration on July 8, 1776. Many members of Congress are identifiable, and the dense crowd lends the composition a feeling of serious common purpose.

the rebels had not rashly taken up arms against the established government:

Governments long established should not be changed for light and transient causes; and accordingly all experience hath shown that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed. But when a long train of abuses and usurpations, pursuing invariably the same Object evinces a design to reduce them under absolute Despotism, it is their right, it is their duty, to throw off such Government, and to provide new Guards for their future security.

The Declaration went on to present a lengthy list of grievances against the King, including the complaint that he had “erected a multitude of New Offices, and sent hither swarms of Officers to harass our People, and eat out their substance.”

During the Revolutionary era, individual states enacted bills of rights. The Virginia Bill (1776), almost entirely drafted by George Mason, began, “all men are by nature equally free and independent, and have certain inherent rights. . . .”⁵

The Massachusetts Bill (1778), written almost entirely by John Adams, began, “all men are born

free and equal, and have certain natural, essential, and unalienable rights; among which may be reckoned the right of enjoying and defending their lives and liberties; that of acquiring, possessing, and protecting property; in fine, that of seeking and obtaining their safety and happiness.” Article seven of the Massachusetts Bill of Rights declared: “Government is instituted for the common good . . . and not for the profit, honor or private interest of any one man, family, or class of men. . . .” And Article 10 read: “Each individual of the society has a right to be protected by it in the enjoyment of his life, liberty, and property. . . . No part of the property of any individual can, with justice, be taken from him, or applied to public uses, without his own consent, or that of the representative body of the people. . . . And whenever the public exigencies require that the property of any individual should be appropriated to public uses, he shall receive a reasonable compensation therefor.”⁶

Later, in the national Bill of Rights, the 10 amendments to the United States Constitution ratified in 1791, many of the rights proclaimed by the individual states in the 1770s became part of the entire country’s supreme law. Later still, in the 14th Amendment, added to the Constitution in 1868, each state was forbidden to “deprive any

person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.”

Clearly, government in the United States was founded on an explicit recognition of rights—natural, inalienable rights of each individual—and governments were understood to be legitimate only insofar as they acted to protect those rights. Individuals and their rights were regarded as morally prior to government and its mandates; governments were to serve the people, not the people the government. Government was justifiable only as an instrument of the governed. When governments proved abusive of their powers, when they destroyed rather than protected the natural rights of individuals, the people had a right to defend their rights and to overturn the government that threatened them.

Current Suppression of Rights

Comparing the ideology of the Founders with the currently dominant ideology, we encounter a stark contrast: on the one hand, the deep regard that the Revolutionary ideals expressed for individual rights; on the other hand, the rampant disregard for individual rights with which the present governments of the United States—federal, state, and local—conduct themselves and justify their actions. To make matters worse, not only do most Americans not recognize that their governments massively invade rather than protect their rights; most Americans actually talk as if they live in a free society.

Many people remain unaware of the extent to which government controls a vast range of human conduct in our society because they are not themselves on the receiving end of many of the particular forms of control. If you are not an automobile designer, you may not be aware that the government prescribes many requirements that all automobiles must meet. If you are not a real estate developer, you may not be aware of the multitude of government permits that must be acquired before you may commence building, and of the plethora of regulations that constrain how you may build. If you are not a pharmaceutical manufacturer, you may not be aware of the long process of testing and certification that must be endured before the government will permit you to sell your product. If you are not an importer or exporter,

you may not be aware of the many controls and paperwork requirements that impede your business. If you are not a personnel or payroll officer, you may not be aware of the huge number of requirements you must meet with respect to collecting taxes and providing benefits to employees, and with respect to the makeup of your work force as regards race, sex, and other criteria. If you are not a dealer in stocks and bonds, you may not be aware that acting on the basis of certain information, which the government considers “inside information,” may land you in jail. If you do not have complicated business or financial dealings, you may not be aware of how extensively you must give an account of your affairs to the tax authorities. If you are not a business person, you may not be aware that any number of seemingly proper and mutually beneficial business arrangements may cause you to be charged with violating the antitrust laws. And so on and so on, endlessly.

Everyday Controls

But even an ordinary person unavoidably runs up against government controls every day. Perhaps you wake up when your clock radio comes on, bringing you signals transmitted by a radio station permitted to operate only after being granted a license by the Federal Communications Commission. You get dressed, putting on clothing and shoes that cost you more than they would have if the United States government had not restricted the importation of clothing, textiles, and footwear. You drive to work in a car constructed in accordance with a variety of government regulations; or you ride the bus, paying a fare established by a government regulatory commission. You work or go to school with people who have been selected in part on the basis of governmentally prescribed rules and quotas regarding race, sex, ethnicity, handicap, or veteran status. You eat lunch at a cafe that is allowed to operate only after acquiring various permits. You make telephone calls and pay for them at a rate set by a public utility commission. You go home to sit down to an entree of meat sold only after mandatory inspection by the Department of Agriculture. What you paid for the food reflects the price supports on farm products and the restrictions on the importation of farm products into the United States. In the evening you turn on the television, watching a program broadcast by a station

licensed by the Federal Communications Commission. Just before turning in for the night, you may take some medicine that you could legally purchase only by prescription and which can be sold to you only because it has been approved by the Food and Drug Administration. Yours has been an uneventful day, yet you have moved at every moment within a web woven by government.

How the United States evolved from a nation that held individual rights in high esteem (at least as ideals, if never consistently in practice) into a collectivist regime in which individual rights are subjugated in countless distinct ways every hour of every day is a long and complicated story—in many respects, it is the whole story of American society during the past 200 years. Not that liberty diminished at every place and time. The emancipation of the slaves, for example, was a triumph of liberty against which anything else in our history pales. But that was an anomaly, just as the existence of slavery had been an anomaly in the early days of the Republic. In most respects the trend, sometimes quicker, sometimes slower, was relentlessly toward a less and less free society. The pace of the movement accelerated during the past 75 years; it shows no sign of slowing now. Each day Americans become a little less free.

The tragedy is that most neither know nor care. Like George Orwell's character in *1984*, who inhabited a world in which the official language held that war was peace and slavery was freedom, most Americans have actually learned to love Big Brother. Indeed, they spend much of their time actively seeking, or supporting the efforts of those who seek, to extend the grip of government over the whole of human affairs. Nothing is too intimate or too personal or too important to be left for free individuals to decide: not the education of young people, not the care of children or the sick, not even vital decisions involving life and death—nothing escapes the tentacles of government.

Lovers of liberty watch in horror as their fellow citizens stitch new and unnatural organs onto the Frankenstein monster. One marvels that they can take these actions in the name of "doing good," "being fair," "promoting prosperity," "maintaining national security," and a variety of other noble-sounding purposes. Perhaps in some cases they know what they are doing and have simply decided that the loss of liberty entailed by the new government power they support is an acceptable price to

pay for the prospective benefit they anticipate—especially when they expect only other people's liberty to be diminished. In many cases, though, they surely act with no awareness that the new government program entails a further throttling of human liberty, an overriding of individual rights.

In 1991, according to official sources, Federal bureaus alone—not to mention the 50 states, more than 3,000 counties, and scores of thousands of cities, townships, and other government units, all imposing restraints on individual action—will propose or make final the issuance of 4,675 new rules.⁷ Those are *new* rules. When added to all the existing rules, laws, ordinances, regulations, decrees, injunctions, orders, requirements, prohibitions, and other official directives, they make up a heap of coercive measures so enormous that not even an army of lawyers can hope to grasp them all, and tax accountants throw up their hands in exasperation.

Budgetary Tyranny

To carry out their thousands of projects, the governments of the United States take at gunpoint—remember, payment of taxes is *not* a voluntary contribution—a sum of money beyond human comprehension, currently about \$2 trillion. Question: How far would total government revenues, put into the form of a string of two trillion dollar bills, reach? Answer: It would stretch from the earth to the sun and back, leaving enough of the string to wrap around the earth about 167 times. And this illustrates just this year's government revenues. Watch out for next year!

Remember the American colonists' complaints about taxation without representation? Well, they paid at most a few percent, probably no more than 3 percent, of their annual incomes in taxes. Americans now pay about 36 percent of their vastly larger incomes to their governments. Much of this huge revenue amounts to taking from Peter to pay Paul, then taking from Paul to pay Peter—in order to be fair. Along the way, government officials and bureaucrats take a hefty broker's commission on each transaction. Fully one worker in seven is on the government payroll. Vast numbers of others, supposedly in the "private sector," also work for the government, because they do what they do only because of government spending, taxing, and regulating.

So utterly devoid of principle is the current

activity of U.S. governments that no project whatsoever is too silly to exclude from the trough. Recall the scandal involving the hundreds of thousands of dollars recently appropriated to fix up the boyhood home of Lawrence Welk somewhere in the lost reaches of the Dakotas. (The appropriation was repealed when the news media publicized it heavily, but rarely does anyone take much notice of the equally outrageous appropriations that lard the budget.) You probably haven't heard of the \$566 million appropriated to fly cows to Europe, supposedly to promote exports. Or the \$107,000 to study the mating habits of the Japanese quail. Remember, every dollar is taken from you or someone else at gunpoint. Would *you* put a gun to someone's head to get money for studying the Japanese quail?

There's much more, including the \$2.8 million for a fish farm in Stuttgart, Arkansas; the \$1.3 million for repairs to a privately owned dam in South Carolina; the \$500,000 for the 1992 American Flora Exposition; and the \$49 million for a rock-and-roll museum. Consider next the \$500,000 to revitalize downtown Ada, Oklahoma—not a place many Americans are likely to visit—and the \$772,000 to construct a skeet shooting club at Tinker Air Force Base. After all, one never knows when the Russians will attack with clay pigeons. There is also \$375,000 to renovate the House of Representatives beauty parlor; plus \$98 million for Congressional mail no one wants to receive, hyping the virtues of your local member of Congress; and \$1.5 million to spruce up a military golf course. (Is this what the framers of the Constitution had in mind by the phrase “provide for the common defense”?) There's \$7 million to study air pollution—in Mexico City—and \$1 million for the bicycle transportation demonstration project in Macomb County, Michigan. And the list goes on and on and on.⁸

One could continue indefinitely just listing one-line descriptions of ludicrous government projects, which in many cases have no real value to anyone except those paid to carry them out. Rarely does the budget contain the *only* kind of projects contemplated by the founders of the nation, namely, those of common benefit (that is, of benefit to *everyone*) that are also within the powers enumerated in the Constitution as allowable government actions.

Needless to say, constitutional limits on govern-

ment action fell by the wayside years ago. Where economic interventions are concerned, the federal government received the blessing of the Supreme Court, in a series of cases between 1937 and 1942, to do virtually anything authorized by Congress.⁹ Given that green light, members of Congress proved time and again that no scheme to buy votes was too outrageous to refuse. Anyone who thinks that taxes must be raised to cut the federal government's deficit, because spending already has been cut to the bone, should spend some time reading the budget documents.

Democracy Versus Rights

Of course, we've been told since childhood that all of this is just the workings of “democracy,” as if taking a vote could decide the wisdom or morality of an action. The central purpose of the Constitution in the first place was to put *limits* on the actions of political representatives. A majority vote can do nothing to *justify* an action. The majority vote of the people or the Congress can no more justify a political action than the majority vote of a gang can justify an assault.

Majority voting is simply a decision rule for selecting the actions that will be taken from the set of all *permissible* actions. Through the years the mantra of “democracy” has been chanted over the most morally offensive actions of American governments, as if majority voting can make everything okay. It cannot. When governments override the rights of individuals, they violate their only *raison d'être*. Under the banner of democracy, the United States has built an engine of oppression so vast that it is doubtful whether it can ever be substantially reduced, much less dismantled.

Are Rights Justifiable?

Is it possible that I am taking too seriously some 200-year-old rhetoric about human rights, and that I have compounded the blunder by supposing that property rights are among the most fundamental of all human rights? After all, didn't Jeremy Bentham tell us that the notion of rights is not only nonsense, it is “nonsense on stilts”?

I admit that I am no philosopher and that, if called upon to supply a proof of the existence of human rights, I cannot provide one. Nor am I persuaded by the attempts I've seen of philosophers

far better prepared than I to give the proof. But as an economist, I am trained to ask certain questions: First, what's the alternative? Second, after a choice is made, what happens next, and after that, and after that, as repercussions of the initial choice continue to have indirect effects?

Suppose you tell me, there is no such thing as rights; and I reply, okay, let's agree that there are none. Later, when a mugger accosts you and demands that you surrender your wallet on pain of having your throat slashed, am I supposed to feel that you have been wronged? Of course, you won't like this event, but the mugger will; it's just your personal loss against the mugger's personal gain.

Or suppose you wake up tomorrow morning and discover that a majority vote has been taken, and the majority or its chosen representatives have decided that all people like you—in some respect, it doesn't matter which—are to report for transportation to concentration camps. Well, that's democracy in action. Remember what happened to the Japanese-Americans in 1942.

If there are no rights, then we'll just have to get along without them. But chances are, with no conception of rights, social life will be pretty much as Hobbes thought: brutish and short, et cetera, or else everyone will end up obeying the person who wields the most power at the moment. A society that doesn't take human rights seriously and protect them will turn out sooner rather than later to be hellish. Apart from whatever one may think about the philosophical status of rights, a world without rights would not meet the aspirations of even the most thoroughgoing utilitarian. So, if one doesn't care whether people believe in rights, fine; but one must be prepared to suffer the consequences.

We know from history what happens to societies without genuine individual rights. From sweeping powers of government, unconstrained by silly notions that all individuals have rights to life, liberty, and property, come the Soviet Union and its empire, Nazi Germany, Fascist Italy, and Pol Pot's Cambodia as well as today's China, Vietnam, Cuba, and a lot of other loathsome societies that merit the full measure of our contempt and sorrow.

In due course we shall arrive at something similar in the United States, for this country is fast proceeding in the direction of subjugating all human rights, especially human rights to property, without which the others eventually will prove

more or less worthless. When the government controls everybody's access to newsprint and broadcasting channels, freedom of the press won't have any real substance—just consider how shamelessly the news media performed during the recent war, when the government controlled reporters' access to the theater of war. When the government controls the conditions on which people can obtain or give employment, freedom of speech won't matter much—who will jeopardize his job by speaking out against the government? When the government controls the manner in which all goods and services must be produced and the terms on which they may be sold, freedom of association won't be worth much—what good will it do to have a meeting under those conditions? A nation without firm private property rights will eventually prove unable to defend any human rights whatever. Only citizens who have secure private property rights possess a protected, autonomous position from which they can challenge their rulers. Our forefathers understood this well, but most Americans have forgotten.

Property Rights Are Human Rights

Property rights have been slandered throughout most of the 20th century, especially by people who contrast property rights and human rights, and pose a choice between them. Now, faced with such a choice, who wouldn't opt for human rights—far better to worry about human beings than about sticks and stones. But this way of posing the question is misleading and utterly unacceptable.

All rights are human rights. It is in the very nature of rights, which are morally justifiable claims on the conduct of other persons, that only human beings can possess them. Property rights don't belong to the factory in which a corporation manufactures its products; they belong to the corporation's shareholders, the individual human beings who have surrendered other property in voluntary transactions to acquire ownership claims on the factory. A related and equally foolish idea is that government can tax "business" rather than individuals. But bricks and mortar can't pay taxes; only persons can. "Taxing business" is just another term for taxing certain people differently from others.

Property rights are the human rights to decide

how property will be used, to appropriate the income or other benefits of the property, and to transfer the rights of ownership to others in voluntary transactions. Everyone realizes that some degree of property ownership is essential for sustaining human life in society. But many people suppose that once we go beyond personal property such as clothing, furniture, automobiles, perhaps houses, and arrive at “bigger” property such as land, factories, mines, and railroads, private ownership no longer is essential. The supposition is wrong. Suppression of private property rights at any level tends to have socially destructive consequences.

Property rights must be lodged somewhere. Even societies that pretend to have no private rights in “bigger” property simply lodge the rights in the hands of politicians or bureaucrats. *Someone*, some human being, still decides how the property will be used and who will receive its benefits.

But without private property rights, the link is severed between rational employment of the property and the rewards or punishments of the decision-maker. Irresponsible behavior no longer carries with it an automatic punishment. Politicians or bureaucrats are free to use resources destructively—as they have in socialist economies for decades and as they have in the socialized sectors of the United States such as public education or management of public forests or rangelands or national defense production—and still the decision-makers may thrive.

Private property rights create an incentive to employ resources in their most highly valued uses as determined by consumers. Socialized property arrangements insulate the decision-makers from the preferences of consumers, who invariably suffer, as they have throughout the socialist world since 1917, and as the unfortunate people of those places, some of whom now are free to speak, readily attest.

For Sale: A Precious Birthright

As ever more rules and regulations curtail the decisions individuals may make for themselves, as ever greater proportions of people’s income are siphoned off to be used as our leaders decide, as every species of special interest pays tribute to predatory politicians who suck the marrow from the

bones of civil society, individuals are reduced to ever more meaningless atoms in the social cosmos. All of life becomes politicized, which means corrupted by power. And as individual liberty and individual rights die, all that is decent in human society dies with them.

Our Revolutionary forebears complained that King George had “erected a multitude of New Offices, and sent hither swarms of Officers to harass our People, and eat out their substance.” But Jefferson and Madison could not have dreamed, even in their most horrifying nightmares, of the swarms of bureaucrats upon us now, harassing us and eating our substance. The nation’s founders could not have understood how cheaply a wealthy society of their descendants would sell its precious birthright of liberty and justice and respect for individual rights.

No individual, of course, can do much about the state of the nation. But each of us has a mind, and with some effort one can use it to think. The next time you hear of a proposal to employ the government for still another noble purpose, think! Ask yourself: At what cost to individual liberty will this project operate? And how can we preserve our remaining liberties if we give our assent piecemeal to the thousands of new proposals for enlarging and strengthening government that pour forth each year? What will be the end result of these piranha attacks on human rights? And do you want to live in that kind of world? □

1. Ludwig von Mises, *The Ultimate Foundation of Economic Science: An Essay on Method* (Kansas City, Kan.: Sheed Andrews and McMeel, 1978), p. 98.

2. Thomas Hobbes, *Philosophical Rudiments Concerning Government*, as reprinted in *Hobbes: Selections*, edited by Frederick J. E. Woodbridge (New York: Charles Scribner’s Sons, 1930), p. 267.

3. “Declaration and Resolves of the First Continental Congress,” in *Documents of American History*, edited by Henry Steele Commager (New York: Appleton-Century-Crofts, 1948), pp. 83-4.

4. “Declaration of the Causes and Necessity of Taking Up Arms,” in *Documents*, pp. 92-5.

5. “The Virginia Bill of Rights,” in *Documents*, p. 103.

6. “Massachusetts Bill of Rights,” in *Documents*, pp. 107-08.

7. Unified agenda of Federal regulations, as cited in Robert Pear, “In Bush Presidency, the Regulators Ride Again,” *The New York Times*, April 28, 1991.

8. The preceding examples, and many more, appear in a series of stories on Congress in *New Dimensions*, March 1991, pp. 22-57.

9. Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987), pp. 180-94.

Positive Externalities of Gun Ownership

by John Kell

While a friend and I were talking about gun control, he remarked that it didn't matter to him if restrictions were placed on gun ownership because he didn't own a gun. What he failed to realize was that he benefits from civilian gun ownership whether he owns guns or not. He benefits because the ownership of guns by civilians has positive externalities.

Externalities are unpaid-for effects that accrue to third parties from the use of property by its owners. The effects may be beneficial or harmful to the third parties. If beneficial, the effects are known as "positive externalities"; if harmful, they are called "negative externalities." For example, someone who walks down a residential street full of well-landscaped yards might enjoy the sight and smell of flowers in bloom. Though the individual homeowners paid for and cared for their particular yards, the walker also benefits. The pleasure the walker receives is a positive externality of the homeowners' yard care.

Advocates of gun control are quick to point out that innocent third parties sometimes are injured or killed by accidental discharge or criminal misuse of firearms. Indeed, these are negative externalities of guns in civilian hands. What advocates of gun control rarely acknowledge, or even understand, are the positive externalities of civilian gun owner-

ship. Positive externalities may be less newsworthy, but they are just as real and far outweigh the negative externalities of the right to bear arms.

While accidents and criminal use of guns are reported as news, making the negative externalities of gun ownership readily apparent, the millions of peaceful interactions among people that occur each day are not reported. These peaceful events are taken for granted, and little thought is given as to what conditions brought them about in the first place. Millions awake each morning and find that their homes haven't been burglarized. The vast majority of stores pass through day and night without being robbed. Many women walk alone or live alone without being accosted or raped. These peaceful happenings are due to many factors, such as burglar alarms, door locks, and police patrols, but many are due, in part, to civilian gun ownership.

One million times each year homeowners and storekeepers protect their property and lives using firearms; often this occurs without a shot being fired.¹ The mere sight of a gun often is enough to send a robber running. Impressive as this number is, it doesn't show the full extent to which the crime rate is lowered due to privately owned guns. In those cases where a gun owner thwarts a lawbreaker, it is obvious that having a gun benefited its owner. But those cases benefit non-owners as well. If the lawbreaker is killed, he will commit no more crimes. If the lawbreaker is wounded, captured, or even escapes, his inclination to commit a similar

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crime in the future is probably lessened. The peace that arises from the disinclination or inability to commit another crime is a positive externality of gun ownership.

Crime Kept in Check

It cannot be known how many times each day potential burglars think, "I'm not going to break into that house; I might get shot." Even though it is difficult to evaluate how much crime is kept in check by civilian gun ownership, there is evidence that suggests its damping effect is substantial. In Orlando in 1966-67, the numbers of burglaries and rapes fell substantially after 2,500 women went through a well-publicized training program on the use of handguns.² In a survey taken of felons, 43 percent stated that the fact that a victim might be armed had caused them to avoid particular homes or people.³ There probably is no way to determine how many law-abiding citizens might turn to crime if it were a less dangerous occupation.

A friend of mine, a gentle and honest man, once confided in me that he had stolen a car when he was a teenager. He and three friends had been walking down a street in the small town where he lived, noticed a car with keys in the ignition, hopped in and drove away. Their joyride ended when they were pulled over by the local constable. My friend said his act of thievery hurt his mother more than anything else he ever did, and he regretted it often. He was guilty of theft and knew it, but he said he wished that the car's owner hadn't left the keys. Even though a well-equipped criminal can break into a locked car in less than a minute, leaving cars unlocked with keys in the ignition greatly increases the number of thefts.

The lesson here is that if it is very convenient to commit a crime, more people will commit it. This is not to say that everyone is dishonest; it's just a basic law of human nature that people will choose the easy way over the hard way when confronted with a task. In the task of living, it is easier to take than to make. As Frederic Bastiat said, ". . . the very nature of man . . . impels him to satisfy his desires with the least possible pain."⁴ Copyright laws are violated daily by otherwise honest people with access to photocopiers and tape recorders. The crime is so convenient and the victim is so distant, most people who commit copyright violations probably wouldn't consider themselves criminals.

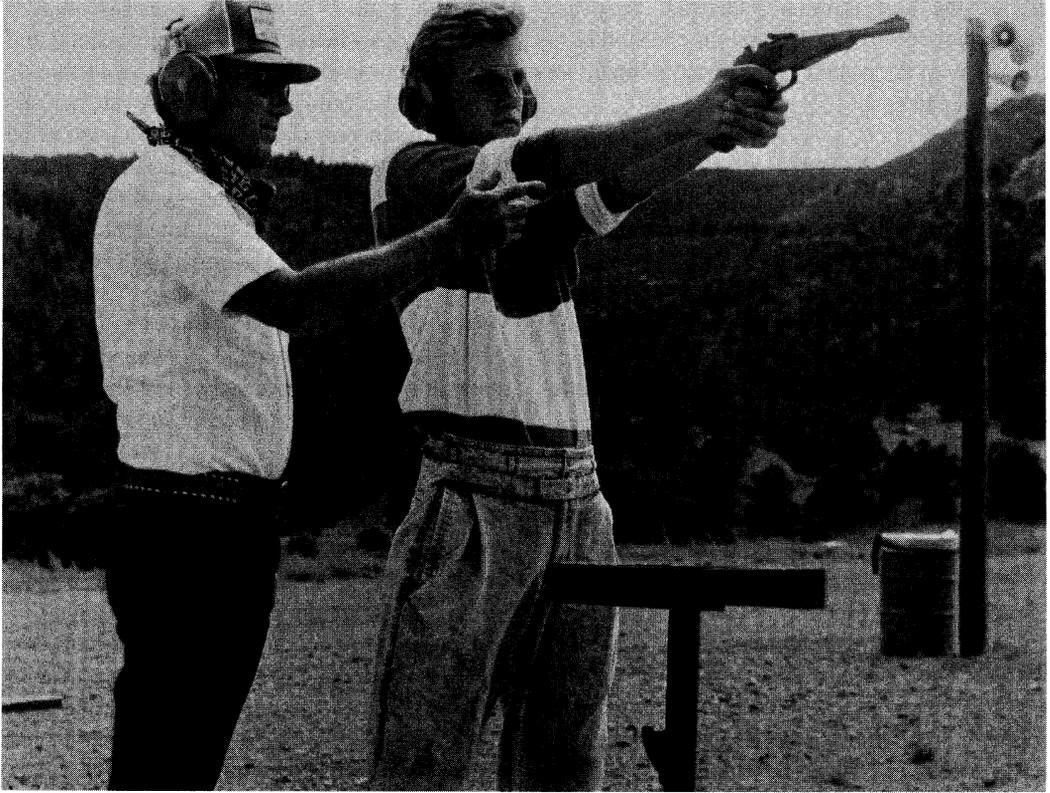
Bastiat said, "When, then, does the plunder stop? It stops when it becomes more painful and more dangerous than labor."⁵ Gun ownership by civilians makes burglary and robbery very dangerous and often very painful. About one-half of all homes in the United States contain firearms.⁶ Someone considering carrying out a burglary has no way of determining if the house he plans to enter has guns in it, so he avoids all occupied houses, benefiting those who don't own guns as well. People who don't own guns know implicitly that they benefit from private gun ownership. How many of them would put a sign in their yard that says: "The owners of this house will not defend it with armed force."

Jails are full of repeat offenders. That is evidence that punishment is not a strong enough deterrent for some people. The punishment served up by the criminal justice system usually occurs long after the crime, further attenuating any deterrence value it may have. But negative reinforcement, the condition provided by an armed homeowner at the time of an attempted crime, is an effective deterrent. Such immediate and life-threatening action makes crime a hazardous occupation, and if crime is made a dangerous way of life, the number of criminals will decline and society will be a safer place for all.

Restraining Government

Another positive externality, even less apparent, is the restraint that has been put on government action because of civilian gun ownership. What policies might have been put in place by federal, state, and local governments had civilian gun ownership been heavily restricted? In the many years since the founding of our nation, what rules might bureaucrats have written if they hadn't needed to worry about an armed revolt of the masses? What invasive policies might they have come up with to make enforcement of their laws easier?

There are thousands of laws in the United States that restrict gun ownership in one way or another. Restrictions include waiting periods, bans on concealed weapons, and bans on owning particular kinds of weapons such as handguns or military style semi-automatics. Gun control advocates support these laws because they hope to eradicate negative externalities, but reducing gun ownership eliminates positive externalities as well. In fact,



COURTESY OF THE NATIONAL RIFLE ASSOCIATION

Nonprofit groups such as the National Rifle Association provide training in the handling of firearms.

gun control laws probably cancel more positive than negative externalities, because law-abiding citizens are much more likely to obey the rules than are criminals.

The negative externalities of guns need to be decreased, but the best way to minimize them is to deal with them directly. Accidents can be reduced by educating owners about the proper care and handling of firearms. Such training is being provided by nonprofit groups including the National Rifle Association, and at for-profit shooting ranges.

Criminal misuse of firearms can best be decreased by cutting the overall crime rate. Methods of reducing crime have been discussed by other authors, and include drug legalization, eliminating barriers to entry in the work force, and increasing educational opportunities.

Since we don't pay for positive externalities, we seldom think of their value. Indeed, it would be a formidable task to measure the total value of the positive externalities of guns in private hands. However, even without that measurement, the knowledge of the existence of positive externalities should help us to understand why so many people consider the right to own firearms to be a priceless freedom. □

1. Gary Kleck, "Crime Control Through the Private Use of Armed Force," *Social Problems*, February 1988, p. 4.

2. *Ibid.*, p. 13. Rapes had decreased by 89 percent one year after the program. Burglaries dropped "substantially" as well.

3. *Ibid.*, p. 12.

4. Frederic Bastiat, *The Law* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1950), p. 10.

5. *Ibid.*, p. 10

6. Kleck, p. 1.

Pains of the German Unification

by Hans F. Sennholz

Eastern Germany is lingering in deep depression. Of all the struggling former Soviet satellites, it was expected to succeed most quickly. At a stroke, on July 1, 1990, the German mark became the common currency, opening the doors to one of the world's richest sources of investment capital. The West German government stood by with hundred-billion-mark grants and credits, and millions of fellow citizens were eager to help in any way possible. Yet, despite these extraordinary advantages, East Germans are suffering probably the deepest depression in Eastern Europe. In 1990 their gross national product dropped by 14 percent, and almost 30 percent of their 9½ million workers are either unemployed or working short-time. According to many studies, this figure is likely to rise further in the coming months.

The pains of unemployment threaten to render the dream of unification a political and economic nightmare. Integrating two such unequal economies—an ossified command system with a prosperous market order—is an unprecedented task. Even under ideal market conditions, it would have taken many months of adjustment to merge the two parts into one homogeneous whole. Unfortunately, the German government compounded the difficulties by imposing its strictures on the adjustment process. It imposed the costs and regulations of one of the most expensive welfare states on the newcomers, thereby paralyzing all but a few highly productive enterprises.

The principal reason for the East German depression is the rapid rise in East German labor

costs. *Despite massive regional unemployment, wages are rising with astonishing vigor, driven by the most generous unemployment compensation system in the world. It pays an average worker 68 percent of previous earnings for two years.* Encouraged by vocal labor leaders and thoughtless politicians, workers expecting a shutdown of their decrepit facilities demand immediate raises so they can draw the highest possible benefits when their plants finally close. As labor costs are pushed far beyond labor productivity, jobs disappear at astonishing rates.

East Germans are longing for wage equalization with West Germans. Collective-bargaining contracts call for equal pay by 1994 in a number of industries such as metallurgy, electrical engineering, and retailing. But it is unlikely that one in 10 East German enterprises will stay afloat in competitive markets. With labor productivity at less than one-half of that in West Germany, by 1994 many more East Germans are likely to subsist on unemployment compensation. For the moment, non-dismissal agreements and provisions governing short-time working, financed by large West German subsidies, are holding back the worst.

Privatization Efforts Hindered

Excessive labor costs in eastern Germany may also explain why privatization of state enterprises is proceeding so slowly. In Poland and Czechoslovakia, governments are planning to give away most state-owned enterprises, using vouchers made available to all citizens. In eastern Germany, in contrast, the *Treuhandanstalt* (Trusteeship Authority) is supposed to sell some 8,000 state

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enterprises at equitable prices. Until now it has rejected most bids for being too low and not meeting its onerous labor conditions. Unfortunately, it makes matters worse: for the protection of eastern workers it seeks to extract expensive employment and wage guarantees from potential buyers, which obviously depresses the price offered for an enterprise, which in turn causes the *Treuhandanstalt* to reject the offer. In the end, few, if any, government enterprises are sold. They are likely to be shut down and their workers discharged when the western subsidies run out.

Few western companies have established or plan to establish plants in the east. East German labor is just too expensive at present rates. The situation is compounded by bureaucratic logjams and disputes over property rights. Even if the Trusteeship Authority were to offer a facility at market prices, which would be a rare exception, it might be enjoined from doing so by litigation initiated by the former owners. Thousands of victims of Communism are pressing claims for compensation or return of their property in the courts of law; the Trusteeship Authority is opposing these claims, clinging to property as if it were its own.

Other factors compound the employment situation, which is leading to growing social tension and political uncertainty. When the two Germanies merged into one and migration barriers were lifted, the two parts formed one comprehensive labor market. According to all principles of economics, West German wage rates should have fallen and East German wages should have risen as eastern labor moved west and western business moved east until, in a few years, both parts would have been equal in labor productivity and income. A small drop in western labor costs would have raised the demand for labor sufficiently to absorb the influx of workers from the east. But instead of reducing western labor costs, powerful unions have managed to boost costs by about 6 percent since unification. This increase alone would have tended to raise unemployment. For the East Germans it closed many doors to employment in the west and forced them to stay at home subsisting on unemployment compensation.

Another factor aggravating the employment situation is the massive influx of Eastern Europeans. With the disintegration of the Communist empire and the dismantling of many migration barriers, millions of Eastern Europeans are seeking a new

beginning in western Germany. During 1989 some 700,000 immigrants arrived in West Germany; in 1990 this number exceeded one million, and is likely to rise further during 1991 and the coming years. The movement at first eased the acute shortage of skilled workers in West Germany but now is compounding the employment difficulties of many East Germans.

Roots of Unemployment

Employment and unemployment always are a function of labor costs, not of the costs of equipment. The cause of the German dilemma is not East Germany's poor quality of plant and equipment. Millions of workers throughout the Communist world and in less developed countries around the globe earn a living with similar or even less efficient facilities. But they do not agitate for policies that will price themselves out of employment because they have no one to support them. Inferior equipment keeps labor less productive; it doesn't render it completely unproductive and doesn't force it to be idle. It is foolish to blame old equipment for one's unemployment.

The depression was not caused by the terms of monetary unification, as Karl Otto Pohl, president of the Bundesbank, wants us to believe. In preparation for monetary union he had proposed an exchange rate limit of one D-mark for two rather worthless East-marks. Chancellor Helmut Kohl insisted on a parity of exchange, arguing that the two-to-one rate would penalize eastern savers and pensioners and encourage eastern workers to move westward. In reality, both exchange rates were political rates rather than purchasing-power market prices, which before the union had stood at seven-to-one. Both rates in effect included generous gifts to every East German, especially the savers and pensioners. But monetary gifts by themselves don't directly affect the price of labor, which is determined by the productivity of labor. East German labor could have priced itself out of employment as easily at a two-to-one rate of exchange as it did at the one-to-one rate. The push for wage equalization would have been the same.

Some observers blame the eastern German depression on the disintegration of trade with former Eastern-bloc countries, such as Poland, Czechoslovakia, Hungary, Romania, and Bulgaria. This was the region that previously had bought



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seven-tenths of all East German exports. The disintegration of the old trade pattern obviously necessitates painful readjustments, which makes the need for flexibility and adaptability all the greater; unfortunately, the strictures of labor laws and regulations render the necessary adjustments rather difficult.

Many Germans and most people abroad are convinced that Germany will succeed in overcoming its difficulties and, in the end, emerge more prosperous than before. They point to a few rays of hope such as the large and still growing number of new businesses that emerge every day. Since the beginning of 1990, some 400,000 new businesses have been registered. The main focuses of these new enterprises are the craft trades and the service industries. Here the first stirrings of the recovery process are clearly visible.

The new stirrings may contain an answer to the economic dilemma. In years to come they may develop into the mainstream of economic production while the *Treuhand* sector is bound to shrink in direct proportion to the decreasing subsidies it manages to extract from the body politic. In the meantime, however, the deep depression and mass unemployment in eastern Germany are bound to leave their mark not only on the economic well-being of millions of victims but also on their political thoughts and prejudices. Many may argue that, under Communism, they at least had jobs. Under capitalism, or what they now believe to be "capitalism," they feel rejected and forced to subsist on alms from the West. A resentful East German population may even turn against the new order and cast its lot with the foes of democracy and the private-property order. □

China's Entrepreneurs: Keeping the Faith After Tiananmen

by Sheila Melvin

“Judging by China’s experience, I advise you not to adopt socialism, at least not vague and unclearly principled socialism.”

—DENG XIAOPING speaking to Joaquim Chissano, President of Mozambique, in the spring of 1988.¹

“The modern capitalist system is a great creation of human civilization.”

—XU JIATUN, formerly Beijing’s chief representative in Hong Kong, speaking in 1988. Mr. Xu left Hong Kong for the United States nine months after the crushing of the democracy movement and later was expelled from the Communist Party.²

“During the 1980s we experienced tremendous success, and during the last two years we have continued to make progress even in the face of foreign pressure and domestic problems, enabling socialist China to stand rock solid in the East. The fundamental reason for this is that we have been following the road of building socialism with Chinese characteristics.”

—CHINESE PREMIER LI PENG, addressing the National People’s Congress, China’s rubber stamp parliament, on March 25, 1991.³

The life of an entrepreneur in the People's Republic of China has never been an easy one. Aside from all the general problems faced by entrepreneurs worldwide and the specific problems faced by entrepreneurs operating within the confines of a Communist country, China's entrepreneurs must somehow cope with the unpredictable political winds that blow out of Beijing and sweep across the nation.

For much of the 1980s, the winds were good. Deng Xiaoping came to power and declared that "to get rich is glorious." He explained his policy of economic pragmatism with the oft-quoted proverb, "It doesn't matter if the cat is black or white, so long as it catches mice."

By the late '80s, inflation was running high. In an attempt to regain control over the economy and to curb inflation, the central government, in October 1988, instituted an austerity plan. The economy slowed, but the position of private entrepreneurs still seemed secure; that same year, China's constitution was amended to legitimize the status of private enterprises. (A "private enterprise" in China is defined as a private, profit-seeking business with at least eight employees.) By early 1989, laws that not only regulated private enterprises, but protected them, were coming into existence.⁴

Then in June 1989, the winds changed direction. How the 23 million men and women engaged in private business in China have fared in the face of these shifting winds can be gauged through the experiences of a sampling of entrepreneurs and non-state sector employees from across the country.

"China's No Good"

Miss Zhang is the proprietor of a coffee house in a small town in Xishuangbanna, an autonomous prefecture in China's southwest Yunnan Province. Like many residents of Xishuangbanna, Miss Zhang is not an ethnic Chinese, but is a member of one of China's 55 officially recognized minority groups, the Dai. She opened her coffee house, which doubles as a disco in the evenings, in 1986. The coffee house is just a few miles from China's jungle border with Burma, and numbers among

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its customers Thai and Burmese traders who have sneaked into China on horseback. Most of the clientele, however, are tourists from other parts of China.

Miss Zhang is only in her 30s, but she has about her a tired, cynical air that makes her seem older. To Chinese customers, Miss Zhang is curt, but to me she is friendly and open, eager to discuss the trials and tribulations of entrepreneurship in China.

"Is it hard to run a private business like yours in China?" I asked her one scorching afternoon as I sipped iced Nescafé.

"Hard? Hard? It's ridiculous! Taxes, taxes, taxes—all we private business people do is pay taxes. The government doesn't want any private entrepreneurs to earn money. I can't sell alcohol—only the government can do that. The police are always coming to bother me. I have to give them money to keep them away. It's terrible. Terrible."

Private businesses in China are required by law to pay 52 percent of their profit to the state and to put 30 percent back into the business.⁵ The remaining 18 percent is often eaten away by local taxes and fees and by the necessity to pay bribes.

Miss Zhang leans forward and lowers her voice conspiratorially, "To tell the truth, China's no good. This government is no good."

"No good," is harsh criticism when directed at a supposedly benevolent government that claims to be a "democratic dictatorship of the people" with only the best interests of the masses at its heart. It is, however, a criticism echoed by entrepreneurs across China.

Demands for more rapid economic liberalization were an integral part of the pro-democracy protests of 1989. These protests came to a bloody end when troops of the People's Liberation Army entered Beijing on June 4 and slaughtered an undetermined number of civilians. But the dissatisfaction, disillusionment, and hope for a better future that fueled the protests did not end.

In the wake of the crushed democracy movement, government hard-liners turned on reformers and blamed the market-oriented reforms implemented in the 1980s as the major cause of the "turmoil." Former Communist Party chief and heir-apparent to Deng Xiaoping, Zhao Ziyang, the main champion of economic liberalization, lost his job and was placed under house arrest.

In the subsequent crackdown, economic re-

trenchment replaced economic reform. Both private enterprises (*siying qiye*) and individual businesses (*getihu*) were singled out for attack as the central government tried to regain control over the non-state sector. Too many “flies”—such as the desires for individual liberty, free speech, and economic self-determination—had come in through the “open door.” In August 1989, two months after the massacre in Beijing, the State Taxation Bureau began a two-month campaign to detect tax evasion in the non-state sector and issued a circular on “rectifying the tax order” for individual firms.⁶

Most Western experts agree that some “rectification” was in order, since millions of private business owners did actively try to conceal their operations in order to avoid paying taxes. The campaign, however, went beyond mere “rectification” and bordered on open harassment.

Private and individual enterprises were reportedly forced to buy government bonds (as were state workers) in order to help fund the country’s budget deficit. Some complained of being made to pay extortionate fees for necessary services. Jiang Zemin, who replaced Zhao Ziyang as General Secretary of the Communist Party, indirectly referred to private entrepreneurs as “exploiters” and said that they should not be allowed to join the Party. He also accused private entrepreneurs of profiteering, cheating, and taking advantage of the people.⁷

I asked Miss Zhang how she had been affected by the post-Tiananmen Square crackdown.

“Business!” she replied. “My business has been affected. The government isn’t letting any non-residents into the border region. If no non-residents—tourists—come, then I have no business!”

“Why isn’t the government letting any non-residents into the border region?”

“I don’t know,” she replied bitterly. “They just want to control everything and everybody.”

Miss Zhang stared unhappily into space and then changed the subject.

“Is it true that America is full of terrorists and murderers?” she queried out of the blue.

Startled by the question, I told her that America did, indeed, have murderers but that it wasn’t “full” of them and that we had very few problems with terrorism.

“Well, then,” she continued, “is it true that Americans don’t get married and hate children?”

“No, it’s not true. Who told you all this?”

“I learned it in school—that’s what our books tell us. I always wondered because sometimes Americans come in here and they always seem nice and polite. They don’t spit and they don’t throw food on the floor.”

So saying, she gestured at the floor, which was littered with cigarette butts and peanut shells.

“Your books aren’t very good,” I suggested. “I think the government wants to criticize America because we are capitalist and they are Communist.”

“Yes,” she nodded. “Actually capitalism is much better, isn’t it?”

“I think so.”

“China is no good. I wish I lived in America.”

Success Is Dangerous

George is a businessman employed by a private enterprise in Wen Zhou, the coastal city chosen for China’s most far-reaching experiment in capitalism in 1984. Wen Zhou was selected as the site of the experiment in part because it had no airport or rail head. It was therefore sufficiently isolated both to act as a laboratory and to prevent the spread of too many capitalist ways to the rest of China.

In this novel capitalist experiment, private businesses were encouraged to set up shop. To help them succeed, the first privately owned banks in Communist China were established to lend entrepreneurs money. Business boomed, industrial output skyrocketed, and the people of Wen Zhou grew rich. Any outside observer would have deemed the experiment an unqualified success.

The company George works for produces medical equipment and machinery. George travels around China selling this equipment, although he says his best customers are in Wen Zhou itself, since it is one of the few places in China where people have money.

George isn’t a native of Wen Zhou, but he spoke of his adopted city in glowing terms as the most prosperous place in China. According to him, Wen Zhou is richer than Canton or Shenzhen, the special economic zone near Hong Kong, and better, too, because Wen Zhou makes its money from manufacturing rather than trade. Best of all, Wen Zhou’s factories, many of which produce electrical appliances, are owned by Chinese families, not just foreign investors.



Yangshuo's main street.

COURTESY OF SHEILA MELVIN

"If it is so successful," I asked him, "why doesn't your government open up all of China to be like Wen Zhou?"

"Because," he answered, "if all the people in China were allowed to have their own factories and their own money and ideas, they would not be so easy to control, and our government would lose its power. The government does not want to lose its power, and it is much easier to control poor people."

Wen Zhou hasn't fared well since the crushing of the pro-democracy movement. In 1989, the output of the city's 150,000 private businesses fell, and many businesses went bankrupt.⁸ The campaign to collect taxes was carried out with a special vengeance in Wen Zhou. The level of tension between the government and the private sector escalated to such a degree that in October 1990 two street peddlers attacked three tax collectors, killing one and beating up the other two.

George, well aware of all this, has decided to leave China temporarily and has accepted a job at a prestigious American university.

"I want to be a millionaire," he explained, "or a billionaire."

"Why?"

"I want to open my own factory and be rich. But first, I must have a green card. If you have a private business and a green card, you are safe—then you are American, and the Chinese government can do nothing to you. But, if you have a private business that succeeds and you are Chinese—then it is dangerous."

Yangshuo

The problems faced by entrepreneurs since the crushing of the pro-democracy movement can be seen in microcosm in Yangshuo.

Yangshuo is a tiny town in the Guangxi Zhuang Autonomous Region in south-central China. It is an hour-and-a-half by bus, and several hours by boat, from the nearest major city, Guilin. Yangshuo is perched on the banks of the Li River amidst an other-worldly setting of spectacular limestone peaks, known as karsts. The scenery of Yangshuo, as well as its bigger neighbor, Guilin, is famous throughout China and has been extolled by artists and poets for centuries.

When tourists started flocking to China in the early 1980s, Guilin quickly became a prime destination. A huge tourist industry burgeoned, much

of it private. Tourist boats journeying up the Li River from Guilin stopped briefly in Yangshuo, leading local entrepreneurs to establish a tourist market on the dock.

As the '80s wore on, more and more individual travelers began making their way to China. Yangshuo entrepreneurs couldn't compete with Guilin for the tour-group tourists, but they could try to entice individual travelers to come and stay in their town. Restaurants serving banana pancakes, french fries, muesli, and pizza sprang up. Tailors began selling sun dresses and shorts sewn from the bright, tie-dyed fabrics favored by young Westerners. Musicians came in from the countryside to entertain backpackers as they sipped beer at sidewalk cafes.

By 1988, the year I first visited Yangshuo, the town boasted China's only two privately owned hotels that accepted foreigners, the "Good Companion Holiday Inn" and the "Yangshuo Sheraton." (Neither hotel had any affiliation with the American hotel chains.)

There are only two major streets in Yangshuo, and the hotels were located on the same one, practically next door to each other. Competition between them was fierce. Old women, some with bound feet, were hired by the hotels to catch foreigners as they arrived at the bus station. Hobbling on canes and cackling in broken English, the women, who worked on commission, would try to persuade backpackers to stay at whichever hotel employed them. Both hotels had one rustic toilet per floor and outdoor showers, but they were clean and cheap. The owner of the "Sheraton," where I stayed, rented out bikes, organized outings to nearby villages and midnight tubing expeditions on the Li River, in addition to providing a laundry service and a train and bus ticketing service.

Just up the street from the hotels, the owner of Napoleon's Bar served up Mongolian Hot Pot, with a special tofu version for vegetarians, and chatted with the guests at each table. A young waiter charmed diners with his ability to speak flawless English in a variety of accents and his street-smart knowledge of countries he had never seen. For candlelight, rock music, and after-dinner drinks, travelers could wander over to the "Hard Rock Cafe/Yangshuo," and even buy 100 percent cotton tee shirts bearing the plagiarized Hard Rock Cafe logo with the word "Yangshuo" silk-screened beneath it to prove they had been there.

Travelers found Yangshuo's breathtaking scenery, leisurely pace, Western food, and English menus so convivial after the rigors of traveling in the rest of China that they stayed for days, even weeks. Many, myself included, bypassed Guilin completely, using it only as a staging point to get to Yangshuo.

But, this was all before the June 4 massacre in Beijing two years ago. In September 1990, I returned to Yangshuo to see how its entrepreneurs had managed in the ensuing time period.

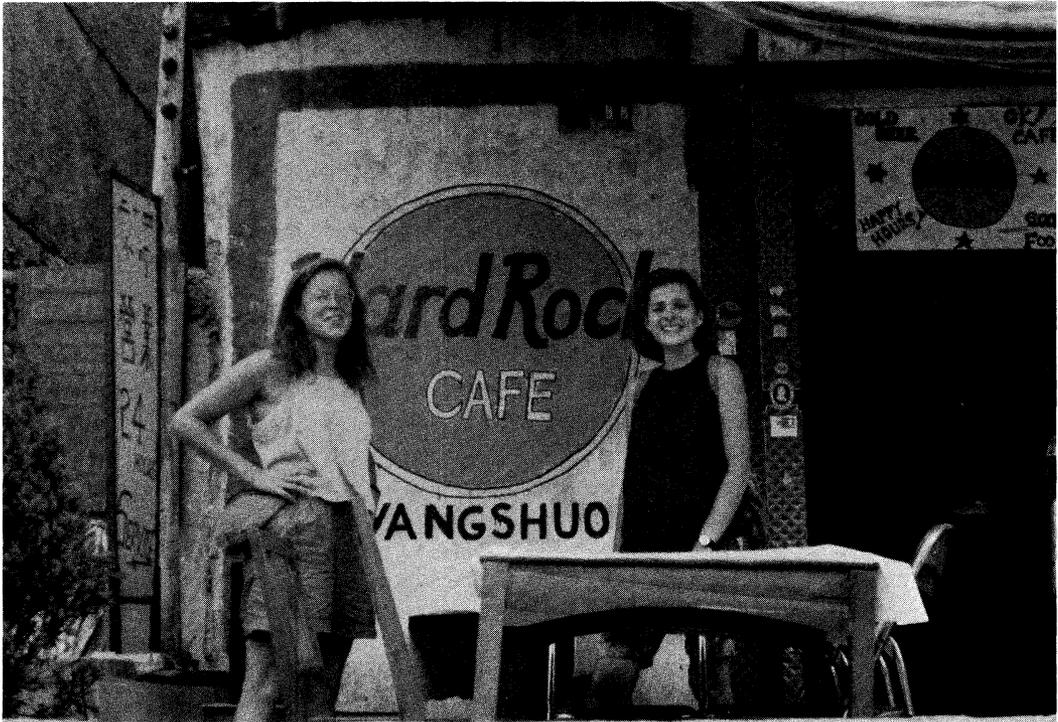
"Too Much Dust"

The first blow to hit Yangshuo in June 1989 was the desiccation of the tourist industry that immediately followed the massacre. Suddenly, no tourists were coming to China, and those already there were lining up to get out. (Tourist arrivals in China plunged in 1989, and tourism revenues dropped 20 percent after increasing at an annual rate of nearly 13 percent the previous 10 years.)⁹ Entrepreneurs in Yangshuo—and across China—who had sunk everything into a business geared exclusively toward foreign tourists suddenly had no customer base.

The "Hard Rock Cafe" closed from July to September of 1989 because of the dearth of customers. It re-opened in October, but, soon after the re-opening, government officials came and ordered it to close down. The reason? There was "too much dust" on the street, so all private restaurants had to close.

Undeterred, Collin, half-owner of the "Hard Rock," moved his business to Yangshuo's second main road, West Street, and opened again in November. But then, in April 1990, private restaurants quietly re-opened back on Yangshuo's main drag, where Collin's cafe had been, and government officials said nothing. Another entrepreneur opened a second "Hard Rock Cafe" in the building originally occupied by Collin's "Hard Rock Cafe."

Collin takes the arbitrary changeability of his government's policies in stride. Asked if he isn't angry about the competition from a second "Hard Rock Cafe" brought on by the government's closure of his restaurant, he jokes, "Yeah. I should have copyrighted the name." Collin is the son of farmers who raise pigs and ducks and grow rice. He is a college graduate, and his parents think he is "crazy" for running a private business. They



COURTESY OF SHEILA MELVIN

Outside Yangshuo's second "Hard Rock Cafe."

think this not only because being an entrepreneur in China is such a risky undertaking, but because, like all college graduates who choose to work in the private sector, Collin must reimburse the government for the cost of his education. Collin's business partner, however, is doing the same thing Collin did, majoring in English at Guangxi's main university while Collin runs the business; it is a measure of the "Hard Rock Cafe's" profitability that both young owners can support themselves, help their families, and pay for college education out of the money the cafe makes. Business, Collin said, was much better in 1990 than in 1989, but not nearly so good as prior to the massacre. Asked what he expects for the future, he replies, "I don't think about it."

Napoleon's Bar closed its doors for many months, both because of the lack of customers and the "dust" problem. The couple who owned it divorced, and the charismatic young waiter was laid off. With no private businesses able to hire him, he was forced to turn to the government for employment and worked for a while as a tour guide. He didn't like working for the government, and eventually found a job at the privately owned Green Lotus Peak Wine House. His one ambition

in life is to find a sponsor to help him leave China. "I want freedom," he explained simply. Unlike the "Hard Rock Cafe," Napoleon's was able to re-open at its original location on Yangshuo's main street. However, the restaurant still wasn't back on its feet in the fall of 1990. In an effort to woo customers, it was offering a 30 percent discount for all items on its already cheap menu.

The "Good Companion Holiday Inn" and the "Yangshuo Sheraton" were both shut down by the government in November 1989. The "Holiday Inn" was subsequently re-opened in the "Sheraton's" building, but is now owned by the government. The "Sheraton" is defunct.

Tiger, a former owner of the "Good Companion Holiday Inn," is bitter.

"I was a 40 percent owner," he explained in English. "I lost a lot. Almost everything."

In the difficult year that followed the massacre, Tiger also went to work as a government tour guide, but he didn't like the government travel agency. "They cheat and lie," he explained. When the now government-owned "Good Companion Holiday Inn" opened, Tiger went to work as its manager, quite a comedown from being the hotel's founder and principal owner.

Tiger differs from every other entrepreneur I met in that, rather than supporting the student movement, or at least being sympathetic to its goals, he blames it for the destruction of his business.

"Why were the hotels in Yangshuo closed down?" he asks rhetorically. "Because of corruption. Yangshuo was the only place in all of China where private hotels took foreigners. We were able to take them because of corruption. Many hotels want to take foreigners, but they cannot. The students protested against corruption, and so the government shut us down as an example."

Getting more riled, Tiger continued, "I don't blame the government for what it did in Tiananmen Square. Any government in the world would have done the same thing. The students were trying to overthrow the government, and the government did what it had to do."

Later, in conversation with other entrepreneurs, I learned that Tiger was not a popular figure in Yangshuo.

Glorious Wealth vs. The Socialist Road

Entrepreneurs in China come from all walks of life. Some are college educated, some are barely literate. Men, women, Han Chinese, and minority groups alike choose the capitalist road, with all its associated risks, over the socialist road of state-sponsored security. The crushing of the pro-democracy movement and the crackdown that followed dealt a blow to entrepreneurs and other members of the non-state sector, but not a knock-out.

Miss Su is a tailor in southern Yunnan who specializes in sewing the clothes of Yunnan's minority peoples. Her shop is a neat shack across the street from a pigpen. Miss Su is paraplegic and, in China, is therefore considered virtually unemployable.

Miss Su opened her shop in 1985. In a good month, she earns 200 yuan, in a bad month 100. (In 1990, 100 yuan was roughly 20 dollars.) For the 10 months following the June 4 massacre, she didn't have a single customer and was forced to rely on her parents for support. She quietly voiced the hope that "nothing like that would ever happen again," but she has no plans to give up her business.

Miss Ye sells made-for-export clothing out of a

tiny stall in Beijing. Her stall is in the thriving silk market located in an alley close to the Friendship Store and the Jianguomenwai embassy compound, an area of the city that is frequented by many foreigners. By Chinese standards, she is quite well-off. Despite her business's prime location, Miss Ye complained that China's economy is terrible.

"After the turmoil, we had no business," she said. "Of course, there are always people from the embassies, but it's people like you we really count on."

"People like me left China, or stopped coming, because we opposed what your government did in Tiananmen Square," I responded.

"I understand that. Of course, I opposed it too. But, when there are no foreign tourists, we private business people can't make any money."

"That's a problem," I agreed.

"This economy—it's really hard for us private business people. Really hard."

"What do you think the main problem is?"

"Socialism! Socialism is the problem! You're either capitalist, or you're socialist, but not both. Our government wants money, but it does not want full capitalism. It's no good."

Miss Ye's words, in a nutshell, sum up the Chinese government's economic policy.

Premier Li Peng has stated that China needs to strike a balance between "building socialism with Chinese characteristics" and continuing with market-oriented reforms. Until he and the rest of the Chinese leaders realize, as Miss Ye already has, that such a balance is ultimately untenable, China's entrepreneurs will remain stuck in the unenviable position of looking toward Beijing to see which way the winds are blowing. □

1. Daniel Southerland, "China Bests Soviets in Real Gains," *The Washington Post*, July 3, 1988.

2. *Ibid.*

3. Lena H. Sun, "China's Premier Urges Tight Controls, Slow Reform," *The Washington Post*, March 25, 1991.

4. Alison E. W. Conner, "Private Sector Shrinking Under Intense Criticism and Increasing Controls," *East Asian Executive Reports: China*, December 15, 1989, page 10.

5. Adi Ignatius, "A Tiny Chinese Venture into Capitalism Feels Icy Chills in Wake of Crackdown," *The Wall Street Journal*, March 8, 1990.

6. Conner, *East Asian Executive Reports*.

7. *Ibid.*

8. Ignatius, *The Wall Street Journal*.

9. Peter Goodspeed, "Slouching Toward Stagnation: Productivity Shudders to a Halt," *The Toronto Star*, as reprinted in *World Press Review*, May 1990.

Freedom Is Not Elected

by Donald G. Smith

There seems to be a lot of confusion about freedom. Many people tie it to democracy or, to be more exact, representative government. The idea is that freedom is safe as long as elected representatives are sitting in some distant assembly hall. Actually the concepts of freedom and representative government are only distantly related, and the presence of one doesn't guarantee the presence of the other.

Freedom flourishes best under representative government. But such a system of government is no guarantor of freedom. It is only a tool to help with the job. We might say that it is better to drive a nail with a hammer than with a rock, but the mere fact of owning a hammer doesn't mean that anyone is going to be driving nails.

Freedom is something that exists alone, and of itself. A big turnout on election day is meaningless if those elected aren't primarily concerned with the rights of the individual. If, indeed, the people who are elected are intent upon passing laws that impinge on personal freedom, then representative government is working against the people.

We would do well to remember that the United States was founded upon the idea of freedom and not necessarily democracy. Those brave souls who tossed the tea into Boston harbor on that December night in 1773 were not motivated by thoughts of a Senate and a House of Representatives and how much power either one would have. They were interested in freedom, and they were quite content to save the details for another time and place. Patrick Henry was in the same frame of mind when he put forth the *liberty-or-death* ultimatum. *Mr. Smith is a writer living in Santa Maria, California. He has been a frequent contributor to The Wall Street Journal.*

matum, perhaps the most courageous words ever spoken publicly.

The great motivating principle behind our break with Great Britain was the simple, fundamental matter of personal freedom. This was the issue. Our three branches of government, our electoral process, our two-party system, our local governments, and even our Constitution are nothing more than tools to achieve this end; they are not ends in themselves. They are important only insofar as they protect individual rights, and when they fail to do this they have stopped working.

Our representatives are not in office to carve comfortable niches for themselves or to pander to bloc votes. Nor are they there to decide what is best for a constituency that cannot think for itself. They are there solely to protect individual liberties. It is ironic that they should be the ones from whom we need protection.

A sitting assembly is no guarantee that anyone's rights are being protected, or even considered. The People's Republics that sprang up in Asia and Eastern Europe after World War II are ample proof that large bodies of people calling themselves legislatures have no direct relationship to the freedom of the governed. Even with the built-in safeguards of our Constitution, a legislature that is bent upon raising taxes and passing laws curtailing individual freedom is not performing any service for those who still consider themselves to be separate entities and not part of an artificially defined economic or social class.

Nor is a high court, in itself, any protection for individual liberty. Judges who tend to legislate, rather than adjudicate, in no way are fulfilling their roles as public servants and are certainly upsetting the system of checks and balances that is supposed to keep the machine running. When the courts choose to work against the public interest, they have ceased to function as instruments of justice.

Legislative assemblies, courts, public buildings, and legal documents are only the trappings of freedom; they are equipment. If this equipment puts restrictions upon individual rights, then it becomes nothing more than an obstacle. Without freedom, government is just something to be bypassed or avoided—it is, in effect, the enemy.

Anyone who doubts this should reflect upon that night in 1773 when 342 chests of British tea went over the side. I don't think that the point could be made more clearly. □

Thank the Japanese for Our Trade Deficits

by John D. Fargo

Most people believe that U.S. trade deficits are economically unhealthy, and that the Japanese are largely to blame. Yet our trade deficits actually are an unearned blessing for which we should be thankful. Trade deficits bring economic growth and health. When we blame the Japanese for our trade deficits, we are “blaming” them for creating millions of jobs for American workers; we are “blaming” them for increasing our standard of living.

Did you ever wonder why our standard of living is so high? What lies behind the immense difference between our way of life and that of the millions of people living, toiling, and dying in unabated poverty in Bangladesh, Ethiopia, and other Third World countries? Capital investment. To a large extent, investment in housing, hospitals, schools, factories, farms, mines, machines, and transportation systems explains that immense difference.

Capital investment is the fuel of that dynamic engine called capitalism. It is the creator of unprecedented levels of consumption by the masses. And this accumulation of capital and its efficient use, which are inherent aspects of free market economies, are to a great extent responsible for the high standard of living the masses achieve in a free economy as compared with Third World or socialist economies. Even devout statisticians throughout the world are reluctantly beginning to realize this.

But how is capital accumulated? By savings that are then invested in productive facilities. And how

do we rate when it comes to savings and investment in order to maintain our standard of living? About 10 percent of our gross national product (GNP) is invested, most of this just to replace capital equipment that has worn out or become obsolete. Meanwhile the Japanese invest 25 percent of their GNP in capital goods—two and a half times more than we do.

When it comes to net savings—savings above and beyond the mere replacement of capital goods—we fare even worse. Our net savings are 4 percent of disposable income as compared with 20 percent for the Japanese. Part of the problem lies with our own government. Although American households save over 6 percent of their disposable income, the Federal deficit consumes much of what otherwise would be invested in capital goods.

This lack of net savings could pose a real problem for our standard of living that relies upon capital accumulation. Our spendthrift habits and Federal deficits drastically reduce America's ability to accumulate capital. But the Japanese (and others) have come to our rescue. Where we have neglected our own economic health, they have invested in it. In fact, the Japanese are using their hard-earned savings to bail us out of our own economic folly. They are helping us maintain our standard of living by pouring huge quantities of their savings into our economy. To a significant extent, they are fueling the capitalistic engine that maintains our lifestyle.

How do they get their investment over here? Do Japanese households fill shoe boxes full of yen and mail them to us? No, we don't use or spend yen

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in this country. In order to invest in our economy, the Japanese first need to earn American dollars.

Picture a shipload of Toyotas coming across the ocean to be sold to American consumers for \$100 million. Then picture the Japanese using this \$100 million to buy American-made products and taking them back to Japan with them. That makes it an even trade—no trade deficit—but it also leaves the Japanese with no dollars to invest in the United States.

What if that ship unloaded the Toyotas here and then returned to Japan empty? After the Toyotas were sold, the Japanese would have \$100 million in American banks that they could then invest in America. That also increases the U.S. trade deficit by \$100 million. Net foreign investment flowing into America and our trade deficit are the two sides of the same coin—one necessitates the other.

Let's say the Japanese use this \$100 million to build a factory in Kentucky that will employ 1,000 U.S. workers. One thousand new jobs are created for Americans. Not only that, but these workers are using the latest in Japanese technology and Japanese management techniques, both of which often increase the productivity of American labor. \$100 million in new capital investment, more advanced technology, more efficient management of capital and labor—all these tend to increase the productivity of U.S. labor and thus tend to raise the real level of wages of America's working people. We should be thanking the Japanese for our trade deficit.

But the Japanese are doing even more. Instead of creating American jobs by buying \$100 million in U.S. products to take back to Japan, the Japanese put additional Americans to work by building that \$100 million factory here in the United States. Construction is generally more labor intensive than is manufacturing products for export. And, once the factory is built, it will employ 1,000 American workers indefinitely.

In reality, the picture is much more complex than this. For example, the Japanese firm selling the \$100 million worth of Toyotas might not invest in America. But other Japanese firms may want to invest, so they trade yen for the 100 million U.S. dollars in order to invest them in America. Thus, the seller and the investor may be two different foreign individuals or corporations.

And the Japanese don't have to build a factory in order to invest in the United States. Instead,

they could leave the money in a New York bank account. The bank will readily lend it to Americans to build new homes, or to American firms to build new plants, equipment, and so forth. Or the Japanese might buy U.S. Treasury notes with the \$100 million, thus freeing up \$100 million in American savings that would have been used to purchase the Treasury notes and now is available for capital investment.

The Japanese might also buy an existing hotel or office building. The purchase itself won't add any new capital investment to our economy. But what does the previous owner do with the money he received from the Japanese? Somewhere along the line buying existing capital investments frees up money for new capital investments. In one way or another, just so long as the Japanese don't buy anything to take back to Japan, just so long as they create or increase the U.S. trade deficit, new capital investment flows into a relatively capital-starved America.

Three-Way Trade

Let's complicate this scenario in another direction to make it more realistic. The Japanese sell us \$100 million in goods and in return accumulate \$100 million in a bank account in New York. Since American dollars (or bank accounts) often are used as an international currency, the Japanese turn this New York bank account over to Saudi Arabia as payment for petroleum. Then the Saudis spend the \$100 million buying American-made military hardware.

In these three transactions, all parties came out even in the end. Each of the three countries involved imported exactly \$100 million worth of goods and exported \$100 million worth of goods. None of them had a net trade deficit or a net trade surplus. But look a little closer: The above transactions produced a U.S. trade deficit with Japan of \$100 million that was offset by a \$100 million trade surplus with Saudi Arabia. So we bash Japan for our trade deficit with them while we praise Saudi Arabia for our trade surplus.

Such reactions are irrational. First, as we have seen, a trade deficit means an inflow of capital into an economy and thus should be welcomed rather than cursed—that is, unless we aim at economic self-destruction so we can move a little closer to the Third World. Second, we are denouncing the

Japanese and praising the Saudis simply because of a pattern of trade that in itself has no net significance.

In the real world, trade often doesn't come out even. For example, on net balance Japan exports far more than it imports. That means Japan is creating, or is at least partially responsible for, the net trade deficits of other countries, such as the United States. But this only means that large amounts of Japanese savings are being invested in other economies, such as ours. And after the Japanese have invested their hard-earned wealth into our spendthrift and savings-poor economy, we censure them. And sometimes we do even worse.

For example, let's say the Japanese sell us \$100 million in goods, then use those dollars to purchase petroleum from Saudi Arabia, and the Saudis invest that money in the United States. Of course, we should thank the Saudis for investing in America. Instead, we sneer at them. But given our distorted perspective, why do we then continue to bash the Japanese in the above example instead of the Saudis? After all, if the Saudis had purchased \$100 million in goods from us, then everyone involved would have come out even—no net trade deficits or surpluses. But the Saudis didn't buy anything with those U.S. dollars and thus left them invested in the American economy. Given our compulsion to bite the hand that feeds us capital investment, shouldn't we then bash Saudi Arabia? Yet, we don't because our books show a trade deficit with Japan but no trade deficit with Saudi Arabia. A more enlightened mind might see Saudi Arabia as the prime cause of the deficit.

Who is to "Blame"?

Instead of laying the entire "blame" on the Japanese, some experts insist this "destructive" trade deficit can be blamed partially on America's lack of competitiveness within world markets. Thus, to some extent it's really our own fault. Let's face it, Japanese cars are a lot better buy for Americans than American cars are for Japanese consumers. Isn't it obvious then that we are less competitive in world markets than the Japanese?

No. The exchange rate between the two currencies has something to do with what appears to be relative "competitiveness." What if the Japanese yen suddenly became four times more expensive in terms of American dollars than it is now? Toy-

otas would then cost Americans \$40,000 to \$60,000 apiece—the Japanese car market in this country would quickly dry up. But with that exchange rate, American cars would be selling like hotcakes in Japan, and Japanese consumers would be wondering how Americans can produce cars so cheaply, how Americans can be so competitive in world markets relative to their own auto makers. And Japan would be running huge trade deficits while we would have large trade surpluses.

Yet, nothing has changed in this example except the exchange rate between the two currencies. Thus, we need to ask: What regulates exchange rates? Supply and demand for the respective currencies. Using only the two economies as a model, the Japanese supply of dollars is generated by selling goods to Americans. And the Japanese demand for dollars is generated because they want to buy goods from us and need dollars to do so. In addition, if they want to invest in America rather than their own economy, they also need dollars to do that. The market forces will tend to push the exchange rate between yen and dollars up or down until the demand for dollars is more or less equal to the supply of dollars.

For example, if for every \$100 million in goods the Japanese sell to us, the Japanese invest \$20 million in America, the exchange rate between the currencies will adjust to make Japanese goods sufficiently cheap (competitive) to Americans and American goods sufficiently expensive (uncompetitive) to the Japanese so that for every \$100 million we buy from them, their consumers will buy only \$80 million from us, leaving a \$20 million trade deficit—which means \$20 million of Japanese savings invested in the United States.

Within the real world, of course, all these figures—the amount they buy from us, the amount we buy from them, and the amount they invest in America, in addition to the exchange rate—are fluctuating variables dependent upon various market forces. Also within the real world other factors have an effect on the exchange rate—factors such as tariffs, quotas, transportation costs, governmental influence on exchange rates, and Americans' investing in the Japanese economy as well as their investing in ours. But the principle remains the same. The exchange rates will tend to adjust to make some economies less "competitive" and others more "competitive" in order to balance the supply and demand for various currencies that

reflect the supply of and demand for both goods *and investments* that can be purchased with these various currencies.

Thus, the cause of our “uncompetitiveness” as well as the cause of our trade deficit is simply a high demand for dollars by foreigners who want to invest in the United States. We’ve got to be relatively “uncompetitive” in world markets precisely in order to create a trade deficit that then permits foreign capital to flow in. And as long as the demand to invest in America stays high among foreign investors, the exchange rates between the different currencies will automatically adjust to keep American goods relatively “uncompetitive” within world markets—regardless of how modern our machines and factories become or how high our labor productivity rises.

But this foreign investment also keeps millions of U.S. workers employed building more capital goods for America, rather than employing Americans to produce export goods for foreigners. And it is precisely capital goods invested in the United States that in the long run keep us economically strong and our standard of living high. Capitalism needs fuel.

From another point of view, we can say that America is highly competitive in world markets. We are highly competitive in attracting foreign capital. And capital investment is the real root of long-term economic growth and health. In attracting foreign capital we far surpass Japan—just look at the billions of dollars of their own capital we annually attract to our shores.

The Role of Tariffs

Another explanation offered for our trade deficit or the relative uncompetitiveness of our goods in Japanese markets goes like this: We allow the Japanese a more or less free hand in selling their products to Americans, but they have so many prohibitive tariffs and trade restrictions that Japanese consumers can buy relatively little from us. That’s why, we are told, we have a huge trade deficit with Japan.

What if Japan dropped all tariffs and trade barriers? This would certainly help the Japanese consumers and make trade more efficient for both economies. But would it reduce our trade deficit or make us more competitive in the world economy? No. As long as the quantity of dollars demanded

by foreigners to invest in America remained the same, the exchange rates of the currencies would simply adjust, driving up the relative value of the American dollar in order to maintain our trade deficit and apparent “uncompetitiveness.”

This same analysis can be used to look at the period after World War II when the United States was the great exporter of capital investment. Europe and Japan were devastated by the war, and capital flowed from us to them. This caused large trade surpluses on our part that were offset by the net outflow of capital. And the currency exchange rates had to be such as to facilitate our capital outflow and trade surpluses. Of course, this also made American products appear highly competitive in world markets.

Since foreign demand for U.S. dollars to invest in America is the underlying cause of the trade deficit and our apparent “uncompetitiveness,” we might ask: Why do so many foreigners want to invest in America?

First, our huge Federal deficits and our low rate of savings have caused our economy to become relatively starved for capital, thus driving up the real rate of interest (nominal rate minus the inflation rate) or driving up the rate of return to capital in general. To a foreigner, that makes investments in America a good buy relative to the rate of return in other countries.

Second, the United States is a safe haven for investments. For example, even if a high rate of return were promised, would you sink your life’s savings into a farm machine factory in Iraq where next year it might be blown up or confiscated by Saddam Hussein’s Baath Arab Socialist Party?

This is the same reason why the ruling elites of many Third World countries, whose economies are far more starved for capital than we are, pump their wealth into the capitalistic economies instead of their own. For example, China is desperate for capital, but Chinese Communist officials regularly stash hundreds of millions of dollars in Hong Kong and other capitalist countries. This is tragic because it drives the masses within China even deeper into poverty.

It has become somewhat of a pattern for the ruling elite of socialist or statist economies—whether it be Marcos, Hussein, or the former Communist rulers of Eastern Europe—to accumulate enormous private wealth, often by brutally exploiting their own working classes, and then

to invest it in safe havens abroad such as the United States, thus further depriving their own people. Although this inflow of investment into the capitalist countries tends to impoverish the people of the statist/socialist countries, it certainly improves the standard of living of the workers and masses of the capitalist countries—and adds to our trade deficit in the process.

This inflow of capital does have a negative effect upon one segment of the American population, namely the wealthy capitalists. Large inflows of capital investment generate more competition in the capital markets, thus tending to drive down the relative returns to capital—just as other factors, such as our Federal deficit and our relative lack of savings, tend to drive up the returns to capital. But driving down the returns to capital tends to raise the returns to the working classes by means of higher wages. This becomes yet another way in which capital inflow, as reflected in our trade deficits, helps American workers.

Since our trade deficits in the long run are beneficial to the American public as workers and consumers, why do so many people depict them as a great evil? That's a good question, and the answer probably involves more politics, psychology, and history than economics.

The most conspicuous answer may be politics. The essence of government is organized brute force. For example, tax collectors as loyal employees of government don't take too kindly to those who resist governmental confiscation of sizable portions of their incomes. But governments need continually to justify the notion that some people (such as those in government) should initiate brute force (or threat thereof) as a means of relating to other persons (such as those outside of government). In short, government, like any other use of force in relating to other persons, needs legitimacy.

In some areas, such as collecting taxes for national defense, such legitimacy is relatively easily established. But as governments continually expand their regulation of the lives of their citizens, they become ever more desperate for legitimacy. So governments typically search for and magnify social problems—even to the point of artificially creating them—in order to justify the growing expansion of their power over the people and the product of the people's labor.

To some extent, the trade deficit, although inherently good for our economy, has been

deemed a "problem" or a "crisis" by big government and its supporters. Thus, they have one more reason to expand the power of government over the otherwise voluntary interactions and social cooperation between persons of this country and other nations.

Piles of Gold

The trade deficit as "evil" also has historical roots. Let's go back in time to the Middle Ages in Europe. Picture a number of mutually antagonistic countries, each ruled by a king. These less-than-enlightened minds "knew" two things for certain.

First, they knew that a loyal citizen never invested his wealth in a foreign country. For example, an Englishman wouldn't invest his wealth in France—that would be worse than throwing it into the ocean. It would be aiding and abetting a real or potential enemy or rival—economic treason! Furthermore, since he was an Englishman, the French authorities might simply confiscate his wealth.

Second, experts of the day believed that the wealth and status of a nation were largely a function of how much gold it possessed. Gold was a common, and prestigious, international medium of exchange.

So picture this pile of gold, the nation's treasure, with the king's throne sitting on top of the pile. The wealth and status of one's nation depended upon how large this stock of gold became. Thus, every time a ship took a load of goods out of the country, sold them, and brought back gold (a trade surplus), the king's pile of gold and the nation's status grew a little. But if that ship brought goods into the country and in exchange took gold out (a trade deficit), the pile of gold shrunk a little.

Of course, a foreign ship might bring a load of oxcarts to England and sell them to the local citizens for gold. Then, instead of taking that gold out of England, let's say they spent it in England in order to build an oxcart factory or develop a coal mine. This would create a trade deficit, but it wouldn't reduce the nation's stock of gold (money supply). But to the degree that people didn't invest in foreign economies, this type of foreign investment wasn't significant.

The wise men of the time concluded that trade surpluses in general were good because they increased the king's stock of gold and elevated him and the nation a little in the eyes of the world, and

trade deficits were evil because they reduced the size of the king's pile of gold.

Another factor involved is a little more complex and wasn't well understood at the time. With gold as a common medium of exchange, any net inflow of gold into an economy increased the money supply, causing some degree of price inflation that in the short run tended to generate at least the illusion of prosperity—much as when the Federal Reserve increases the money supply in modern times. Any net outflow of gold would have the opposite effect, reducing the supply of money within the economy, and causing a degree of price deflation and an economic recession in the short run.

I won't go into the mechanics of this phenomenon, but modern economies are not on a gold standard, and thus the local supply of money is totally divorced from any trade deficits or surpluses. For example, if the Japanese sold us \$100 million of goods and took back \$100 million in gold bullion, it would have no effect on our money supply. In fact, today we wouldn't even call it a trade deficit because gold is now considered just another commodity. And if the Japanese wanted to pack \$100 million in American currency into a shipping container and take it back to Japan, we would simply print another \$100 million to

replace it in order to maintain the same supply of money.

Why do people, even experts, still cling to that bit of ancient economic "wisdom" regarding the detrimental effects of trade deficits even though every premise supporting such a notion has long ago vanished—and just the opposite is true? Gold is rarely used as an international currency, people all over the world routinely invest in foreign economies, and as Adam Smith pointed out over 200 years ago, the wealth of a nation is not a function of its stock of gold. Instead, the wealth of a nation is a function of the skills, habits, and technology of its workers and economic organizers, as well as a function of its factories, farms, mines, machines, retail establishments, transportation systems—in short, a function of the amount of capital investment.

Not only the wealth of a nation, but also the standard of living of its people, is to a large extent a function of capital investment. And a nation can increase its capital investment in two ways: by internal savings or by trade deficits that represent foreign investment flowing in. Thus, it is high time that we stand up, take off our hats, and thank the Japanese and other foreign investors for our trade deficits. □

The Benefits of Trade

It is natural for people to trade with one another. No doubt men came to understand the advantages of voluntary transactions long before the dawn of written history. Persuading others to part voluntarily with some good or service, by offering them something in exchange, was usually easier than doing battle for it. Certainly it was far less dangerous. Barring force, fraud or human error, both parties to any transaction expect to gain something they value more than what they are giving in exchange. Otherwise they would not trade. This is equally true of trades among friends or strangers, fellow countrymen or foreigners, small enterprises or larger—whether located next door to one another or separated by many miles or national borders. . . .

It is governments, not consumers, that make national boundaries important. It is governments, not consumers, that create national distinctions and promote economic nationalism, often without intending to do so.

—BETTINA BIEN GREAVES

IDEAS
ON
LIBERTY



BOOKS

THIS HEMISPHERE OF LIBERTY: A PHILOSOPHY OF THE AMERICAS

by Michael Novak

The AEI Press, 4720-A Boston Way, Lanham, MD 20706
1990 • 153 pages • \$18.95 cloth

Reviewed by Jeffrey A. Tucker

History should remember May Day 1991 as the day the Supreme Pontiff of the Catholic Church, the world's oldest religious institution, issued an encyclical to herald the free market as the model for global economic development. Along with it, the Pope praised the role of profit, entrepreneurship, the division of labor, the price system as the means of resource allocation; and he condemned socialism as "impossible" and attacked the bureaucratizing and dehumanizing effects of welfarism.

The appearance of *Centesimus Annus* (The Hundredth Year) was a startling occasion for people who have watched the development of John Paul's social thought. Some reports said that in preparing the document he was consulting with some top Western economists sympathetic to the free market—Jeffrey Sachs and Robert Lucas, for example—but no one expected a document that would please the likes of F. A. Hayek or Ludwig von Mises.

The issuance of the document must have been an especially exciting occasion for Michael Novak, holder of the George Frederick Jewett Chair in Religion and Public Policy at the American Enterprise Institute, and author of numerous works on theology and economics.

Novak has argued for years for the compatibility between Christianity and capitalism, and performed careful textual analysis of papal teaching to reinforce his point. Almost alone, he has kept the Catholic vision of a free economy alive during years when U.S. bishops expressed more skepticism of markets—and the disparities of wealth that always accompany them—than support for their productive capacities.

Novak's recent book, *This Hemisphere of Liberty*, appeared only four months before *Centesimus Annus*. The nine essays herein, nicely

compiled and never before published in this country, represent some of Novak's best work. They are not directed toward an audience of academic scribblers, but rather to entire nations.

Most of the essays are taken from lectures delivered during the 1980s as Novak toured extensively in Brazil, Argentina, Chile, Colombia, Peru, Guatemala, El Salvador, Panama, and Mexico, presenting a sweeping vision of the liberty that should be their goal. And they are couched in language that should especially appeal to these audiences. For North Americans, the book serves as a terrific distillation of Novak's most tested thoughts on economics and its relation to religion.

Latin America is a part of the "hemisphere of liberty," Novak argues, a phrase introduced by Colombian historian German Arciniegas. And Novak urges Latin countries to claim that vision by restructuring their political, economic, and cultural institutions to make them more compatible with true human liberation.

In speaking about the right of private initiative and associated liberties, we never find Novak on the defensive against common criticism of markets. He recasts conventional arguments for capitalism in terms imbued with virtue and the common good—decidedly not as a rhetorical trick, but as a coherent and Christian view of the social order.

In this vein, Novak's most impressive chapter is "Structures of Virtue, Structures of Sin." The social order that elevates liberty, he argues, does so not because it ignores the reality of sin, but rather because it is aware of sin's pervasiveness.

"The task for a political philosophy that would seek genuine and effective human liberation . . . is not the task of building a system designed for angels or saints. The task is rather to build a system that will work for sinners." This social order erects checks and balances to government power, insists on an understanding of liberty that is directed toward truth and the good, and channels self-interest into socially useful directions that allow for "universal economic creativity."

Novak invokes Hernando de Soto's remarkable work on the underground economy in Peru to show that economic development in the Third World must come from the bottom up. It is because of concern for the poor that Christ demands of us, he argues, that legal institutions must reflect

the right to exercise entrepreneurial creativity, and the economy must reward, not punish, this virtue. The weight of state intervention in Latin America is what makes the poor suffer; markets offer a liberation.

It is impossible to overlook the similarity in themes and language between the Pope's encyclical and Novak's work. One can fairly speculate that some of the passages of the encyclical are directly drawn from Novak, if not from this present work, then surely from *Spirit of Democratic Capitalism* or his excellent study *Free Persons and the Common Good*. Especially notable similarities are the emphasis on the human mind as the ultimate economic resource and the market as a means for promoting virtues like creativity, thrift, and honesty in the citizenry.

The Pope's encyclical will turn new eyes toward the work of Michael Novak. Scholars may begin to rethink Novak's work and understand why he has been right about this pope, and why he has the power to persuade the Vatican. When Novak included the Pope in the liberal tradition of Acton, Tocqueville, and Hayek, many conservatives (myself among them) thought he was stretching things a bit. The Pope's pro-market statements seemed few and far between. But it turns out that Novak had a fine intuition about this pope, seeing in him what few others could.

Centesimus Annus is not only cause for celebration, but Novak should enjoy a great deal of personal satisfaction as well. The Pope's encyclical represents a vindication of Novak's work, of which there is no better representative and accessible volume than *This Hemisphere of Liberty*. □

Mr. Tucker is a fellow of the Ludwig von Mises Institute.

TO PROMOTE THE GENERAL WELFARE: MARKET PROCESSES VS. POLITICAL TRANSFERS

by Richard E. Wagner

Pacific Research Institute for Public Policy, 177 Post Street,
San Francisco, CA 94108 • 1989 • 239 pages • \$29.95 cloth;
\$12.95 paper

Reviewed by Peter J. Boettke

Economic theory is analogous to a pair of corrective eyeglasses. Whereas the world appears unclear and indistinct without a

pair of glasses, the correct prescription lenses will clarify and bring our vision into focus. Similarly, without sound economic theory to guide us, the complex world of economic phenomena appears as a blur. With the aid of sound economic theory, however, the economic world begins to make sense.

To make sense of the modern economic world, we need to understand both the workings of the unhampered market process (and the consequences of intervention) and the nature of the political process. The workings of market processes have received careful attention in the writings of Austrian economists such as Ludwig von Mises, F. A. Hayek, and Israel Kirzner. On the other hand, the nature of political processes has been articulated by "public choice" scholars such as James Buchanan and Gordon Tullock. In *To Promote the General Welfare*, Richard Wagner, chairman of the department of economics at George Mason University (the home of both the Center for the Study of Public Choice and the Center for the Study of Market Processes), combines the insights of both Austrian and public choice economics to analyze the policies of the welfare state.

With the decline of the socialist model of economic organization, the battleground for classical liberals has shifted. The main debate today centers around environmental policy and welfare reform. In fact, the new defense of socialism that appears to be emerging takes one of two tracks or combines them into a new agenda—the necessity of state control to protect against environmental destruction and/or the necessity of expanded state action to protect the least advantaged and provide opportunity to the less privileged.

For example, Robert Heilbroner in his now-famous *New Yorker* article ("After Communism," September 10, 1990) holds out the possibility of socialist action on the environment, and Alan Ryan in his Fall 1990 *Dissent* essay ("Socialism for the Nineties") suggests that expanded social services and the provision of public goods in Western democracies demonstrate the theoretical possibility and practical desirability of socialism. The model for the post-Communist world is not laissez-faire capitalism, but the democratic welfare state, as Francis Fukuyama has argued in his reflections on "the end of history."

To Promote the General Welfare should prove to be one of the most important scholarly works in

this debate. Wagner provides: 1) a framework of study that should be emulated in future examinations of the issues, 2) a survey of the existing empirical literature on the failure of the welfare state to deliver on its promises, and 3) systemic suggestions for reform that go to the heart of the problem of majoritarian democracy and its relationship to the productive sector in civil society.

Wagner begins with the recognition that there exists a wide divergence between the justification for state welfare programs and the results of these programs. As he points out, "despite the explosion in spending by the welfare state . . . the number of people whose money income would place them below the poverty line has generally increased since the War on Poverty began." This sad state of affairs isn't limited to the War on Poverty but permeates all "Great Society" programs. How could such policy failures emerge from seemingly well-meaning initiatives?

It is this divergence between rationale and reality that Wagner hopes to explain to the reader. A key factor, he points out, has been the substitution of political rationales for economic ones in organizing social affairs: "The divergence between the justifications for the programs of the welfare state and the actual consequences of those programs—divergences that have by now been documented for a large variety of regulatory programs—are an understandable and predictable outcome of an institutional order that can be characterized as a majoritarian democracy, or an unlimited democracy."

Whereas traditionally governmental failures have been excused as due to a lack of political will or a paucity of sufficient information, Wagner argues that there are *structural* reasons for governmental incompetence. According to prevailing theory, if well-meaning governmental action fails, the remedy is to try harder, gather more information, or appoint better officials. This explanation, however, misunderstands the Achilles heel of governmental action—the nature of the institutional settings and the incentives they provide to individuals.

The problem that faces government officials is one of *knowledge* and *incentives*. "The problem of knowledge," Wagner points out, "is the same in questions of public policy as in questions of business. In both cases, someone must reach a judgment about whether a potential use of resources

will be more or less valuable than the alternative use of resources that would have to be sacrificed for the project in question to be undertaken." But while the problem is essentially the same, individuals in private and public sectors "face different incentives to exercise caution in estimating benefits and costs and to act quickly in incorporating and reacting to new information."

To argue his point, Wagner employs a notorious example of business failure: the Edsel. Ford produced the Edsel with the expectation of turning a profit, but when the car turned out to be a failure, profit and loss incentives assured that production was halted quickly.

But the profit and loss pressures faced by businessmen are not faced by government officials: "For instance, what if the Edsel had been a government product, say the outcome of a public policy similar to the federal government's creation of Amtrak? Would production have been halted as quickly? Or would there have been efforts to continue the program, such as requiring government contractors to use Edsels? Any such measure would make the Edsel look more successful, at the expense of an increased burden on taxpayers. Government regulation would have been used to cover up an added tax burden that was used to subsidize the government's Edsel."

The point of the example is to suggest the reciprocal connection between the knowledge and incentive components of public policy. "The incentive to acquire knowledge and the judgment to identify something as knowledge in the first place depend upon the institutional setting within which people act." The lack of incentive and the corresponding inability of government officials to access and utilize the contextual knowledge of the market (knowledge that is embedded within the price system and that provides the basis for economic calculation) produces a situation of *structural ignorance*. Officials who find themselves in such a situation do not simply throw up their hands and say: "I don't know what to do." Rather, they base their decisions on political rationales since economic criteria are weak or nonexistent.

The logic of political processes under majoritarian democracy is to concentrate benefits on the well-organized and well-informed interest groups and disperse costs on the unorganized and ill-informed mass of voters. As a result, the policy failures of the welfare state are not mistakes, but

rather the “result of the rational pursuit of interest and not really a failure from the perspective of those whose interests are controlling the choice at hand.”

Better public policy, Wagner argues, is not a mere matter of better selection of officials or improved methods of generating information; it requires a political reformation. “So long as government is organized according to majoritarian principles,” Wagner concludes, “its participation in economic life will contain important forces tending to erode liberty and property, because successful politicians and special interests can profit from the supply of legislation that has these effects.” Only through institutional and constitutional reform in a manner that accentuates the positive activities of government while restricting the negative activities will public policies emerge that are “supportive of the free society that the American constitutional order promises.”

To Promote the General Welfare is an outstanding contribution to the literature on the welfare state. Richard Wagner convincingly demonstrates how the current array of welfare programs, and their destructive consequences, are the logical result of the political framework of majoritarian democracy. In addition, the book offers wise counsel for all who seek not only to understand the world, but to change it in a direction that favors individual liberty and economic prosperity. □

Peter J. Boettke is a professor of economics at New York University.

WOUNDED INNOCENTS: THE REAL VICTIMS OF THE WAR AGAINST CHILD ABUSE

by Richard Wexler

Prometheus Books, 59 John Glenn Drive, Amherst, NY 14228-2197 • 1990 • 369 pages • \$21.95 cloth

Reviewed by Hannah Lapp

The growing incidence of domestic violence and child abuse in America has provided politicians with an irresistible opportunity for expanding the dominion of government into the most private reaches of its citizens' lives—family relationships. Our modern child welfare system is just another example of the nation's clumsy social welfare programs in that it:

- neglects to deliver the promised services and protections
- hurts the purported beneficiaries
- infringes upon individual liberties
- impedes private solutions
- and, naturally, flaunts the disastrous results of its performance as evidence of the need for more funding and control.

Here we may leave off comparisons to other government bungling and examine the horrors unique to our child welfare system, as portrayed by Richard Wexler, a reporter for the *Times Union* in Albany, New York. His book delivers a bold, up-to-date analysis of child protective performance that strikes the unsuspecting reader particularly hard with its vivid documentation of child-stealing, incompetence, and chaos inconceivable for official ranks.

Throughout his writing, Wexler uses the broad label “child savers” in referring to the psychologists, social workers, politicians, lobbyists, and the like, who comprise the movement for mass intervention in families and state custody of children. The label becomes less flattering with each page that tells of the deeds done under its guise.

In the name of “erring on the side of the child,” little Jennifer Humlen and her brother Chris were plunged into a nightmare from which they have never fully recovered. They were abruptly taken into Los Angeles County custody after a school nurse reported Chris's bruised eye to the Department of Children's Services (DCS). The accident had happened when Chris was playing ball. Their distraught mother, aided by neighborhood support and an attorney from the VOCAL (Victims of Child Abuse Laws) organization, got the children back, through sheer will and luck, in one week's time. But one week in DCS custody was long enough to leave Jennifer bruised, feverish, and dehydrated from the crowded conditions in a children's home, and both children suffered deep and lasting emotional trauma. Wouldn't the DCS offer an apology? “Of course not,” says the children's mother. “They're in the right, don't you know? They're the child savers.”

Parents, says Wexler, have been deemed child abusers for being late to pick up children after school, for not allowing children to watch television after 7:30 P.M., or simply because a child-protective worker botched the arithmetic on a risk-assessment form. “But most of all,” he says,

"child savers report parents to authorities, substantiate cases against them, and take away their children, solely because the families are poor."

Chicago resident James Norman was a hard-working father with the pride and love for his family that enabled him to support his ailing wife and their four bright children. The bills caught up to him, however, after his wife passed away and he developed a heart condition. In the summer of 1988, the electricity to Norman's apartment was cut off, and a caseworker came to visit. The apartment was messy, she wrote in her report, but the children "appeared to be very healthy." However, Norman was charged with "financial neglect," and the children were placed in foster care. After a year of desperate efforts to live up to child welfare demands, which included a psychiatric evaluation, a job, and a better apartment, he still didn't have his children back. James Norman finally died of a heart attack—at age 38.

These and uncounted similar cases are included in the child-abuse statistics that often are thrown at us as justification for mass intervention in families. Wexler explains how to decipher intelligently such shocking reports as "over two million children are abused each year across the U.S." What this figure actually represents is the number of *reported* cases, which include anonymous calls received at state hot-lines. More complete data shows that upon investigation by a caseworker, 60 percent of these reports are dismissed as "unfounded." Broken into categories, figures for 1986 bear out that over half of the reports involved "deprivation of necessities," which may just mean poverty, 15 percent involved sexual allegations, and 2.6 percent involved serious bodily injury. The National Incidence Studies counts 161,000 cases of serious maltreatment across the country in 1986—only a small fraction of the same year's figure of over two million children reported to be maltreated.

The widely publicized cases of Lisa Steinberg and Eli Creekmore, which involved child torture and murder, are also misused by child savers for proof of the dilemma they face in achieving the balance between what they claim are two objectives at odds with each other—family preservation versus child preservation. Neither of these cases, says Wexler, involved delicate decision-making, since the children were repeatedly violently harmed long before their deaths. What these

tragedies actually best demonstrate is the system's incompetence, which is partly attributable to its waste of resources in trivial cases.

If child savers would recognize the intense emotional bearing that family ties have on a child, Wexler contends, they would find that family preservation and child preservation are often not at odds with each other. Whether a child is shuttled between foster homes, torn from his parents upon somebody's "gut feelings," or forced to return to parents after years of attachments elsewhere, his need for a secure relationship is being denied. If the dangers inherent to this denial were taken into account, the child protective system would need to be fixed from almost every angle, and fast. Gone would be the argument that "no child ever died of a social-work evaluation"—a premise that Wexler disproves with accounts where children did indeed die from unwarranted removal.

By focusing largely on the system's injustice to children, Wexler proves that he is *not* in favor of parents' rights versus children's rights. He does, however, address the frequent violation of Constitutional rights when homes are entered, children strip-searched, or parents denied due process during prosecution—largely because of child protective agencies' arrogant attitude that "we're only here to help, so you have no rights."

Veteran Child Protective supervisor Philip Leduc is quoted admitting: "If the level of intrusiveness perpetrated allegedly to protect children were attempted in any other field, we would be in jail, we would have the Supreme Court coming down with innumerable decisions against us."

A good case could be made here for limiting government involvement in the child-abuse problem to its legitimate function of crime control, and cutting out the social programs involved. This would serve to guard against the abuse of Constitutional liberties as well as to protect children more effectively, particularly if violent crime in general were better controlled. Wexler, however, advocates non-coercive government intervention in most child-neglect cases, and dreams of a network of "Homebuilders" who would help out families with money, support, and practical services instead of grabbing their children. While he shows that the cost of these programs would easily be covered by the savings in foster and institutional care of children, he fails to explain how we can insure that paid strangers such as Homebuilders

will truly care about the families they deal with. Our government in general has failed to prove itself capable of doing the work of charities, much less the work of preserving families.

In conclusion, Wexler is an expert at uncovering the abuses in our child protective system, although flawed in some of his arguments on causes and cures. The child-abuse issue is one that deserves examination by everyone concerned with preserving individual rights, and *Wounded Innocents* is among the most thorough and readable works on the subject—the kind of book that leaves a lasting impression on its reader. □

Hannah Lapp is a dairy farmer and writer in Cassadaga, New York.

PARLIAMENT OF WHORES: A LONE HUMORIST ATTEMPTS TO EXPLAIN THE ENTIRE U. S. GOVERNMENT

by P. J. O'Rourke

The Atlantic Monthly Press, 19 Union Square West, New York, NY 10003 • 1991 • 255 pages • \$19.95 cloth

Reviewed by William H. Peterson

I never lack material for my humor column when Congress is in session. . . . [For] every time Congress makes a joke, it's a law. And every time they make a law, it's a joke.

—WILL ROGERS

Met P. J. O'Rourke, the White House correspondent for *Rolling Stone* magazine and a reincarnated if earthier Will Rogers.

O'Rourke holds that giving money and power to government is like giving whiskey and car keys to teenage boys, that a little government and a little luck are necessary in life but only a fool trusts either of them, that the mystery of government is not how Washington works but how to make it stop, that every government is a parliament of whores, but—and what a *but* this is—that in a democracy such as ours the whores are us.

Or take the author's contention that he is first, last, and always a conservative. How so? Well, he says, conservatism relies on personal responsibility and private liberty. It is an ideology of, by, and for the individual. A conservative, you see, takes his fellows one by one. The modern-day liberal, on the other hand, plays to the crowd. But crowds, says

O'Rourke echoing Mackay, Le Bon, and Ortega y Gasset, "are noisy, unreasonable, and impatient. They can trample you easier than a single person can."

Or how about this iconoclast's theory that God is a Republican and Santa Claus is a Democrat? God, explains O'Rourke, is a stern fellow, patriarchal rather than paternal. God holds men strictly accountable for their actions. God is difficult. He is demanding. He is unsentimental, and so it is "very hard to get into God's heavenly country club."

Santa Claus is different. He's cute. Huggable. Always jolly. Ho-ho-ho! Loves children, animals, and the environment. Sure, he may know who's been naughty and who's been nice, but he never does anything about it. He's famously generous to the poor and indeed to everyone else without giving a fig about the cost or any quid pro quo. Generous to a fault. Hence, maintains O'Rourke, keenly aware of the law of no free lunch, Santa Claus is preferable to God in every way but one: "There is no such thing as Santa Claus."

Our White House correspondent has fun with high school civics texts, which are about as close to reality as Santa Claus. He chooses the current Harcourt Brace Jovanovich book, *American Civics*, one of America's most widely used texts. The book includes standard chapter headings such as "Our Federal Court System" and "How a Bill Becomes a Law."

But *American Civics*, short on politics' naked jungle law of seizure, short on Machiavellian manipulation *à la* the Keating Five, i.e., short on what makes the real Washington tick, is a droner, mechanistic, bland, a yawn, despite its pictures in color instead of black and white and despite its insertion of boxed items such as:

"CAN YOU GUESS?"

"One of our Presidents had a serious physical handicap. Who was he? *Answer is on page 578.*"

O'Rourke also has fun with the 1991 Federal budget. According to the budget proposal originally submitted to the Congress in February 1990 by President Bush's Budget Director Richard Darman, it contains some 190,000 accounts. Mr. Darman explained that if a concerned Congressman spent but one minute perusing each one of these accounts, at eight hours a day, it would take more than a year to study the budget.

That's bad enough. But by the time the budget

emerged from interminable hearings and "Budget Summits" and was billed as the "final budget compromise," it contained a whopper of a tax increase notwithstanding the pledge of President Bush ("read my lips") of no new taxes. Further, it landed on the House floor at 6:58 A.M. on Saturday, October 27, 1990, during what was called "a Congressional sleep-over."

By then the revised and revised budget had grown fatter by more than 1,000 pages of legislation—a pile of paper 10 inches thick, weighing 24 pounds, entailing outlays of \$1.23 trillion, and, according to O'Rourke: "Nobody knew what it contained. No one, not one single person in the entire United States had read this document." Nor was anybody able to, there being but a single copy for the entire House, or inclined to, with the Congressional election little more than a week away.

Other targets of the O'Rourke cannon include the National Conventions (with equal fire on Bush and Dukakis), the State Department, Defense, Agriculture, Health and Human Services, Social Security, Environmental Protection Agency, and the Office of National Drug Control Policy (headquarters of the Drug Czar whose War on Drugs, according to the author, is a lost cause). In any event, whores all over the place.

O'Rourke winds up his work on scoundrelism by switching to the story of democracy in the little town where he lives in New Hampshire. There he relates how the townspeople found themselves

obligated to spend \$6.2 million inasmuch as Congress had passed the Safe Drinking Water Act of 1982 mandating that all water drawn from surface sources must be filtered and chlorinated whether necessary or not.

But he also finds his fellow townspeople playing the same coercive game by attempting to deny a local property owner the right to develop his property into a golf course and condo complex. The townspeople's attempt was, in O'Rourke's opinion, "wanton, cheap, and greedy—a sluttish thing."

Look, says the author, no longer so amused, "We were going to use our suffrage to steal a fellow citizen's property rights. We weren't even going to take the manly risk of holding him up at gunpoint." He then comes up with the blockbuster idea that *government is morally wrong*. He argues that authority has always attracted the lowest elements in the human race, that all through history mankind has been "bullied by scum."

(Here he seems to go beyond thinkers from Aristotle to Mises who held that government, while very much subject to abuse, is still an institution requisite to civilization.)

A perhaps unfunny ending to a funny book, but is it any unfunnier—or funnier—than government in America today? □

Dr. Peterson, Heritage Foundation adjunct scholar, holds the Lundy Chair of Business Philosophy at Campbell University, Buies Creek, North Carolina.

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Double Standard

In October 1990, the *Anchorage Daily News* and the *Anchorage Times*, two of Exxon's most strident critics since the 1989 *Valdez* oil spill in Prince William Sound, reported that Federally funded researchers killed hundreds of birds and animals in an attempt to bolster the government's case against the oil producer. The issue has received limited coverage in the national press, and little or no comment from animal rights and environmental special interest groups. . . .

A review of the reported facts surrounding this startling, and possibly illegal, use of taxpayers' money:

- The Justice Department determined that, to get higher damages, it needed a reliable scientific model to prove that the *Valdez* accident killed over 100,000-300,000 unrecovered birds that they believe floated out to sea.
- Justice ordered the Interior Department's U.S. Fish and Wildlife Service (FWS) to conduct Bird Study No. 1. The study consisted of killing birds, dunking them in oil, planting them with transmitters, and depositing them in the water. Once recovered, the scientists could supposedly [estimate] how many birds drifted away and sunk after the spill.
- FWS approved a \$600,000 contract with a Portland, Oregon, research company, Ecological Consulting Inc., to kill up to 350 birds.
- The hired killers shot 250-350 murrelets, scoters, cormorants, and ancient murrelets on remote Alaskan islands, many of them protected national wildlife refuges, and returned them for use in the study.
- The Alaska Department of Fish and Game killed an equal number of ducks for the same purpose, along with 32 deer, 28 harbor seals, three sea otters and minks, and 17 Stellar's sea lions recently listed as a threatened species, to further their case against Exxon. . . .

By way of contrast, the killing of birds by private landowners has been taken quite seriously by Justice. In one case, a Springfield, Illinois, resident was ordered by local officials to "get rid of"

unruly pigeons that congregated in his trees. The resident, Mr. Harvey Von Fossan, laid out poison for the birds, which was unwittingly eaten by two common grackles and a mourning dove, killing them instead. An outraged neighbor informed the U.S. Attorney's office, which prosecuted Mr. Von Fossan under the Migratory Bird Treaty. The action, one government attorney stated, was "one of the most important cases" in his office. In another case, the government vigorously prosecuted the owner of a million-dollar goldfish farm for killing birds that were devouring his crop. Both landowners were found guilty, with Mr. Von Fossan receiving a suspended sentence and a fine, and the goldfish farmer a fine and a jail sentence.

—GLENN G. LAMMI
Washington Legal Foundation

Affirmative Action

I hold that we blacks ought not to allow ourselves to become ever-ready doomsayers, always alert to exploit black suffering by offering it up to more or less sympathetic whites as a justification for incremental monetary transfers. Such a posture seems to show a fundamental lack of confidence in the ability of blacks to make it in America, as so many millions of immigrants have done and continue to do. Even if this method were to succeed in gaining the money, it is impossible that true equality of status in American society could lie at the end of such a road.

Much of the current, quite heated debate over affirmative action reveals a similar lack of confidence in the capabilities of blacks to compete in American society. My concern is with the inconsistency between the broad reliance on quotas by blacks, and the attainment of "true equality." There is a sense in which the demand for quotas, which many see as the only path to equality for blacks, concedes at the outset the impossibility that blacks could ever be truly equal citizens.

—GLENN LOURY, speaking at the Heritage Foundation, quoted in the Spring 1991 issue of *Issues & Views*

Don't Judge Motives

By judging our motives rather than our actions, we can assuage all guilt over any action or inaction. *Everybody* thinks his motives are pure and good. And on a conscious level, they probably are.

That's why motives just aren't the issue. What we do, not what we intend, is what counts.

On the global level, assessing motives rather than actions has led to serious moral distortions. A particularly important example concerns assessments of capitalism and Communism.

Communism has resulted in the loss of freedom by more nations and the deaths of more individuals than has any other doctrine in human history. Yet because it is perceived as emanating from good *motives*—abolition of poverty, greater equality—many people refuse to accord it the antipathy that its *deeds* deserve.

Capitalism, on the other hand, has led to greater freedom and to less poverty than perhaps any other political-economic doctrine in history. Presumably, it ought to be widely admired. Yet it is often vilified and even its supporters rarely consider capitalism to be a particularly moral system. The reason? It is based on selfish motives.

Defense of Communism and opposition to capitalism emanate from the same flaw—assessing motives, not results.

—DENNIS PRAGER, writing in his quarterly journal, *Ultimate Issues* (6020 Washington Boulevard, Culver City, CA 90232)

Managed Trade

Over the long run, managed trade has proved a disaster. Lacking both competition and access to modern technology, Eastern Europe was never disciplined for delivering computers that were instant museum pieces or cars that belched rotten-egg fumes. When the Kremlin announced last year that the colonies must make their own way in a global market, hundreds of seemingly productive factories became obsolete overnight.

—PETER PASSELL, writing in the February 13, 1991, *New York Times*

What's Your Problem?

by Lynn Tilton

In a market economy, when individuals look within themselves rather than to the state to solve their problems, those problems become opportunities for success. After all, problems aren't solved by laws or by organizations, but by individuals.

With more than 1,300 acres of campus property, Brigham Young University in Provo, Utah, generates mountains of grass clippings, tree trimmings, and the waste associated with the daily campus living of 27,000 students. Their landfill expenses kept climbing.

Waste is a particular problem in the western states because so much of the land is owned by the federal government. Less private land is available for landfills, so fees tend to be high. Many industries, caught between the demands of economics and environmentalists, expect government solutions. Rather than turn to the state for help, BYU, one of the largest private universities in the nation, initiated its own recycling program.

University officers gave Roy Peterman, BYU's grounds manager, responsibility for solving the university's waste-disposal headache. In 1990, in addition to keeping the campus in its usual visitor-impressing condition, Peterman's crew of 43 full-time workers and 260 student employees turned green waste into 10,000 cubic yards of compost. They also sold 12 tons of aluminum cans, 120 tons of cardboard, 150 tons of newsprint, and 200 tons of other recyclable materials.

Says Peterman, "We recycled 30 percent of our total waste. Our goal is 50 percent." Not only has

their private enterprise recycling program generated outside money for the university, but it's cut landfill fees \$30,000 per year.

Since BYU was one of the largest users of the local landfill, this program means that the landfill will last longer than expected. Market incentives (cost reduction and extra income) helped ease a problem that concerned everyone in the region, without hiring a single extra bureaucrat to oversee the situation.

The First Yogurt Sandwich

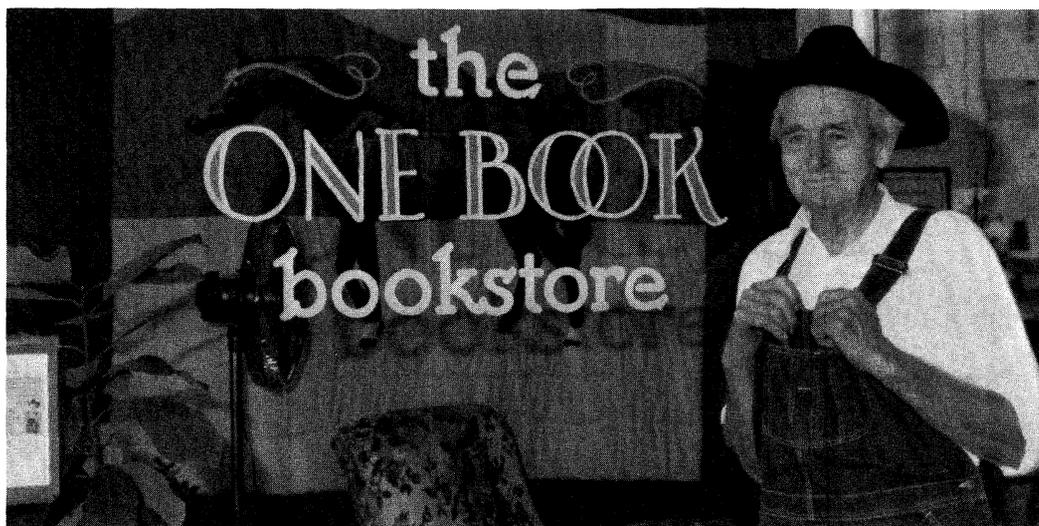
As Americans became more health conscious, the ice cream industry responded to changing customer preferences and began producing frozen yogurt. The Elgin Company developed a soft-freeze yogurt maker, much like its highly successful line of soft-freeze ice cream machines.

Unlike ice cream, however, yogurt cannot be kept overnight in the machine. Bacterial growth is one reason, and the many city, state, and Federal health regulations constitute another. Nor do customers like yogurt that has been saved in the store's main freezer and re-run the next day through the frozen yogurt maker.

Supermarketters could either throw away the yogurt left over at closing, or quit making yogurt when the machine emptied late in the day. They couldn't afford waste; neither could they fail to have the expected product available. That's a fast way to lose customers to the competition.

Keith Neibdring of the Food Marketing Corporation of Fort Wayne, Indiana, found a lucrative solution. From his bakery counter he took two cookies that were destined to be dis-

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Walter Swan turned an “unpublishable” book into a success story.

counted because they were “day old.” He layered two ounces of yogurt on one cookie, pressed the other on top, and *voilà!* the world’s first yogurt sandwich.

The stores in his chain began making yogurt sandwiches with the leftover yogurt and the day-old cookies. They also started featuring different flavors, increasing customer selection—and satisfaction—considerably.

With the help of Jim Newlin, Elgin’s sales director, the inventor took the solution one step further. He started filling pie crust shells with seven ounces of yogurt, adding a piece of appropriate fruit or decoration on top, and selling yogurt pies.

Says Newlin, “Basically, Keith took 93 cents worth of ingredients and turned them into a \$6.95 product.”

The One Book Bookstore

Walter Swan is a retired plasterer in southeast Arizona. Although health finally forced him to retire from a young man’s trade, he wanted to remain active. He fulfilled a lifetime dream when he wrote his autobiography. Since no commercial press would handle his book, Swan decided to publish it himself.

Self-publishing led to another problem: marketing. There was no one to promote his book, and bookstores wanted 40 percent off the top to sell it.

“I had to succeed,” he said. “I borrowed on my house to get my book printed.”

Swan found an empty department store building in nearby historic Bisbee, Arizona, and stocked it with his book. Dressed in cowboy hat, red neckerchief, and overalls, he sat in the window and waved to the tourists. His “One Book Bookstore” caught the tourists’ fancy, and he was off and running. His business helped the landlord rent out the rest of the building to other entrepreneurs who took advantage of the traffic the One Book Bookstore generates.

Television soon discovered this storyteller, and he’s been a guest on several national late-night programs. Every appearance generated hundreds of requests for his \$19.95 book. Some days walk-in traffic and mail orders total more than 700 copies of the book no one wanted to publish. (A national publisher recently offered him a \$20,000 contract, but he turned it down flat.) Swan’s got a second book out, and he’s opened another bookstore. He calls it “The Other Bookstore.”

The common thread through these examples is that accepting personal responsibility for problem-solving leads to success, whether your problem is garbage, leftover yogurt, or even a book no one else wants to publish. The solution to each problem took work, time, and imagination. But those three things are available to anyone who understands that the real answer to almost any problem is in the marketplace. □

A Checklist for Healthy Skeptics

by Dianne L. Durante

We in the United States are becoming terrified of our own technology. Nuclear energy will zap us into early graves. Alar and DDT will give us cancer. The greenhouse effect will melt the polar ice caps, and Manhattan will be submerged. Wouldn't it be better to live "in harmony with nature," that is, without all our high-tech devices but in peace and health and security?

Or would it, perhaps, be better to ask first how much truth there is in the media hype that bombards us with such dire predictions every day? Few of us know how to evaluate predictions of high-tech doom. We must learn, if we are to keep the technological achievements that give us one of the highest standards of living in the world. Before accepting the media's forebodings of imminent disaster and screaming for the government to charge to the rescue, consider the following points.

1. What are the facts? Get specific facts, with places, dates, amounts, and sources; don't accept emotional tirades or vague generalities. If, for example, a movie star says Alar causes cancer, ask when and where and by whom and on what was the study done that reached that conclusion. Have other studies supported those findings? How much Alar would you, a human, have to eat to get the same effect? According to Dixy Lee Ray, to get the amount of Alar fed to the mice who developed tumors, *you* would have to eat 28,000 pounds of apples every day for 70 years.¹ Mice fed smaller doses didn't develop tumors: eating a mere 14,000

pounds of apples a day wouldn't do it. Further examples:

- How much radiation was released from Three Mile Island in March 1979, in what is widely referred to as the worst nuclear accident in U.S. history? Answer: about one millirem in the surrounding area, and a maximum of 80 to 100 millirems within the plant. Let's put that into perspective. The average "background" exposure to a resident of the U.S. is about 350 millirems a year. By flying from New York to Los Angeles, you would expose yourself to about five additional millirems; by choosing to live in Colorado or in the radon belt of eastern Pennsylvania, you might get a couple hundred millirems more than the average yearly dose. Comparison with these exposures from normal background sources reveals that the one millirem released at TMI was actually a very minor amount.²

- Precisely how many cases of cancer can be traced to DDT? *None*. In fact, the National Cancer Institute declared in 1978 that DDT is not a carcinogen. For a debunking of every horror story you've heard about DDT, from the soft-shelled birds' eggs (they were occurring before DDT came into use) to the idea that DDT never breaks down (it does, within about two weeks in most cases), see Ray's chapter on pesticides.³

2. Check your sources. Don't assume that anyone who has made a movie or landed a job as a reporter has taken the time to research the matter in question. The news reporter, because he must frequently condense his presentation to a two-

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minute slot, often may not have a strong incentive to thoroughly investigate the matter. He does, however, have a strong incentive (his ratings, and ultimately his job) to grab your attention and hold it, and may not hesitate to exaggerate, ignore, or distort the facts in order to make his story more attention-getting. As for “celebrity authorities,” their occupations require acting ability, not scientific training. Suggestions for checking sources:

- Find out where the reporter got his information. If he gives no source, that’s a serious shortcoming. In fact, when the question is one of scientific evidence, if no source is given, you can and should simply dismiss the statement as arbitrary, as if the speaker had said, “Pluto is composed entirely of rum raisin ice cream.” Unsubstantiated emotional diatribes are unacceptable, no matter who the speaker is.

- If an authority is cited by name, what are his credentials? Is he in a field that is applicable to whatever he’s talking about? For example: few biologists know in detail how nuclear power is generated and what its risks and safeguards are. Being a scientist rather than a piano teacher is not enough to qualify one to speak on all scientific issues.

- Find out where the authority who is cited has been published. A sensation-seeker may manage a mention in *Time*, but not an article in a well-established scientific journal that requires review of the article by other scientists before publication.

- Check the date of the statement. Often one vague statement, if dramatic enough, will be picked up and cited over and over again, despite any evidence to the contrary that was known at the time or has become known since. A good example: prompted by an extremely hot and dry summer in the continental United States in 1988, NASA’s James Hansen told a Congressional hearing that year that he was 99 percent sure the greenhouse effect was drastically changing the climate. He is still cited very frequently. How many people know, remember, or mention the fact that the winter of 1989 was the coldest on record in Alaska?⁴

3. Put potential risks into perspective; look at the forest as well as the trees. No technology and no element in nature is 100 percent risk-free: while drinking a quart of water may save your life, putting your head into a bucket of water may kill you. *If* there is solid evidence of a harmful effect,

how does the amount of risk compare with the benefits gained from the product?

- The Three Mile Island accident, the worst mishap in 35 years of nuclear power generation in the United States, resulted in no deaths.⁵ Contrast the record of electricity generation by coal. Mostly because producing one megawatt of electricity requires much more coal than uranium, using coal leads to about 100 times more deaths in mining coal than in mining uranium for a nuclear power plant, and leads to more than 20 times as many cases of industrial diseases among coal miners than uranium miners.⁶

- DDT did not result in *any* proven fatalities or cancers, but while in use it saved millions of people from disease and death. DDT was the most effective weapon against the mosquito that spreads malaria, a disease that has caused millions of deaths in Asia and even in the United States, and is doing so again now that DDT has been banned.⁷

4. Play devil’s advocate with the facts, once you have them. It’s a useful method of self-defense to become familiar with how some facts can be distorted and how other equally important facts can be completely ignored.⁸ Two common techniques to watch out for:

- Ignoring the larger picture, while citing only facts sure to alarm the listener. A mock advertisement in Petr Beckmann’s book (p. 77) reads, “Foods advertised in *Reader’s Digest* are radioactive.” In small print, he points out that virtually all foods have trace amounts of radioactivity.

- Confusing cause and effect with correlation. Many people die while they’re sleeping; therefore sleeping is a leading cause of death. Some people got sick after ingesting PCBs, so PCBs must be dangerous chemicals. (In fact, in the case cited as evidence of this, the liquid mixed in with the food had come from air conditioning equipment, and contained, aside from PCBs, chemicals known to be highly toxic.)⁹

5. What to do? If a hazard to human health exists, what is the best way to deal with it? There are basically two alternatives: government action, or action by individuals. They depend on two very different views of man: that he can’t be trusted to look out for his own welfare, and must therefore have a paternalistic government tell him what’s



AP/WIDE WORLD PHOTOS

A lunchtime jog at Three Mile Island. Despite the media scare, there was no evidence that human or animal life was threatened by the accident at TMI.

good for him and force him to do it; or that man is a rational being, to be dealt with through persuasion, who ultimately must be left alone to plan his own course of action.

The evidence is overwhelming that government economic planning is an abysmal failure. It fails because no central agency can process, or even collect, all the details that, in a free market, each individual considers in order to make the best choices for himself. The same is true for environmental regulations, which are just another form of economic intervention.

At present, the government has severely restricted the use of DDT. In a free market, a person in a tropical climate might decide that he is willing to risk whatever minor hazards come from using DDT, in return for dramatically decreasing his chances of getting malaria. At present, the government has imposed such stringent controls on nuclear power plants that many utility companies cannot afford to build them. In a free market, a utility company might persuade the residents of New York City that a nuclear plant (whose containment vessel can withstand the impact of a jet at landing speed) is safer in a crowded urban area than huge, flammable gas tanks, or gas lines that

can be ruptured (and have been) by a backhoe operator. Individuals working and cooperating within the free market must be left to deal with environmental problems, as they deal with problems of supply and demand. Only individuals have the knowledge to make the decisions proper to their own welfare.

* * *

We feel pity for a man who's "afraid of his own shadow." To be afraid of one's own mind is worse, and fearing the technology we've created is precisely that: fear of the efforts and products of the human mind. The mind is man's means of survival. It is his only way to make the earth, often so inhospitable, a wonderful place to live. To reject the products of the mind on the grounds that they are not immediately perfect or 100 percent risk-free is to condemn man to perpetual fear, backbreaking labor, and premature death.¹⁰

I called this article a checklist for "healthy skeptics." The reason should now be clear. To remain healthy, we must learn to approach predictions of environmental doom critically, not accepting them unless or until the doomsayers meet basic standards of proof.

Isn't this being a bit harsh? Shouldn't we give

environmentalists some credit because they have good intentions? Aren't they working for clean air for all of us to breathe and open spaces for our children to play in? Aren't they fighting technology for our benefit?

Let me answer these questions with two quotes from prominent environmentalists. The first is from John Muir, founder of the Sierra Club, addressing alligators: "Honorable representatives of the great saurians of older creation, may you long enjoy your lilies and rushes, and be blessed now and then with a mouthful of terror-stricken man by way of a dainty!"¹¹ Does this sound like a man who has good intentions toward you and the rest of humanity?

And from Stephen Schneider, one of the leading spokesmen for the greenhouse theory: "We need to get some broad-based support, to capture the public's imagination. That, of course, entails getting loads of media coverage. So we have to offer up scary scenarios, make simplified, dramatic statements, and make little mention of any doubts we may have. . . . Each of us has to decide what the right balance is between being effective and being honest."¹² Does this sound like someone who is interested in presenting you with the truth, and nothing but the truth, so that you can make your own informed decision?

Such people don't simply want clean air for man to breathe or open areas where children can play. They rank clean air and open spaces above any concern for man. They consider nature (which has come to mean anything on earth that's not human) good in itself, not good for any benefit it might bring to man. If man suffers so that the snail darter and the spotted owl can prosper, so be it. This idea that man is a disfiguring blot on the face of the earth is the reason that many leading environmentalists wish for alligators to have us as appetizers.¹³

Granted, the above quotes are from only two members of the environmentalist movement, but Muir and Schneider have been prominent leaders of it, and one must judge rank-and-file members by the fact that they have accepted these men as leaders.

Technology—man's tool for shaping his environment to suit his needs—improves man's living conditions and ultimately prolongs his life expectancy. For evidence of that, you need only look at the high level of disease and the low life expectancy in any period before the Industrial Revolution. It is

imperative, if you want to remain a healthy human being, that you refuse to accept any claim that technology or specific technological achievements are going to kill or maim you, unless such claims are proven beyond reasonable doubt.

1. Dixy Lee Ray, *Trashing the Planet: How Science Can Help Us Deal with Acid Rain, Depletion of the Ozone, and Nuclear Waste (Among Other Things)* (Washington, D.C.: Regnery Gateway, 1990), pp. 78-79. Ray, the former Chairman of the Atomic Energy Commission, provides a clearly and vividly written analysis of the evidence concerning the greenhouse effect, acid rain, pesticides, Alar, asbestos, dioxins, PCBs, nuclear energy, and so on. The book is aimed at the layman and has substantial footnotes.

2. Ray, p. 126. For a good discussion of normal exposure to radioactivity, as well as a detailed description of how nuclear power plants operate and how they compare in terms of safety with other types of energy generation, see Petr Beckmann, *The Health Hazards of NOT Going Nuclear* (Boulder, Colorado: Golem Press, 1976). Beckmann is Professor Emeritus of Electrical Engineering at the University of Colorado.

3. Ray, pp. 68-74. See also Elizabeth Whelan, *Toxic Terror* (Ottawa, Ill.: Jameson Books, 1985), pp. 59-85. Whelan has other chapters on PCBs, dioxins, nuclear energy, and acid rain, each organized in sections: the charges made against the substance or process, the facts, the background, various studies on the subject, and concluding remarks. The book is heavily annotated. Whelan has doctoral and master's degrees in epidemiology from the Harvard School of Public Health and a master's degree in public health from the Yale School of Medicine; she is president of the American Council on Science and Health.

4. Ray, pp. 32, 34-35.

5. Whelan, p. 239. She notes that President Carter's investigatory panel (the Kemeny Commission) concluded that there was no evidence that human or animal life had been threatened by the accident at TMI.

6. Beckmann, pp. 83-85.

7. Whelan, p. 69, with a chart on Ceylon, where reported cases of malaria dropped from 2,900,000 in 1948 to 17 in 1963, when DDT was widely sprayed in homes. The spraying was stopped in 1964, and by 1969 the reported cases were back up to 2,500,000.

8. For more on this, see Darrell Huff and Irving Geis, *How to Lie with Statistics* (New York: W. W. Norton, 1954).

9. Ray, p. 87.

10. See Ayn Rand, "The Anti-Industrial Revolution," in *The New Left: The Anti-Industrial Revolution* (New York: New American Library, 1971), for an enlightening description of what would happen if technology were abolished, why we cannot restrict just *some* technology, and the motives of those who want to. This essay, written 20 years ago, is remarkable for its insight into the principles behind the ecology movement and for where that movement must inevitably lead.

11. Quoted in George Reisman, "The Toxicity of Environmentalism" (Laguna Hills, Calif.: The Jefferson School of Philosophy, Economics, and Psychology, 1990), p. 4; also forthcoming in *Rational Readings on Environmental Concerns*, ed. Jay Lehr. An excellent analysis of the driving force behind environmentalism.

12. Quoted in Reisman, p. 10.

13. This premise is developed at length by Reisman and Rand in the essays cited above.

School for Scandal

by James L. Payne

Are wasteful scandals like the savings and loan disaster a thing of the past? Has Congress learned from its mistakes? A close examination of a little-noticed legislative muddle reveals that Federal mismanagement is here to stay.

The muddle concerns the "reports problem." Since the beginning of the Republic, Congress has required the executive branch to supply reports on administrative actions, implementation of laws, and national problems. In modern times, the number of required reports has increased dramatically. Since preparing all these reports is costly, it makes sense to try to limit them. By 1980, a limit was obviously necessary: the number of reports had grown from 600 in 1963 to over 1,400. (These figures refer only to reports required on a repeated basis. In addition, there are 500 to 1,500 specific, one-time reports required in a typical year.)

So Congress got busy, passing the Congressional Reports Elimination Act of 1980 and the Congressional Reports Elimination Act of 1982. After all this legislative activity, how many reports were required in 1985? The answer is 2,800, twice as many as in 1980. Don't laugh yet, Congress wasn't done. In 1986 it passed another Congressional Reports Elimination Act. After much huffing and puffing, this act managed to eliminate a grand total of 25 reports. Meanwhile, the number of recurring reporting requirements continued to

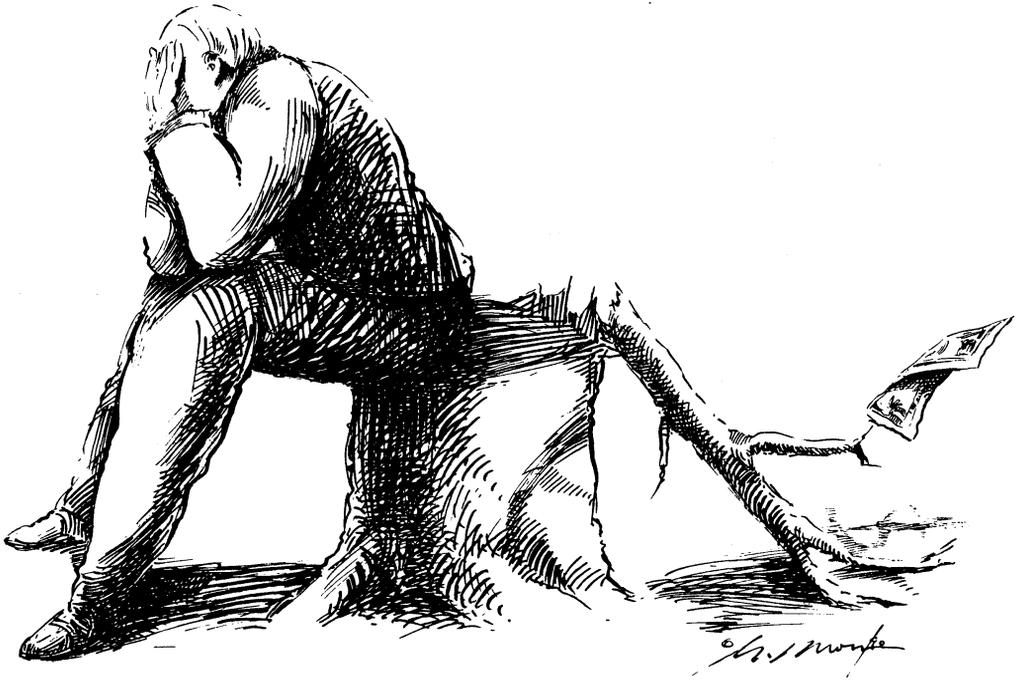
climb—to over 3,000 in 1990 (costing taxpayers an estimated \$350 million per year).

What accounts for the strange failure of Congress to accomplish its announced intentions? The answer is that when the legislators actually look at the reports that are suggested for elimination, they realize that they need them. They provide information about the far-flung activities of the federal government. How can Congress regulate farming, mining, stockbroking, trucking, medicine, and so on unless it gets reports on the problems in these areas, and finds out about the flaws in its policies? So the reports have to stay.

The problem, of course, is that Congressmen can't possibly digest and respond to all these reports. At this point, thoughtful members of Congress would conclude that they ought to restrict the scope of government to activities they could responsibly manage. Unfortunately, our lawmakers won't admit they are over-extended. In asking for more reports than they can read, Congressmen have proven they are way out of their depth, but haven't the sense to move to shallower water.

A close look at how reporting requirements begin illustrates the Congressional illogic. In a desperate effort to prevent further waste and corruption in the S&L bailout, Congress has mandated the production of several dozen reports from the Treasury Department, the Attorney General, and from an alphabet soup of agencies most people have never heard of: NCUA, SAIF, RFC, OCC, RTC, GAO, FHFB, FDIC, CSC, and OTS. Congressmen need these reports to master the subject in depth and exercise responsible over-

*James L. Payne has taught political science at Wesleyan, Yale, Johns Hopkins, and Texas A&M University. His book *The Culture of Spending: Why Congress Lives Beyond Our Means* has been published this fall by the Institute for Contemporary Studies in San Francisco, and is reviewed on page 439 of this issue.*



WASHINGTON POST WRITERS GROUP

sight. But are they likely to digest and act on these reports? It's a factual question, because we've been here before.

In the mid-1970s, a major scandal broke at the Department of Housing and Urban Development. Over 500 people were indicted in connection with a number of fraudulent practices. Congressmen, embarrassed that they hadn't been minding the store, moved to prevent future scandals by requiring the Inspector General of HUD to make semi-annual reports to Congress about "problems and deficiencies."

The Inspector General filed his reports. As early as 1981, they told of overcharging, fraud, and unsound loans, and pointed out how the programs needed to be changed to prevent these abuses. But congressmen didn't pay any attention. After all,

there were thousands of other reports to read. Finally, in 1989, the HUD scandal broke in the media, and the nation learned that billions of dollars had been wasted. This time, 600 people were indicted.

Explaining why his oversight committee hadn't looked into the HUD mess sooner, one senator said, "When you're working with a trillion-dollar budget, with 100 different agencies and Cabinets, [we] can't overview each of these agencies." Obviously. Then, one asks, why not try fewer agencies? Unfortunately, the humility needed to accept this logic is in short supply in Washington. Congressmen will go on attempting to regulate what they can't possibly understand, and the rest of us will go on paying for the costs of their mismanagement. □

Art and Representative Government

by William R. Allen and William Dickneider

There, on a patio of a university campus, was a pile of twisted, rusted iron pipe. But it wasn't debris from plumbing renovation. It was an art exhibition,

Why had the artist blessed us with this miniature junkyard? It was neither pretty to the eye nor coherent to the mind. Of course, we are not to ask what a modern painting or sculpture *is*. But perhaps it is legitimate to ask what the artist meant to convey.

If we generously presume that the artist is really saying something of importance, how are we to receive and translate the message? Are we to suppose that the message sent is the same as the message received? If not, this is peculiar and clumsy communication. Or maybe no message is being sent although one is to be received, with the receiver doing the artist's work by inferring something that wasn't transmitted.

Perhaps interaction between producer and consumer isn't the intended game, at all. Maybe the purpose of the artist is personal catharsis: by dumping rusted pipe on the patio, he gets a psychological monkey off his back. Or maybe it is to be a profitable variation of "the emperor's clothes" scam, with a clientele of connoisseurs finding art where lesser folk see only junk.

Within broad limits—if the art community is to be subject to any constraints—surely "producer

sovereignty" should prevail, with individual artists determining the nature of their own creations. But let there be also "consumer sovereignty" in consumption of the art produced. Let consumers determine for themselves the works of art they pay for. Further, don't restrict philanthropists in subsidizing artists: one of the tenets of a system of markets and private property is that people generally can dispose of their assets as they please.

But two points of elaboration.

First, while artists are to be free to use resources which either they *buy* with their earned income or which are *given* to them by private patrons, they have no right to *commandeer* resources from unwilling contributors through exploiting the coercive powers of government.

Second, we are not morally obliged either to subsidize or to deify artists. While we guard the freedom to create works of art—even piles of twisted, rusted pipe—protecting artistic freedom is very different from insisting that taxpayers buy whatever people chose to produce with that freedom.

But some artists, like some of the rest of us, can be seduced by government favor and applause. "The arts are not a luxury," says a lawmaker, "they are the soul of society." Art "reflects things that are happening in our society," says another, "and closing our eyes will not make these things go away. Such art can help us recognize other influences on our culture and even help us understand them. And if it does not help me or you specifically, you can be sure that it is helping someone, somewhere, who can relate to it."

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Artists are not loath to accept an exalted role. "... art is social conscience," we are assured by the director of a subsidized theater. "Art," he says, "has only one obligation—to tell stories and make images about who and what we are and who and what we might become." In all the community, "only the artist must tell the truth."

Such precious rationalization for raids on the Treasury cannot be analytically persuasive. Better to acknowledge simply that beneficiaries want the money and politicians want their support—and to remember that the arts flourished for most of America's history without substantial Federal money. Only in the last few decades has government put arts significantly on the dole.

Government is not the wellspring of art and culture. Nor does some law of nature or sense of social survival compel us to clutch sensitive artistic souls as our conscience, guide, or judge. Subsidizing artists is not a role of government that is clearly legitimate or even commonly accepted. All except addled anarchists acknowledge that government *does* have reason for

being. Most agree that government properly provides such fundamental services and arrangements as law and order and administration of justice, national defense, and protecting property rights which conduce economic efficiency and social stability.

But something like subsidization of the arts is an alien element in this context. It is not a "public good" like national defense, for markets have long provided ample incentive for artists to meet consumers' preferences. And while the state has compelled us to pay for many things we would not have approved if given effective choice, we do not legitimize new error by past error.

Able people have long debated the appropriate purposes of government. But if there are *any* limits to what should concern government, then subsidization of art, however defined and identified, is pushing out the boundaries very far. Indeed, if idiosyncratic behavior not valued by the bulk of the community is to receive largess from the public trough, then little remains of representative government. □

The S.E.C.'s War Against the Theater

by John Chodes

As a playwright, I recently had a confrontation with the Securities and Exchange Commission, related to a theatrical production of mine. As a result of this brush with the law, I learned that the S.E.C. regulates much more than the stock market. It negatively influences what kind of theater is produced.

The difficulty revolved around the incorrect filing of investor documents for my show. I was fined. To be certain that this never happened again, I reread the prospectus more carefully, and was shocked. The regulations were so absurd: they seemed to challenge producers to raise money outside the legal parameters by making it very difficult for the small theatrical enterprise.

One glaring example was a bold-faced "Risks to Investors" statement that seemed more like the warning on a pack of cigarettes: "Even if critically acclaimed a play may not recoup its production expenses. The record for this type of limited run [showcase or mini-contract] production . . . indicates that only a very few, if any, such productions have ever turned a profit and the vast majority have resulted in substantial losses to the investors. . . . Investors should be fully prepared and expect that, . . . they will lose all or a substantial portion of their investment in this offering."

In this one paragraph there are two misleading statements. First, showcase or mini-contract productions aren't intended to be profit-making. They are used as stepping stones to larger the-

aters by attracting favorable reviews and thus major producers and/or investors. Small productions also are used to "get a show on its feet" to analyze its strengths and flaws in front of a live audience.

Second, the fact of "substantial losses to the investors" is more a reflection of current conditions in the art world, where government subsidies have created the very negative conditions mentioned in the S.E.C. warning.

Before government entered the scene, many small productions made back their expenses, which tended to be quite low. Producers and investors weren't afraid to put their creative energies and money into new and innovative plays. In fact, the showcase was the backbone of the theater. Most plays reached Broadway or became films via this route.

Subsidies Raise Costs

Then in 1965 Congress created the National Endowment for the Arts, which lavishes \$174 million annually on the arts. (This base figure is inflated by city, state, and corporate matching grants.) N.E.A. subsidies have increased the demand for theaters, costumes, and scenery, so that production costs have risen—much as prices tend to rise in an auction when the big spenders show up.

In the past decade, rental prices have soared about 600 percent for the most prestigious showcase theaters. One factor is that government-subsidized theater groups have made their permanent homes in what formerly were purely rental-per-show stages. These favored groups

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A scene from John Chodes' allegorical play, The Longboat.

have monopolized these sites, restricting access to those periods when the subsidized theater groups are not performing.

Another factor driving up costs is that theatrical unions have become more aggressive and demanding. Historically, theater and the other arts were largely labors of love. Unionism was weak at the lower end because there wasn't enough money to attract organizing activity. Subsidies changed this. The flow of government money extended union rules and unrealistic wage contracts down to even the lowest level productions, whether they were funded or not. This has killed off many small-scale shows.

It is unreasonable to expect that many small, independent plays could survive the stringent requirements of the mini-contract rules, the second lowest level in the Actors Equity code book. Wages for each actor in a miniscule 99-seat showcase theater are over \$200 dollars per week—not just from opening night, but from the first day of rehearsal. In addition, the producers must contribute to the actors' pension and health funds. The dollar formula is complex, but the amounts are substantial. If the cast is large, these two items alone can escalate to several thousands of dollars over the life of a play.

This wage and benefit plan makes breaking even a fantasy for most producers. It leaves many small productions awash in red ink—unless, of course, Uncle Sam is picking up the tab.

The S.E.C. also requires statements concerning the credentials of the principals involved with a

play's production. These pronouncements about the professional experience of the producer and director indicate another disclaimer, this time related to what they have *not* done more than their accomplishments. (For instance, "Mr. Jones has produced five Broadway musicals but has never produced a mini-contract play before.") This continues the emphasis on the negative, which creates fear instead of presenting the facts.

S.E.C. rules also forbid more than 35 "angels" (theatrical investors) from contributing to a showcase production. Thus, fewer shows get off the ground. By being forced to assume a substantial financial burden, each angel experiences more anxiety about the investment. This tends to make them believe the warning on the prospectus: the play is doomed to fail.

The S.E.C.'s doomsday warning frightens off investors. In many cases, their decision for or against participation isn't based on the merits of the play or on intangible personal motives, such as wanting to associate with the "glamor" of the theatrical world or an interest in helping the arts. Instead, fear becomes the greater propelling force: fear of losing one's money, no matter how promising the play may be. By this means alone, the S.E.C. has reduced the number of plays that reach the stage.

The essence of theater is the individual viewpoint, which can revolutionize our way of thinking. By controlling the theater through S.E.C. rules and N.E.A. subsidies, the federal government is thwarting mind-provoking plays. □

Corporate Giving: The Case for Enlightened Self-Interest

by Edward H. Crane

Lenin once said the capitalists will one day sell the rope used to hang them. In this area, at least, he has proven to be disturbingly close to the mark, with the only modification being that many capitalists seem determined to give the rope away. A truly curious aspect of American corporate philanthropy has been the tendency to give corporate profits to groups openly hostile to profits in general and corporations in particular.

A recent survey by the Capital Research Center in Washington, D.C., found that the 146 corporations responding (out of the *Forbes* 250) gave more than twice the funding to generally anti-capitalist organizations than they did to groups supportive of the free market system. There is reason to believe that the giving pattern of those companies not responding to the survey is on the whole even more skewed toward the economic and environmental left.

This trend in corporate giving is disturbing on two accounts. First, it is not in the long-term interests of shareholders or employees. Second, it is an abrogation of a broader societal obligation corporations have, as centerpieces of the free enterprise system, to promote understanding of and support for market capitalism. Americans have a much higher level of respect for the business community than most businessmen realize.

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The typical senior business executive who is expected to address issues of public concern is often confronted by anti-corporate activists, a skeptical (if not hostile) media, and government bureaucrats who derive great psychic income from the arbitrary power they hold over corporations. Perhaps it is therefore understandable why so many of them assume a defensive, almost apologetic posture when it comes to speaking out. The truth is, however, that the vast majority of Americans have few axes to grind with corporations. They respect competence, innovation, productivity, and yes, profits. If many detractors of corporate America are motivated by envy, most Americans take genuine pleasure in the legitimate achievements of others, including corporations.

The point is, simply, that senior executives with the courage to speak out in defense of capitalism and the role their corporation plays in our society would find a much stronger positive response than they might imagine. Corporate executives, because of the somewhat hostile public environment they find themselves in, tend not to recognize the moral suasion they possess. And the moral argument for capitalism is made all the more compelling because it is a system based on voluntary exchange, rather than compulsion. Capitalism *is* a moral system.

It is important to recognize that the revolutions that have occurred in Eastern Europe are less revolts against Communism—a system that has

been intellectually bankrupt for decades—than they are revolts against government control of people's lives, *per se*. People risked their lives for the right to be free to choose, as Milton Friedman put it. They want to choose where they live, what they read, at which jobs they will work, and for how much money. The victory of capitalism over socialism is more fundamentally a victory of freedom over coercion.

Claiming the Moral High Ground

The very fact that choice (and private property) is at the heart of capitalism provides the business executive with a clear moral high ground, if only he would choose to employ it. Behind the moral posturing of capitalist detractors invariably lie schemes to limit individual choice—to direct the workings of the marketplace by bureaucratic edict and coercive redistribution. The chipping away at our free enterprise system by critics of business should be dealt with through a principled counter-assault rather than tepid protestations and financial handouts that only serve to embolden the adversary.

The lack of a vigorous, principled business-community stand in support of the free market system has been a significant factor in the ominous growth of government during much of this century. The business community should, in fact, support limited government in general—not just in the economic realm—because it is the principle of limited government that ultimately protects market capitalism.

More than 200 years ago Thomas Jefferson wrote that “The natural progress of things is for liberty to yield and for government to gain ground.” Certainly events in the 20th century should remind us of the wisdom of Jefferson's admonition. In the early part of this century, government spending at all levels—Federal, state, and local—amounted to just 10 percent of National Income. By 1950 the percentage had risen to 26 percent. Today, the total of all levels of government spending has reached 43 percent of National Income. The greater the amount of private sector money spent by the public sector, the less efficient and productive will be the market system, and the less competitive American industry will be in the international marketplace.

The Systemic Nature of Government Growth

One of the great dangers of the present approach to public policy undertaken by the business community is that it fails to recognize government's encroachment on the private sector as a *systemic* problem, the “natural progress of things” that Jefferson warned us of.

The literature from distinguished free-market economists on the growth of government is extensive. To begin with, there is the Public Choice School, led by Nobel laureate James Buchanan, which makes a persuasive case that bureaucrats are not the disinterested public servants our high-school civics texts might have led us to believe. Like the rest of us, bureaucrats are motivated in good measure by self-interest. Indeed, the bureaucratic imperative is constantly to generate rationalizations for expanding existing government programs, if not creating new ones.

Another Nobel laureate, Milton Friedman, has written about the “tyranny of the status quo.” Friedman describes the process whereby a bill will be debated for years, even decades, only to pass in Congress by a single vote. From that point forward, however, the only debate is over whether the budget should be increased by 5 percent or 15 percent. The new government program is protected by what Friedman refers to as the “Iron Triangle”—the direct beneficiaries of the program, the Congressional oversight committee, and the Federal agency charged with administering it. Billions of dollars are spent annually by the federal government on consultants (whose existence depends on the government) to determine the value of (read: justify) these programs. To suggest that the program has proven more expensive than its proponents had claimed it would, or to challenge the efficacy of the program once it is in place, is considered somewhat ill-mannered inside the Beltway.

There are other powerful reasons for the growth of government, also unrelated to the value of that growth. For instance, programs typically dispense concentrated benefits while costs are diffuse. When that is not the case, as in the recent catastrophic health care bill (directly tied to increased taxes on the elderly), the chances of stopping the growth of the state are greatly

enhanced. Additionally, Congress has, through incumbent-protection legislation, created an institution virtually impervious to voter discipline. The “culture of spending” that exists inside the Beltway and in the state capitals around the nation tends to distort the good sense of even the best-intentioned legislators.

More Than an Academic Exercise

Determining the causes of government growth and the commensurate threat to the viability of the free enterprise system is more than just an academic exercise. If a business is going to succeed it must not only have appropriate management systems in place, but also a political environment that is hospitable to capitalism and conducive to economic growth.

The purpose of this paper is not to develop an exhaustive case against big government. It is to outline the most effective approach to corporate giving consistent with the interests of shareholders, employees, and consumers. But it would be shortsighted to ignore the *systemic* failures of government in areas outside of business regulation and taxation. Those failures are directly relevant to the destructiveness of government intervention in the marketplace.

Business in America has, for the most part, assumed a rather myopic approach to public policy, lobbying for changes in this bill, influencing the mark-up of that bill, as often asking for government protection and favors as fighting off unwanted taxes and regulations. Policy-research institutes and public interest groups are more likely to receive funding from corporate America if they are on the pro-government intervention side of this fray.

This is a serious strategic error. As former Secretary of the Treasury William E. Simon wrote in *The Wall Street Journal* two years ago, “we in the American business community have a right and a responsibility to steer our gifts to institutions committed to maintaining freedom.”

Moreover, this myopic approach to public policy is dated and unsophisticated. In the past decade American business has revolutionized its approach to management techniques. Faced with the reality of a global marketplace, corporations that had survived for decades employing rigid, top-down management systems have come to recog-

nize that employee involvement and feedback are essential to operating at competitive levels of productivity. In a like manner, the corporate world is ready for a revolution in its 1960s-style approach to corporate giving.

A History of Government Failure

The failure of government runs the gamut of issues. For all practical purposes government has a monopoly in the field of education. Over the past three decades real spending per pupil has tripled while test scores have steadily declined. Yet the government education bureaucracy from the Federal to the local level argues that the problem is a lack of funds.

The Social Security system, sold as a safety net for the indigent elderly, now provides the majority of retirement income for a majority of Americans. As a pay-as-you-go system, it has deprived the economy of true savings, and now offers individuals entering the work force a rate of return upon retirement that we estimate to range from -2 percent to +2 percent. And that assumes a 26 percent combined payroll tax early in the next century. Added to this is the remarkable fact that, unlike a private retirement plan, individuals don't own the corpus of money paid into Social Security over their working lives.

In the area of welfare, where the state has assumed a massively larger role since the Great Society programs of the Sixties, more money has led directly to larger bureaucracies and more people on welfare. Charles Murray's path-breaking book, *Losing Ground: American Social Policy, 1950-1980*, documents the self-defeating incentives government welfare programs have created, often severing what he calls the “tendrils of community” by displacing private charities and absolving capable individuals of any responsibility for their own lives.

The list of major government failures, if not endless, is nevertheless extensive. When one looks directly at government attempts to regulate business the results are much the same. We estimate that deregulation of trucking has saved consumers on the order of \$60 billion a year, not just in lower shipping rates but even more importantly in the ability of firms to develop just-in-time inventory systems. Airline deregulation has allowed millions more Americans every year to fly at lower rates.

What problems of congestion remain are primarily the result of the failure to privatize the air traffic control system and the airports themselves, which have not responded to increased traffic as a market entity would, by increasing capacity.

Perhaps the prime example of government failure in the business world is the savings and loan debacle. S&Ls have always been something of a creature of government—not a market creation. When the yield curve moved sharply negative in the 1970s, deregulation of investments and interest rates became essential. Unfortunately, Congress not only failed to deregulate Federal deposit insurance, it actually increased coverage to make it feasible for individuals and institutions to Federally guarantee tens of millions of dollars of deposits. Without depositor discipline, some \$500 billion of bad investments were made—to be underwritten by the American taxpayer.

In the face of this remarkably unimpressive record of government involvement in society—greatly transcending the limited role envisioned by the Founders—the business community in America has allowed itself to be thoroughly cowed by the opponents of capitalism. Instead of standing up to its opponents, the business community has attempted to appease them at every turn. Instead of proclaiming the moral superiority of capitalism, it has conceded the moral high ground to the likes of a Ralph Nader. Consider Nader's vision for America as revealed in a recent magazine article:

“‘How's your hand?’ Rosenfield asks. Nader looks at the hand he scalded in a sink a few days back in Sacramento.

“‘Better,’ Nader says. ‘That hot water was almost boiling. The government hasn't set temperature limits in Sacramento, so that's what happens.’”

There is a point that the business community seems not to grasp. If the problem with government is systemic, then orienting one's defense to protecting the status quo is a mistake. For the status quo is not a given set of programs. It is, rather, a *process*. And that process is leading inexorably to ever greater government involvement. It is leading to a society in which Americans will have the benevolent hand of government determine the temperature of the hot water in their hotel rooms.

Yet how often do corporate representatives and business lobbyists operate on the assumption that

the latest outrage they've caved in to in order to appease anti-capitalist activists must surely be all they really want? No. *They want to determine the temperature of the water in your hotel room.* The danger of government is systemic. It cannot be fought, at least not successfully, in the long run, on an *ad hoc*, piecemeal, and reactive basis. It most assuredly cannot be fought by letting the opponents of free enterprise determine the agenda for the debate.

“Politically Correct” Intimidation

To be blunt, the Sixties approach to giving placed corporate America (in general—there are several commendable exceptions to the rule) in the vanguard of what has only recently been dubbed “politically correct” thinking. A piece in the *New York Times* last fall explained that “p.c.,” as it is often referred to, reflects “a large body of belief in academia and elsewhere that a cluster of opinions . . . defines a kind of ‘correct’ attitude toward the problems of the world, a sort of unofficial ideology. . . .” The issues in the cluster include ecology, culture, and foreign policy. The article goes on to note the “Marxist” influence on some p.c. thinking and that “The cluster of politically correct ideas includes a powerful environmentalism” and an anti-capitalist mentality.

This whole phenomenon, the article concludes encouragingly, is being challenged by intellectuals willing to stand up to the left: “But more than an earnest expression of belief, ‘politically correct’ has become a sarcastic jibe used by those conservatives and classical liberals alike, to describe what they see as a growing intolerance, a closing of debate, a pressure to conform to a radical program or risk being accused of . . . thought crimes. . . .” To the list of politically correct ideas one could confidently add the views that corporations are “exploitative” and that profits are “obscene.”

It should be noted here that without some kind of mental self-flagellation and deep-seated guilt over being a part of Western civilization, one is not considered to have seen the light. Corporate America has been an especially sensitive target for the p.c. enforcers in our society, visibly wincing when accused of being out of step. Funds to support p.c. causes, including anti-business agitation, have been quickly forthcoming from the corporate community for the past 30 years.

The Politics of Environmentalism

The collapse of the intellectual case for socialism and the planned economy has led many anti-capitalist activists into a new camp: the environmental movement. To be sure, concern over a clean and healthy environment is something most Americans share. Corporate America has not always acted responsibly with respect to the environment. Advocates of the free market should support the "polluter pays" principle of protecting the environment. But there must be sensible, rational standards for what constitutes unacceptable levels of pollution.

The environmental movement has, for the most part, been taken over by individuals with a political agenda that is considerably more ambitious than merely cleaning up the environment. What leftist environmentalists recognize is the fact that *economic activity is inherently "polluting."* It necessarily entails the transformation of scarce resources into higher-valued objects and then into some form of "refuse." Thus, in the name of eliminating pollution, nearly all human action could be subject to regulation. But to allow the environmental movement to micro-manage levels of pollution and the environmental consequences of economic activity is to invite central economic planning via the back door.

It should not be considered alarmist to suggest that many leaders of the environmental movement have just such an agenda in mind. Indeed, their philosophy transcends an anti-business posture and at times seems aimed squarely at the very idea of improving the human condition.

During the brief window when there was heightened optimism over the viability of "cold fusion," the *Los Angeles Times* interviewed several leading environmentalists to get their views on the subject. One might have thought that the prospect of clean, inexpensive energy would be cause for an environmentalist celebration. But one would have been wrong. Paul Ehrlich said viable cold fusion would be "like giving a machine gun to an idiot child." Jeremy Rifkin said, "It's the worst thing that could happen to our planet." Barry Commoner, who once ran for President on a socialist platform, offered the helpful advice that we not convert our plant and equipment over to cold fusion until it is proven to work. Otherwise, he said, it would be

"like starting to build a bridge over a river without knowing where the other side is." Luckily, American industry did not switch to cold fusion without first finding out if it worked.

Our point is that accommodating the environmental movement is an endless task. There is an anti-progress (anti-human?), almost Luddite mentality behind many of the demands from this group, as the above quotes from their leadership reveal. The Earth Day slogan was "We changed the world. Now it's time to change it back." From a capitalist standpoint, there is quite literally no satisfying this movement.

The accommodating approach of business to the Clean Air Act of 1990 illustrates the dangers involved here. The Act imposes an enormous burden on our economy, which we estimate to be in the range of \$30 to \$40 billion a year. Further, it imposes a bureaucratic command and control system on business that greatly inhibits the flexibility industry needs to stay competitive. And all this is done in the name of such problematic goals as reducing CO₂ in the air in order to solve an acid rain problem that the best scientific evidence says doesn't even exist. *60 Minutes*, a television program hardly biased in favor of business, devoted a segment to the absurd cost/benefit ratio of the Clean Air Act. Yet the business community, rather than fighting the Act on a fundamental level, opted to accept the major premise and hustle to patch in damage-control nuances.

An even more recent example of capitulation of a major business to disingenuous lobbying by an environmental group is the McDonald's Corporation's agreement to cease using foam packaging at the behest of the Environmental Defense Fund. The fact that McDonald's was on the verge of a major recycling project for its foam containers or, more important, that total worldwide human production of CFCs (the offending chemical) is less than 1/400 of the chlorine released into the atmosphere by sea water evaporation made no difference. The politically correct position won an easy victory.

Indeed, solid-waste management and "wasteful" product packaging are among the latest rationalizations for regulating business. State and local laws are proliferating. Congress has worked on a re-authorization of the Resource Conservation and Recovery Act, which will be horrendously expensive and without tangible benefit, and the

Environmental Protection Agency has proposed expensive new regulations on local landfills. Once again, corporations appear all too ready to concede the left's premises in the hope of winning some marginal compromises. It will not work. An examination of the premises makes this clear.

The prejudice against disposable product packaging is actually a prejudice against consumption. The (false) claim that Americans waste too much masks a belief that Americans consume too much. The prejudice against consumption is itself based on the fallacy that resources are finite, as well as on a fundamental belief that human action disturbs the natural world. Compromise will only whet the left's appetite. If these premises go unchallenged, we will move inexorably toward ever wider recycling regulations, packaging restrictions, deposit policies, and even product bans. This would be a major step toward the politicization of business decision-making.

All human action involves trade-offs, and the very purpose of a market economy is to make possible intelligent trading off. It does so through the price system, which encapsulates socially dispersed knowledge about supply and demand and puts it into a form usable by all participants in the market. The anti-market mentality is characterized by a refusal to believe that trade-offs are unavoidable.

For example, recycling is presented as a costless method of reducing waste and saving resources. No consideration is given to the resources used in the recycling process itself. The handling of separated materials requires more vehicles using more fuel creating more auto emissions. The production of foam packaging, which was devised in response to the anti-paper, save-a-tree lobby, is more energy efficient and less polluting than other forms of packaging. According to research, in the United States, where there is said to be more packaging "wasted," there is less *food* thrown away than in countries where less packaging is used. Finally, recycling costs consumers time. Why should the environmental movement have the power to decide that consumers' time is worth less than they think it is? These trade-off considerations won't be found in the literature of the recyclists.

Government is incapable of making intelligent decisions about what kind of packaging is best; it simply doesn't have the necessary information. The factors that go into a market-based decision include the relative scarcity of the competing

materials and the preferences of consumers. To insure that the price system faithfully reflects real conditions, it is necessary that all costs be "internalized"; that is, every scarce resource must carry a market price.

Thus, regarding packaging, it is essential that landfill services and other disposal costs not be subsidized by government at any level. Such a subsidy distorts decision-making toward more packaging because consumers don't pay the full costs of using it. In contrast, government efforts to increase the costs of using packaging will result in other, unintended losses (such as food, as noted above). If consumers must pay the true costs of disposal, they will make packaging decisions consistent with their values, with their means, and, without intending it, with what economists call "social utility." We thus can say that the free market promotes *rational conservation*.

As noted, the corporate response on this issue to date has not been encouraging. It has been *ad hoc*, material-specific, and fragmented. The very least American business could do to protect the remnants of free enterprise that we enjoy would be to move their foundation contributions from those that seek greater control over people's economic activities to those that will develop and propagate the kind of arguments outlined above.

A Principled Approach to Public Affairs

If the free enterprise system is to survive in the United States, it is imperative that the business community develop an effective strategy for saving it. Without a principled counteroffensive against those forces determined to destroy it, the corporation in America has a less promising future than the spotted owl. The environmental movement, egalitarian ideologues, and high-tax redistributionists won't lose sight of their goals simply because your corporation has made an accommodation to their latest demands.

In order to seize the moral high ground, however, the first thing the business community must do is stop using government to gain a temporary competitive advantage in the marketplace. Doing so not only hurts competitors, it also imposes costs on consumers. Part of the new enlightenment of corporate America, in addition to employee-oriented management, is a recognition that the consumer

(at whatever level of production) must be treated with respect. In addition, it is difficult if not impossible to maintain an entrepreneurial spirit in the workplace while diverting corporate resources to manipulating the coercive levers of government to gain competitive advantage. Is the company's goal to make the best product at the lowest price, or to unfairly restrict competition and consumers? Corporate America cannot have it both ways.

As Paul Weaver wrote in his Cato Institute/Simon and Schuster book *The Suicidal Corporation: How Big Business Fails America*:

The effort to grab competitive advantage from the political process doesn't work any more, for the same reason that protectionism doesn't work. The effort to beggar one's neighbor soon becomes apparent to the neighbor, and he proceeds to do something about it. Fifty years ago and more, business's efforts in the U.S. to lobby government for advantages at the expense of many parts of the population stimulated farmers, workers, consumers, and others to organize and lobby for protection and subsidies of their own. Over the years, it worked all too well. Sooner or later the policy makers got around to giving at least something to nearly everyone. The heavy, unpredictable, economically harmful burden that government puts on American business today is the end result, direct and indirect, of a century of business lobbying.

Under the pressures of a competitive global economy, American executives are beginning to face up to this shocking and disillusioning truth. As they do, I believe—I hope—that they will turn away from the blind, manipulative, self-destructive selfishness that is corporatism and begin to embrace the humane system of enlightened self-interest and voluntary cooperation under law that some call capitalism.

To achieve that goal, corporate representatives must be directed to take principled stands in support of an open-market system when testifying before Congress or lobbying in its halls. Certainly they should stop their practice of developing such close relationships with Congressmen and their staffs that they end up lobbying the corporation on behalf of government.

In general, one of the most highly leveraged means of influencing the public policy debate is

through support of policy-research institutes and public interest advocacy groups. Regrettably, as noted, most corporate support for such organizations is perversely invested. There are a good number of important, efficient organizations supporting capitalism and limited government that are deserving of corporate support—much more so than many groups that receive much more. We recommend the following guidelines for corporate support of policy research and advocacy groups:

1. The organization should be openly supportive of free enterprise and limited government.
2. The organization should be non-polemical and nonpartisan.
3. Its product should be professionally packaged and marketed.
4. Avoid endowed organizations unless they appear to be utilizing their income stream from the endowment efficiently.
5. The policy approach should be innovative, entrepreneurial, and designed to move the debate off dead center. Avoid supporting groups that spend a high percentage of their resources defending the status quo.
6. Do not support organizations that accept government funds.
7. The organization should have a high level of output and visibility relative to its resources.

In his preface to *Patterns of Corporate Philanthropy*, former Delaware Governor Pete du Pont wrote:

If the public policy program requesting funds is designed to change things at the margin, by five or ten percent, forget it. . . . Become the entrepreneurs your companies' founders once were. Look for exciting new ideas, bold new solutions, interesting new experiments to be tried, and give them a chance, because that is where America's future lies.

During the past decade, America's corporations have displayed courage in managing their own affairs. While government has relied ever more on an outdated model of bureaucracy, corporations have adapted to the new realities of the information age by cutting bureaucracy and relying ever more on market forces to dictate decisions. Now, as they look at their public policy philanthropy, corporations need to take a page from their own lesson books and promote

a new approach to public policy, an approach that seems radical only by the standards of American government in the 1990s.

In an op-ed last year in *The Wall Street Journal* entitled "Socialism is Dead; Leviathan Lives," James Buchanan wrote that "The death throes of socialism should not be allowed to distract attention from the continuing necessity to prevent the overreaching of the state-as-Leviathan, which becomes all the more dangerous because it does not depend on an ideology to give it focus." Consistent, principled opposition to Leviathan on the

part of American business can make an enormous difference. Support of free market public policy research groups should be a major part of the principled opposition.

The distinguished University of Pennsylvania historian Alan C. Kors, in discussing the decline in importance of American universities, said in a recent interview, "But what's coming out of certain think tanks and certain foundations and certain institutes is very exciting and much more central to the real debates about the problems of American society." It is time for corporate America to decide which side of the debate it supports. □

Democracy and Diversity

Some corporations have defended their grants to anti-business activists on the grounds that such grants supposedly strengthen the democratic process by encouraging "diversity." The reasoning seems to be that by supporting a wide range of opinion and thought in policy research and advocacy, the "best" ideas in the current policy arena will prevail. In fact, however, one of the principal reasons for this study is that diversity is the last thing being encouraged.

The federal government has provided hundreds of millions of dollars to nonprofit advocacy organizations, at least 98 percent of which promote interventionist economic policies, in addition to which government funding of public policy research far outstrips private, corporate funding and is biased heavily toward the left. Government agencies fund policy research that calls for a more activist government, intellectual support for which is obviously conducive to the larger budgets they typically seek. Government's predominant role in funding academic public policy research is an important reason why this research—and academic opinion in general—is so heavily biased in favor of state intervention.

Thus, the overall funding of public affairs organizations and of public policy research is already grossly unbalanced in favor of those who espouse interventionist economic policy. Additional corporate funding merely augments this imbalance, exacerbating an already overwhelming anti-free enterprise bias. It does not encourage balance and diversity; it stifles them.

—THOMAS DiLORENZO
from *Patterns of Corporate Philanthropy*, 1990
(Capital Research Center, 1612 K Street, NW, Suite 704
Washington, DC 20006)

IDEAS
ON
LIBERTY



Capitalism: Who Are Its Friends and Who Are Its Foes?

by Donald J. Boudreaux

Marxian 'alienation' is a philosophically esoteric concept projected by intellectuals onto the working class, rather than a passion felt from within that class with such intensity as to drive the proletariat to the barricades.¹

—THOMAS SOWELL

One of the standard pillars of Marxist thought is that a person's economic position determines his or her political beliefs. People who are wealthy capitalists or prosperous members of the bourgeoisie support public policies favoring "capital" over "labor," while the ever-growing working class supports pro-labor as opposed to pro-capitalist policies.

As an economist, I always have been skeptical of this piece of Marxist dogma because, in a free market economy, pro-capitalist policies are not necessarily anti-labor, and pro-labor policies are not necessarily anti-capitalist. After all, capital accumulation increases the productivity of workers, which, in turn, increases real wages. Another problem with this Marxist proposition is that most laborers in free market societies are themselves capitalists. It is not uncommon for blue collar workers to directly own stocks in corporations, or, indeed, to own their own businesses. More significantly, nearly all working people in the United States own shares of corporations indirectly

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through their pension funds. Thus, Marx's explanation of people's political views is far too simplistic to take seriously.

But over the years I've noticed another problem with this Marxist proposition: Not only is it too simplistic in presuming labor to be opposed to capital, it fails to explain the observed pattern of political beliefs.

Six years ago, when I took a faculty position in economics at George Mason University, it occurred to me that nearly all of my libertarian and classical liberal friends come from working class backgrounds, as I do. Were we the exception that proved Marx's rule? Or is Marx's rule wrong? I couldn't answer this question definitively because, quite frankly, I knew too few people who came from privileged backgrounds. So, when I entered law school two years ago at the University of Virginia, I decided to take note of the family and educational backgrounds of as many of my fellow law students as I could.

Who Are Capitalism's Intellectual Foes?

Over the past two years I've conducted a casual empirical study of family backgrounds and political beliefs, using law students at the University of Virginia as my sample. This is a good sample set because a large number of my fellow students come from very privileged backgrounds and were

educated at the best prep schools and undergraduate institutions in the world. But also a sufficient number (though not a majority) of law students at the University of Virginia are products of working class backgrounds and were educated at decidedly non-elite undergraduate colleges. I finally had the opportunity to test the veracity of Marx's explanation of political beliefs.

I found that Marx's explanation is backwards. The more privileged a person's background, the more likely he is to be a leftist. I know not a single classical liberal law student who is a scion of a wealthy family. Students who share my free market political views invariably are sons or daughters of blue collar or middle class workers, or of families whose substantial economic success was first achieved by the parents of these students. No classical liberal students that I know attended elite prep schools, and only a very few received their undergraduate educations at Ivy League universities. Likewise, the most committed leftists in the student body typically attended exclusive prep schools and, almost invariably, received their bachelor's degrees from schools such as Harvard, Yale, Smith, and Stanford. In short, it is the wealthy—or, at least, the children of the wealthy—who most shrilly criticize capitalist achievement and values. Capitalism's defenders come overwhelmingly from the working and middle classes.

An incident during my first year of law school reflects the invidious attitudes of students from privileged backgrounds. Our Constitutional Law class was discussing affirmative action when a black student spoke up against such policies. This student argued that affirmative action is unconstitutional as well as demeaning to minorities. It should be noted that this black student is from the Washington, D.C., ghetto, and, because of his own hard work, he managed to attend Dartmouth as an undergraduate. He also *earned* one of the coveted few positions on the *Virginia Law Review*.²

When this black student expressed his opposition to affirmative action, he was taken to task by several white students in the class—all of whom enjoyed an upbringing much more economically and socially privileged than that enjoyed by the black student. One particularly grotesque example of left-liberal presumptuousness took place when a white student (who is from wealthy Fairfax County in Virginia) openly accused this black student of being naive about what it means to be

black! Marx's explanation of political biases clearly doesn't explain the lineup of opinions manifested in that classroom.

Why Do the Wealthy Promote Self-Destruction?

The findings of my admittedly informal study of family backgrounds and political views suggest the interesting question: Why this pattern? Why do leftists and interventionists come disproportionately from wealthy families, while libertarians and classical liberals come overwhelmingly from working and middle class backgrounds?

Several possible answers come to mind. One is that wealthy families are better able to send their children to Ivy League schools. Because leftist thought is most prevalent in these institutions, children from wealthy families are more likely to be exposed to interventionist ideas than are children from less advantaged families.

Another explanation that no doubt contains an element of truth is that children from wealthy families often feel guilty for being economically privileged. Of course, this guilt occurs when wealthy people come into contact with those who are below the poverty line. But it also occurs when wealthy people learn about working class lifestyles. A friend told me that he knows of a wealthy young woman who expressed surprise and shock upon learning that most people purchase automobiles on installment plans and not outright for cash. People who are accustomed to riding in nothing but new BMWs or Volvos quite naturally feel pity for those who can afford no more than Chevrolets or Toyotas purchased on credit. It normally doesn't occur to persons from wealthy backgrounds that people who are able to get credit to buy Chevys or Toyotas don't pity themselves, but instead feel quite pleased with their purchases. Leftist politics is a way to assuage the guilt that grows from this pity.

There is surely some truth to these explanations, but neither seems sufficient to explain the pattern of political views I detect among my fellow law students. The guilt explanation appears particularly weak.

Earlier I stated that I met in law school a few classical liberal friends whose families are quite wealthy. However, in all of these cases the parents of my classmates are the first generation in their

families to achieve substantial economic success. Therefore, the explanation for leftist bias among the wealthy that focuses on guilt clearly isn't a sufficient explanation.

The factor that distinguishes these wealthy classical liberals from the leftist children of other wealthy families is that the classical liberals are firsthand witnesses to the effort and risk-taking that were required for their parents to achieve great economic prosperity. Children from families whose wealth extends back two or more generations never see the productive source of their families' wealth and, hence, remain unaware of the extent to which hard work and risk-taking were necessary components of their families' substantial material success. My sense is that another factor in addition to Ivy League schooling and guilt contributes substantially to the leftist bias of people who enjoyed privileged upbringings.

My identification of this other factor leading to leftist bias isn't novel, but it does help explain the pattern of my casual observations better than any other hypothesis I can think of. It is this: Children from wealthy families take wealth for granted, whereas children of working and middle class backgrounds do not. The longer wealth has been in the family, the greater the inclination to look upon wealth as something to be distributed rather than something that must be created and continually recreated by hard work, sacrifice, and risk-taking. Children of the economically well-to-do assume that wealth is more or less a fixed stock that always has been and always will be around; the only question is how it is to be shared. In contrast, people who don't hail from affluent families generally understand—often at only an emotional level—that high tax rates, burdensome government regulations, and silly products-liability laws block the path of those seeking to produce wealth.³

Wealth isn't thought of by these people as an ever-present and indestructible fund that can be taken willy-nilly from its producers without causing a diminution in its size. Therefore, people from working and middle class families are much less likely than people from wealthy families to be suspicious of those who achieve economic success in the marketplace. Children of the non-wealthy are much more likely than are children of the wealthy to realize that a person who gets rich in the mar-

ketplace does so only by producing new wealth and not by taking it from someone else.

Conclusion

Quite obviously, my empirical "study" of family backgrounds and political beliefs among my fellow law students is only very casual and impressionistic. And I don't wish to claim that there are no exceptions to my findings. Committed libertarians and classical liberals can be found among the ranks of the wealthiest in our society, and diehard interventionists exist among middle and working class citizens. Nevertheless, I continue to be struck by the prevalence of leftist interventionist thought among people whose families are wealthy and have been so for several generations. And I am equally struck by the disproportionately large number of libertarians and classical liberals whose parents or grandparents are of no more than modest means. I conclude from my casual survey that, to the extent that capitalism is threatened in America, its intellectual enemies come mainly from that group of people who Marx theorized would be capitalism's most staunch supporters. As usual, Marx was wrong. □

1. Thomas Sowell, *Marxism: Philosophy and Economics* (New York: William Morrow, 1985), p. 202.

2. I emphasize that this student earned his position on the law review. Like many law schools, the University of Virginia has a policy of setting aside a half-dozen or so law-review positions each year for minority students. Minority students who don't earn a position on the law review through their grades or writing skills get an additional opportunity to become a member of the law review by writing an essay explaining why their minority status (as opposed to their academic achievements) qualifies them for law-review membership. The black student who spoke out against affirmative action quite admirably refused even to participate in this minority set-aside program. He became a member of the law review solely by virtue of his academic abilities and hard work.

3. By silly products-liability laws I mean statutes and, more often, judicial rulings that impose on manufacturers monetary penalties for injuries to consumers that are caused by consumer negligence rather than by the negligence of manufacturers. A telling example of such a silly law was presented in a segment on CBS's *60 Minutes* several years ago. A farmer used a ladder to climb onto the roof of his barn during the winter months. The ladder remained in place through the spring, at which time, while being used by the farmer to climb onto his barn's roof, the ladder lost its footing. The ladder fell, causing injury to the farmer. The ladder fell for good reason: when the farmer put it in place during the winter, he set it on a mound of frozen cow manure and the manure thawed during the spring. Naturally, the ladder's footing wasn't secure on a mound of thawed cow manure. The farmer sued the ladder manufacturer and won. The court's argument was that the ladder manufacturer was negligent in not warning the farmer of such danger. See generally, Peter W. Huber, *Liability: The Legal Revolution and Its Consequences* (New York: Basic Books, 1988).

Spending for Spending's Sake

by John Semmens

Few of us are in a position to act as if price were no object. We weigh prices against values, so as to avoid wasting money.

It would seem that this would be a useful way to control public spending. Unfortunately, government's own procurement policies often forbid comparison shopping.

Consider the recent case of a Federally funded study of the need for a new regional airport in Arizona. This expensive study was delayed. The delay wasn't due to doubts about the utility of the study, though doubts were certainly warranted. Neither was the delay due to spending cutbacks aimed at trimming the Federal budget deficit. The delay was caused by the fact that Arizona bureaucrats were attempting to factor in price as one of the elements for deciding whom to hire to undertake the study.

The effort to consider price was relatively meager. In a list of factors to be evaluated, price was to have a total weight of 10 percent. Even this overstates the implied impact of price. Since bids are typically ranked as a percentage of the low bid, even a price twice as high would still get half the allowable points. The norm is for all the bids to fall within a few percentage points of each other.

Nevertheless, the possibility that price might account for as much as 2 to 3 percent of the weight in selecting a consultant to do this study was too much for the Federal Aviation Administration. The FAA's procurement rules forbid bureaucrats from factoring in prices when selecting a consultant. The Arizona bureaucrats were

told they must choose a consultant without considering price.

Eliminating price as a factor defies all logic. Surely, such a bizarre requirement demands an explanation. The only explanations offered, though, ranged from the stubbornly uninformative "we don't allow it" to the old standby of "this is the way we've always done it."

These "explanations" explain nothing. They merely illustrate the intransigence of a bloated government determined to spend more money. Of course, the Federal bureaucracy does have the support of Congress with its own mandates for higher prices (like the Davis-Bacon Act, which forbids contractors on Federal projects from competing on labor costs) and unnecessary purchases (like requiring the Navy to buy obsolete aircraft it doesn't want).

The Arizona bureaucrats resolved the issue of the regional airport study by re-advertising the project and selecting a bidder without regard to cost. The FAA's rules are followed by state bureaucrats because it is the only way to assure that Federal money will be spent in their state. The questions of whether a study was needed or whether taxpayers got the best value for their money were left unanswered.

The only way to answer such questions is to abolish the government program. Determining the need for a commercial airport is a question the market is ideally suited to answer. If a study is needed, it would be worth it for a private business to fund it. A private business would be likely to carefully weigh prices versus values in determining the scope of the study and in selecting who to perform it.

Usually government pretends to be cost conscious. Elaborate bidding rituals are conducted to buttress this pretense. Occasionally, though, the pretense falters, as in the case of the FAA's "no price" bidding regulation. This provides a clearer view of the real objective: spending for the sake of spending.

This clearer view should remind us that over-extended government doesn't work very well. The sooner a majority of us realize this and stop depending on government to do what it is unsuited to do, the sooner we can replace its malfunctioning parts with higher performing free market alternatives. □

The Big Nag

by Donald G. Smith

On January 4, 1977, I smoked my last cigarette. For anyone interested in further details, it happened in Burbank, California, at precisely 11 A.M., and the cigarette was a Lark. It was tough going for a day or two, but I soon broke free, and it's been a long time since I have even wanted to smoke.

I thought of this recently when I was in a public building and came across a big anti-smoking display that was a monument to the sloganeer's art. It was a pretentious, sermonizing, government-sponsored presentation that scolded smokers thoroughly and told them of the evil consequences to be faced if they didn't mend their ways immediately. The effect it had on me was to make me want to light up, not because I wanted to smoke but merely to protest this government intrusion into personal behavior.

This sort of thing has been going on for many years, but it seems that recently the whole business of government nagging has passed beyond the reasonable limits of human tolerance. And it isn't all tied up in smoking. We are told to eat more fiber, see our dentists twice a year, hire the handicapped, exercise, buy bonds, vote, learn to swim, drive safely, conserve water, and share the ride.

The advice given is sometimes good, sometimes questionable, and occasionally quite bad, but one wonders why it is offered at all on a governmental level. It is a case of authorized and approved nagging, a big bureaucratic finger shaking in our collective faces and telling us that if we don't eat our vegetables we won't be getting any dessert.

There was a time when government was clearly in the business of making and enforcing laws, but

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this now seems to be only an adjunct to the endless flow of admonition that pours forth from Washington, every state capital, every county seat, and every city hall on a round-the-clock schedule. It is as though our bureaucrats have run out of laws and have decided to enter the field of human behavior to fill their empty hours. This is accompanied by the tacit message that *they*, government, know far better than *we*, the people, how we should be conducting our personal affairs.

Government has consequently evolved into a nagging, scolding, ever-counseling superpresence, reminding us constantly to eat a good hot lunch and to come directly home from school. It might well be described as a *nagocracy*, a kind of government that sees itself as the kindly protector of potentially naughty children and spends the bulk of its time seeing that we make it through the day safely. As always, it means well, but then what nag doesn't?

I thought a lot about this as I gazed upon the disgusting and overstated anti-smoking display in the public building. My first thought was that I had quit smoking on my own with the simple decision that it was bad for me and that I should have the fortitude to stop; which I did. Government badgering had nothing to do with it, and I don't know anyone who ever gave up smoking because a bureaucrat said it wasn't a good thing to be doing.

More important, though, was the thought that someone on the public payroll received money to create this display, and others were paid to cart it into that building and set it up. To compound the sin, there are countless others being paid to tell us to stay out of the sun and to rotate our tires regularly.

Is this really why we have government? I cannot believe that our political structure exists to tell us how to conduct our daily affairs and to chide us into refraining from harmful behavioral patterns. The smoking matter, in particular, has gotten quite out of hand. We just don't need government to tell us not to smoke. As a nonsmoker, I find myself paradoxically more and more on the side of the smokers when the issue arises because they aren't nearly as hard to take as the carping minions of the civil service society whose chief aim in life seems to be to nag the populace into conformity. This is why, in a restaurant, I always ask for a table in the smoking section. I want them to see me there. □

Poland's Flawed Reform Plan

by Paul A. Cleveland

Poland's economy recently has undergone some radical changes. Price restrictions have been lifted, its borders have been opened to foreign goods, and interest rates and exchange rates have been allowed to fluctuate. These are encouraging moves toward a free market system.

The results, however, have been mixed. Small businesses have opened in record numbers and many shortages have been eliminated, but unemployment has risen and productivity has fallen. Why hasn't Poland's economy responded in a more positive fashion?

The problem is that wages remain regulated. Increased unemployment and lagging productivity are the natural result.

In a market where product prices move freely and businesses are free to compete for customers, it is important to produce a quality product while remaining price competitive. However, if the government controls the wages a firm may pay, it becomes very difficult to do this. Since employers no longer can compensate employees for exemplary performance, workers lose the incentive to put forth maximum effort. Instead each employee tends to discharge his duties at a minimal level of acceptable performance.

Controls on wage rates, therefore, mean that more labor hours will be needed to produce a giv-

en product. This raises production costs, hindering the firm's ability to remain price competitive.

The quality of the firm's product also suffers. Not only is the employer unable to reward employees on the basis of productivity, he is unable to reward those who are careful not to make mistakes in the production process. Therefore, where wages are restricted, a firm won't be able to compete with firms whose wages aren't restricted.

In places such as Poland, where wages are controlled while other prices are free to fluctuate and markets are relatively open, firms cannot produce goods of sufficient quality at low enough prices to compete with outside firms that don't have to abide by such artificial restrictions. Productivity falls and unemployment rises.

There is an additional result from Poland's peculiar mix of free market changes with continued socialist policies: the tremendous growth of small retail businesses. I saw this firsthand when I visited Warsaw recently.

Within walking distance from my hotel, there were people on a major street selling all types of goods right out of the trunks of their cars. It was amazing to see the wide variety of products. Across the street was a flea market made up of small, wood-framed booths that housed other emerging retail establishments. It was obvious that these vendors had made something of a successful stride forward by procuring a fixed establishment for their operations. Beyond this



PAUL CLEVELAND

Old Town in Warsaw. Many shops have opened in the storefronts, and there are retailers selling from carts and stands along the street.

stage were the business enterprises that were opening in many of the storefronts in the downtown area. The availability of produce that can be bought from these retailers is nothing short of miraculous.

However, the success of these enterprises is not without peril. In particular, there is some question as to how much they will be able to grow. The reason is once again the wage-rate restrictions. If a retailer is to hire an employee, he must pay the regulated wage. Therefore, it will be very difficult for these potential employers to expand their operations. Will they hire more employees than they can personally supervise? The evidence is against it. An employer can't afford to hire a supervisor who must be paid a regulated wage. Therefore, firms will grow only to a limited size.

This poses another problem for the Polish people. If business expansion is limited, the country's ability to compete in large-scale production with other countries will be hampered. Poland won't be able to gain from economies of scale. This, in turn, will limit the increase in the standard of living that the Polish people can expect from the changes they have made thus far.

Poland's future remains uncertain. Already there are special interest groups, such as the nation's farmers, who want to close the borders to foreign products. This would begin to wipe out the gains that already have been made.

Poland's reform plan is flawed. However, the flaw is not the result of its new free market policies. Rather, the flaw is due to the residual socialist policies that remain in force. □

Government Funding Brings Government Control

by Gary McGath

One way for a government to control people is to threaten them with punishment for disobedience. Such a direct approach, though, often provokes strong opposition. A second, subtler way is to tax them, then allow them to have some money back only if they do as the government wishes. The federal government's power to exercise the second kind of control grew alarmingly on May 23, 1991.

On that day, in the case of *Rust v. Sullivan*, the Supreme Court ruled that the government could restrict not just what subsidized family planning clinics may do, but what they may say to their clients. According to the ruling, a regulation by the Department of Health and Human Services (HHS), which prohibits Federally funded clinics from providing information about abortion services or recommending abortion, is valid under the Constitution.

Many people on both sides saw this case as an "abortion issue." Opponents of abortion cheered; advocates of the right to choose protested against the restriction on abortion rights. In his dissenting opinion, Justice Blackmun wrote that HHS regulation "has both the purpose and the effect of manipulating [a woman's] decision as to the continuance of her pregnancy."

But in fact, the issue is not abortion but speech—specifically, speech by those who accept government subsidies. The Supreme Court's ruling upheld the principle that when the government offers funds, it may include as a condition of funding that those who receive the money refrain from disseminating certain kinds of information, or expressing certain points of view. If the regulations had stated that the clinics couldn't recommend even birth control pills—or if they had specified that *only* clinics that made abortion referrals could receive funds—the legal logic would have been the same.

Many of the critics have focused on the effect of the decision on women seeking help from the clinics, particularly women who are too poor or isolated to seek alternatives. Certainly these women have a vital interest in the case, and their options are diminished by the Court's decision. But there is no such thing as a right to be provided with information, except by the agreement of the provider. *Rust v. Sullivan* cuts into not the right to receive information, but the right to give it.

The central issue of rights applies to the owners of the clinics and the professionals who practice there. In giving them money, may the government properly restrict the information that they are allowed to provide? The two focal points in the issue are funding and information; abortion is involved only incidentally.

As in many issues of this type, the main debate contains a false alternative. Recipients of governmental funding assume that they have an unconditional right to the money. Opponents of abortion regard tying strings to the money as a legitimate way to implement their policy. Both of these views are seriously flawed. One seeks to ignore, the other to exploit, the negative consequences of tax subsidies.

When the government funds an activity, it will exercise control over it. As the "Wizard of Id" comic strip once put it: "Remember the golden rule. He

who has the gold makes the rules.” The government must judge the qualifications of applicants on the basis of what they do, and choose to fund some and not others. The “right” to funding depends on how closely the applicant’s activities coincide with the goals and criteria of the government agency giving out the money. Value-neutral funding is impossible. The more the activity bears upon matters of strong personal concern, the more obvious the value preferences in the funding will be.

We can see the same phenomenon in other areas of governmental funding. The National Endowment for the Arts provides money for works that are deemed sufficiently “artistic,” according to the judgment of the officials in control of the money. The question of whether Congress or NEA officials should control that decision is merely a dispute between different branches of the government.

The more such precedents the government sets, the more it becomes protective of its power to control the beneficiaries. In the majority opinion in *Rust v. Sullivan*, Chief Justice Rehnquist wrote: “To hold that the Government unconstitutionally discriminates on the basis of viewpoint when it chooses to fund a program dedicated to advance certain permissible goals, because the program in advancing those goals necessarily discourages alternate goals, would render numerous government programs constitutionally suspect. When Congress established a National Endowment for Democracy to encourage other countries to adopt democratic principles, it was not constitutionally required to fund a program to encourage competing lines of political philosophy such as Communism and Fascism.”

The implicit smear is ugly enough in itself, coming in an official statement by the Chief Justice. When the government permits those whom it funds to express only the official point of view, it excludes many philosophies that are not communitarian or fascist by any stretch of the imagination. But leaving this aside, his statement shows how the logic of power feeds on itself. Rather than err on the side of endangering current programs that permit the expression only of the official philosophy, the Court endorsed a further expansion of the government’s power to specify the content of the activities it subsidizes.

The impact of this decision is potentially devastating. Foes of abortion see only the immediate

impact of the decision, and applaud it; but the power that the Court has granted the federal government can be used equally by the Left and the Right. The HHS restrictions, and the Court’s approval of them, tremendously increase the government’s power to control any kind of activity that it funds. As Justice Blackmun noted in his dissent: “Until today the Court never had upheld viewpoint-based suppression of speech simply because that suppression was a condition upon the acceptance of public funds. Whatever may be the Government’s power to condition the receipt of its largess upon the relinquishment of constitutional rights, it surely does not extend to a condition that suppresses the recipient’s cherished freedom of speech based solely upon the content or viewpoint of that speech.”

Yet in this formulation, Blackmun acknowledges that the government may call on recipients of subsidies to relinquish some of their constitutional rights. (For example, recipients of government money often are required to implement affirmative action programs, limiting their freedom to choose their employees.) *Rust v. Sullivan* expands this power disastrously; but the potential for the disaster existed from the day that governmental subsidies of private activity were first devised.

These subsidies, we must remember, come from taxation. To get one’s money back, one must meet the government’s qualifications for a subsidy. Thus, those who choose non-subsidized activities are, in effect, punished for their choices by having their money taken and not returned. Traditionally, the losers are people whose activities aren’t deemed sufficiently important to the “public interest.” After *Rust v. Sullivan*, though, the qualifications for activity in the “public interest” can include not only what one does but what one says. The government now can use the coercive power of taxation not just to benefit certain activities, but to promote certain ideas.

A New Threat

What is most frightening is the possibility of expanding Federal control of expression and information to private educational institutions that receive government money—meaning virtually all of them. Neither liberals nor conservatives have a monopoly on the desire to exercise control. Whether we see attempts to ban “racist” and

“homophobic” courses and textbooks, or “blasphemous” and “obscene” ones, depends only on whether the politically correct Left or the fundamentalist Right acts first.

Neither side is likely to have much success in the immediate future. A major assault on our liberties always happens in stages. The first step is the establishment of a principle, and its application to one area where there is widespread support for the restriction. Next comes a period in which those who established the principle assure us that the disastrous consequences predicted by its critics won't happen. Only after people get used to the principle, and after the critics have grown less vocal, does the government follow through in a major way. It was over 20 years after the establishment of governmental funding for the arts that the first explicit regulations concerning content were passed. And, ironically, the regulations requiring “decency” in art were quite different from any that the liberal advocates of artistic subsidies would have wanted.

By the time the principle of *Rust v. Sullivan* incubates and comes to maturity, there's no telling what political fads will have arisen, and what kind of lobbies will be in a position to impose speech-based restrictions on funding.

The walls of academic freedom will take a long time to knock down. However, other recipients of governmental subsidies may be more vulnerable. The precedent set by the Supreme Court applies directly to the medical profession. It would be no great leap for a government agency to issue a regulation that forbids doctors who receive Medicaid or Medicare payments from discussing the option to withhold life-support with patients suffering from terminal diseases. A system of national health insurance would, of course, greatly increase the scope of this danger.

Control through funding bypasses all constitutional limitations. As Chief Justice Rehnquist argues, people still have a choice; they can decide not to accept governmental funding. The government doesn't impose penalties on them for anything they might say; it merely takes their money and gives it to people who accept restrictions on what they may say. This moves the issue to the disparaged category of economic freedom. The principle of free speech is dangerous to challenge head-on; it's much safer to act on the principle that the government may take peo-

ple's money and expend it for its own purposes.

Any successful challenge to the expansion of governmental power resulting from *Rust v. Sullivan* must challenge both the controls and the subsidies that make them possible. It must challenge the legitimacy of taking money by force from some people to promote the ends of other people. The owners of subsidized family planning clinics want freedom of choice, but they don't want to grant freedom of choice to the people who are footing the bill—the taxpayers. They need to recognize that they can't have it both ways. When they lobbied for government funding, they invited government control. If they now want freedom, they should call for an end to Federal subsidies.

The owners of the clinics probably would argue that they would be even less free without governmental money. They would have to call on private donations to provide low-cost services; and private donors might call for similar restrictions, or even more stringent ones, before donating any money.

But private donors are making a choice concerning their own money, not someone else's. If a donor wants to give money only to organizations that meet his standards—however capricious they may seem to another person—that is his right. In the absence of governmental funding, the clinics still would be able to ask for money from anyone who *wanted* to give it, but they would not have the right to obtain money by compulsion.

To be free of governmental control, one must be independent of the government. Those who accept the idea that the government may take money from others to help them in promoting their goals are, whether they realize it or not, accepting the idea that the government can dictate their goals. Simply “reforming” the system by attempting to guarantee the independence of the recipients of the money isn't a viable solution; the government will, in one way or another, control what it subsidizes.

Senator Strom Thurmond pointed this out in 1963, when he warned against governmental subsidies to the arts: “The Supreme Court has stated that the Federal Government has the power to control that which it subsidizes, and experience proves that when the Federal Government has the power, that power is eventually exercised.”

Government funding and government control of private activities go hand in hand. To keep private activity free, its financing must be kept private. □

China Misperceived

by John Chamberlain

Steven W. Mosher begins his study of *China Misperceived: American Illusions and Chinese Reality* (New York: A New Republic Book, 260 pages, \$19.95 cloth) by plunging us into Nixon's dilemma of 1972. President Nixon, after dispatching Henry Kissinger to mainland China to get the feel of things, faced up to a geopolitical fact that if Moscow and Beijing were ever to make active common cause against the West, America would have a two-front struggle on its hands. To avert this possibility almost any mendacity was justified. But what Mosher calls the "cruelty and violence of the Cultural Revolution" precluded easy acceptance by Americans that Chairman Mao and Premier Zhou Enlai were anything other than monsters. Nixon's problem was, first, to convince scores of print and TV journalists that Mao and Zhou were not devils. He could then try to change the image of mainland China in the average American's eyes.

This was no easy task, given the fact that some 30 million people, Red Guards included, had died in famines that might have been mitigated. Mao and Zhou were as culpable in trying to hide evidence of famine as Stalin had been in the case of the Ukraine.

It took two huge planes to carry White House and State Department personnel and 87 print and TV journalists to Beijing with Nixon in 1972. Included among the journalists were Bill Buckley and Theodore White. Walter Cronkite, Dan Rather, and Barbara Walters were also aboard. It was Buckley who provided the inspiration for Mosher to take a close look at "the decidedly gentle treatment accorded Mao's China by Nixon's press corps."

Buckley should have been well aware of Nixon's long-term goal of separating Red China from Red Russia. But Nixon's effusiveness in greeting Mao and Zhou was gagging. And the deference paid by Nixon to the "revolutionary opera . . . the brainchild of Mao's wife, Jiang Qing, who became China's de facto cultural czar during the Cultural Revolution," was strange. Nixon had called the radical leftist SDS, or Students for a Democratic Society, "campus bums." But that was in America. Now, in his determination to ingratiate himself with Mao and Jiang Qing, he found himself "warbling" that the operatic play *The Red Detachment of Women*, which had been staged for Nixon's benefit, was "great." "It was a powerful message and intended for that . . . excellent theater and excellent dancing and music," Nixon told a reporter. And what was the "message"? Only that poor peasant daughters should run off to join the Red Army.

Theodore White of *Time* and Bill Buckley sat next to each other on the way over to China. "As White's ideological opposite," says Mosher, ". . . Buckley brought a different set of presuppositions to bear on the People's Republic of China. . . unlike White, he believed that Nixon's overture to China was not only not in the best interests of the United States, it was positively immoral given the enormity of the crimes of those with whom Nixon would be meeting." So who was "misperceiving" what? If you believed in the fellow traveler's picture of the world, you would be on White's side. But if Red China, despite Tiananmen Square, is destined to go capitalist with the rest of the world, the big long-term "misperception" will be with the Deng Communists.

Mosher goes back to beginnings. Throughout

the Middle Ages Marco Polo's tales of the "mysterious East" fascinated Europe. But it was not until Jesuit missionaries went to China at the turn of the 17th century that the West learned anything about China. The Jesuits hoped to convert the Chinese to Christianity. But the conversions seemed to work in reverse.

The prestige of missionaries was revived after 1928, when Kuomintang leader Chiang Kai-shek married Wellesley graduate Soong Mei-ling and announced his conversion to Methodism. With a Christian couple running China, Protestant missionaries seemed to have succeeded where the Jesuits had failed.

Pearl Buck, the daughter of missionaries, did more than anyone else to provide a picture of China acceptable to Americans. Her best-selling novel *The Good Earth*, and the movie that was made of it, reached tens of millions. Buck, says Mosher, created "a new stereotype of rural Chinese as a strong and attractive people of the soil, kind and generous toward the young, respectful toward the elderly, and dignified, even cheerful, in misfortune."

This image of the Chinese was consonant with what became known as the Yen-an picture. Mao had led his long march to Yen-an in northern China, a place that was duly mythologized as the capital of an agrarian people who were about to rescue China from Chiang, who had to flee the Maoists to Taiwan. It was in Yen-an that the Communist Party of China perfected "the array of techniques to handle short-term visitors—parachute journalists—which they later used to such effect during Nixon's visit."

Guenther Stein of the *Christian Science Monitor* described "the men and women pioneers of Yen-an" as "new humans. . . ." They constituted "a brand new well integrated society, that has never been seen before anywhere." Harrison Forman of the *New York Herald Tribune* and *London Times* was so impressed by small-scale private enterprise in Yen-an that he said the Chinese Communists did not practice Communism at all. Theodore White spoke of "agrarian liberals" in his dispatches, only to have the malapropism edited out by the perceptive Whittaker Chambers, then the foreign editor of *Time*.

The Nixon trip, even with all its nonsense, was justified, but things have changed with the collapse of Communism in most of the world. There is no

call for the U.S. to worry about a war on two fronts as long as the Soviets are distracted by trouble in the Baltic states and in the Ukraine and Great Russia itself. George Bush is playing it cagey—he does not make excuses for Deng and Tiananmen Square. But he does not assume the right to condemn Deng as long as there is a chance for significant change in China under Deng's successor, whoever he may be.

All things considered, Mosher has written a fascinating book. □

THE CAPITALIST SPIRIT: TOWARD A RELIGIOUS ETHIC OF WEALTH CREATION

edited by Peter L. Berger

ICS Press, 243 Kearny Street, San Francisco, CA 94108
1990 • 192 pages • \$18.95 cloth

Reviewed by Raymond J. Keating

Theologians usually overlook the creation of wealth when discussing the ethics of socio-economic issues. They focus instead on wealth distribution, or more accurately *redistribution*. Since distribution, however, doesn't occur in a vacuum, the ethics of distribution have been deficient and largely distorted. After all, wealth distribution is meaningless without wealth creation first taking place.

This book takes some initial steps in redressing this neglect of creativity and production. Bringing together some prominent free market thinkers, sociologist Peter Berger has created a volume dedicated to forming a strong ethical case for capitalism.

Berger sets the tone when he states in the introduction that "[e]xcept under the most primitive conditions (a subsistence economy in a tropical paradise, for example), wealth is never given—it must be created." Such a theme is in stark contrast to the anti-capitalist, pro-socialist, zero-sum thinking prevailing among many theologians, for example, the National Council of Churches, the American Catholic bishops, and various liberation theologians. Set against the dismal, statist philosophies of such groups, *The Capitalist Spirit* is a collection of insightful and sometimes even inspiring essays.

Professor David Novak, in his essay "Economics and Justice: A Jewish Example," sagaciously expounds upon the distribution/production relationship: "Those who produce more of what is needed by the society are given more than those who produce less. These rewards, even more than being recompense for past productivity, are incentives for future productivity. It would seem that anyone who does not at least partially correlate the economics of distribution and the economics of production is operating under an illusion of infinite supply and immediate availability."

David Novak also illustrates a very delicate and significant balance struck by the Jewish tradition. He summarizes: "By emphasizing the covenantal necessity of human mutuality before God, Jewish tradition affirmed the value of individual incentive without the glorification of individual human selfishness, and it affirmed the value of communal restraints without the glorification of collective human power." Indeed, this has been an important legacy in the West.

Perhaps the most complete exposition of a capitalist ethic in this text, however, is given to us by author Michael Novak in his "Wealth and Virtue: The Development of Christian Economic Teaching." He notes a too-often disregarded, yet critical aspect of the ethical nature of capitalism: "Many intellectuals ignore the evidence of the immense benefits, in the form of prosperity, liberty, and significant moral progress, that the capitalist economies ushered into history."

In particular, Michael Novak turns to the great Scottish Enlightenment thinkers for a moral basis of the free enterprise system. He cites the arguments of David Hume and Adam Smith "in favor of the turn toward a capitalist economy":

- "First, life in premodern rural society was circumscribed not only by poverty but also by the absence of possibilities for self-improvement and action. The Scottish intellectuals saw such possibilities in commerce."

- "Second, by ending dependency, the rise of commerce and industry would awaken the rural poor out of the slumbers of idleness."

- "Third, a commercial society is less warlike."

- "Fourth, the practices of commerce bring people together in more frequent and more complex interactions."

- "Fifth, a commercial society would mix together the ancient social classes."

- "Sixth, as market activities grow, so also do popular knowledge, skills, and specializations."

- "Seventh, markets require forms of civilized behavior: patient explanation, civil manners, a willingness to be of service, and a willingness to reach satisfactory mutual consent."

- "Eighth, the replacement of agrarian ways (with their relative isolation and taciturnity) by commercial ways (with their city bustle and rapid talk) tends to awaken one of the most precious, high, and rare forms of moral development: the civic need for the virtue of sympathy."

- "Ninth, pursuing this ideal [i.e., sympathy] helps the person of commerce to be a little more objective than others, to see a little farther, and to discern needs and possibilities that have not yet been served."

Novak recognizes a need for some "practical moral guidance" in the realm of commerce, and declares that the "best moral instruction . . . begins by raising aloft the ideal to be pursued: the exercise of God-given talents to imagine, invent, discover, and bring into widespread use the resources that God has hidden in the natural world."

In "Private Property, Ethics, and Wealth Creation," economist Walter Block also declares that the capitalist system no longer can continue to concede "the moral high ground to its detractors." He asserts that the answer lies with the libertarian philosophy. The libertarian emphasis on self-ownership, private property, voluntarism over coercivism, entrepreneurial capitalism over state capitalism, and negative rights, is intrinsic in establishing an ethic of wealth creation. Block also lays to rest the destructive belief held by some libertarians that religious belief and libertarianism are incompatible.

Due to space considerations, I merely will mention that "Early Christianity and the Creation of Capital" by Robert M. Grant and "Camels and Needles, Talents and Treasure: American Catholicism and the Capitalist Ethic" by George Weigel are well worth reading also.

Finally, in "Wealth and Whimsy: Being Rich, Producing Riches," Richard John Neuhaus, editor-in-chief of *First Things*, seeks to put this entire

debate over a religious ethic of wealth creation into proper perspective. He warns that those who take wealth too seriously—both those “captive to their possessions” as well as “religiously driven ideologues [who promote] designs for a just economic order”—“are in danger of attributing an ultimacy to something that is, at most, prepenultimate.”

Neuhaus holds to an intriguing interpretation of the Reformation as it relates to this ethical conundrum: “[I]t may be suggested that the reformers’ articulation of the Pauline doctrine of grace assisted economic enterprise chiefly by underscoring the truth that worldly success does not matter that much, it does not matter ultimately. In the Calvinist tradition, economic achievement may have been motored less by its being viewed as a token of election than by the fact that a grace-based Pauline lightheartedness about worldly achievements created free space within which a variety of callings could be exercised in good conscience.”

Neuhaus also comments on creativity, growth, and the discovery of possibilities, and how these relate to free persons and their participation in “God’s continuing education.” In this vein, he cites Dietrich Bonhoeffer, the Lutheran theologian who was put to death by the Nazis in 1945. For Christians, however, I believe that Neuhaus would have sealed his case by referring to an additional quote from Bonhoeffer’s *Ethics*: “There are . . . certain economic or social attitudes and conditions which are a hindrance to faith in Christ and which consequently destroy the true character of man in the world. It must be asked, for example, whether capitalism or socialism or collectivism are economic forms which impede faith in this way.”

The editor and contributors of *The Capitalist Spirit* have answered this question. Entrepreneurial capitalism, with its emphasis on freedom, creativity, and industry, is indeed no impediment to faith. □

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



ECONOMIC POLICY AND THE MARKET PROCESS: AUSTRIAN ECONOMICS AND MAINSTREAM ECONOMICS

edited by K. Groenvelde, J. A. H. Maks, and J. Muysken

North-Holland, P.O. Box 882, Madison Square Station, New York, NY 10159 • 1990 • 304 pages • \$69.50 cloth

Reviewed by Jeffrey Tucker

Austrian economics, with a tradition dating back over 100 years, distinguishes itself by its insistence on using strict rules of logic to deduce economic laws that govern human action. But that isn’t the source of the worldwide attention the Austrian school is now receiving. Instead, it is its association with economists who steadfastly declare that the free market is the most stable and rational means for ordering economic society. This book is a new collection of articles by leading free-market Austrians debating conventional interventionists.

For most of this century, Austrians have argued that socialism, and the endless variants of the mixed economy (democratic socialism, social democracy, planned markets), prove deficient in providing a coherent mechanism for ensuring that economic resources are used by society in the most optimal way. What’s more, the Austrian case for the free market has an intellectual power that is unavoidably attractive, since it insists that economic laws apply to all societies at every stage of economic development.

The editors of this volume are all professors of economics at universities in the Netherlands and are highly sympathetic with policy positions of the Austrian school. And they enlist some well-known Austrians to help make their case.

Most of their Dutch colleagues who also contribute essays are not sympathetic—they are different breeds of social democrats. Whether they regard themselves as post-Keynesian, neoclassical, or institutionalist, they see a need for a market, but a limited one, heavily regulated, taxed, and restricted. They favor a wide variety of social welfare programs to promote “equality” and “social justice,” antitrust laws, labor market restrictions, and so forth.

When these two world views clash—the free market versus social democracy—sparks some-

times fly. Other times, the contributors just talk past each other. Although this book neither initiates nor closes the debate, the exchange herein, enlisting 20 economists in all, is a fruitful one.

Israel Kirzner launches the debate with a masterful presentation of the case for viewing the market as a process of learning, depending on a free price system, and driven by entrepreneurial discovery. Interventions in this market may generate “unanticipated side-effects,” substitute “the preferences of legislators or officials in place of the wishes of the consuming public,” and limit “the exploitation of opportunities for pure entrepreneurial profits.”

Angus Maddison responds with bewilderment: “Kirzner’s description of the market process is somewhat extreme or even mystical.” He dismisses much of Kirzner’s history of the 1930s economic calculation debate between Ludwig von Mises and Oskar Lange as “not very relevant.” It’s unfortunate that Kirzner has no opportunity to rejoin the debate.

Although not an Austrian, Yale Brozen presents one of the best empirical cases against government intervention seen in years. He covers monopoly policy, wealth redistribution, taxes, the negative consequences of an inflationary monetary policy on saving and investment, and more. It was a strategic decision to include this essay, given both Austrian tendency to rely on high theory and mainstream economists’ skepticism about abstraction.

Yet Brozen’s respondent, Arnold Heertje, is not impressed: “We must go back to economic theory . . . it would not be too difficult to produce evidence which just ‘proves’ the opposite of what Brozen likes to indicate.” This kind of methodological circularity can be frustrating, for it raises the question: Exactly what kind of argument for free markets, if any, will a social democrat accept?

Austrian economist Don Bellante weighs in with an outstanding case for free labor markets, pointing out the bad effects labor unions and wage controls have on labor market coordination. In the process he points to the embarrassing reality (for market opponents anyway) that unions cartelize the labor market at the expense of nonunion employees. Legislation enacted on behalf of a union has negative consequences for the entire economy.

Bellante’s respondent, P. Keizer, pleads for cost-benefit appraisals of labor market intervention, although he fails to provide persuasive evidence on the benefit side of the calculus. His main argument favors a kind of democratic collectivism: The voters tolerate labor interventionism, so what’s the problem? The problem is that voters are prone to vote their parochial interests at the expense of the common good, and economists are supposed to rise above that.

Moving to issues of macro-economic stability, Austrian economist Pascal Salin presents an outstanding case for dropping the entire interventionist apparatus of fiscal and monetary manipulation, on grounds that it is de-stabilizing. Especially impressive is his argument for the Austrian theory of the origins of business cycles. It points to central bank credit expansion as the source of interest rate manipulation that distorts investment decisions. His respondent, J. C. Siebrand, is aghast at Salin’s policy proposals and tosses out a series of one-liners against the market that have the ring of clichés rather than scientific analysis.

Another exchange occurs between free-banking advocate Roland Vaubel and central banker G. A. Kessler. And again the substantive arguments are on Vaubel’s side, and his opponent doesn’t seem up to the task of refuting his case against central banking.

The volume also contains an interesting discussion of the merits and flaws of European economic integration.

Part of the difficulty in such debates is that the two sides use different vocabularies. For example, when Austrians speak of competition, they mean an open-ended and unrestricted process of discovery. The social democrats see competition as an end-state to which the market must be made to conform. One wishes that the editors had taken notice of such difficulties and insisted on more discussion of this issue. These problems are compounded by the ideological rigidity of the mainstream economists presented here. But this doesn’t detract from the merits of the debate. Let’s hope the future presents opportunities for many more such exchanges, and that the Austrian school economists continue to win. □

THE CULTURE OF SPENDING: WHY CONGRESS LIVES BEYOND OUR MEANS

by James L. Payne

ICS Press, 243 Kearny Street, San Francisco, CA 94108
1991 • 221 pages • \$24.95 cloth

Reviewed by William H. Peterson

Harry L. Hopkins, adviser to F.D.R., reportedly said in 1938, "We will spend and spend, and tax and tax, and elect and elect."

Hopkins' thought is masterfully mirrored in this work by political analyst James L. Payne. Payne, who has taught political science at Wesleyan, Yale, Johns Hopkins, and Texas A&M, is a research fellow at the Independent Institute in Oakland, California, and head of his own Sandpoint, Idaho, research firm, Lytton Research and Analysis.

Payne sees Congress as sinking in a whirlpool of "spend and spend" with the taxpayer drowning along with the Congressmen, with the nation and the media pretty much in the dark as to whys and wherefores, and with the aftermath of a long-ongoing spending orgy reflected in nine post-World War II recessions and a 90 percent drop in the value of the dollar in the last half-century.

One thing wrong, says the author, is the widespread belief in government efficacy. Most people and Congressmen believe that government can solve any social or economic problem that comes along. Call it faith in government omnipotence. For however misplaced that faith, Payne's examples of government *inefficacy*, including the boomerang effects of farm subsidies and the War on Poverty, add up to proof positive of the bedrock incompetence and tragic human waste of the Welfare State.

Still, perhaps Payne's most surprising argument is his observation that blind faith in government has deep historical roots. Payne recalls what happened after 313 A.D. when Constantine made Christianity a lawful religion. Church leaders preached that rulers were always right and should be obeyed. As a reward, the government subsidized church leaders and carried out persecutions of dissenters on their behalf. The pattern repeated itself in the 16th century in the Geneva theocracy under John Calvin.

To be sure, modern separation of church and state has somewhat ameliorated the creed of gov-

ernment omnipotence. Nonetheless, the American clergy, apart from the American people, is hardly noted for its libertarianism. In any event, what the people and Congress ought to hear again and again is Payne's refreshing opposite contention to notions of government efficacy: "Government makes problems worse."

Similarly refreshing is Payne's play on opportunity costs as a means of getting at the deep-seated idea that government money is somehow "free," almost manna from heaven. This free-lunch dream helps explain the proliferation of Washington offices and high-priced lobbyists maintained by many states and cities. Governors and mayors want to be sure that they get their cut of the swag, from new post office buildings to "free" harbor-dredgings—not counting grants-in-aid to states and localities already running in excess of \$100 billion year after year.

What to do?

Be wary of legalisms, says the author, noting how a Colombian constitutional provision for a balanced budget has long been blithely ignored by the politicians in Bogota. Similarly, he calls attention to our own Congressional Budget and Impoundment Control Act of 1974 with its creation of a watchdog Congressional Budget Office, all of which has come to naught in terms of arresting our ingrained culture of spending.

By the same token, Dr. Payne recalls George Bush's 1988 campaign pledge of "no new taxes." He also recollects the Gramm-Rudman-Hollings Act of 1985 that bravely promised a balanced budget by 1991. Alas, 1991 is here with more than \$600 billion piled onto the national debt in fiscal 1991 and 1992, with that debt officially projected to exceed \$4 trillion by December 1992. Our red ink runneth over.

Well, if legalisms aren't the answer to undoing the spending culture, what is? James Payne's main response is term limitations in Congress. He thinks senior Congressmen by fastening themselves into key committee chairmanships wield too much power. He cites 25-term Jamie Whitten, chairman of the House Appropriations Committee, as a case in point.

The Payne response is welcome but it still leaves unanswered the power of legions of Washington lobbyists, armed with oodles of PAC (political action committee) money. Too, there's the power of that unelected fourth branch of government, the

bureaucracy, two-million strong, with highly influential tenured agency officials who survive one Administration after another.

I recommend this Payne book for its probing look inside dark fiscal closets atop Capitol Hill. Yet I wish he had expanded on his call for a "Second Madisonian Revolution." For it takes two to tango: The problem is not just the free-spending, devil-may-care Congressman but, as the late Lem Boulware drummed into me, his freely receiving, vote-giving constituent or, by the same token, that constituent's interest group, from the organized worker to organized farmer to organized teacher to organized veteran to organized doctor to orga-

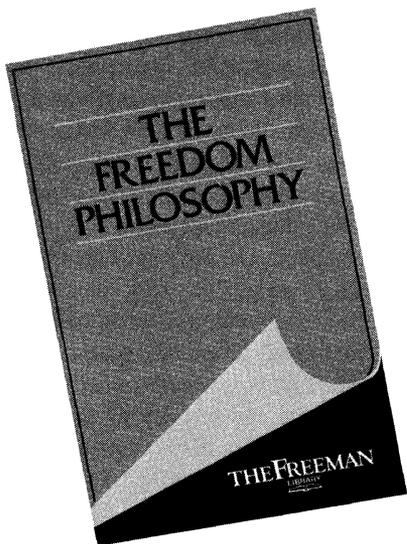
nized lawyer to organized Hispanic to organized senior citizen to organized . . . what-have-you.

Our Welfare-State tango glides along to the beat of spend-and-spend, which means get-and-get, with the tax-and-tax part woefully forgotten or misunderstood under the seductive music of tax-the-rich.

The need, in sum, is education, essentially economic education on the iron law of no free lunch. Educational mission impossible? Let's begin. There's too much at stake.

Dr. Peterson, adjunct scholar at the Heritage Foundation, is the Lundy Professor of Business Philosophy at Campbell University, Buies Creek, North Carolina.

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Soviet Keynesians

The Soviet Ministry of Finance would be very surprised to find out that its monetary policy since 1985 has been a typical Keynesian one. The Keynesians advocate a budget deficit and oversupply of money for the stimulation of consumer demand. Keynesianism was discredited in the West during the 1970s because Keynesian policies directly led to stagflation, where there is inflation, no economic growth, and rising unemployment. The excessive supply of money was extremely destructive even in the West where there is market competition. What can we say about the Soviet economy, where there is no competitive market and only huge monopoly structures? Here we see that the oversupply of money combined with price increases is a direct path to the decrease in production and destruction of the economy. That is what we witness today.

In 1985 the government's philosophy was, "We'll suffer, but we'll learn." This hasn't worked because it isn't the government that suffers, but rather the general public.

—YURI OLSEVICH of the Soviet Academy of Sciences, writing in the April 1991 issue of *Ogonyok*

The Role of Government

The rightful role of government in a free society is to provide justice, not goods and services. It does this using law. Life, liberty, and property existed before legislation, thus causing man to make laws to secure these. The law is merely the organization of the individual's natural right of lawful defense. It is the substitution of this common force for individual forces that is to protect persons, liberties, and properties, equally.

The inevitable question now arises: How can the government provide any goods or services if the only way it can do this is to steal the property it is supposed to protect? The inconvenient answer for fans of redistribution is that it cannot do the impossible. It either provides justice by protecting property, or perverts justice by redistributing it—but it cannot do both simultaneously.

— R. W. BOEHM, writing in the June 1, 1991, issue of the Portsmouth, New Hampshire, *Herald*

The Market in Burned-Out Light Bulbs

In Kiev, the capital city of the Ukraine Republic, the price of a new light bulb is 35 or 40 kopecks. (There are 100 kopecks to a ruble.) Yet a market has emerged in Kiev for burned-out light bulbs, and people pay as much as two rubles for a burned-out light bulb. I doubt that any American could figure out why burned-out light bulbs would be selling for five or six times the price of a new light bulb; only a native of the Soviet Union could understand that.

The explanation is simple. The price of a new light bulb is indeed only 35 or 40 kopecks, but the average person cannot find, let alone buy, them. There is a shortage of light bulbs, as well as a shortage of everything else. So people buy burned-out light bulbs, take them to their place of employment, and when no one is looking, they unscrew the functioning light bulb, replace it with a burned-out light bulb, and take the new one home.

—EMANUEL S. SAVAS,
speaking at Saint Vincent College,
March 20, 1991

A Little Vacation

New York City's shelter system for homeless families has become so livable that hundreds, if not thousands, of families who could stay elsewhere are flocking to shelters so they can move to the top of the list for permanent subsidized housing, city officials say.

Dorian and Renita Steeley and their three children, for example, were crowded into a two-bedroom apartment with relatives. But they wanted their own place. So they went to the city and said they were homeless. They now have a pleasant two-bedroom apartment in a Bronx shelter, at a cost to the city of \$2,730 a month.

Mr. Steeley is certified to work with the mentally ill, and Mrs. Steeley has been employed as a dental assistant. But they are now receiving public assis-

tance, and neither plans to work until they get a permanent place to live.

"I consider this a little vacation," she said recently.

—CELIA W. DUGGER, writing in the
September 4, 1991, issue of *The New York Times*

Medical Care

The only problem with our medical-care system is that the government and other third parties are paying the bills.

The government has established various cost-containment programs in an effort to reduce its share of the financial burden for hospital care, physician services, and prescription drugs for Medicare and Medicaid patients. These programs have given the government license to ration medical care and have raised the cost for those who pay their own bills by as much as 50 percent.

The only thing that is breaking down is the government system of paying for medical care. If our bloated bureaucracy can't provide medical care for a small percentage of the population, why would anyone want it to try to provide medical care for all Americans?

—FRANCIS A. DAVIS,
writing in the March 1991
issue of *Private Practice*

The Power of Attraction

Don't get too upset with the declining standards all around you and your inability to influence others regarding what you see as the errors of their ways and their thinking. Remember, the only person you are responsible for is you. That puts a big premium on your thinking and your behavior. Concentrate, therefore, on improving yourself, and if you get good enough, the power of attraction will soon reveal itself by influencing others to follow your example.

—H. F. LANGENBERG,
speaking before the Republican Women's Club,
Union, Missouri, April 18, 1991

A Toast to the Holidays

by Donald G. Smith

The holiday season means many things to the divergent complex of human beings who constitute our Western civilization. For some it is a deeply moving religious experience, for some it is a round of parties, and for others it is some time off from work. It is family time, travel time, and often the loneliness of being away from home.

For everyone, however, it has a significance that is inescapable. The Christmas-Hanukkah-New Year season represents a summing up, a reflection, and maybe an equal sprinkling of introspective applause and regrets.

As a writer on political and economic issues and one tied unabashedly to the capitalistic system, I cannot help but reflect upon what it must be like to do one's summing up in a socialistic economy. Like most Americans, I am accustomed to analyzing my accomplishments, trying to understand and correct my failures, and getting things set up for a new time frame in my personal and professional life. How discomfiting it must be to find oneself robbed of all this; how depressing to have it all placed in the hands of a planning committee, a group of strangers reading charts and printout sheets to determine if everyone was marching in cadence and how many showed up for roll call.

Mr. Smith is a writer living in Santa Maria, California. He has been a frequent contributor to The Wall Street Journal.

Socialism has always seemed to be a nonproductive and wasteful employment of human talent, but at holiday time there is another reality, which is the cheerless existence it offers to those unfortunate enough to be caught up in it. While ostensibly offering all things to all people, it really is nothing more than mediocrity spread across the board and a dollop of cold gruel for all hands.

The holiday season would be quite meaningless without hope, and there is no hope for anyone unless there is freedom. A stagnant, half-alive, over-planned bureaucracy can authorize a yule log, a menorah, a Christmas tree, and even a New Year's toast, but the meaning is lost on people who can only be part of a mass and are not allowed to be individuals. Hope is a pitiful thing indeed when it is only a synonym for escape.

There are socialists who claim that their system allows freedom, but it is only an authorized and "correct" form of independent existence—the right to graze with the herd but not to run off and explore the forest. It is notable too that the people who live in a socialistic system, whatever manner of worker's paradise has been selected for them, are willing to take the risks that are necessary to get out. It might mean climbing a wall, stealing a train, digging a tunnel, or crossing an ocean in an overcrowded and leaking boat, but the human spirit is drawn to freedom like a moth to a lamp.



DOVER BOOKS

In North Vietnam, 900,000 people moved south until Ho Chi Minh closed the border, and in China we saw a similar scene in the great Hong Kong embarrassment. During the Clement Attlee years in Great Britain, the brain drain was nearly catastrophic. The brightest and the best simply packed up and left, and they were still going when Winston Churchill returned to 10 Downing Street and gave them a reason to stay.

Although quite unplanned, the people of the world have voted in the greatest election ever seen, and the free society has won in a landslide. People everywhere want the rewards from their

own efforts and are willing to suffer the losses from their mistakes. It is as simple as that.

No committee can strike hope from the human soul, and no government can keep people from seeking freedom. It is the message of the holiday season and the reason that we can reflect on the past and plan for the future as free men and women with someplace to go and a reason for going there.

And so, a holiday toast: To freedom and the right to manage our own destinies. As long as people will risk their lives to get it, we have cause to revel in it. Happy holidays to everyone! □

“When My Country Is Free”

by Robert A. Peterson

Not long ago, I had the opportunity of hosting Marcos, a representative of “Free Angola,” at my school. His message on the Angolan people’s 15-year struggle to bring the Marxist, Cuban-backed government of Angola to the negotiating table was so well received that ours was probably the only high school parking lot in the country with student cars sporting “Free Angola” bumper stickers.

After his speech, I took him out to lunch. Our conversation ranged from politics to family to African and American cuisine. The longer we talked, the more I was struck by the similarities between us. We were the same age, knew many of the same people, shared many of the same ideas. The missionary school where he was educated was much like the school where I serve as headmaster, both seeking to teach the best in the Western tradition to their students.

We found that we both believed very strongly in the private property order. A recent paper on what Marcos’ organization proposes for Angola sounds like something I could have written: “Private initiative must be encouraged for the success of any free society. The individual must have the freedom to choose his own destiny. . . . When the state begins to wield control over the economy, the consequence is often rationing of essential products with little or no freedom of choice for the consumer. . . . The state should not try to substitute or compete with private businesses. . . . Every individual should have the right to buy, sell, or freely exchange his assets.”

Mr. Peterson is headmaster of The Pilgrim Academy in Egg Harbor City, New Jersey.

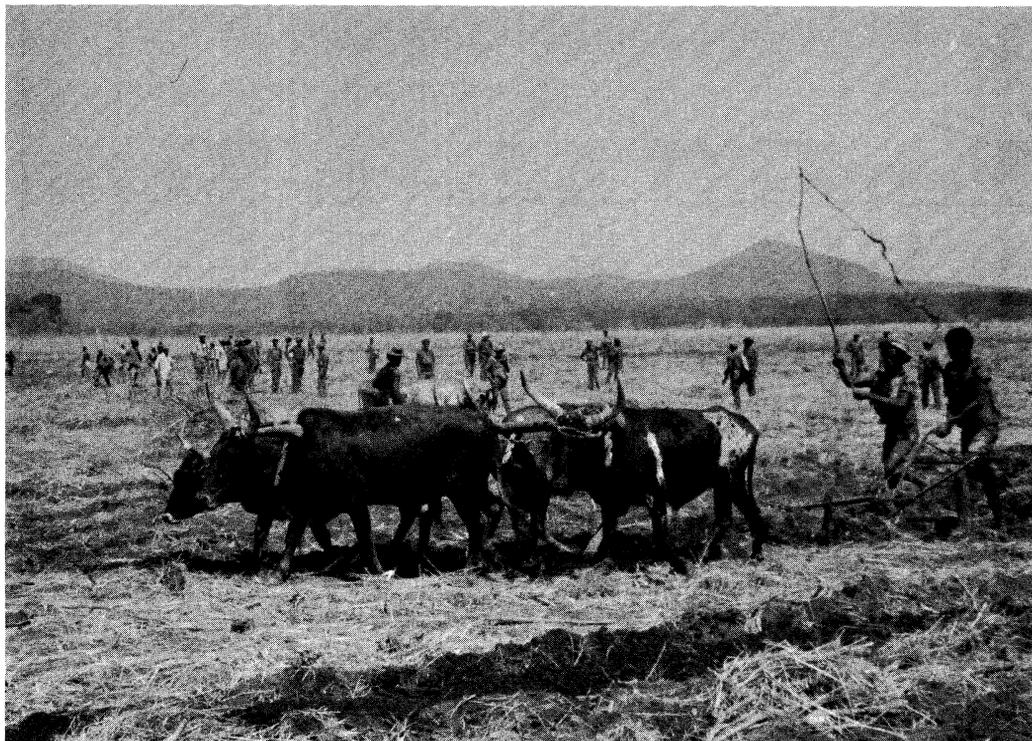
Marcos then shared with me his hopes for the future in such a society: “When my country is free, I hope to open a travel agency and show people from all over the world my beautiful country.”

“When my country is free.” I’ve never forgotten those words, for no matter how much Marcos and I had in common, I was free, and he was not. And that made all the difference in the world.

As a child growing up in a free country, I had my choice of jobs—picking blueberries, pumping gas, washing cars, working in the family business. Marcos, on the other hand, had to live at a subsistence level. Without the opportunities created by a free market economy, coupled by the disruption of civil war, there was little Marcos could do to lift himself up by his own sandal-straps. When I reached college age, there were nearly 4,000 colleges in America from which to choose. Marcos had no choice: his education was cut short by the war.

I literally married the girl next door, in a church three blocks from land my great-grandfather farmed. Marcos married a fellow Angolan far from home, in Portugal, both virtual exiles from their country. His parents have never met his wife. Whereas I can see my parents every day, Marcos hasn’t seen his family in over 10 years—when the battle lines were drawn, they were on the wrong side. As Marcos told me, “My own mother wouldn’t recognize me.”

Most Americans can pursue any line of business they want, and invest in markets all over the world. Marcos, however, must work for the liberation of his country before he can even think



FREE ANGOLA INFORMATION SERVICE, INC.

According to the author, we'll never know how many Angolans were kept from developing their country into an advanced nation with quality medical care, modern agriculture, and business enterprises.

about making his first kwanza, the basic unit of currency in Angola. In a word, Marcos' life is on hold until his country is free.

"When my country is free." How many other millions of people—both today and in the past—have whispered these same words? How many Chinese, East Europeans, Russians, and Angolans like Marcos have harbored these same thoughts? Sadly, we'll never know how many Thomas Edisons, Jonas Salks, Marie Curies, or Florence Nightingales—people whose discoveries and services have enriched mankind—have been oppressed by coercive governments. We'll never know how much Eastern Europe—with its traditions of music, literature, and industry—could have contributed to the world from 1945 to 1990. The long dark night of Communism saw to that. And we'll never know how many Angolans were kept from developing their country into an advanced nation with quality medical care, modern agriculture, and business enterprises.

The world is indeed a much poorer place because people cannot vacation in Angola, study Angolan wildlife, wear Angolan diamonds, drink Angolan coffee, or eat Angolan fish. (Once a sta-

ple for even the poorest Angolans, fish is now a luxury.) In turn, the foreign exchange generated from such products would raise the standard of living of all Angolans and give them opportunities they never dreamed of.

Today, events are unfolding in Angola that may make Marcos' dream a reality. In accordance with a peace treaty signed in Lisbon last spring, the warring factions in Angola are putting down their arms and getting ready to compete in this former Portuguese colony's first free elections, to be held in 1992. It is a rare opportunity in a nation that once exported 30 percent of all Africa's slaves.

For those of us who believe in freedom, now is no time to forget about Angola. Although Angolans are optimistic about the future, there are many pitfalls along the way, and the situation could quickly deteriorate. If Angola is to become a free society, free marketeers like Marcos will need moral, educational, and investment support from friends in the West.

Someday, perhaps soon, Marcos' country will be free. And when it is, I hope Marcos gets his heart's desire—his own travel agency. When he does, I want to be one of his first customers. □

New G.O.A.L.s at Work in Michigan

by Michael W. Fanning

The spectacular red, gold, and yellow fireworks of autumn ignite in the trees of south-central Michigan. The sun's early Saturday morning warmth highlights nature's brilliance as 50 college students slowly haul themselves out of bed. In carloads they soon descend onto several acres of woods tucked away in the rural county seat of Hillsdale. There, the students congregate in a nature preserve donated to the residents of Hillsdale County by a local manufacturer, Simpson Industries, to be enjoyed as a flora and fauna learning resource as well as for recreation.

Yet weeds, garbage, and even erosion have taken their toll on the Simpson Outdoor Laboratory, and these young people have seized the initiative, determined to halt the preserve's decline. Several months earlier, many of these students had cleaned up the trails and spread mulch along them.

On this particular Saturday in October, however, the students embark on a far more ambitious and complicated project. Wielding everything from tools and shovels donated by Hillsdale residents to a Ford backhoe, they move earth and heave stone all day. The town, impressed with the commotion, rallies the students in their monumental endeavor. The Marriott Corporation, TCBY, Subway, Domino's, and Little Caesar's Pizza outlets in town, for example, donate \$300 worth of food.

In the preceding weeks, a handful of student

leaders have spent countless hours publicizing the project, recruiting workers, raising funds, and rounding up the necessary tools and equipment. Their organization, energy, and persistence have finally paid off. By late afternoon, exhausted students review their amazing handiwork: a specially engineered anti-erosion water management system.

Several days later, veterans of the project are seen sporting T-shirts around campus. The shirts capture the spirit of hard work and teamwork forged on that hot, dirty, tiring day. The shirts are emblazoned in bright blue letters that say it all: "I survived the Simpson Project."

It's 3:00 on an unseasonably warm Monday afternoon in November. Nancy Pitzler, a junior from Bellevue, Washington, has just ambled out of her third and last class of the day. Although accustomed to the hectic life and hard work of college, she yearns for a catnap. The night before, Nancy burned several cans of midnight oil studying for a mid-term exam while simultaneously writing an essay for her honors seminar course—college cramming at its best.

Nancy summons her strength and marches down a gentle hill to her dorm room, enjoying the warm sunlight on her face. Once in her room, she does something uncommon among young people her age. Rather than sneaking in that short nap, she begins to tend to the various details of the volunteer project she founded during her sophomore year, the "Elderly Companionship Program." The idea behind her program is to foster friendship, understanding, and cooperation

Mike Fanning, the Foundation for Economic Education's 1991 summer intern, continues his education as a political science major at Hillsdale College and as a G.O.A.L. student.

between senior citizens and college students.

Using the recommendations of local church pastors, Nancy pairs college volunteers with the elderly in what could best be described as a "grandparent-grandchild" relationship. Students visit their adopted "grandparent" weekly to run errands, watch a baseball game, swap stories, share a meal, attend church, or simply take a stroll together. For their part, since most college students are far from home, they appreciate a little piece of "home" and a loyal friend close to college, especially when it comes to sharing a hot, home-cooked meal!

Nancy finds the program to be enriching for young and old alike—an observation that is a source of encouragement and motivation for her. Yet, while helping others, she too has experienced firsthand the personal rewards of voluntarism. In her words, "Being a volunteer, I can assure I'm part of the solution instead of part of the problem."

* * * * *

Nancy isn't alone in exhibiting a "go-get-'em" volunteer spirit. When he's not dazzling crowds across the Midwest on wintry Saturday nights with his talents as point guard on the college varsity basketball team, and when he's not devoting long, grueling hours to his studies in the library, Jason Andrews of Bothell, Washington, can be found calling the shots in the city-wide basketball league he launched for elementary school children.

Jason's precocious interest in community service, however, doesn't stop there. He also spends at least three hours a week with his "little brother," Matthew. Among other things, Jason provides Matthew with a needed male role model. Yet Jason, like Nancy, is different from most college students his age in that his college is teaching him about voluntarism in the classroom. He is able to apply his new-found knowledge of philanthropy as a volunteer in the "classroom of life."

* * * * *

At a time when many young people are viewed in a negative light, Nancy Pitzler, Jason Andrews, and the 50 volunteers of the Simpson Project are exemplars to the contrary. In fact, these students are leaders-in-training of a new American generation reared with and committed to values practically extinct in many people considered leaders today. They are young people gaining valuable experience at offering voluntary, practical, innovative, non-governmental solutions to community

needs. Nancy, Jason, and the Simpson Project organizers have been fortunate to gain this experience as members of a unique, private-sector initiative at work on the campus of a small, liberal arts college in Michigan.

A Unique Idea

With a \$900,000 grant from the W.K. Kellogg Foundation of Battle Creek, Michigan, Hillsdale College unveiled the G.O.A.L. (Great Opportunities for Assistance and Leadership) program in 1988. Composed of 40 students and one full-time director, G.O.A.L. is an interdisciplinary, community-service scholarship program. It supplements Hillsdale's traditional liberal arts education with classroom instruction in philanthropy coupled with hands-on, practical, problem-solving experience in the voluntary sector in Hillsdale County.

Through this dual emphasis on academics and action, the program imparts to Hillsdale students the responsibility of individuals to improve the lives of other people by freely giving of themselves. This unique education is designed to inculcate in the young a sense of responsibility and accountability so that upon their graduation, they will be prepared to lead a life of active citizenship, philanthropy, humanitarian service, and leadership. Hillsdale College President George C. Roche explains the philosophy of G.O.A.L.:

It is one of the unfortunate truths of our time that a large portion of our people neither understand nor accept responsibility for serving the community. With the growth of government and increased dependence on its programs, the idea of active citizenship and assuming a personal obligation for the well-being of society has come more and more to be viewed as a relic of the past. . . . Little or nothing is taught in our nation's schools about the significance and practical benefit of helping others, voluntarily with no coercion by government. . . .

We saw two sets of parallel and complementary needs, and we acted upon them. First, we saw that many of our young people, raised in an age that is increasingly materialistic and self-absorbed, need to commit themselves to something outside themselves, something that can give meaning and purpose to life. Second, we observed the many needs that exist right

here in Hillsdale County—urgent needs for the basic material requirements of life and the educational opportunities that can provide a better future for those who would otherwise never have a chance.

From these observations we began innovating. The result is G.O.A.L. . . . designed to encourage the creative instincts of students, challenging them to find new, imaginative ways of addressing community problems and meeting basic human needs.

Three Responsibilities

Students from a wide variety of backgrounds across the United States apply for membership in G.O.A.L. All applicants have a proven record of leadership and voluntarism in their home communities, churches, and schools, as well as outstanding academic achievement. A competitive application process ensues, culminating with an interview before a faculty/administration selection committee.

Selected students are promptly charged with responsibilities in three areas. First, they venture into the Hillsdale community to research needs and design service programs to address those needs, giving a minimum of five hours a week. As George Roche says: "Go do something. Don't write me another paper about it. Do something. We're here to do more than have a higher standard of living."

Some students work independently—like Jason with his community basketball league—while others work in conjunction with local service and charitable organizations, such as the Optimist Club of Hillsdale and the Hillsdale County United Way. Indeed, local Optimist Club members elected Jon Eckhardt, a G.O.A.L. student and Hillsdale native, vice president of the club. Chris McKenzie from Bay City, Michigan, sits on the United Way Board of Directors.

These young people are gaining valuable insights into the operations of not-for-profit service organizations. McKenzie says: "One main purpose of G.O.A.L. is to build bridges between the college and community. We are to take care of our fellow man. Taking care of others begins here."

Students also attend monthly lectures delivered by outside experts. For example, G.O.A.L. students recently discussed with *Washington Post*

columnist William Raspberry his interest in teen voluntarism. In addition, every Sunday evening all G.O.A.L. members convene to discuss concepts of philanthropy, voluntarism, and leadership, among other topics. In order to assess the leadership skills developed and nurtured through their year-long community-service activities, students adjourn to Battle Creek after finishing final exams in mid-May to participate in an intensive three-day retreat.

In their second realm of responsibility, G.O.A.L. students are expected to involve themselves in a variety of extracurricular activities on the Hillsdale campus—ranging from Greek fraternities and athletics to student government and the college newspaper. As a group, the 40 G.O.A.L. students participate in 34 campus activities or honors groups while working in 43 off-campus community volunteer projects.

Finally, despite this whirlwind of involvement on and off campus, students must fulfill challenging responsibilities in the classroom. G.O.A.L. students must carry full academic course loads and earn a minimum 3.0 grade point average in order to retain their scholarships. Their median grade point average of 3.5 on a 4.0 scale suggests that G.O.A.L. students have no difficulty fulfilling this requirement.

Additionally, students enroll in a semester-long course taught by the G.O.A.L. director. The course teaches students the "techniques and traditions" of voluntarism, the history of philanthropy, and not-for-profit management. This instruction provides G.O.A.L. students with an intellectual groundwork for their in-the-field activities. Thus, not only does Nancy Pitzler, for example, operate her Elderly Companionship service project, she is active in a social sorority, numerous honoraries, and the campus Christian fellowship group. She carries a 3.7 average and pursues a double major in French and American Studies.

Scholarships for Leaders

This is a scholarship program, after all, and herein lies a unique twist. Hillsdale awards substantial merit scholarships to these student leaders, who otherwise might be financially unable to attend Hillsdale, to allow them the opportunity to attend a liberal arts college and learn firsthand the practical benefit of philanthropy and commu-



HILLSDALE COLLEGE

G.O.A.L. students at work in the Simpson Outdoor Laboratory.

nity service. The academic/service scholarships provide students with an excellent incentive to make the most of their time, in and out of the classroom. Rather than holding down a part-time or full-time job, G.O.A.L. students can devote significant time not only to hitting the books but to service as well.

Commenting on the rationale for scholarships, G.O.A.L. Director Duane C. Beauchamp says: "The scholarship is designed to free students from the necessity of working to get money for their educations. It doesn't pay students for their service in the community but rather provides the means for them to give of themselves."

These scholarships, however, are not automatically renewed each year. According to the 1989 annual report of the W.K. Kellogg Foundation: "Recipients are evaluated annually for demonstrated growth in leadership and volunteerism. . . . As fellowships are renewed from year-to-year, students become more self-directed in their activities. They are eventually required to write and submit a proposal for possible funding by a foundation. The final year focuses on the students' long-range volunteer plans as part of their career planning."

Variety of Niches

The scope of the G.O.A.L. program in Hillsdale County is evidenced by the wide variety of project niches carved out by students. Ann Sundareson of Troy, Michigan, set up a tutoring program to aid Hillsdale youngsters in their schoolwork, especially mathematics. Ann remarks, "The G.O.A.L. program provided me with an opportunity to show what I could do, and to demonstrate to others that there are people who care and who will take time to serve."

Kim Melvin is a talented student-athlete from Perrysburg, Ohio, and she orchestrates a Southern Michigan Special Olympics basketball tournament at the college sports complex every year. Her colleague, Jennifer Sanderson of Monroe, Michigan, coordinates her own community literacy program for adults.

Kenneth Pierce decided to compile a library of recorded books for the vision impaired. The Grand Rapids, Michigan, native reads books onto cassettes, and through his work the visually handicapped can enjoy many of their favorite literary works by simply listening to Kenneth's voice.

Stephanie Tietje of Leland, Michigan, volun-

teers weekly at the Hillsdale County Medical Care Facility. Besides visiting with patients, Stephanie assists the staff by organizing events and social activities. She also works with Alzheimer's disease patients to improve their memory by using tactile stimulation and the manipulation of simple objects on a device known as a memory board.

Julie Hasenbein of Wauwatosa, Wisconsin, coordinates an after-school center at the First Presbyterian Church that keeps an eye on 15 small children. Working parents entrust their children, ranging in age from kindergarten to fifth grade, to Julie and her team of volunteers from 3:30 to 5:30 every weekday afternoon. Julie asserts that "through these volunteers, the children are given good role models in social behavior, values and morals, academics, and respect for others." The after-school center has proved so effective in addressing the growing day-care needs of working parents that a Presbyterian Church in nearby Jonesville, Michigan, has established a similar center of its own.

Scott Woodman, an aspiring doctor from the Detroit suburb of Northville, involves himself at the Hillsdale Community Health Center. Most notably, he organized a renovation of the hospital's pediatrics unit. "Working at the hospital, you have to put yourself in the shoes of the people you're helping. What if I had that illness? It makes volunteering easier, because I would want somebody to care for me in this way."

Detroit's Miechia Esco has experienced voluntarism in several G.O.A.L. projects. "My involvement in these projects gave me the opportunity to receive as much as I gave," she comments. "Helping others get the chance to accomplish on their own: that is the real spirit of voluntarism!"

However, these G.O.A.L. students are by no means the only Hillsdale students to experience the value of community service firsthand through their college educations. All G.O.A.L. members are expected to provide opportunities for their classmates' involvement in volunteer projects that suit their respective personal interests and complement their talents. For example, in Jason Andrews' basketball league, he recruits six college students to volunteer their time as coaches to serve alongside Hillsdale residents recruited by the city Recreation Department.

Michelle Porritt of Oxford, Michigan, views G.O.A.L. as a volunteer "clearinghouse" for students: "Before Hillsdale had G.O.A.L., there was

nowhere for would-be volunteers to go for guidance, but now they know we're here and we can plug them into a program." By motivating their classmates to contribute their time and energy to worthy community causes, G.O.A.L. members spread the spirit of voluntarism across the Hillsdale campus. In the words of Birmingham, Michigan's Paula Shelton: "I never had the opportunity to be involved in volunteer programs. G.O.A.L. has provided the guidance to show me how to serve effectively." Appearing on the Christian Broadcast Network's Family Channel "Straight Talk," Paula told host Scott Ross that service to others "is far more rewarding than time I spend by myself. The investment that you make in people's lives and what you get back from that is inspiring."

Hometown Voluntarism

G.O.A.L. students don't confine their community service to Hillsdale County, however. Upon becoming G.O.A.L. students, they sign "student growth contracts" agreeing to give 20 hours of service each summer in their hometowns. For example, according to *G.O.A.L. News*, the program's quarterly newsletter, Nancy Kwant spent her summer "vacation" volunteering not only in her hometown but in several other cities. In her hometown of Lowell, Michigan, she peeled potatoes, helping the Franciscan Sisters "prepare meals for the jubilees celebrating the nuns' 25- and 50-year anniversaries in the religious life."

Nancy then packed her bags for a Pennsylvania day camp where she could work with poor children from low-income housing projects in Pittsburgh. "She helped the scrappy five-to-eight year olds play games, do crafts, and learn how to listen to stories," *G.O.A.L. News* reports. Her strength, patience, and compassion were constantly tested since, in Nancy's words, "these kids were used to so much hostility." In addition to her camp work, Nancy found time to build and restore houses with the Pittsburgh chapter of Habitat for Humanity.

From Pittsburgh, Nancy Kwant moved on to Springfield, Massachusetts, where she gained invaluable experience at a day camp for Spanish-speaking children. She was able to put her foreign language training to use, astonishing the kids by speaking fluently in their native tongue. Many of these children were the victims of child abuse,

broken homes, and drug-infested neighborhoods.

Traveling south from Springfield, Nancy landed in Connecticut where she wrapped up her summer the way she started it: peeling potatoes. She volunteered in the kitchen of a Hartford tutorial center. With these experiences in hand, Nancy returned to Hillsdale and resumed her studies with "a new view as to what it is to sacrifice and adjust. So little is required to try and make that difference [in people's lives], I wonder why more people don't give it a chance."

A Rare Species

The G.O.A.L. program is rearing a rare species of leader committed to the values and virtues of voluntary citizen cooperation in solving societal problems—values and virtues in short supply today. As George Roche notes: "In the absence of government intervention, leadership in the form of volunteerism and altruism can promote permanent solutions to problems confronting the Hillsdale community as well as the nation. This program involves students working to help people locally. It's not more government funds or programs; it's individuals seeing problems in the

community and doing something to resolve them."

G.O.A.L. is a model of private initiative applicable to many colleges and universities across the United States. George Roche, quoted in the *Detroit Free Press*, says, "I would think [G.O.A.L.] has great potential. I don't see why we couldn't have this on most college campuses. . . . It certainly should have a place in higher education. If it doesn't, I'll be disappointed in higher education." The *Phoenix Gazette* echoes Roche in a January 20, 1990, editorial: "The Hillsdale program is a modest but worthy effort to rekindle interest in common purposes. It sets an example for other schools to follow."

Hillsdale's program is an innovative way to finance the college education of some of our young leaders while imparting to them one of the most important truths articulated in the academy: the sanctity of free individuals, exercising their talents to improve themselves and the lives of others. G.O.A.L. Director Duane Beauchamp sums it up: "G.O.A.L. combines education and action. It promotes the best instincts of young people. And it places the responsibility for community service where it should be placed, not on government, but on the moral conscience of the individual." □

Why Teenagers Can't Find Work

by John V. LaBeaume

During the summer of 1990, despite two months of intensive searching, I was unable to find employment. I could locate no employer willing to exchange \$3.35 per hour, the "training" minimum wage, for my unskilled labor. In essence, I was legally priced out of the market.

This means that prospective employers and I were prevented, because of the minimum wage,

John LaBeaume is a high school senior in University City, Missouri. He did find work in the summer of 1991.

from agreeing to mutually beneficial exchanges. After a few weeks of fruitless search, I was willing to work for one dollar per hour, which most well-meaning minimum wage proponents would declare "unjust." One dollar per hour, however, was one dollar per hour more than I earned that summer.

Prospective employers deemed my services, quite rightly I suppose, worth less than the minimum wage. Anyone who hired me for the "training" wage most likely would have lost money. An

employee's output, after all, must exceed the employer's total costs if the employer is to earn a profit.

The cost of hiring, we must remember, exceeds the employee's wage. Other factors such as Social Security contributions, workers' compensation, unemployment payments, insurance, uniforms, and parking increase the cost. It also is expensive to comply with the many regulations imposed on employers by the state.

Particularly expensive is compliance with child labor laws. These often-archaic rules restrict the number of hours a young person may work, when he may work, as well as the types of jobs he may seek. They drive up the costs of hiring unskilled youth, thus giving older competitors more leverage with prospective employers.

Perhaps I would have been more fortunate had I been looking for work in the summer of 1989 when employers and employees often skirted minimum wage and child labor laws, resulting in more jobs for minors. However, in early 1990, then-Secretary of Labor Elizabeth Dole launched Operation Child Watch, a crackdown on the violators of minimum wage and child labor laws, during which hundreds of thousands of dollars in fines were levied on employers defying these laws. In the summer of 1990, the hypersensitivity of employers was evident as they attempted to comply with these laws to avoid a \$1,000 fine for each violation.

The defense offered by minimum wage proponents, including unionists interested in reducing competition from people willing to work for less than their artificially high, union-mandated wages, is that without the minimum wage, minors would be "forced" to toil as "slave labor." This argument trivializes the seriousness of the concepts of *force* and *slavery*. A person is *forced* when another physically compels him to act; this is hardly the case here as the employee is free to leave his job at any time. *Slavery* is the state of one human living in the possession of another, and slave labor is forced labor without compensation; this is not applicable here because some compensation is made, however low, and neither party owns the other.

Extremely low wages won't occur in a free market because of the low productivity that would ensue. A worker is unlikely to produce with quality if he decides that he isn't receiving compensation that makes the job worth his while—if he accepts such a position at all. Thus it isn't in the employer's interest to offer wages so greatly unagreeable to the employee. And if he does, competing employers will be quick to offer higher wages so as to hire the worker away.

Minimum wage and child labor laws exclude unskilled young people from the labor market and increase teenage unemployment. At the same time, they undermine the rights of free association and exchange, and deny the lesson of self-responsibility which comes from getting that first job. □

The Productivity of Freedom

For the economy as a whole, there can be no Santa Claus, no "free lunch." Society must pay for what it gets. The payments thus made are the incomes of the recipients. Most of us are on both sides—paying and receiving. On one side, we want the amount to be large; on the other side, we want it to be small. Each of us presumably tries to do the best we can, to make the best settlement possible with what he has, in getting income and then in using it.

The greater our freedom to make the best bargains, the better in general will be the results. No one wants to pay others more than their services are worth, and freedom to reject demands for overpayment reduces the likelihood that we shall be forced to do so. In turn, the broader our range of freedom, the larger our opportunities to get the most that our services are worth to others.

—C. LOWELL HARRISS

IDEAS
ON
LIBERTY



The Great American Epic

by Davis Keeler

Why is it that the Civil War seems to be the great American epic? Why isn't it the American Revolution? The winning of the West was an epic deed, but it stretched over so many years and had such a shifting cast of characters that it may lack the focus needed for a great tale. But does the story of the Revolution have some similar shortcoming?

It is a story of disparate peoples who left their ancient homes in search of freedom, crossed a perilous sea to live in an unknown wilderness, and came together to cast off the yoke of a great power and establish a nation that was to become the shining hope of mankind. This is not skimpy material to work with.

The problem can't be dialogue, for this was a highly articulate bunch, who have left us a great mass of eminently quotable tracts, sermons, speeches, documents, pronouncements, and declarations, many of which are models of English usage.

True, the Revolution included a lot of people wearing powdered wigs and knee breeches, and sitting around on spindly furniture. But is this a fatal flaw? Is the late 18th century simply too far away for our imagination?

The answer, I suspect, is that the Civil War has two things going for it that the Revolution can't match. For one thing, there are the characters. Washington may be admirable, but he never wanted to be lovable, and in that, as in most things, he

succeeded. The rest of the popular leaders fought only locally, and none carried through the entire war in the way Grant, Lee, and Joe Johnson did.

On the British side there were some interesting characters—Tarleton was a dashing rogue, “Gentleman Johnny” Burgoyne was able to recover across the supper table most of what he had lost in the field, and Cornwallis had an interesting career, though unfortunately not in America—but our history has never paid much attention to them, and certainly never painted them as courtly gentlemen fighting for a lost and noble cause.

Probably more important is the Lost Cause. The Revolutionary generation saw the world in the dispassionate light of Enlightenment reason, but the Civil War came at the height of Victorian sentimentality and acquired an emotional charge that has stayed with it ever since. There was, further, the practical necessity of romanticizing the Civil War and granting nobility to the defeated, in order to heal the nation's wounds. In contrast, by the end of the Revolution the most determined loyalists had been exiled or had chosen to emigrate, and there was no such need of national reconciliation.

Another problem with the American Revolution lies in its definition. Was the war the Revolution? John Adams wrote that the Revolution was over in 1775, that the war wasn't a part of it. By this he meant that the revolution in the minds of the people rejecting the legitimacy of British rule had already occurred, and the fighting was simply to ratify that change. After 1775, a British victory was

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Saratoga: The Second Battle of Freeman's Farm, October 7, 1777. Burgoyne's army was defeated, thus dashing British hopes for a quick end to the war.

impossible: a military victory would have only delayed realization of the change in political philosophy that already had taken place.

This change came to a head at the end of the French and Indian War, when the British Parliament decided to tax the colonists for the military protection they were receiving from the mother country, and imposed, in 1765, the famous Stamp Tax. This tax, on its face not unreasonable, became the catalyst of long-standing complaints against both the substance and form of British rule. In the decade that followed, these complaints, expressed in the prevailing philosophical language of the natural rights of man, led through a series of confrontations to a complete rejection of British rule. Thus, when Jefferson drafted the Declaration of Independence, he wasn't seeking to convince an

uncertain nation, but was, as he claimed, merely setting out the widely held political beliefs of the colonists.

The American Revolution, properly understood, was therefore an intellectual revolution that took place over a period of some 10 years in public debate and private discussions, in the hearts and minds of the colonists. A people were moved to reject a familiar and long-respected authority and hazard their lives, their fortunes, and their sacred honor on the hope of a new nation based upon self-government and the God-given and inalienable right of the individual to life, liberty, and the pursuit of happiness. And they pulled it off, creating a nation and form of government that has inspired the hopes of people throughout the world ever since. □

The Chinese Won't Forget

by Sheila Melvin

My decision to return to China for a journey that would take me from the wild jungle border with Burma to the wind-swept plains of Inner Mongolia in the summer and autumn of 1990 was not an easy one.

I had been a student at a Shanghai university in the spring of 1989 and had left China shortly after the massacre in Tiananmen Square. I didn't care whether a decision to return would be deemed "politically correct" by the arbiters of such things back home, but I did fear that the Chinese people I encountered might construe my presence as a sign that the massacre had been forgotten and all was "business as usual" with China so far as Westerners were concerned. But, I wanted to go back.

I wanted to pick up the belongings I had left behind, to visit the friends I had bid so hastily good-bye, and to see for myself if it was true, as countless Western news reports had led me to believe, that the Chinese people, like amnesia victims, had forgotten the democracy protests of 1989 and the massacre that brought them to an end.¹

Both fears—that my presence would be misconstrued and that the Chinese people had forgotten—were to prove completely unfounded.

Our first night in China, my two traveling companions and I ate at the Cooking School Restaurant in Kunming, the capital of Yunnan Province. We shared a table with two men, one a provincial government official, the other a jewel trader. Upon learning that we were American, the men immediately proposed a toast.

"To America," said the jewel trader, raising his glass of Five Star Beer high, "the country that saved Fang Lizhi and helped him gain his freedom. If it were not for America, Fang Lizhi would be a prisoner in his own country, or worse. We salute you."

Startled by the public toast to our country and to Fang, the dissident physicist who sought shelter in the U.S. embassy in Beijing for one year following the crushing of the pro-democracy movement, we joined in the toast. When we had put down our glasses, the government official added, "Do not hate me because I am a government official—we don't agree with what happened on June 4, either. Not all government officials are bad."

Realizing that it was safe to discuss openly the events of 1989, I told the men that I had been in Beijing on June 4 of that year. Their jaws dropped.

"Then you saw," said the jewel trader.

"Then you can bear witness," said the government official.

Bearing Witness

As briefly as possible, I told the men how, with two American friends, I had traveled by train from a small town north of Beijing and arrived in the capital on the evening of June 4. Public transportation was shut down, a situation we attributed to the ongoing protests. So, oblivious of the ongoing massacre, we had set out walking to Tiananmen Square.

Although we had trod over smashed bricks, rocks, and bottles, past burnt-out buses and army

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COURTESY OF SHEILA MELVIN

Beijing residents confront the soldiers on Qianmen Avenue on June 4. The gesturing man is warning that the soldiers have seen our camera.

vehicles, the possibility of imminent danger hadn't occurred to us. Crowds of people filled the streets, most of them gazing silently at the wreckage, so we assumed all was safe.

We came within sight of Tiananmen Square and saw that it was completely surrounded by tanks and by soldiers who were seated cross-legged on the ground. Beijing residents were standing near the soldiers, apparently talking to them. Others hung back, gazing at the Square through binoculars. We took out a camera and snapped some pictures. Noticing us, a dozen soldiers stood up and began pointing at us and shouting. We hid the camera and jogged away. At the intersection, we decided to walk over one block to Chang'an Da Jie, the Avenue of Eternal Peace.

The section of Chang'an between Tiananmen Square and the Beijing Hotel was filled with hundreds of people. Those up close were yelling at the soldiers, those farther back were simply standing and staring. As we neared, several people approached us to vent their fury.

"Do you see them?" asked one man, pointing at the soldiers. "They used to be called the 'Peo-

ple's Liberation Army,' but they are not called that anymore. The 'People's Army' does not shoot the people."

My friends walked closer to Tiananmen, and a European ran toward me. "I've seen 30 people killed where I was standing," he said. "The people are cursing the soldiers. They are calling them turtles and dogs, and the soldiers are getting angry. Something is going to happen. You had better leave."

He ran off. I looked past the soldiers at the hazy, purple sky and then scanned the street for my friends. It soon would be dark. A sharp noise ripped through the air, a noise I assumed to be firecrackers. It seemed an odd time to be setting off firecrackers.

A second later I saw scores of people running toward me, screaming, and I realized that the noise was gunfire. In response to the name-calling, the soldiers had opened fire with their AK-47 assault rifles and were shooting straight down the street. My friends were nowhere to be seen, so I ran, praying that the shooting would stop. It didn't.

I dove behind an overturned bicycle cart in the

middle of the road. All around me people were falling to the ground, but I didn't know if they were wounded, or merely taking cover, as I was. Next to me, an old man, apparently in shock, sat in the road staring at the soldiers. His forehead was bleeding, but I couldn't tell if it was from a bullet wound or a scrape.

The shooting continued unabated. I got up and ran toward the sidewalk where I hid behind a telephone pole with a cluster of women in light summer dresses, all of them quaking in terror. The shooting was soon directed toward the sidewalk, and we all ran.

Somehow, I made it to the shelter of a cross street next to the Beijing Hotel. Here the wounded were being ridden away on the backs of bicycles. The wounded I saw had all been shot in the back. I was surprised at how small the wet, red holes that marked the bullets' entry into human flesh were.

Those who escaped uninjured were comforting each other. "It's nothing," people told me. "It's nothing. You're all right. But, when you get back to America, make sure to tell the people there what you saw today in China."

My friends rounded the corner onto the cross street. The man standing next to them when the shooting started had taken a bullet in the stomach and dropped to the street, dead. The shooting still went on.

As we walked hurriedly down the street, groups of people applauded us and thanked us for being there. Others shouted out their estimates of the dead—10,000 was the number generally given—and yelled that the soldiers had been burning bodies in Tiananmen Square all night. We made our way through back streets and alleys to the train station, passing on the way hundreds of people preparing to confront the soldiers, armed with nothing but their sorrow and their rage. When I urged them to turn back, they laughed.

The train station, filled to overflowing, looked like a refugee camp. We jumped on the next train to Shanghai and left the country by boat five days later.²

When I finished telling the two men in the restaurant what I had seen in Beijing in June 1989, they looked at me with anguished faces.

"Our government lies to us," said the government official. "How many do you think really died?"

"I am glad you were not hurt," said the jewel trader. "What happened to you shames China."

Where the Heaven Is High

Tian gao huang di yuan is an old Chinese saying that translates, "The heaven is high and the emperor is far away." It has several meanings, one of which is that the farther a person is from the emperor, the freer he is to do and say as he wishes without fear of interference or punishment. Although China technically no longer has an emperor, the saying is as applicable today as it was in any dynasty.

Across China, but particularly in regions distant from Beijing, ordinary people—teachers, factory workers, entrepreneurs, government officials, taxi drivers, journalists, and service workers—used chance encounters with me to loose their pent-up emotions concerning the 1989 protests and the government's repression of them.

In Lijiang, a remote town in Yunnan Province two days from the nearest airport or railhead, a young entrepreneur described the democracy protests staged in her town. When I expressed surprise that Lijiang, with a population of 50,000, had been the site of democracy protests, she chided me. "We have universities!" she cried. "We have students and we love freedom the same as the people in Beijing!"

Her boyfriend, a factory worker, assured me that the people of Lijiang were well-informed about the nationwide student movement and about the massacre that ended it. "It was Li Peng's fault," he told me. (Li Peng, the Prime Minister, announced the declaration of martial law in Beijing on nationwide television and is widely blamed for the violent suppression of the protests.) "We hate Li Peng," he continued. "And we don't like Deng Xiaoping, either. The only Chinese leader we like is Mao Zedong. He made mistakes, but he loved China."

On trains, in the crowded second-class carriages in which I rode, passengers continually sought opportunities to speak with me about the massacre.

"Last year [1989], we had hope," said a 46-year-old factory manager, his voice shielded from other passengers by air rushing in through the open window. "The students rose up and we all supported them and there was hope. But, since



COURTESY OF SHEILA MELVIN

The Goddess of Democracy, with the Great Hall of the People in the background, in Tiananmen Square on the afternoon of June 1, 1989.

the June 4 incident, there is no hope. It was horrible. Horrible.”

Said another man on the same train, “We used to love our country. We used to be patriotic. But not now. I don’t like the government; I can’t stand it. No one can. We are just waiting for another chance to rise up.” Asked when that chance would come, he replied, “It’s too hard to say, but it will. This cannot go on.”

A third passenger on the train had just returned from the Middle East where he sold Chinese-made water pumps. “If the Beijing students rise up again and the Shanghai workers unite behind them, then we will win for sure,” he explained in fluent English. “But, we don’t want revolution. Too many will die. We want peaceful change.”

On another train, a wealthy private businessman volunteered his explanation as to why the protests did not succeed. The democracy movement failed, he said, because the students were too young, didn’t remember the Cultural Revolution, and “did not understand that student protests never succeed in China.”³ He felt that most Chinese had supported the protests “in their hearts, but many were afraid to show it.” He went on to describe his nation as one racked by crime,

prostitution, drug abuse, and even occasional terrorist acts such as the blowing up of trains. After Deng Xiaoping dies, he speculated, “It could be like your North-South war. The governments of many provinces don’t want to listen to Beijing anymore. They may fight.”

Nearer the Emperor

Closer to Beijing, discussion of the protests and of the massacre was more muted. Even the phrase “June 4 incident” was avoided in favor of the more innocuous “last year,” or “in 1989.” But, while direct criticisms of the government were veiled or avoided, resentment hung thick.

In Shanghai, students at prestigious Fudan University, many of whom were active in the protests, had returned to school a week before the scheduled start of classes in order to perform manual labor such as weeding, pruning, raking, and painting. Asked if the labor was voluntary, a Fudan employee said, “No. It is punishment.”⁴

The criticism voiced in Shanghai often took the form of sarcasm. Mention of the growing democratic freedoms and economic prosperity in Taiwan sent a cab driver and a professor into spasms

of bitter laughter. "Freedom! Ha, ha, ha! Look out the window—freedom! Taiwan freer and richer than China? Ha, ha! Freedom and wealth—we have so much of it, we don't know what to do with it. Didn't you know?"

In Beijing, where residents were supposed to be eagerly preparing for the Asian Games, workers and intellectuals alike expressed the belief that the government's prime motivation in sponsoring the games was to wipe out memories of the massacre. "It won't work," several people told me. In the lobby of a Beijing hotel, a young writer ignored the surveillance cameras trained on the coffee shop in which we sat and eagerly questioned me about the fate of such escaped dissidents as Chai Ling, Liu Binyen, and Yen Jiachi. Unfortunately, I was unable to tell him anything he didn't already know from listening to the Voice of America.

Beyond the Wall

I left China on a train bound for Moscow. My fellow passengers, most of them Chinese, opened up noticeably once we were beyond the Great Wall, even more so when we had left China behind and entered Mongolia. Outside the boundaries of their nation, scientists, teachers, opera singers, and tai chi masters spoke freely of the hopes they had lost the day the tanks rolled into Tiananmen Square.

"I joined the Communist party five years ago when I was young and believed it could still save China," said a scientist on his way to Germany. "On June 4, I learned just how stupid I was. I would give up my party membership today if I weren't afraid that doing so would hurt my family."

A 28-year-old English teacher from southern China obtained permission to board the train by somehow convincing authorities that Moscow was his first stop in a land-and-sea journey to Uganda, where he intended to visit his uncle. The teacher, whose taxi-driver brother had lent him \$1,000 for the trip, had no intention of going to Uganda. Neither did he have any plans to return to China until he had gained citizenship in a Western nation. He

made his decision to leave China immediately after the troops moved into Tiananmen Square.

"I have friends in Italy," he explained. "They can help me get a job in a restaurant. It is better to be a dishwasher in Italy than to be a teacher in China." □

1. A brief item in *The New York Times*, December 9, 1990, mentions the phrase "The Chinese Amnesia" and attributes its coining to "a prominent Chinese exile in England." The phrase is specifically used to describe the manner in which imprisoned Chinese dissidents are forgotten and more loosely used to describe the way in which the Chinese supposedly forget their failed democracy movements and the men and women who have been killed or jailed because of their democratic aspirations.

In an October 7, 1990, article in *The New York Times* entitled "Far from Tiananmen: TV and Contentment," Nicholas D. Kristoff paints a picture of a rural Chinese populace that is content with its lot and supportive of the government's decision to massacre the democracy protesters. He writes, "Here in Song, home to peasants like those who make up 70 percent of China's population, people seem relatively satisfied with the Government and with the crackdown." It may be true that rural Chinese are more inclined to be supportive of the government than urban Chinese, but I believe that the tone of the article, and of many other similar articles published in the popular press in the past year, is thoroughly misleading.

2. We were obliged to leave China by boat because the trains weren't running and all the roads in Shanghai were blockaded, making it impossible to get from my university to the airport, except by motorcycle. Officials at the U.S. consulate in Shanghai did nothing to help the 20 American students at my university. In fact, I was unable to reach a consular official by phone until the early evening of June 8, although I called dozens of times on June 5, 6, and 7. One American who got through to the consulate on June 7 was asked if she realized that she was calling after working hours.

Students from Canada, France, England, Italy, Belgium, and Hungary were evacuated from the university, which was considered an extremely dangerous place to be if troops moved into Shanghai, and then flown out of the country. Consular or embassy officials from Japan, Poland, the U.S.S.R., and Burundi were in frequent communication with their nationals at the university. Only the West German consulate was as insouciant as the American consulate, but, in the end, it sent cars to take the German students to the harbor. The American consulate refused even to do this.

3. When I asked this man if the May Fourth Movement in 1919 didn't qualify as a successful student movement, he explained that the May Fourth Movement was different because it was a protest against powers outside China, not inside.

According to Chow Tse-tung, author of *The May Fourth Movement: Intellectual Revolution in Modern China*, the first recorded incident of students gathering to criticize the government took place in 542 B.C., when Confucius was 9 years old. The criticism was tolerated by the government. In the first century B.C., 30,000 students at the Imperial College protested the government's punishment of an official they considered meritorious. In the second century A.D., students joined with officials and intellectuals to criticize the government. Several hundred were imprisoned and executed.

As to why the phenomenon of student interference in political affairs first arose, Chow writes, "In a monarchy without a genuine legislature or system of popular representation, it was perhaps inevitable that the educated minority should under duress seek to express itself."

4. Electricity also was denied Fudan students during the 1989-90 school year as punishment for participating in the democracy protests. Students, who live seven to a room, were permitted only a ceiling light until 11:00 P.M. No electricity was provided to the outlets where students normally plug in radios, fans, and other appliances.

Catholicism's Developing Social Teaching

by Robert A. Sirico, CSP

The latter part of the 19th century saw momentous changes brought on by the Industrial Revolution. In an attempt to bring to bear the insights of transcendent faith on real-world matters, Pope Leo XIII, who reigned from 1878 to 1903, penned an encyclical letter that would become known as the Magna Carta of Catholic social teaching. The revolutionary changes Leo witnessed had transformed the social and technological patterns of European life and were the immediate occasion for his letter *Rerum Novarum* in May 1891.¹

Rerum Novarum was the first of the modern social encyclicals.² While certain foundational moral teachings are expressed in these documents, much of what they deal with are matters of a contingent and prudential nature.

The student of Catholic social teaching will therefore note that it is dynamic and always subject to development. In honor of the centenary of Leo's encyclical, Pope John Paul II declared 1991 a Year of Church Social Teaching and issued a ground-breaking new encyclical, *Centesimus Annus* (The Hundredth Year), which represents a dramatic development in the encyclical tradition in favor of the free economy.

I set out to examine *Rerum Novarum* with a somewhat focused intention, in order to provide a backdrop for understanding how momentous the appearance of *Centesimus Annus* is. It is not so much my goal to write here as a theologian, but

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rather as a student of what Ludwig von Mises called "the forces that bring society into existence," namely the activities of the free market. There will, of course, be a theological dimension to these remarks, and to that extent I write with an awareness of the ecumenical setting of today's religious dialogue, and the desire of all people of goodwill to learn how to build a society that is just, free, and prosperous.

The Role of Encyclicals in Official Catholic Teaching

Our discussion of *Rerum Novarum* and *Centesimus Annus* will be deepened by an understanding of what it means to speak authoritatively in a Roman Catholic ecclesiastical understanding and what the bounds of that teaching authority, or magisterium, are.

The Catholic Church makes the claim that its magisterium carries with it a privileged insight into matters of faith and morals. Nonetheless, the teaching authority itself recognizes certain boundaries to its competence and has outlined, very generally, the parameters of that competence. There are times when the boundaries may be obscure and where they may overlap fields outside its immediate mission, but this merely makes the business of interpreting these documents more challenging, it does not vitiate the church's claim for them.

An initial distinction to note is that between generally authoritative pronouncements by church leaders and specifically infallible pronouncements. Catholic understanding in this area

is frequently misunderstood by those outside the church, as well as by Catholics themselves.

Church teaching may be exercised in a solemn or extraordinary manner, as when a given doctrine is defined by an ecumenical council of bishops or when pronounced *ex cathedra* (from the chair) individually by the pope. Distinct from this exercise is the ordinary teaching of the popes, as in an encyclical.³

Further gradations of the church's teaching authority may be noted: allocutions of popes, the letters and teachings of various Vatican secretariats and commissions, the homilies of a pope, the teachings of bishops either within their own dioceses or in national conferences, and the teaching of pastors to their parishioners and catechists to those inquiring into Catholic belief. All of these, and others as well, participate in varying degrees in the church's teaching mission and charism.

Our discussion here relates to an encyclical, which is a papal letter circulated throughout the whole of the Catholic Church, and in more recent days, a letter addressed beyond the church to all people of goodwill. As encyclicals, *Rerum Novarum* and *Centesimus Annus* therefore enjoy a relatively privileged position within the hierarchy of official Catholic teaching.

Two things should be noted: First, as encyclicals, *Rerum Novarum* and *Centesimus Annus* make no claim to infallibility as such. Second, it is necessary to read the documents carefully to discern where Leo and John Paul claim to speak from the very heart and core of church teaching, and where they are attempting to make a practical and prudent application of that core teaching to the day-to-day world.

The purpose of this essay is not to examine the function of Catholic dogmatic teaching, but to explore two instances of church teaching dealing with the social realm.

The Historical Backdrop of *Rerum Novarum*

The events of the late 18th and the 19th century form the immediate historical context of this encyclical, especially the two great revolutions which defined and marked the era: the French Revolution and the Industrial Revolution. The philosophical backdrop for these revolutions was, of course, the Enlightenment, which spawned the

philosophical, religious, political, and economic reflection that formed Continental liberalism.

Freedom from authority was the axiom upon which this liberalism was based, and decades would pass before a distinction between the legitimate and illegitimate exercise of authority would emerge, for example, in the way Lord Acton in the last century and Robert Nisbet in this century would later demarcate power from authority.⁴

For many Continental liberals, this meant opposition to the authority of the dominant religious force: the Roman Catholic Church, in both its moral and its civil manifestations. The French Revolution destroyed the ancien régime, which had determined the course of Western civilization from the early Middle Ages. The result sent shock waves through a church that had long-standing social and political links with the deposed old order. Thus, the French Revolution led to a direct assault on the church's authority, not solely in the spiritual realm; it rebelled against the traditional temporal authority the Catholic Church enjoyed at that time as well.

This last factor, especially the attack on the church's property, is what led Leo into his defense of private property in *Rerum Novarum*, arguably the most concise and solid defense of the right to private property offered by the magisterium of the Catholic Church until the promulgation of *Centesimus Annus*. The seething anti-clerical hatred generated by the French Revolution, however, caused the church to be very leery of liberal ideas. The history of Catholic social thought in this area might have been very different had the church encountered liberalism in its British, rather than its Continental, manifestation.⁵

In the meantime, Karl Marx had midwived socialist thought and offered a complete philosophical analysis of the industrial situation with his own doctrine of economics, anthropology, and eschatology in his attempt to respond to the *laissez faire* of liberalism.

An Analysis of *Rerum Novarum*

The principal focus of *Rerum Novarum* is given in its very title, *On the Condition of Workers*. To lose sight of this is to sever Leo's thoughts and intentions from their moorings, and to make it difficult to understand his essential moral contentions

as well as his prudential suggestions. The result is to blur some essential distinctions, and confuse cause for effect. Sadly, this is much of the history of the interpretation of this document.

It would be impossible in the limited space allotted to this essay to examine the full thrust and development of the whole of Catholic social teaching which finds its modern impetus in the promulgation of *Rerum Novarum*. For our purpose it will be necessary only to examine the document itself and to observe the ground it shares with an essentially free-market approach to social organization. This also will enable us to see *Centesimus Annus* as an authentic development of Leo's thought.

Leo notes at the outset of his work that the great upheavals occurring in his time encompassed both the political and the economic domain (#1)⁶ and he acknowledges that "the problem is difficult to resolve and is not free from dangers." (#4)

Socialism offered itself as the solution for the ills of society; it is no exaggeration to say that in *Rerum Novarum* Leo looks upon this offer with withering disdain. Of the socialist program, he says that it "is so unsuited for terminating the conflict that it actually injures the workers themselves." (#8) Socialism does this, the pope argues, because it violates the right of people to direct their own lives and to improve their lot, and because it violates the right of man "to possess things privately as his own." (#9 and #10)

In Defense of Private Property

Leo's defense of private property is rooted in a mode of natural law argument reminiscent of John Locke. After distinguishing human nature from that of animals by virtue of man's faculty of reason, the pope says:

Since man expends his mental energy and his bodily strength in procuring the goods of nature, by this very act he appropriates that part of physical nature to himself which he has cultivated. On it he leaves impressed, as it were, a kind of image of his person, so that it must be altogether just that he should possess that part as his very own and that no one in any way should be permitted to violate his right. (#15)

Note the similarity of this argument to that employed by John Locke in his *Two Treatises of*

Government, written around 1690. In his discussion of property, Locke says:

Though the earth, and all inferior creatures be common to all men, yet every man has a property in his own person. This nobody has any right to but himself. The labour of his body, and the work of his hands, we may say, are properly his. Whatsoever then he removes out of the state that nature hath provided, and left it in, he hath mixed his labour with, and joined to it something that is his own, and thereby makes it his property. It . . . hath by this labour something annexed to it, that excludes the common right of other men.⁷

For Leo, as for Locke before him, and as for St. Thomas before them both,⁸ the right to private property is not merely some abstract theory; it is, rather, an extension of the rights which find their origin and "reside in individuals," (#18) and are to be enjoyed and safeguarded by the legitimate authority, which exists for this very purpose. Thus, the pontiff concludes, "Private ownership must be preserved inviolate." (#22)

Likewise, *Rerum Novarum* renounces any form of coercive egalitarianism and asserts: "There are truly very great and very many natural differences among men. Neither the talents, nor the skill, nor the health, nor the capacities of all are the same, and unequal fortune follows of itself upon the necessary inequality in respect to these endowments." (#26)

In paragraphs 31 and 32 Leo outlines a series of obligations that employers have toward their workers. Although some have interpreted Leo's expressions of concern for workers in an interventionist sense, a balanced reading reveals that it not only contains a clear condemnation of socialism, but it attempts to offer concrete ways in which class conflict may be avoided. The pope's pastoral heart is displayed here as he expresses his concern that workers should be given what they are "justly due." He also warns against the use of what he calls "the arts of usury," but this admonition must be read within the context of his discussion of fraud and coercion. Had Leo a clearer understanding of the role the market plays in setting interest rates, he probably would have taken the more benign view of "usury" than his successors did.⁹ This reference should be read as

a prudential, not a fundamental moral, assertion. In general, it would be difficult to find in this section anything that would generally offend the moral sensibility of the ethical employer.

The encyclical shifts from an economic perspective to aim at what it considers a higher ideal. Here is where the distinction between practical policy suggestions and basic moral premises becomes apparent. The responsibility of the civil order is in part to insure that people act in ways that are just in their economic relations. Leo's use of the term "justice" is derived from its classical, Aristotelian-Thomistic meaning: "treatment in accord with desert." Contemporary usage of "justice," on the other hand, seems to offer a blank check for a host of entitlement programs.¹⁰

Christianity, however, does not stop with the basic demands of justice. By offering a transcendent perspective, it calls people to the virtue of love as well. Leo doesn't make the mistake of collapsing the one into the other. In saying that "no one, certainly, is obliged to assist others out of what is required for his own necessary use," he is not dispensing the faithful from their obligation to the poor. He chooses, instead, to make an all too frequently forgotten distinction: "These are duties, not of justice, except in cases of extreme need, but of Christian charity, which obviously cannot be enforced by legal action." (#36)

This section of *Rerum Novarum* provides an outline of the transcendent vision of the human person contained within Christianity. The acceptance of Christianity can only be achieved by an exercise of free will, hence the living out of this commitment must be performed freely as well. In this regard, Leo moves within the classical liberal tradition in believing that freedom may be sufficient for a just society, but it is not sufficient for a good one.

Limits of Law

The encyclical also expresses a concern that applies as much today as it did when it was penned a century ago. That concern is the supplanting of the church by the state in the former's ministry to human needs. (#45)

Paragraph 53 offers a good example of the confusion that results from the failure to distinguish between the moral principles in which church teaching is anchored and the prudential sugges-

tions made to implement them. Here Leo is addressing himself to the conditions of workers and their moral and spiritual well-being. He enumerates a number of concerns: strikes, disintegration of family life, religious backsliding, "incitements to sin" by the mixing of the sexes, and overwork. He then concludes that "in all these cases, the power and authority of the law, but of course within certain limits, manifestly ought to be employed."

Two things should be noted about this passage. The first is that the overriding concern is the moral, religious, and physical condition of workers, not the method chosen to achieve their well-being. Second, even when permitting a governmental intervention, Leo is quick to establish a limitation set by reason, and that the law must not go further than necessary to remedy the situation.

Paragraphs 61-66 contain a complex line of reasoning. The pope argues that free consent is not a sufficient criterion for establishing a "just wage." Free consent, he says, fails to provide enough of the context to establish the morality of the wage offered when the wage is not sufficient for the preservation of life.¹¹ He says, "To preserve one's life is a duty common to all individuals, and to neglect this duty is a crime."

There are several aspects of Leo's careful argument worth noting. It is apparent that he fails fully to grasp the manner in which wage rates affect the whole of the economy. If the rate of wages is artificially high, the cost of the products produced by labor will be increased proportionally throughout the whole economy, placing many of those products outside the reach of the workers, who are also consumers. It is unfortunate that Leo didn't make the connection between the market wage and pricing system as the economically most efficient way to insure a living wage for workers. This perception, that the "just wage" is best insured by the market wage, is by no means alien to Catholic social thought.¹²

Another thing to observe about Leo's argument is the underlying goal in recommending this policy. Did he want to create a socialist or quasi-socialist society because he believed that socialism was the morally superior economic arrangement? Quite the contrary. His interest in insuring that workers obtain the highest wage possible was that he wanted them to become mini-capitalists by being able

to own and maintain property, to become members of the bourgeoisie. He says:

If a worker receives a wage sufficiently large to enable him to provide comfortably for himself [and his family, he will eventually be able to] come into the possession of a little wealth. We have seen, in fact, that the whole question under consideration cannot be settled effectually unless it is assumed and established as a principle, that the right of private property must be regarded as *sacred*. (#65, emphasis added)

Thus, Leo makes an honest, well-intentioned mistake in a particular economic policy prescription, but not in his overall economic framework. The latter asserts that private property is a good thing for all people, deriving its legitimacy from natural law; further, it evidences a clear understanding of the dynamic nature of the market and the way in which protection of the right to property can inspire the poor to productivity and social harmony. (#66) Such economic dynamism can only occur, however, "if private wealth is not drained away by crushing taxes of every kind." (#67)

Reaction

This reading of *Rerum Novarum* is not a prevalent one today. It comes from a view of the world as expressed by classical liberals. The contents of the document, however, in my mind, lend themselves to such an analysis and are, in fact, wholly consistent in many ways with the development of classical liberal thought in the 20th century, as well as with the thrust of Pope John Paul II's *Centesimus Annus*. Articulating a classically liberal view of the social crisis is obviously not what Leo had in mind when he wrote his encyclical. Yet, I would contend that classical liberal thought is at least as much in the tradition of *Rerum Novarum* as is the collectivist interpretation it has historically received.

Indeed, the standard interpretation given *Rerum Novarum* in many circles has obfuscated much of what is authentically liberal in Catholic social thought. Unfortunately, the interpretations of certain theorists have so dominated discussions on what is the proper Christian response to social, political, and economic calamities or injustices, that any classical liberal interpretation of contem-

porary injustices is greeted as naive, insensitive, or even heretical.

This has had a dampening effect on the dialogue that must exist in Catholic, indeed Christian, quarters if we are to realize an authentic, informed, and workable moral solution to the social crisis that we are obliged to address. The dearth of classical-liberal religious social theorists, and the hostile opposition they receive in many circles, attests to a kind of intellectual monopoly held by non-liberals with regard to "accepted" interpretations of papal documents. Having outlined the ground *Rerum Novarum* shares with a free-market approach to social organization, a brief look at the reaction to the document, particularly in America, will serve to show how the present intellectual hegemony developed and entrenched itself.

Rerum Novarum wasn't breaking entirely new ground in addressing the social question. While it was the first papal response, there was a tradition of social thought that preceded and influenced Leo's encyclical.

Social thinkers prior to Leo were divided into a number of camps. Some condemned the new economic order while others approved of it. Many study circles and round-table conferences arose in the middle of the 19th century that had an important role in influencing Leo's thought.

Of these the Geneva Alliance and the Fribourg Union are representative. Leo paid close attention to these groups and their social analysis of the times. He rejected what he perceived to be the materialism of the new economic order, but wasn't averse to technological progress. He became interested in the work of the pioneer of social thought in Germany, Bishop Emmanuel von Ketteler of Mainz, as well as the German economist Lujó Brentano. According to Franz H. Mueller, "Ketteler . . . had become more and more convinced of the need of government intervention in social and economic matters, and particularly for protective labor legislation. Brentano . . . had insisted that only through unionization could the labor market become truly competitive."¹³ This was a representative attitude shared by many church leaders.

The labor conditions faced by many was the principal impetus for much social debate. *Rerum Novarum* lent its support to various workers' associations or labor unions. The American effort to secure the Vatican's recognition of the Knights of Labor impressed Leo very much. The Knights of

Labor were the immediate forerunners of the American Federation of Labor (A.F.L.). They had come under suspicion in Rome, and were nearly condemned, due to secret initiation rites and dubious leadership.¹⁴

However, any thought of condemnation evaporated once these problems were settled to the Vatican's satisfaction, and especially after Cardinal Gibbons of Baltimore delivered a brilliant memorial on behalf of the Knights. Leo was generally moved by labor's plight, and he paid close attention to the activities of Cardinals such as Gibbons and Henry Edward Manning of England on behalf of labor. Due to their influence and activities *Rerum Novarum* became the springboard for the burgeoning labor movement in America and Europe.

The Development of Social Thought

America, like Europe, had a tradition of social thought that preceded *Rerum Novarum*. To the reformer's mind, Leo's encyclical gave them the support and recognition they needed to carry out their program. Leo deemed profound change to be necessary. Progress was not to be feared. While liberalism was to be rejected, so too was socialism. Whereas liberalism denied political intervention in the market and in industry's affairs, socialism overemphasized the role the state should play in both community and industrial life.

Leo saw *laissez faire* as the philosophy of the business and political establishment. He saw socialism making inroads into the thought of the masses, threatening to excite envy, encourage unreal expectations, and act as the true opiate of the people. For Leo, private property, rooted in justice and charity, should be the basis by which the welfare of working men and women is secured. No solution to labor's problem could be had without assistance from religion and the church. To Leo's mind, Catholic charity groups would work in defense of those who suffered from horrible living and working conditions until a more prosperous economic base could develop. Such groups would aid the work of both the state and workmen's associations to help relieve poverty.

The task of giving *Rerum Novarum* its social interpretation was swiftly taken up by the progressive left. While Leo advocated, in a measured way,

his belief in the importance of securing a "living wage," eliminating Sunday labor, shortening the work day, and prohibiting or regulating the labor of children and women in factories, these points were seized upon by social activists and served as the launching pad for a much broader array of social advocacy and legislation. Those in sympathy with these planks in Leo's encyclical focused almost exclusively on them, too often at the expense of the rest, and great majority, of the encyclical which attempted to restrict the expansion of the state.

An example of this selective interpretation is pointed out by Aaron Abell, himself sympathetic with the left's social analysis, when he notes that after arguing for the proposals contained in *Rerum Novarum*, these theorists conclude by wanting to "use the taxing power to favor the multiplication of property owners."¹⁵ The encyclical expressly warned against this. (#47)

The social activists, however, believed that in order to improve the admittedly less-than-desirable state of the laborer, both a public and private effort must be made. In the minds of such activists public response was often equated with an increase in the role of the state. Indeed, they saw the role of government as being chiefly concerned with promoting human welfare. Since the working class, in their way of thinking, contributed more than any other group to the prosperity and material well-being of the commonwealth, the state should be active in effecting legislation on their behalf.

American social movements served, in some cases, to give many the notion that private property was a natural right, but it could and should be extensively regulated by the state. According to Abell, "A social view of property . . . served as the entering wedge for much contemporary and future American Catholic participation in social reform." Such a view would seem to be contrary to the view expressed by Leo who articulated a view of property rooted in the individual, but which has social dimensions.

Many interpreters of *Rerum Novarum*, however, have overemphasized the social view of property. This reflects a bias against individualism and self-interest because of the belief that property owners will inevitably oppress the poor. The burden for relieving the poor in this view must fall on the state. According to Abell, "these early state

interventionists upheld the right of workers to organize and to engage their employers on the battle field of industry, they doubted labor's power, without the aid of the state, to wring justice from entrenched capital."¹⁶ According to one priest, the Reverend Edward Priestly, prior to the promulgation of Leo's encyclical people were coming to the conclusion "that we must, more than we have hitherto done, make over to the state a closer oversight of the relations between classes."¹⁷

Hence, during the 1880s sympathy for the labor movement was born in the hearts of nearly all socially concerned Catholics of importance. In addition, a sympathy toward using the apparatus of the state to empower the downtrodden increased. These were, in the words of Cardinal Gibbons, "the most efficacious means, almost the only means" to combat the rise of monopolies and to check their "heartless avarice which, through greed of gain, pitilessly grinds not only the men, but even the women and children in various employments. . . ."¹⁸

The hierarchy's enthusiastic support for labor focused public attention on the condition of workers. Two Catholic congresses also were instrumental in fixing this pro-labor sentiment in people's minds. The first was in Baltimore in 1889, two years prior to the promulgation of *Rerum Novarum*; the second in Chicago in 1893, two years after. They were organized by the hierarchy with the aid of prominent laymen, and were aimed at mobilizing clerical and lay persons for "progressive social action." The congresses were well attended and equated capitalist greed with socialism and communism, all of which were denounced.

These congresses presented papers and argued for political, social, and economic change. Many called for increased government intervention, especially in the form of taxes on the rich. In addition, the congresses voted to set up study groups and distribute the new encyclical as widely as possible. Organized labor wanted to get the analysis of the encyclical included in labor organs and have it be part of addresses before labor audiences. Protestant advocates who were friendly to the growing notion of "the social gospel" reacted more than a little enthusiastically. They believed that by encouraging the state to get involved in the redress of abuses against labor, the pope had "ranged himself unmistakably on the side of the new Political

Economy."¹⁹ This "new Political Economy" initiates, in the American context, the march toward an economy of welfarism and interventionism.

The American Economic Association was equally enthusiastic about the new encyclical. While most economists didn't agree with the whole of it, none could deny its monumental importance. Argument ensued after the promulgation of the encyclical over the single tax issue. Henry George saw in it a repudiation of his program. He sent an open letter to the pope attempting to explain that under his plan only rent would be transformed into common property. Michael A. Corrigan, the archbishop of New York, forced supporters of George in his diocese to make public disclaimers. Catholic laymen rushed to George's defense and argued that what was included in the encyclical regarding public policy was not infallible. Cardinal Gibbons, among others, argued that supporters of the single tax should be allowed to judge the efficacy of George's proposal as they would be allowed to do with any other public proposal. Archbishop Corrigan was corrected by Rome, giving all progressive-minded Catholics the freedom to pursue public policy proposals without church interference. Theoretically, all public policy proposals were acceptable as long as they weren't contrary to the faith and moral teaching of the church.

The Roots of the Social Justice Movement

This new freedom acknowledged by the Vatican finally established the new movement for social justice. In 1899 the Reverend Thomas J. Ducey argued that the church should now lead the people to emancipation from "social and economic slavery" imposed on them by "trust kings and kings of monopoly. . . ."²⁰ However, according to Abell, the social movement never really got off the ground during the decade and a half following the promulgation of the encyclical. Abell attributes this to racial dissension that caused division and deep disunity among Catholics, a reference to the waves of immigration that swept the country in the last half of the 19th and early part of the 20th century.

The newer immigrants ran up against the older and more established immigrants who were less sympathetic to their condition, and who felt threatened by the competition for jobs they rep-

resented. The new arrivals, after 1900, from central and eastern Europe, were often accused of being involved in socialist causes. The Socialist Party, headed by Eugene Debs, was making inroads in all parts of American society. The period between 1912 and the beginning of World War I was the time of its greatest appeal. In 1912 the American Federation of Labor was one-third socialist. The Industrial Workers of the World (I.W.W.) offered the more radical trade unionists an outlet until the war, while many Catholic priests and laity became involved in the increasingly active socialist movement.

The American hierarchy repeatedly censured socialism as being materialistic, justifying this position by citing Leo's condemnation of socialism in *Rerum Novarum*. Social activists in return argued that these condemnations by the hierarchy were "exaggerated," that they even "misinterpreted" Leo's attitude toward socialism. In addition, they "ignored its positive program for Christian social reform."²¹ Despite protests from the hierarchy, socialists were making considerable inroads into the Catholic community.

Father John Ryan and "Semi-Socialism"

Around 1905 the hierarchy began to articulate a program that would keep those Catholics who were attracted to socialism within the church. Their goal was to head off the burgeoning alliance between Catholic workers and socialists. Catholic social activists and theorists developed a strategy to construct progressive economic reform around what they deemed to be "the really salient passages" of *Rerum Novarum*.²² This, of course, often meant those that favored interventionism and welfare to the exclusion of those that warned against such policies. The new reformers argued that socialism contained in itself seeds of Catholic truth which the socialists had stolen and which Catholic social theorists should now reclaim. Leading this new approach was Father John A. Ryan—"the foremost academician of the American Catholic social movement."²³

Ryan's first book, *A Living Wage*, was published in 1906 and advocated a minimum wage for all. He extended his argument by calling for other reforms and interventions in subsequent books and articles. Among these reforms were "indirect methods

of augmenting the worker's income through legislative action; [including] the eight-hour day; restriction on the labor of women and children; legalization of picketing, persuasion and boycotting; conciliation and arbitration by state and national boards with compulsory powers; and relief of unemployment by state employment bureaus, labor colonies and social insurance. Likewise provisions should be made against accidents, illness and old age. Finally, the state should launch a housing program, not only condemning and preventing unsanitary housing and congestion, but erecting decent habitations for the poorer classes, to be rented or sold—preferably sold—on easy conditions."²⁴ Ryan also advocated public ownership of natural monopolies, progressive income and inheritance taxation, taxation on future increases in land values, and prohibition of speculation on the exchanges.

Ryan understood that socialism tended to destroy the faith of those involved. In that respect he thought it should be condemned. However, he felt that the economic aspect of socialism could be salvaged from its negative religious aspects. Hence, he called his program "Essential Economic Socialism" or "Semi-Socialism," and he believed this didn't fall under church condemnation. He believed that he was complying most faithfully with Leo's desire that the "rights and opportunities of private ownership be sufficiently extensive to safeguard individual and social welfare."²⁵ Ryan maintained that socialism could best safeguard private ownership with regard to the goods of consumption, and that it would only be necessary to convert the means of production, and not all consumer goods, into common property.

Ryan believed that economic socialism was not only in the best tradition of Leo, but that its promotion was good strategy. He felt that if reformers concentrated on refuting the negative religious assumptions of the secular socialist movement, while at the same time arguing in favor of its economic precepts, then Catholics would be less likely to get involved in the socialist movement as it was expressing itself politically—seeing the church as a champion of the kind of social reform the masses were demanding.

After 1908 a widespread Catholic movement for social reform began with Ryan as its leader. The first important group to champion social reform was the German Catholic Central Verein.

In 1908 they began with 125,000 members and established a Central Bureau for the Promotion of Social Education and founded a magazine called the *Central-Blatt and Social Justice*. In 1909 the Central Verein had a convention which called for more progressive labor legislation. The Verein worked tirelessly to promote social education and the labor movement. It also sponsored scholarships for the study of social problems as they existed in Germany. It set up summer schools for social study in 1912 at Spring Bank, Wisconsin, and Fordham University, and lobbied for a Catholic school of social science to be established. Ryan was encouraged by this blossoming educational movement and predicted that within a decade it would produce an army of men "able to justify Catholic opposition to both the abuses of capitalism and the excesses of Socialism" with "the ability and the courage to defend plans of positive social reform."²⁶

Catholic Support for the Labor Movement

The 1909 Verein convention also called for support of the labor movement. It advocated faithful cooperation with groups like the American Federation of Labor, the National Civic Federation, and the American Association for Labor Legislation. The Verein influence was felt not only among Germans; its program was adopted by nearly all Catholics. This was largely due to the efforts of the Reverend Peter E. Dietz of New York, one of its most persistent members. Abell says that "just as John A. Ryan was the academician, so Peter E. Dietz was the organizer, of the American Catholic social movement."²⁷

In 1909 Dietz attended the convention of the American Federation of Labor in Toronto. He believed Catholics weren't doing as good a job as the Protestant denominations in officially supporting the delegation, so he got himself appointed as a delegate to the 1910 convention, establishing a permanent Catholic delegate position at A.F.L. conventions in the process, and in a speech to the delegates assured them of Catholic support for trade unionism.

During the convention he brought Catholic trade union representatives together and formed a permanent organization called the Militia of Christ for Social Service. The Militia's purpose was

to promote understanding of the church's social program and the cause of labor. Its labor program exhibited a vast influence immediately, and in 1911 the American Federation of Catholic Societies formed a Social Service Commission to promote labor's cause. The new Social Service Commission systematically circulated Leo's encyclical to be studied and applied with an interventionist slant. The Social Service Commission was essentially an enlarged Militia of Christ. These groups called for education and pressed for the establishment of schools, as well as inclusion of social science study into the curriculum.

These college graduates and professionals formed the Eunomic League ("well-lawed league") to discuss social problems, and several lecture courses were adopted to reflect the new concerns, the ones at Loyola-Chicago and Fordham being the most important. Some seminaries, in addition to The Catholic University of America, placed social studies in their regular curricula. With the successful launching of these educational programs, the pre-war Catholic social movement came to an end. However, this was the most critical and important time in the history of Catholic social thought to date. Much has merely been addition, re-definition, and extension of the programs begun during this period.

Following the war the organized socialist movement began to disintegrate, and economic problems arose which the American Federation of Catholic Societies lacked the ability to address. The hierarchy formed the National Catholic War Council in 1917 to deal with post-war social reconstruction.²⁸ Though it condemned socialism in a couple of places, it picked up where pre-war thought left off. In 1919 the War Council's Administrative Committee issued what has been called the *Bishops' Program of Social Reconstruction*. The statement was prepared by John A. Ryan, and it advocated such remedies for the country's social ills as:

social insurance against unemployment, sickness, invalidity, and old age; a federal child labor law; legal enforcement of labor's right to organize; public housing for the working classes; progressive taxation of inheritances, incomes, and excess profits; stringent regulation of public utilities rates; government competition with monopolies . . . ; worker participation in man-

agement; and co-operative productive societies and co-partnership arrangements in order to enable the majority of wage earners to "become owners . . . of the instruments of production."²⁹

It was with good reason that Ryan would come to be called the "Right Reverend New Dealer."

The bishops changed the name of the Council in 1922 to the National Catholic Welfare Council, and it is today known as the National Conference of Catholic Bishops. They also created a social action arm called the Department of Social Action which was charged with the task of seeing that the Bishops' program was realized. With that, Abell argues, the "reception of Leo XIII's labor encyclical was complete."³⁰

The Catholic social movement has continued from that time essentially to argue the same points and advocate the same political and economic agenda. The names, councils, and circumstances have changed, but from Pius XI to John Paul II the social movement has retained its character.

The context in which this agenda has been framed, of course, has changed with the passing of time. According to G. J. Hebert, "Social changes during the period after WW II were naturally reflected in Catholic social movements. Specialization and organization became more and more characteristic of Catholic as well as other efforts. As the role of organized labor in American society was stabilized . . . , the labor movement was less prominent than formally as a battleground for social justice. . . ."³¹

More than labor, today's liberationist and environmentalist movements are the means by which the Christian left wages its battles for "social justice." Indeed, if they have moved in any direction it has been farther to the left as the left-wing Catholic scholar Gregory Baum has recently argued.³²

A Dramatic Development

The latest installment in Catholic social teaching, and arguably its most dramatic development, comes in Pope John Paul II's *Centesimus Annus*, which commemorates Leo's encyclical. It may well represent a shift away from centralized planning within the Catholic tradition, and a reversal of the left-wing trend outlined in the previous pages.³³

More than any other church document, this lat-

est one celebrates the creativity of entrepreneurs and the virtues required for productivity. John Paul describes these virtues as: "diligence, industriousness, prudence in taking reasonable risks, reliability and fidelity in interpersonal relationships, as well as courage in carrying out decisions which are difficult and painful but necessary, both for the overall working of a business and in meeting possible setbacks." (#32)

The pope affirms both the practical and moral legitimacy of profit, entrepreneurship, appropriate self-interest, productivity, and a stable currency. He endorses the right to private property along with its social dimension and calls it a human right. And he distinguishes consumerism from the business economy.

Nowhere does the Holy Father imply that socialism and capitalism are morally equal, a sentiment some detected in his 1987 social encyclical, *Sollicitudo Rei Socialis*. This very deliberate move on the pope's part comes as a surprise to those who anticipated that, having been a principal player in the events that buried collectivism in 1989, John Paul would now employ the considerable prestige and power of his moral authority to anathematize the economic system of free exchange. Instead, John Paul encourages such a system, as long as it is rooted in legal, ethical, and religious traditions.

Beyond seeing no contradiction between virtue and freedom (a word frequently employed in his letter), the pope expresses deep reservations throughout the document about various forms of state economic interventions.

In this regard, the pope's letter strikes a considerably different tone from that of the U.S. bishops in their 1986 statement on the U.S. economy, "Economic Justice for All." The latter repeatedly called for increasing the role of the government to remedy social problems and was seen by many business leaders and economists as a moral sanction for the redistributivist state.

The pope, on the other hand, having seen the deleterious impact of governmental encroachments in Eastern European countries, questions the legitimacy of extensive intervention by the welfare state, or what he calls the "social assistance state." John Paul says, "By intervening directly and depriving society of its responsibility the social assistance state leads to a loss of human energies and an inordinate increase of public agencies, which are more dominated by bureaucratic ways

of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending.” (#48)

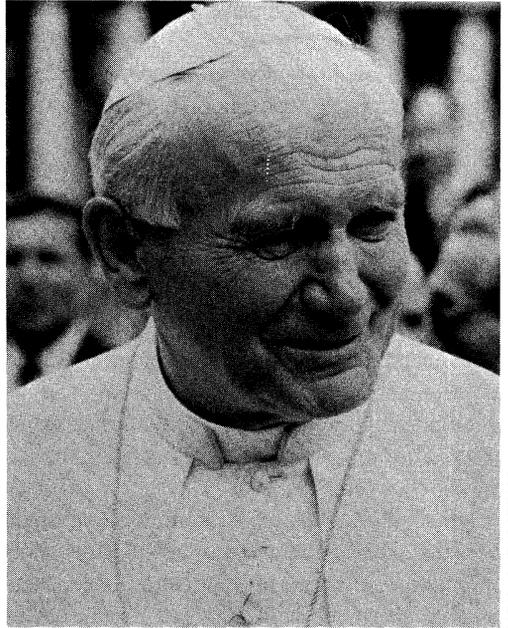
At the beginning of his pontificate some theologians thought that John Paul, having lived in a Marxist society, would approach social and economic questions with a certain sensitivity and sympathy to Marxist insights. What appeared to some commentators³⁴ on his first social encyclical, *Laborum Exercens*, as a turn to dialogue with Marxists, has ended up being not only a repudiation of the entire collectivist agenda, root and branch, but the warmest embrace of the free economy since the Scholastics.

Centesimus Annus represents an authentic development in the encyclical tradition at the same time that it constitutes a retrieval of the forgotten private property tradition of the Scholastics, most notably the School of Salamanca in the mid-16th century. This school of thought asserted that what Christianity says about private property is exactly what it says about the whole material order: It is good, but relative. Only God is absolute.³⁵

To grasp the authentic significance of *Centesimus Annus* requires a blend of two approaches. First, read it on its own merits. As objectively as possible, one can exegete its various passages to discern its thrust and priorities on the basis of the text of the encyclical itself. Then, read the document in context of the previous social pronouncements by the Catholic teaching office over the past 100 years, and see what new themes, developments, and directions the present one initiates.

When read for itself, *Centesimus Annus* emerges as an uncompromising rejection of collectivism in its Marxist, Communist, socialist, and even welfare-statist manifestations. While the encyclical allows for a certain amount of intervention by the state in such areas as wage levels, social security, unemployment insurance, and the like, *Centesimus Annus* expresses repeated concern for observing the principle of subsidiarity (first tending to human needs on the local level), and warns against the effects of intervention both on the economic prosperity of a nation and on the dignity and rights of each person.

Centesimus Annus, then, indicates a decided preference for what it calls the “business economy,” “market economy,” or “free economy,” rooted in a legal, ethical, and religious framework.



CATHOLIC NEWS SERVICE

Pope John Paul II. In his encyclical *Centesimus Annus*, the pope affirms both the practical and moral legitimacy of profit, entrepreneurship, appropriate self-interest, productivity, and a stable currency.

While it rejects the notion that such a free economic system meets all human needs, it distinguishes the economic system from the ethical and cultural context in which it exists. In this way *Centesimus Annus* can criticize the excesses of materialism and consumerism and still endorse capitalism as being essentially in accord with Christianity.

A second way of reading this encyclical reveals it as an even more dramatic document. When read with an awareness of modern Catholic social thought, beginning with Leo XIII's *Rerum Novarum*, its historical import surfaces. *Centesimus Annus* evidences the greatest depth of economic understanding and the most deliberate (and least critical) embrace of the system of free exchange on the part of Catholic teaching authority in 100 years, and possibly since the Middle Ages, as noted previously. Moreover, it contains a modern appreciation for the dynamic nature of free exchange and the way in which wealth is produced.

When seen in this way, *Centesimus Annus* represents the beginnings of a shift away from the static, zero-sum economic world view that led the church to be suspicious of capitalism and to argue for wealth distribution as the only moral response to poverty.

There are several implications of this new direction worth considering. As already noted, there is the clear difference in thrust and direction apparent when *Centesimus Annus* is read alongside the 1986 U.S. bishops' letter, "Economic Justice for All." This has left the social-justice establishment unprepared to consider social questions from within the framework John Paul has constructed in *Centesimus Annus*. When one reads over the material these ecclesiastical cognoscenti have produced, it becomes evident that they are unfamiliar with the Continental economic tradition represented by Wilhelm Roepke, Ludwig von Mises, F. A. Hayek, Israel Kirzner, as well as the insights of the Virginia public choice school and others.

A further implication of this encyclical is that entrepreneurs and capitalists have been invited in out of the moral cold to which they felt exiled in the past. The Holy Father has affirmed their basic vocation and role, even while he challenges them to look beyond the economic bottom line and consider the moral aspects of their work.

A third implication is that this encyclical constitutes the epitaph for liberation and collectivist movements in terms of any official ecclesiastical legitimacy. The "Christian-Marxist dialogue" is dead, as even Gustavo Gutierrez, father of liberation theology, has recently conceded.

Centesimus Annus indicates a turn toward authentic human liberty as a principle for social organization on the part of the world's largest Christian church. Thus a new dialogue has begun.

This latest encyclical will go down in history alongside Vatican II's *Dignitatis Humanae*, on religious liberty, as representing the impact the American experiment has had on the teaching of the universal church. What *Dignitatis Humanae* did to open the church to the rights of conscience and religious liberty, *Centesimus Annus* will do to open the church to a full and vigorous dialogue with the idea of economic liberty. It is an idea that began with Catholic scholarship as seen in the Scholastics; it is fitting that it should be retrieved by this pope.

Conclusion

The hegemony of the left in social matters has, over the years, had an increasingly deleterious effect on the traditionally progressive and effec-

tive social mission of the church, and may only now be coming to an end. But it is crucial to understand that the reason for this is a fundamental misconception on the part of these thinkers regarding the context necessary for economic progress. It has been argued elsewhere that the progressive ideals of the left were co-opted by agents of reaction in an attempt to maintain centralized control.³⁶ So my objection here is not so much to the *goals* of the social reformers (e.g., living wages, decent working conditions, available health care), as much as it is with the programs advocated to achieve these goals.

The time has come for more dialogue between free market and socialist theorists within the religious community. Some understanding and consensus must be reached if our goal of "liberating" the poor from the shackles of poverty and injustice is to be authentically accomplished. There are encouraging signs that these inroads are finally being made.

Especially seen in the light of the collapse of the command economies in Eastern Europe, the program of the "progressives" has become somewhat stale, and is increasingly viewed as restricting economic progress and political freedom in many ways. Too often the old policy proposals first articulated by John A. Ryan are retooled and put forth today as viable solutions to economic and political oppression. At times it almost appears that the events—political, economic, and social—of the past 100 years, which have exposed the ineffectiveness of much of this social program, had not occurred.

Ronald Nash, an evangelical Christian philosopher, points to a simple fact that should be kept in mind by all Christian social theorists: "Compassion and love must be coupled with a careful grounding in the relevant philosophical, economic, political and social issues. If the . . . social activist proceeds in ignorance of the accepted tools of economic analysis, he risks turning bad situations into something far worse."³⁷

Rerum Novarum is not without certain misconceptions relative to the practice of the free economy. Pope Leo appeared concerned that if the government doesn't exercise some control over economic transactions, the "powerful" will take over and abuse the weak. When Leo saw the activities of businessmen like J. P. Morgan, using the coercive power of the state to achieve and main-

tain monopolies, he reacted against such abuses by calling for interventions that he hoped would insure the widest possible distribution of private property. He failed to see that a freely operating market would act as the best insurance to achieve this goal, but this was a mistake in economic analysis, not a mistake in moral principles. It may be said that the economic analysis has been updated in John Paul's *Centesimus Annus*.

Where *Rerum Novarum* exhibits a concern that society be organized in such a way that a vibrant network of what we today would call mediating institutions be active in protecting and promoting the welfare of the commonweal, *Centesimus Annus* explicitly calls for such "intermediate communities" to be left free to extend their positive social impact. (#48 and #49) Taken as a whole, and read in the context of its historical setting, *Rerum Novarum* provides one of the most finely honed defenses of the free market and private property order in the annals of Catholic, indeed Christian, social thought up until the appearance of *Centesimus Annus*, which expands Leo's notion of property beyond land ownership, to include "the possession of know-how, technology and skill." (#32)

Both *Rerum Novarum* and *Centesimus Annus* are worthy of celebration by those who believe that individual liberty offers the best hope for the common good; and they are worthy of study by religious collectivists who mistakenly believe that religion in general, and Christianity in particular, ought to opt for socialism. □

1. Literally translated *Rerum Novarum* means "of new things," although the general title of the encyclical actually is given as "On the Condition of Workers," or as the renowned Thomist Etienne Gilson more accurately entitled it, "The Rights and Duties of Capital and Labor."

2. *Rerum Novarum* would be followed by *Quadragesimo Anno* in 1931, Pius XII's Pentecost Radio Address (1941), *Mater et Magistra* (1961), *Pacem in Terris* (1963), *Gaudium et Spes* (1965), *Dignitatis Humanae* (1965), *Populorum Progressio* (1967), *Octogesima Adveniens* (1971), *Laborem Exercens* (1981), *Sollicitudo Rei Socialis* (1987), and *Centesimus Annus* (1991).

3. Francis A. Sullivan, *Magisterium: Teaching Authority in the Catholic Church* (New York: Paulist Press, 1983). Father Sullivan, a professor of ecclesiology at the pontifical Gregorian University in Rome, provides a balanced and extensive overview of the role of the teaching office of the Church.

4. See Robert Nisbet, *The Quest for Community: A Study in the Ethics and Order of Freedom* (San Francisco: ICS Press, 1990), where he says: "By authority, I do not mean power. Power, I conceive as something external and based upon force. Authority, on the other hand, is rooted in the statutes, functions, and allegiances which are the components of any association. Authority is indeed indistinguishable from organization, and perhaps the chief means by which organization, and a sense of organization, becomes part of human personality. Authority, like power, is a form of constraint, but, unlike power, is

based ultimately upon consent of those under it; that is, it is conditional. Power arises only when authority breaks down." (p. xxvi)

5. A. M. C. Waterman, "Christian Political Economy: Malthus to Thatcher," *Religion, Economics and Social Thought*, Walter Block and Irving Hexham, eds. (Vancouver, B.C.: The Fraser Institute, 1986); also see Michael Novak's excellent discussion of John Stuart Mill in chapter 5 of *Freedom With Justice* (San Francisco: Harper and Row, 1986), pp. 81-107 and Irving Kristol's *Reflections of a Neoconservative* (New York: Basic Books, 1983), particularly chapter 12, "Adam Smith and the Spirit of Capitalism," pp. 139-76.

6. Throughout this article parenthetical references to specific sections in *Rerum Novarum* and *Centesimus Annus* follow the citations.

7. John Locke, *Second Treatise of Government*, paragraph 27. It should be noted that there is a debate as to whether Leo's use of the Lockean argument is a repudiation of the previous Catholic tradition on private property or a development and expansion of it.

8. Thomas Aquinas, *Summa Theologica, II-II*, q.6, a.2: "A man would not act unlawfully if by going beforehand to the play he prepared the way for others: but he acts unlawfully if by so doing hinders others from going. . . . A rich man does not act unlawfully if he anticipates someone in taking possession of something which at first was common property [i.e., existing in a state of nature], and gives others a share: but he sins if he excludes others indiscriminately from using it."

9. See J. T. Noonan, *The Scholastic Analysis of Usury* (Cambridge, Mass.: Harvard University Press, 1957).

10. F. A. Hayek, *The Constitution of Liberty* (Chicago: The University of Chicago Press, 1960), pp. 93, 99-100, 231-32.

11. The pope divides what he calls the "personal" dimension from the "necessary" dimension of the wage rate question. By "personal" he means what a worker and an employer agree upon as a wage; by "necessary" he means a wage sufficient to enable a worker to acquire life's necessities.

12. See Alejandro Chafuen, *Christians for Freedom* (San Francisco: Ignatius Press, 1986), pp. 180-86.

13. Franz H. Mueller, *The Church and the Social Question* (Washington, D.C.: American Enterprise Institute, 1984), p. 73.

14. Brother William J. Keifer, SM, *Leo XIII: A Light From Heaven* (Milwaukee: Bruce Publishing Company, 1961), pp. 146-49.

15. Aaron I. Abell, "The Reception of Leo XIII's Labor Encyclical in America, 1891-1919," *Review of Politics*, vol. vii, October 1945, p. 466.

16. *Ibid.*, p. 471.

17. *Ibid.*, p. 472.

18. *Ibid.*

19. *Ibid.*, p. 476.

20. *Ibid.*

21. *Ibid.*, p. 481.

22. *Ibid.*, p. 493.

23. *Ibid.*, p. 483.

24. *Ibid.*, p. 484.

25. quoted in Abell, p. 484.

26. Abell, pp. 486-87.

27. *Ibid.*, p. 488.

28. For an interesting history of this period see John B. Sheerin, CSP, *Never Look Back: The Career and Concerns of John J. Burke* (New York: Paulist Press, 1975). Burke was the founder of the National Catholic War Council.

29. Abell, p. 494.

30. *Ibid.*

31. G. J. Hebert, "Social Movements, Catholic," *New Catholic Encyclopedia*, vol. 13, p. 331.

32. Gregory Baum, "Recent Catholic Social Teaching: A Shift to the Left," *Religion, Economics and Social Thought*, Walter Block and Irving Hexham, eds., pp. 47-70.

33. This section is drawn from my articles in *National Catholic Reporter*, May 24, 1991, p. 6, and in *National Review*, June 23, 1991, pp. S9-S10.

34. See Gregory Baum, *The Priority of Labor* (New Jersey: Paulist Press, 1982).

35. For a fine analysis of the late Scholastics, see Alejandro A. Chafuen.

36. See Don Lavoie, *National Economic Planning: What Is Left?* (Cambridge, Mass.: Ballinger Publishing Company, 1985).

37. Ronald H. Nash, *Social Justice and the Christian Church* (Milford, Mich.: Mott Media, 1983), p. 2.

Free Trade and the Irish Famine

by John P. Finneran

In the mid-19th century, the political life of Great Britain was torn by a great debate on the principles of protection and free trade. The debate, with its triumph for the free trade cause, remains equally relevant today, for it shows that protection, whatever its theoretical merits, is ruinous in human terms. The cornerstone of the free trade victory was the repeal of the corn laws by the Tory government of Sir Robert Peel in 1846.

The Tories and the Corn Laws

The Tory party had had an ambivalent history toward protection and free trade. On the one hand, the Tories under William Pitt the Younger had favored free trade. With the onset of the Napoleonic wars, however, this policy was interrupted. When peace was established, the price of wheat and other grains, with their supply from abroad augmented by the increase in commerce that followed with the peace, went into a steep decline. Heeding the requests of landowners, who constituted the main pillar of Tory support, the Tory government passed the corn law of 1815, the first of a series of such laws that effectively excluded foreign grains from the domestic market. (It should be noted that the term "corn" in this context does not refer exclusively to maize, but to grains generally, and to wheat especially.)

When the issue of free trade versus protection came to a head, it would split the Tory party asunder. Indeed, Peel himself reflected his party's dual heritage. At first a strong supporter of protection,

Peel became ambiguous, and finally came to favor free trade.

Punch magazine satirized Peel's attempt to bridge both wings of his party by a cartoon which showed him as a rider standing astride two horses at once. *Punch* commented: "The world has been lately astonished by the very rapid act of horsemanship performed by SIR R. PEEL on his two celebrated chargers, Protection and Free Trade. Protection is a very heavy charger, but Free Trade is a light and active filly, always going ahead with great speed and energy. The great merit of PEEL consists in the skill he has exhibited in giving the rein, now to one, and now to the other, with wonderful dexterity; now tightening the bridle, and now relaxing it; and, indeed, playing fast and loose with wonderful dexterity. Though he evidently has greater control over Free Trade, he controls Protection with remarkable adroitness. Altogether, his performance is among the most wonderful efforts of modern horsemanship."¹

In economic terms, the case against protection is simple enough: It benefits the few at the expense of the many. The protected domestic interest benefits from the fact that foreign products are excluded or can only compete at a significant disadvantage. Less competition means the domestic interest can raise the price and lessen the quality of its product, leaving domestic consumers (that is, the vast majority of the population) with the choice of paying more for an inferior product or doing without. In the case of basic food products like grain, of course, this is a Hobson's choice, since everyone must eat.

It is no surprise, then, that the corn laws were from the outset vigorously supported by landown-

Mr. Finneran recently received his B.A. in history and in international relations from Tufts University.

ers, who grew domestic grain, and vigorously opposed by non-landowners, who had to pay more for their bread, and by classical liberal theorists. The case against protection had been made eloquently by Adam Smith in his *Wealth of Nations* as far back as 1776, but the depression of 1838 to 1842 caused a new generation of free trade proponents to rise to the fore. An Anti-Corn Law League was founded and expressed its views through meetings, petitions, pamphlets, and speakers. Two great orators, Richard Cobden and John Bright, contributed mightily toward enlisting popular sympathy in the free trade cause.

It appears that Peel himself was moving in his own mind slowly but inexorably toward support for repeal of the corn laws in the early 1840s. But any lingering resistance he felt toward repeal were swept away decisively by new and calamitous events in Ireland.

The Irish Famine

In August 1845, the potato crop in Ireland failed, beginning the frightful Irish Famine of 1845 to 1848. In the devastating hunger that followed, Ireland's pre-famine population of 8 million was reduced by death and emigration to 6½ million within three years. In addition, in the summer of 1847, 3 million were kept alive solely through charity and public jobs.²

A peacetime famine on such a scale had been unseen in Europe for centuries, and with good reason: Improved distribution systems meant that the effects of local crop failures could be mitigated by food brought from afar. Without the perverse effects of protection coupled with a land system that kept the Irish peasants cash poor and therefore unduly dependent for survival on their personal potato crops, the same should have been true for the Irish famine. Indeed, even as Irishmen were starving, Ireland's abundant wheat and maize harvests were being shipped to England. The effect of the corn laws was thus the following: Despite an abundance of food, both in Great Britain and abroad, the artificially high price of grain placed bread beyond the economic reach of cash-poor Irish deprived through the potato crop failure of their major source of income.

When criticized for advancing free trade measures that overreacted to events in Ireland, Peel exclaimed: "You may think I have taken too great

precautions against Irish famine; you are mistaken. Events will prove that the precautions are not unnecessary. But even if it were not so, the motive is to rescue a whole population from the possibility of calamity and disease; and I shall, under these circumstances, be easy under such an accusation."³

The Oregon Dispute

A fortunate by-product of Peel's free trade measures was their effects on relations with the United States. Free trade, in classical liberal theory, is conducive to peace. "Free trade," Richard Cobden asked rhetorically, "What is it? Why, breaking down the barriers that separate nations; those barriers behind which nestle the feelings of pride, revenge, hatred, and jealousy which every now and then break their bonds and deluge whole countries with blood; those feelings which nourish the poison of war and conquest, which assert that without conquest we can have no trade, which foster that lust for conquest and dominion which sends forth your warrior chiefs to sanction devastation through other lands."⁴

In the case of the Oregon dispute of the 1840s, the theory conformed with reality. America and Great Britain at this time stood on the brink of war over ownership of the Oregon Territory (the present-day states of Oregon and Washington and part of the Canadian province of British Columbia). James K. Polk had been elected to the White House in 1844 under the slogan "54° 40' or Fight!"—a claim to the entire Oregon Territory for the United States. While it would be an exaggeration to state that Peel's free trade policy of this time was the sole factor that averted war (certainly America's simultaneous dispute with Mexico which would ultimately degenerate into the Mexican War was at least as important in causing the U.S. to seek a compromise), Peel's policies *did*, at least, contribute toward creating an atmosphere that was more conducive to a peaceful resolution of the conflict.

Hence *Punch* wrote: "The English Premier has taken the happiest method of dealing with the American President. POLK fires off inflammatory messages, while PEEL returns the attack with Free-Trade measures. The latter will, we have every hope, prove irresistible, and POLK will not be able to make a successful stand against the very

felicitous mode of warfare adopted by our Free-Trade Minister. It is not likely that the American people will be misguided enough to continue a hostility, which will be so directly opposed to their own interests. . . . America may, if it pleases, pelt us with its corn, while we return the compliment by pitching into the United States some of our manufactured articles. This will be much better for both parties than an exchange of lead, whether in the form of swan or grape, or packed in cannister.”⁵

The End of the Peel Ministry

Once he had decided on repeal of the corn laws, Peel had to convince a parliamentary majority—which proved to be no easy task. In December 1845, Peel tried to effect emergency reductions in tariffs through orders in council, executive orders requiring a cabinet majority but no parliamentary vote, but failed to gain a majority in his own cabinet and was forced to resign. The Whig leader, Lord John Russell, was unable to form a cabinet, and Queen Victoria had to call Peel back. Peel was able to form a new ministry with the addition of William Gladstone, the future Liberal prime minister, as colonial secretary.

The new Peel ministry's attempts to repeal the corn laws were met in the Tory party with vigorous opposition led by Gladstone's future nemesis, Benjamin Disraeli, until then a little-known member of Parliament. Finally, after a great deal of agitation, on June 25, 1846, the corn laws were repealed with the support of Whig and Irish members of Parliament.⁶ But the old Tory party was irreparably split. Indeed, on the very night that the corn laws were repealed, Peel's government lost a vote of confidence on its larger Irish policy, and Peel's political life came to an end. Only four years later, in 1850, he died following an accident suffered while riding a horse through Green Park.

Winston Churchill summed up Peel's career as follows: “He was not a man of broad and ranging modes of thought, but he understood better than any of his contemporaries the needs of the country, and he had the outstanding courage to change his views in order to meet them. It is true that he split his party, but there are greater crimes than that.”⁷

Peel's own epitaph of his political career, delivered the night of his government's fall, deserves to be quoted at length: “I shall, I fear, leave office with a name severely censured by many honorable men who, on public principle, deeply regret the severance of party ties—who deeply regret that severance, not from any interested or personal motives, but because they believe fidelity to party, the existence of a great party, and the maintenance of a great party, to be powerful instruments of good government. I shall surrender power, severely censured, I fear, by many honorable men, who, from no interested motives, have adhered to the principles of protection, because they looked upon them as important to the welfare and interests of the country. I shall leave a name execrated, I know, by every monopolist [Peel's speech, reports *Punch*, was here interrupted by “Loud cheers and laughter”] who, professing honorable opinions, would maintain protection for his own benefit. But it may be that I shall sometimes be remembered with expressions of goodwill, in those places which are the abodes of men whose lot it is to labor and earn their daily bread by the sweat of their brow; in such places, perhaps, my name may be remembered with expressions of goodwill, when they who inhabit them recruit their exhausted strength with abundant and untaxed food, the sweeter because no longer leavened with a sense of injustice.”⁸ □

1. *Punch*, vol. 10, January 1846-June 1846, p. 104.

2. Figures from Edmund Curtis, *A History of Ireland* (London: Methuen & Co., 1968), p. 368.

3. *Punch*, “Introduction” to vol. 10, p. 3. (In fact, the pages to the Introduction are unnumbered.)

4. Richard Cobden, *Speeches on Questions of Public Policy*, vol. I (London: 1870) p. 79, cited in Michael Howard, *War and the Liberal Conscience* (New Brunswick, New Jersey: Rutgers University Press, 1986), pp. 42-43.

5. *Punch*, p. 155.

6. Technically, the corn laws were not repealed at this date. Maize was allowed to enter tariff free, and tariffs for other grains were drastically reduced (the duty on wheat, for example, was reduced to one-fourth of its previous level). The bill passed at this time scheduled an abolition of grain tariffs (except for a “mere nominal duty . . . for the purpose of procuring statistical returns of the quantity imported”) for February 1849. An amendment to repeal the corn laws outright was defeated by a margin of 187 votes. See *Punch*, “Introduction,” pp. 2-3.

7. Winston Churchill, *A History of the English-Speaking People*, vol. 4, “The Great Democracies” (New York: Dodd, Mead, and Co., 1965), p. 62.

8. *Punch*, “Introduction,” p. 3.

BOOKS

CAPTURING THE CULTURE: FILM, ART, AND POLITICS

by Richard Grenier

Ethics and Public Policy Center, 1030 15th Street NW,
Washington, DC 20005 • 1991 • 392 pages • \$24.95 cloth

Reviewed by Greg Kaza

Ideological studies revolve around more than politics; they involve culture as well. Lenin was the first socialist to implement Marx's nightmare vision in the political realm. But another Marxist—the Italian Antonio Gramsci—played a crucial role in Marxism's spread to the cultural realm. Neoconservative Richard Grenier notes in this intriguing book that Gramsci was “the most prescient analyst of the contemporary relationship of art and politics. . . . Culture, Gramsci felt, is not simply the superstructure of an economic base—the role assigned to it in orthodox Marxism—but is central to a society.”

Gramsci's famous slogan was “Capture the culture.” Grenier documents how Gramsci's disciples continue their “long march through the institutions” of the cultural world. The collapse of socialism in the Soviet Union and Eastern Europe has totally discredited Lenin's political work. But Gramsci's legacy remains with us in the form of a powerful cultural left. In this collection of essays originally published in *Commentary*, *The Washington Times* and *The New York Times*, Grenier explores how “the modern artist's predisposition to estrangement has flung him, in America especially, straight into Gramsci's arms.”

Many of Grenier's insights would warm the heart of any classical liberal. *Reds*, Warren Beatty's film about the Russian Revolution, “has politics after all,” Grenier observes. “They are what can be called the ‘politics of intent,’ as opposed to the politics of achievement. If one has noble intentions, and means well toward one's fellow man, and one's heart is pure, and generous, and filled with love, then that is what matters. If one's ideas are unworkable, bring social disruption, disaster, and even tragedy on a colossal scale—one can't be expected to foresee all that, can one?”

Despite the socialistic bias of *Reds*, there are high-lights. At one point, Jack Nicholson, portraying Eugene O'Neill, drily remarks, “Something in me tightens, when an American intellectual's eyes shine at the mention of Russia.”

Important post-World War II European film-makers unknown to the average American—but not to flattering leftist critics—are an easy mark for Grenier. The late director Rainer Werner Fassbinder and other “New Wave” film-makers were creations of the West German government. “For without lavish government funding,” Grenier observes, “this New German cinema would not only never have survived, it would never have been born.” Fassbinder was part of “a subsidized underground cinema.”

Grenier writes, “When you see [the Greek director Kostantinos Costa-Gavras in Europe] there are no evasions. He's your straight, mind-numbing Marxist. . . . But whenever he flies to America he converts to free enterprise. . . . He takes Americans for political illiterates, and fair is fair, he's usually right.”

The Frenchman François Truffaut was a different sort of film-maker. Grenier observes that it “was not hard for General de Gaulle or his culture minister, André Malraux, to grasp that France had produced in Truffaut and [his followers] a school of film-makers whose conservatism, both cultural and political, was profound. . . . [Truffaut] simply could not abide a cinema that told him, in accordance with the modish ideas of the Marxianized French elite culture of his early years, that the world was a rotten place, evil, doomed. . . .” De Gaulle and Malraux moved quickly. Fassbinder was part of a government-subsidized, left-wing cinema, while Truffaut was subsidized by a government of the political right.

Some libertarians may be disturbed by Grenier's reduction of culture to the Cold War, but they should be more troubled by the scant attention paid to the South and Midwest, arguably the foundation of American culture. This comes as little surprise. To a neoconservative such as Grenier, New York is the center of the world. Despite this oversight, Grenier's book does contain one observation about that vast tract of land west of the Hudson River. Clint Eastwood, he writes, “draws the skilled industrial workers, farmers, men who if they no longer work with their hands come from a different America than the Vassar that produced

Jane Fonda and Meryl Streep." Fine. But there is *much* more that Grenier could have said about the South and Midwest.

Shortly after the Bolsheviks took power in the Soviet Union, Lenin declared, "Of all the arts, for us cinema is the most important." Richard Grenier observes, "Only in America . . . is it possible for a critic to be in the editorial offices of an influential organ of the press . . . and have an editor say: 'Who's Gramsci?'" Two good reasons, despite its shortcomings, to read this book. □

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THE NATIONAL REVIEW COLLEGE GUIDE: AMERICA'S 50 TOP LIBERAL ARTS SCHOOLS

edited by Charles Sykes and Brad Miner

A National Review Book, 150 E. 35th Street, New York, NY 10016 • 1991 • 212 pages • \$14.95 paper

Reviewed by Raymond J. Keating

In this age of "political correctness," "cultural diversity," "deconstructionism," and "gender neutrality," one might think that it is no longer possible to receive a traditional, well-grounded liberal arts education. And although it is increasingly difficult to find sound liberal arts colleges and universities, Charles Sykes and Brad Miner have proven that it is not, in fact, impossible. Their new book presents the prospective college student, his or her parents, and the high school counselor with a steady rudder for evaluating academic quality.

The editors identify three styles of American higher education. One is the "land-grant" institution, which is based on "technical expertise important to a particular region." A second is the "German" university, focused on "highly technical research." The third style, and the editors' overarching preference, is the "English" university, as it is "designed to graduate well-rounded scholar-citizens."

The criteria for evaluating academic excellence used by Sykes and Miner by no means typify the average college guide. Size, percentage of faculty Ph.D.'s, amount of research grants, or the number of published works by faculty members are not to be found among their tools of evaluation. The edi-

tors have three primary criteria upon which a college or university is judged:

1. by the quality and *availability* of the faculty;
2. by the quality of the curriculum, with special regard for schools with a liberal arts "core" . . . that respects the tradition of the West;
3. by the quality of the intellectual environment: that elusive interaction among students, faculty, administrators, alumni, and townspeople—the entire university community.

As for the faculty, the editors consider "teaching ability above other measures of performance." This contrasts sharply with the prevailing, though misguided, publish-or-perish mentality in academia today.

Sykes's and Miner's criteria, while firmly grounded on the traditional ideal of what a college should be, represent, in today's environment, the exception rather than the rule. For if they were not the exception, such a book wouldn't be needed. It is, in fact, a most useful college guide, as its sole focus is on the quality of education.

William F. Buckley Jr., in the book's introduction, expounds on this idea of a quality education: "And such education, [the editors] are convinced, requires not merely that graduates of an institution emerge technically qualified to handle the machinery of the modern world. They must learn something about what happened in the evolution of the modern world. And they must be exposed to some of the reasons why the bias gradually crystallized in favor of human freedom, and why the freedom of the marketplace is essential to that freedom." Such thoughts on education are deemed outmoded by many academic institutions, and by some are even considered taboo.

Indeed, the search for truth has been supplanted in many academic settings by relativism, egalitarianism, multi-culturalism, and an over-sensitized environment that excludes debate. Sykes and Miner, on the contrary, in their own words, "have opted as often as possible for schools that have not supplanted education with political indoctrination, have not subverted justice in pursuit of equality—whatever that is." They explicitly "reject any university that tolerates . . . assaults on academic freedom."

A few of the editors' own comments about various colleges and universities are in order to gain a feel for the temperament of this guide (all the insti-

tutions chosen by Sykes and Miner are worth consideration; the comments I have selected are merely for illustration):

“Although it is hopelessly out of step to pursue wisdom rather than ‘diversity’ these days, that seems exactly what BU’s [Boston University’s] new pilot core curriculum attempts to do.”

“It is worthwhile to recall that nearly all of the early American colleges and universities began as church-related institutions, reflecting the belief that liberal learning was integrally tied to a recognition of the role of faith in history and culture.”

“It is no exaggeration to say that the history of liberal learning in the twentieth century has largely been the story of higher education’s response to the remarkable core curriculum put into place during the first half century by Columbia College.”

“[Furman’s student volunteer] program not only instills the values of voluntarism, but also provides a first-hand lesson in non-statist approaches to social problems.”

“While the vast majority of schools compromised both their independence and academic integrity by accepting . . . federal controls, Hillsdale fought back in a decade-long struggle that culminated in Hillsdale’s refusal to all federal support. . . . Since then, Hillsdale has gone it alone, building its programs around the traditional principles of freedom, morality, free enterprise, individualism, and independence.”

“There is no mistaking the traditionalism of campus life at [Thomas] Aquinas. Students address one another as Mr. and Miss in the classroom, adhere to a dress code, eschew drugs, and follow a strict moral code.”

The National Review College Guide is unique. It doesn’t adhere to current academic trends but, rather, critically evaluates them in light of a traditional, proven core of knowledge. The fact that Columbia is the only Ivy League school to make this top 50 list is instructive. The Ivies have faltered in recent times. For example, “At Yale,” the editors note, “the denial of a core of knowledge is made explicit.” Sykes and Miner advise these institutions to “return to the basics—to teach undergraduates systematically a core of tested knowledge, and to revive the tradition and discipline so rigorously followed throughout all but a few recent years in their long histories.”

Sykes and Miner issue other caveats pertaining

to some of the so-called top institutions in this nation. For example: “Imagine the surprise of students in Duke’s English Department who take a sensible-sounding course in Shakespeare only to discover that the professor teaches *King Lear* as a critique of sixteenth-century British capitalism.”

In this period of slackening academic standards and gross politicization, this book should be a primary source for those who seek a quality education. □

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

DRUGS AND CRIME

edited by Michael Tonry and James Q. Wilson

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Reviewed by Doug Bandow

The so-called drug war remains one of the most contentious issues facing us. There seems little doubt that the government’s attempt to stamp out illicit drug use has failed. According to the National Institute on Drug Abuse, 74.4 million people over the age of 12 have tried drugs, despite decades of prohibition. Nearly 27 million people use illegal substances at least once a year. Rates of drug use are now falling, but the declines started before the periodic escalations of the drug war during the 1980s.

At the same time the harm from prohibition and the ever more Draconian enforcement policies legislated by vote-minded politicians has sharply escalated. The U.S. now has more than one million people in prison, giving it the highest rate of imprisonment in the industrial world. Young blacks are more likely to die in urban gun battles resulting from drug prohibition than they were serving in the army in Vietnam. Drug users seeking to pay the inflated prices of illegal substances commit thousands of property crimes in cities and suburbs. Children, who receive lesser criminal punishments, are increasingly recruited into the drug trade; many also become users.

Even James Q. Wilson admits in *Drugs and Crime* that “attempting to suppress the use of drugs is costly—very costly.” Although he believes that legalization would result in greater problems, many of the essays in *Drugs and Crime* suggest

otherwise, demonstrating how prohibition funds a violent criminal underground while failing to halt drug sales.

For instance, one study of New York City noted that drugs have transformed “the conduct norms of the criminal underclass subculture. . . . Crack has dramatically expanded the prosperity of the criminal underclass economy as well as incorporated and strengthened new elements into the criminal underclass subculture.” Were drugs not illegal, of course, there would be little ill-gotten wealth to dispense.

Alas, the apparent success of police efforts in New York to end street sales has proved largely illusory. “Such intense police pressure, however, did not eliminate drug-selling activity or make major reductions in the number of sellers. Rather, heroin and cocaine sellers developed new strategies for marketing their products,” conclude the researchers.

Two other experts have contributed a detailed study of state and local enforcement efforts. The solution to drug abuse, they observe, is hard to find: “While ‘the drug problem’ and responses to it seem simple enough from the distance of a politician’s podium, a preacher’s pulpit, or an editorialist’s desk, from close up they reveal an almost disorienting complexity of goals, techniques, and targets. How best to use limited, and largely uncoordinated, enforcement, adjudication, and punishment resources to address the multifaceted drug problem is anything but obvious.”

What is obvious, however, is that tougher enforcement tends to push up drug prices, and hence property crime by addicts stealing to satisfy their habits. The researchers conclude that the evidence does “suggest that the possibility of a trade-off, at least in the short run, between reducing drug consumption and reducing crime is not merely hypothetical.”

Another form of violent drug crime inflamed by stricter enforcement policies is described as “systemic” by researchers: the assaults and killings that occur naturally in the course of the drug trade. “Both the nature of the business and the state of the customer—often nervous, perhaps feeling deprivation effects—make violence a frequent outcome in the drug trade.”

The form of drug-related violence of least concern is that committed by users because of the pharmacological effects of the drugs themselves.

The authors of another chapter in *Drugs and Crime* observe that “use of illicit drugs does not appear to be strongly related to onset and participation in predatory crime. . . . Most of the underlying causative factors, such as irregular employment or weak attachment to school or parents, are not amenable to intervention by the justice system. Moreover, general prevalence figures for drug use do not give much hope that even major reductions in the numbers of people who use illicit drugs could significantly reduce the numbers of incidents of predatory crime.”

In the end, even Wilson, critic of drug legalization though he may be, seems to recognize that the drug problem is not easily manageable by government. “Above all, we do not know how to alter the moral climate so that drug use is regarded as loathsome,” he complains. And until we do change that moral climate, drug use will continue, irrespective of the severity of the government’s war on drugs.

Drugs and Crime is first and foremost a valuable resource as to the relationship between drugs, the drug laws, and crime. Its honest appraisal of that relationship makes it much more, however—a case for withdrawing the criminal law from what is most fundamentally a moral problem. □

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FREE MARKET ENVIRONMENTALISM

by Terry L. Anderson and Donald R. Leal

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Reviewed by William H. Peterson

Property should be in a certain sense common, but, as a general rule, private; for, when everyone has a distinct interest, men will not complain of one another, and they will make more progress, because everyone will be attending to his own business.

Aristotle, *Politics*, Book II, Ch. 5

Thus did Aristotle take Plato’s advocacy of communism to task. Aristotle’s stress on private property rights is reflected in the approach to environmental concerns taken by research associates Terry Anderson and Donald

Leal of the Political Economy Research Center at Bozeman, Montana, in their study on how America should best manage its natural resources and achieve environmental quality.

Anderson and Leal maintain that most of the proposed solutions to perceived environmental problems today call for centralized, politicized, and bureaucratized approaches that are not even consistent with the science of ecology. Moreover, they hold these solutions pit winners against losers in a zero-sum game that tears at America's social fabric.

Their brilliant answer of what they call "free market environmentalism" depends on an Aristotelian voluntary exchange of property rights between consenting owners that promotes human cooperation and mutuality of interests. In short, it offers, say Anderson and Leal, "an alternative that channels the heightened environmental consciousness into win-win solutions that can sustain economic growth, enhance environmental quality, and promote [social] harmony."

The authors furnish an example of such harmony in the case of the National Audubon Society's Rainey Wildlife Sanctuary in Louisiana. There the Society, a group opposed to oil and gas development in most wilderness settings, acted differently when it happened to own the land and mineral rights in an extensive area that is home for deer, armadillo, muskrat, otter, mink, thousands of geese, and many other birds.

That home has in no way been measurably damaged by the Society's allowing Consolidated Oil and Gas to extract oil from the wildlife sanctuary for years in exchange for royalties so that the wildlife group can better carry on its work. To be sure, the Society imposed extra precautions on the company oil wells to prevent pollution in the huge marshland, but the environmentalist group/business firm partnership still evidences what the authors see as a win-win environmental solution.

This solution may provide the key to what to do about the Interior Department's proposal to permit oil exploration in the 1.5 million acre coastal plain of Alaska's Arctic National Wildlife Refuge—about 8 percent of the nation's largest preserve. That plain may contain as many as 9.2 billion barrels of economically recoverable oil, quite possibly America's last great oil reserve, according to petroleum geologists.

But the proposal, backed by President Bush, encounters strong opposition in the environmentally sensitive, politically attuned Congress. Still, this opposition seems to ignore the Rainey Sanctuary and the Alaska pipeline experience of successfully preserving wildlife while producing a valuable resource. And it ignores various recent Middle Eastern oil disruptions, the latest involving Desert Storm.

The note on Congress and President Bush points up the inevitable intrusion of politics and the consequent diminution of private property rights in most proposed solutions to pollution. The Clean Air Act of 1977, for example, requires the "best available technology" standards for new coal-fired electricity generating plants. But these standards, administered by the Environmental Protection Agency, precluded specific pollutants-emission criteria, thereby not allowing plants to burn cleaner, low-sulfur western coal without having to install expensive stack-gas scrubbers, which cost a lot more to buy and operate.

Where's the politics? Just here: A "clean air/dirty coal" coalition of environmentalists and eastern coal producers lobbied Congress and the EPA for the technological fix. The eastern coal producers worried that a sensible environmental policy would induce electric utilities to buy low-sulfur western coal to the exclusion of high-sulfur eastern coal. The environmentalists, for their part, are just not particularly cost-conscious when it comes to pollution control, often arguing that the best solution isn't good enough, that "pure" air and water really means 100 percent pure.

The upshot has been not only the undermining of private property rights but higher-cost electricity for consumers and, ironically, still more air pollution due to a reduction in the rate of replacement of older, dirtier utility furnaces and boilers.

Anderson and Leal neatly encapsulate their strategy of getting private property rights to clinch the war on pollution by noting a sign on the side of a commercial garbage truck: "It may be garbage to you, but it's our bread and butter." □

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*Prepared by
Bettina Bien Greaves*

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